



## Imperial Brands Finance PLC

(incorporated with limited liability in England and Wales with registered number 03214426)

**US\$2,750,000,000**  
consisting of

**US\$1,000,000,000 3.125 per cent Senior Notes due 2024**

**US\$750,000,000 3.500 per cent Senior Notes due 2026**

**US\$1,000,000,000 3.875 per cent Senior Notes due 2029**

guaranteed by

## Imperial Brands PLC

(incorporated with limited liability in England and Wales with registered number 03236483)

## Imperial Tobacco Limited

(incorporated with limited liability in England and Wales with registered number 01860181)

Imperial Brands Finance PLC (the **Issuer**) is offering US\$1,000,000,000 3.125 per cent Senior Notes due 2024 (the **2024 Notes**), US\$750,000,000 3.500 per cent Senior Notes due 2026 (the **2026 Notes**) and US\$1,000,000,000 3.875 per cent Senior Notes due 2029 (the **2029 Notes**), and, together with the 2024 Notes and the 2026 Notes, the **Notes**) (the **Offering**). Subject to the provisions of the Indenture (as defined herein), Imperial Brands PLC (**Imperial Brands**) and, together with its subsidiaries, the **Imperial Brands Group** or the **Group**) and Imperial Tobacco Limited (**ITL**, and, together with Imperial Brands, the **Guarantors**) are fully guaranteeing all payments by the Issuer in respect of any sums due under the Indenture and the Notes subject to certain guarantor release and substitution provisions as described in “*Description of the Notes and the Guarantees—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*”.

Interest on the Notes is payable semi-annually in arrears on 26 January and 26 July of each year, commencing on 26 January 2020. The 2024 Notes, the 2026 Notes and the 2029 Notes will mature on 26 July 2024, 26 July 2026 and 26 July 2029, respectively (each, a **Maturity Date**).

The Notes will be the Issuer’s unsecured and unsubordinated obligations and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law). The guarantees of the Notes (the **Guarantees**) will be unsecured and unsubordinated obligations of the Guarantors and will rank *pari passu* in right of payment among themselves and with all of their other unsecured and unsubordinated indebtedness (save for certain obligations required to be preferred by law).

The Issuer may redeem the Notes of each series in whole or in part prior to their relevant Maturity Dates and at the redemption prices specified herein. See “*Description of the Notes and the Guarantees—Optional Redemption*”. For a more detailed description of the Notes, see “*Description of the Notes and the Guarantees*”.

**Investing in the Notes involves risks. For a discussion of these risks, see “Risk Factors” beginning on page 19.**

The Notes and the Guarantees have not been and will not be registered under the US Securities Act of 1933, as amended (the **Securities Act**), or any state or local securities laws, and the Notes are being offered within the United States only to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act (**Rule 144A**)) (**QIBs**) under Rule 144A and to persons who are not US persons in offshore transactions in reliance on Regulation S under the Securities Act (**Regulation S**). Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see “*Transfer Restrictions*”.

**Issue Price: 99.505 per cent of the principal amount of the 2024 Notes.**

**Issue Price: 99.093 per cent of the principal amount of the 2026 Notes.**

**Issue Price: 99.133 per cent of the principal amount of the 2029 Notes.**

Imperial Brands has a solicited long-term debt rating of Baa3 (stable outlook) by Moody’s Investors Service Ltd. (**Moody’s**) and BBB (stable outlook) by S&P Global Ratings Europe Limited, UK Branch (**S&P**). It is expected that the Notes will be rated Baa3 by Moody’s and BBB by S&P. Moody’s and S&P are established in the European Union and are registered under Regulation (EC) No. 1060/2009 (as amended). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

This Offering Memorandum is expected to be approved by the UK Financial Conduct Authority (the **UK Listing Authority**), as competent authority under Regulation (EU) 2017/1129. The UK Listing Authority will only approve this Offering Memorandum as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. Approval by the UK Listing Authority should not be considered as an endorsement of the Issuer or the Guarantors, or of the quality of the Notes that are the subject of this Offering Memorandum, and investors should make their own assessment as to the suitability of investing in the Notes.

Application has been made to the UK Listing Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) for the Notes described in this offering memorandum (the **Offering Memorandum**) to be admitted to the official list (the **Official List**) of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange’s Professional Securities Market (the **Professional Securities Market**). The Professional Securities Market is not a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). Admission to the Official List together with admission to trading on the Professional Securities Market constitutes official listing on the London Stock Exchange.

The Notes will be issued in registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Initial Purchasers (as defined herein) expect to deliver the Notes to purchasers in book-entry form through the facilities of The Depository Trust Company (**DTC**) and its participants, including Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**), against payment in immediately available funds on or about 26 July 2019.

Joint Book-Running Managers

**BARCLAYS**

**BOFA MERRILL LYNCH**

**HSBC**

**MIZUHO SECURITIES**

**MUFG**

Co-managers

**Banca IMI  
COMMERZBANK  
Santander**

**Bank of China  
Credit Agricole CIB  
SMBC Nikko**

**BBVA  
NatWest Markets  
UniCredit**

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This Offering Memorandum comprises listing particulars with regard to the Issuer, the Guarantors and the Notes in accordance with the listing rules made under section 73A of the FSMA. No prospectus is required in accordance with Directive 2003/71/EC for this issue of the Notes.

This Offering Memorandum has been prepared by the Issuer and the Guarantors solely for use in connection with the Offering of the Notes described in this Offering Memorandum, and prospective investors are authorised to use this Offering Memorandum solely for the purpose of considering the purchase of the Notes. Prospective investors should rely only on the information contained in this Offering Memorandum. The Issuer and the Guarantors have not authorised anyone to provide prospective investors with different information. Prospective Investors should not assume that the information contained in this Offering Memorandum is accurate as at any date other than the date on the front of this Offering Memorandum. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this Offering Memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of any of its contents, without the Issuer's and the Guarantors' prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no copies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

In addition to the Guarantee provided by Imperial Brands, the Notes are guaranteed by ITL. The Guarantee of ITL may be terminated at the option of ITL at any time and, under certain circumstances, other members of the Group may be substituted as Guarantors for Imperial Brands and/or ITL, in each case without the consent of Noteholders, provided that in any such termination or substitution, (i) each Rating Agency (as defined herein) shall have confirmed the Notes will have the same or better solicited long-term public credit rating as immediately prior to such termination or substitution, as applicable, and (ii) the Trustee (as defined herein) shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject. See "*Description of the Notes and the Guarantees—Status of the Notes and Guarantees*".

Barclays Capital Inc., BofA Securities, Inc., HSBC Securities (USA) Inc., Mizuho Securities USA LLC, MUFG Securities Americas Inc., Banca IMI S.p.A., Bank of China Limited, New York Branch, BBVA Securities Inc., Commerz Markets LLC, Crédit Agricole Securities (USA) Inc., New York Branch, NatWest Markets Securities Inc., Santander Investment Securities Inc., SMBC Nikko Securities America Inc. and UniCredit Bank AG (collectively, the **Initial Purchasers**) and their respective affiliates make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past or future. The Issuer and the Guarantors have furnished the information contained in this Offering Memorandum. The Initial Purchasers have not independently verified all of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of any such information.

In making an investment decision, prospective investors must rely on their own examination of the Issuer, the Guarantors and the terms of the Offering, including the merits and risks involved. Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should consult its own advisers as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. The laws of certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the Notes. Persons into whose possession this Offering Memorandum or any of the Notes come must inform themselves about, and observe, any such restrictions. This Offering Memorandum does not constitute an offer or an invitation to purchase any of the Notes in any jurisdiction in which such offer or sale would be unlawful. None of the Issuer, the Guarantors, the Initial Purchasers or their respective affiliates or representatives is making any representation to any offeree or any purchaser of the Notes regarding the legality of any investment in the Notes by such offeree or purchaser under applicable legal investment or similar laws or regulations. Investors also acknowledge that they have not relied, and will not rely, on the Initial Purchasers in connection with their investigation of the accuracy of any information or their decision whether to invest in the Notes.

The Initial Purchasers reserve the right to withdraw this Offering of Notes at any time and to reject any commitment to subscribe for the Notes, in whole or in part. The Initial Purchasers also reserve the right to

allot less than the full amount of the Notes sought by a prospective investor. The Initial Purchasers and certain related entities may acquire a portion of the Notes for their own account.

Notwithstanding anything in this Offering Memorandum to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the US tax treatment and US tax structure of any offering and all materials of any kind (including opinions and other tax analyses) that are provided to the prospective investor relating to such US tax treatment and US tax structure, other than any information for which non-disclosure is reasonably necessary in order to comply with applicable securities laws.

The Issuer and the Guarantors accept responsibility for the information contained in this Offering Memorandum. To the best of the Issuer's and the Guarantors' knowledge, as at the date of this Offering Memorandum the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum contains summaries of certain documents. Investors should make reference to the actual documents for complete information. Copies of certain documents referred to herein will be made available to prospective investors upon request to the Issuer or the Initial Purchasers.

In connection with the issuance of the Notes, BofA Securities, Inc. (the **Stabilising Manager**) (or persons acting on behalf of the Stabilising Manager) may effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes (as defined herein) and 60 days after the date of the allotment of the Notes. Any stabilisation action must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

This Offering is being made in reliance upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, investors are deemed to have made the acknowledgements, representations, warranties and agreements set forth under "*Transfer Restrictions*".

The Notes and the Guarantees have not been and will not be registered with, or recommended or approved by, the US Securities and Exchange Commission (the **SEC**) or any other US federal or state or foreign securities commission or regulatory authority, nor has any such commission or regulatory authority reviewed or passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence in the United States.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or an available exemption therefrom. A prospective investor should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this Offering Memorandum entitled "*Plan of Distribution*" and "*Transfer Restrictions*".

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA**

**Prohibition of sales to EEA retail investors**—The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## NOTICE TO PROSPECTIVE INVESTORS IN SINGAPORE

**Singapore SFA product classification**—In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified and amended from time to time (the **SFA**), and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), if so specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products). This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantors or the Initial Purchasers to subscribe for, or purchase, any Notes.

## NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This Offering Memorandum has not been approved for the purposes of section 21 of the FSMA and does not constitute an offer to the public in accordance with the provisions of section 85 of the FSMA. It is for distribution only to, and is directed solely at, persons who (i) are outside of the United Kingdom, (ii) are investment professionals, as such term is defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the **Financial Promotion Order**), (iii) are persons falling within article 49(2)(a) to (d) of the Financial Promotion Order or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any Notes may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

## NOTICE TO PROSPECTIVE INVESTORS IN CANADA

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (or any supplement hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 *Underwriting Conflicts (NI 33-105)*, the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

## SERVICE OF PROCESS AND ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Each of the Issuer and Imperial Brands is a public limited company registered in England and Wales and ITL is a private limited company registered in England and Wales. A majority of the directors of Imperial Brands and all of the directors of the Issuer and ITL and certain of the experts named in this Offering Memorandum are not residents of the United States and a substantial portion of the assets of the Group and its directors and officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons with respect to matters arising under the Securities Act or to enforce against them judgments of courts of the United States predicated upon civil liability under the Securities Act.

The United States and United Kingdom currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability could not be enforced by registration in the courts of England and Wales but the judgment would generally be treated as constituting a cause of action against the Group and could be sued upon summarily in the courts of England and Wales.

The courts of England and Wales should enter judgment against the Group in such proceedings, without re-examination of the merits of the original judgment, provided that:

- (i) the original court was of competent jurisdiction and the original judgment is final and conclusive;
- (ii) the original judgment is not for multiple damages or on a claim of contribution in respect of multiple damages (as defined by the Protection of Trading Interests Act 1980);
- (iii) the original judgment is for a fixed sum of money and not for a tax, fine or penalty;
- (iv) the original judgment was not obtained by fraud, or in proceedings contrary to natural justice or the principles of the Convention on Human Rights and its enforcement is not contrary to English public policy;
- (v) enforcement proceedings are instituted within six years after the date of the judgment; and
- (vi) the original judgment is not inconsistent with a judgment in the courts of England and Wales in respect of the same point at issue.

Consequently, the Issuer and the Guarantors cannot assure prospective investors that judgments in civil and commercial matters obtained from US federal or state courts will be enforceable in England and Wales. In addition, there is doubt as to the enforceability in England and Wales of US judgments in respect of civil judgments predicated purely on US securities laws. No account has been taken of the future exercise of powers by the UK government pursuant to section 5(4) of the Protection of Trading Interests Act 1980.

The Notes and the Guarantees thereof are governed by the laws of the State of New York. Each of the Issuer, Imperial Brands and ITL has expressly submitted to the non-exclusive jurisdiction of the State of New York and US federal courts sitting in New York City for the purpose of any suit, action or proceeding arising out of the Notes and has appointed CT Corporation System at 28 Liberty Street, New York, New York, 10005 as its agent to accept service of process in any such action.

#### AVAILABLE INFORMATION

The Issuer is not currently subject to the periodic reporting and other information requirements of the US Securities Exchange Act of 1934, as amended (the **Exchange Act**). If a prospective investor purchases the Notes from the Initial Purchasers, they will be furnished with a copy of this Offering Memorandum and, to the extent provided by the Issuer to the Initial Purchasers for such purposes, any related amendments or supplement to this Offering Memorandum. Where a prospective investor receives this Offering Memorandum, they acknowledge that:

- they have been afforded an opportunity to request from the Issuer, and to review and have received, all additional information (including documents incorporated by reference herein) considered by such investor to be necessary to verify the accuracy and completeness of the information herein;
- they have not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with their investigation of the accuracy of such information or their investment decision; and
- except as provided pursuant to the first bullet point above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantors or the Initial Purchasers.

While any Notes remain outstanding, the Issuer and each Guarantor of the Notes will make available, upon request, to any holder and any prospective purchaser of Notes, any information required pursuant to Rule 144A(d)(4) under the Securities Act in order to permit sales under Rule 144A, if, at the time of such request, the Issuer or such Guarantor is neither a reporting company pursuant to the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder. As of the date of

this Offering Memorandum, Imperial Brands is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

### FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains statements that may be considered to be “forward-looking statements” as that term is defined in the US Private Securities Litigation Reform Act of 1995. Forward-looking statements appear in a number of places throughout this Offering Memorandum, including, without limitation, under “*Risk Factors*”, “*Use of Proceeds*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Description of the Group and its Business*”.

Forward-looking statements also may be identified by words such as “believes”, “expects”, “anticipates”, “projects”, “intends”, “should”, “seeks”, “estimates”, “probability”, “risk”, “target”, “goal”, “objective”, “future” or similar expressions or variations on such expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements include, but are not limited to, the risks identified under “*Risk Factors*”, as well as, among other things, the following:

- the declining consumption of legitimate tobacco products attributable to, among other factors, health concerns, increasing government regulation, the diminishing social acceptance of smoking and frequent and substantial increases in the excise duty on legitimate tobacco products;
- competitive conditions in priority markets and pricing pressures on the Group’s brands;
- changes in consumer purchasing patterns;
- the adoption and use of NGP (as defined herein) by adult smokers and the success of the Group’s NGP adoption strategy;
- the inability to identify and complete acquisitions or disposals of assets;
- increases in illicit trade;
- increases in regulatory compliance costs;
- exposure to economic conditions in the Group’s markets;
- commodity price fluctuations, inflation and supply of tobacco leaf and other materials;
- achievement of benefits from the Group’s strategic change initiatives and cost optimisation programmes;
- the impact of existing and future smoking and health-related litigation; and
- foreign currency and interest rate fluctuations.

The Issuer and the Guarantors have identified additional risks inherent in forward-looking statements under “*Risk Factors*” in this Offering Memorandum. Other factors could also adversely affect the Group’s results or the accuracy of forward-looking statements in this Offering Memorandum, and a prospective investor should not consider the factors discussed above or under “*Risk Factors*” to be a complete set of all potential risks or uncertainties.

Potential investors should not place undue reliance on any forward-looking statements. The Issuer and the Guarantors do not have any intentions or obligations to update forward-looking statements to reflect new information, future events or risks that may cause the forward-looking events discussed in this Offering Memorandum not to occur or to occur in a manner different from what was expected.

### PRESENTATION OF FINANCIAL, MARKET AND OTHER INFORMATION

The following financial information is incorporated by reference into this Offering Memorandum:

1. the audited consolidated annual financial statements of Imperial Brands as at and for the year ended 30 September 2018 prepared in accordance with the International Financial Reporting Standards (the **IFRS**) as adopted by the European Union (and unaudited comparative financial information as at and for the year ended 30 September 2017) (the **2018 Financial Statements**), together with the

independent auditors' report thereon, from the following sections of the Group's 2018 annual report and accounts:

- the section entitled “*Financial Statements and Notes*” on pages 77 to 128; and
  - the subsection entitled “*Related Undertakings*” on pages 134 to 147;
2. the audited consolidated annual financial statements of Imperial Brands as at and for the year ended 30 September 2017 prepared in accordance with the IFRS as adopted by the European Union (and unaudited comparative financial information as at and for the year ended 30 September 2016) (the **2017 Financial Statements**), together with the independent auditors' report thereon, from the following section of the Group's 2017 annual report and accounts:
    - the section entitled “*Financial Statements and Notes*” on pages 75 to 125;
  3. the audited consolidated annual financial statements of Imperial Brands as at and for the year ended 30 September 2016 prepared in accordance with the IFRS as adopted by the European Union (the **2016 Financial Statements**, and together with the 2018 Financial Statements and the 2017 Financial Statements, the **Annual Financial Statements**), together with the independent auditors' report thereon, from the following section of the Group's 2016 annual report and accounts:
    - the section entitled “*Financial Statements and Notes*” on pages 75 to 119;
  4. the unaudited condensed consolidated interim financial statements of Imperial Brands as at and for the six months ended 31 March 2019 (and unaudited comparative financial information for the six months ended 31 March 2018) prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (**IAS 34**), as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority (the **DGTR**) (the **2019 Interim Financial Statements**, and together with the Annual Financial Statements, the **Consolidated Financial Statements**), from the following sections of the Group's 2019 interim results:
    - the section entitled “*Condensed Consolidated Interim Financial Statements*” on pages 19 to 23; and
    - the section entitled “*Notes to the Financial Statements*” on pages 24 to 37;
  5. the audited annual financial statements of the Issuer as at and for the year ended 30 September 2018 (and unaudited comparative financial information as at and for the year ended 30 September 2017) prepared in accordance with United Kingdom Generally Accepted Accounting Practice (**UK GAAP**) (United Kingdom Accounting Standards FRS 101 “Reduced Disclosure Framework”, and applicable law) (**FRS 101**) (the **2018 IBF Financial Statements**), together with the independent auditors' report thereon;
  6. the audited annual financial statements of the Issuer as at and for the year ended 30 September 2017 (and unaudited comparative financial information as at and for the year ended 30 September 2016) prepared in accordance with FRS 101 (the **2017 IBF Financial Statements**), together with the independent auditors' report thereon;
  7. the audited annual financial statements of the Issuer as at and for the year ended 30 September 2016 prepared in accordance with FRS 101 (the **2016 IBF Financial Statements**), together with the independent auditors' report thereon;
  8. the unaudited interim financial statements of the Issuer as at and for the six months ended 31 March 2019 (and unaudited comparative financial information for the six months ended 31 March 2018) prepared in accordance with DTGR and FRS 104 “Interim Financial Reporting” (**FRS 104**) as adopted by the Financial Reporting Conduct using the recognition and measurement requirements of FRS 100 “Application of Financial Reporting Requirements” and FRS 101 (the **2019 IBF Interim Financial Statements**);
  9. the audited annual financial statements of ITL as at and for the year ended 30 September 2018 (and unaudited comparative financial information as at and for the year ended 30 September 2017) prepared in accordance with FRS 101 (the **2018 ITL Financial Statements**), together with the independent auditors' report thereon;
  10. the audited annual financial statements of ITL as at and for the year ended 30 September 2017 (and unaudited comparative financial information as at and for the year ended 30 September 2016)



prepared in accordance with FRS 101 (the **2017 ITL Financial Statements**), together with the independent auditors' report thereon; and

11. the audited annual financial statements of ITL as at and for the year ended 30 September 2016 prepared in accordance with FRS 101 (the **2016 ITL Financial Statements**), together with the independent auditors' report thereon.

All documents incorporated by reference herein have been previously published or are published simultaneously with this Offering Memorandum and have been approved by, filed with or notified to the UK Listing Authority. Such documents shall be incorporated in, and form part of, this Offering Memorandum, save that any statement contained therein shall be deemed to be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained in this Offering Memorandum or any supplement hereto modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Memorandum.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Offering Memorandum.

Copies of documents incorporated by reference in this Offering Memorandum may be obtained without charge from the registered office of the Issuer and are available on the website of the National Storage Mechanism at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM).

No information on the Group's website (<https://www.imperialbrandsplc.com/>) should be deemed to be incorporated in, or form a part of, this Offering Memorandum.

### **Presentation of the Group's Financial Information**

Unless otherwise indicated:

- (i) the unaudited consolidated balance sheet as at, and the unaudited consolidated income statement and the unaudited consolidated cash flow statement of the Group for, each of the six months ended 31 March 2018 and 2019, included in this Offering Memorandum, have been extracted from the 2019 Interim Financial Statements;
- (ii) the audited consolidated balance sheet as at, and the consolidated income statement and the consolidated cash flow statement of the Group for, the year ended 30 September 2018, included in this Offering Memorandum, have been extracted from the 2018 Financial Statements;
- (iii) the audited consolidated balance sheet as at, and the consolidated income statement and the consolidated cash flow statement of the Group for, the year ended 30 September 2017, included in this Offering Memorandum, have been extracted from the 2017 Financial Statements; and
- (iv) the audited consolidated balance sheet as at, and the consolidated income statement and the consolidated cash flow statement of the Group for, the year ended 30 September 2016, incorporated by reference in this Offering Memorandum, have been extracted from the 2016 Financial Statements.

The Annual Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS regulation, and the Annual Financial Statements have been audited by the independent auditors of the Group, PricewaterhouseCoopers LLP. IFRS, as adopted by the European Union, differs in certain aspects from the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Group adopted IFRS 9 ("Financial Instruments") and IFRS 15 ("Revenue from Contracts with Customers") with effect from 1 October 2018. Adoption of aspects of IFRS 9 relating to hedge accounting is currently optional as organisations are allowed to continue to apply the IAS 39 requirements. IFRS 9 aligns the accounting approach with an entity's risk management strategies and risk management objectives. However, the Group expects that the hedging approach will continue to be limited to the use of net investment hedging.

Consequently, the adoption of this area of IFRS 9 did not materially impact the 2019 Interim Financial Statements or the 2019 IBF Interim Financial Statements. For more information on the effect of IFRS 15 on the Group's reported results, please see "*Management's Discussion and Analysis of Financial Condition*

*and Results of Operations—Principal Income Statement Items*”. Financial information for the years ended 30 September 2016, 2017 and 2018 in this Offering Memorandum has been extracted from the Annual Financial Statements and has not been restated for IFRS 15 application. Financial information for the six months ended 31 March 2018 in this Offering Memorandum has been extracted from the 2019 Interim Financial Statements and has been restated for IFRS 15 application. Financial information for the six months ended 31 March 2019 in this Offering Memorandum has been extracted from the 2019 Interim Financial Statements and reflects the application of IFRS 9 and IFRS 15.

On 1 October 2018 the Group reorganised its Tobacco & NGP business to manage its footprint based on geographic proximity changing from the previous approach of grouping markets based on their growth and returns profiles. The managerial and internal reporting structures of the Group have been revised to reflect the new structure. Following the introduction of these changes, the Group has revised its segmental reporting as required under IFRS 8. For more information, please see Note 3 (“*Segment Information*”) in the 2019 Interim Financial Statements. Accordingly, for purposes of the comparison of financial information for the six months ended 31 March 2019 as compared to 31 March 2018, the new reporting segments have been used in this Offering Memorandum. Financial information for the years ended 30 September 2016, 2017 and 2018 in this Offering Memorandum have been presented on the basis of the Group’s prior reporting segments.

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. Further details are set out in the paragraph titled “*Critical Accounting Estimates*” of “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” of this Offering Memorandum. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in the notes to the Consolidated Financial Statements incorporated by reference in this Offering Memorandum.

The Group’s financial year runs from 1 October to 30 September. The Consolidated Financial Statements relating to the Group incorporated by reference in this Offering Memorandum are not intended to comply with the applicable accounting requirements of the Securities Act and the related rules and regulations that would apply if the Notes were to be registered in the United States. Compliance with such requirements would require the modification or exclusion of certain information incorporated by reference in this Offering Memorandum and the presentation of certain information which is not included or incorporated by reference in this Offering Memorandum.

The Group’s financial information for the twelve months ended 31 March 2019 have been derived by adding the Group’s financial information data for the year ended 30 September 2018 to the Group’s financial information data for the six months ended 31 March 2019 and deducting the financial information data for the six months ended 31 March 2018, all derived from the Consolidated Financial Statements or underlying accounting records of the Group. This data for the twelve months ended 31 March 2019 has been prepared solely for the purpose of this Offering Memorandum, is not prepared in the ordinary course of Group’s financial reporting, has not been audited or reviewed and is not necessarily representative of the Group’s results of operations for any future period.

The Group’s financial information for the twelve months ended 31 March 2018 have been derived by adding the Group’s financial information data for the year ended 30 September 2017 to the Group’s financial information data for the six months ended 31 March 2018 and deducting the financial information data for the six months ended 31 March 2017, all derived from the Consolidated Financial Statements or underlying accounting records of the Group. This data for the twelve months ended 31 March 2018 has been prepared solely for the purpose of this Offering Memorandum, is not prepared in the ordinary course of Group’s financial reporting, has not been audited or reviewed and is not necessarily representative of the Group’s results of operations for any future period.

Investors should read the whole of this Offering Memorandum, including the financial information and financial statements incorporated by reference herein, and not rely solely on the summary consolidated financial information provided in this Offering Memorandum.

#### *Financial Statements of the Issuer and ITL*

The 2016 IBF Financial Statements, the 2017 IBF Financial Statements and the 2018 IBF Financial Statements were audited by the independent auditors of the Issuer, PricewaterhouseCoopers LLP.

The 2016 ITL Financial Statements, the 2017 ITL Financial Statements and the 2018 ITL Financial Statements were audited by the independent auditors of ITL, PricewaterhouseCoopers LLP.

### *Rounding*

Certain monetary amounts and other figures included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, any discrepancies in any tables between the totals and the sums of the amounts listed are due to rounding.

### **Non-IFRS Financial Measures**

When managing the performance of the business, the Group's management uses certain key performance indicators which include IFRS financial information, non-IFRS financial measures (alternative performance measures) and other non-financial operating metrics. Certain of these measures are termed non-IFRS financial measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS (**Non-IFRS Financial Measures**). The Group's Non-IFRS Financial Measures include:

- **Net revenue:** net revenue is defined as revenue adjusted to exclude duty and similar items and the sale of peripheral products. 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. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Prior to the Group's adoption of IFRS 15 on 1 October 2018, payments due in the US under the MSA (as defined below) were included in duty and similar items. Following the adoption of IFRS 15, such payments are recognised in other cost of sales. Net revenue is provided for the Group and for its Tobacco & NGP, and Distribution businesses, and for each reportable segment.
- **Adjusted operating profit:** adjusted operating profit is defined as operating profit adjusted to exclude amortisation of acquired intangibles, fair value adjustments to contingent consideration and restructuring costs and certain other one-off costs. In the Group's Europe segment, adjusted operating profit also excludes costs relating to the administration UK Distributor (as defined herein).
- **Adjusted net debt:** adjusted net debt is defined as the Group's reported net debt adjusted to exclude interest accruals and the fair value of derivative financial instruments providing commercial cash flow hedges. Net debt comprises current and non-current borrowings and derivatives minus cash.
- **Cash conversion rate:** the cash conversion rate is calculated as the Group's net cash flows generated from operating activities adjusted to exclude restructuring cash costs and taxes paid less net capital expenditure relating to property, plant and equipment, software and intellectual property rights expressed as a percentage of adjusted operating profit. Net capital expenditure relating to property, plant and equipment, software and intellectual property rights, including internally generated intellectual property rights, consists of the purchase of non-current assets net of proceeds from the sale of non-current assets and brands.
- **Adjusted net debt/adjusted operating profit:** adjusted net debt/adjusted operating profit is calculated by dividing the adjusted net debt by the adjusted operating profit.
- **Adjusted operating margin:** adjusted operating margin is adjusted operating profit divided by revenue.
- **Adjusted distribution margin:** adjusted distribution margin is the percentage of adjusted operating profit for the Distribution business as a proportion of the distribution fees earned by the Distribution business.
- **Net capital expenditure:** net capital expenditure relating to property, plant and equipment, software and intellectual property rights consists of purchase of non-current assets net of proceeds from the sale of non-current assets.
- **Return on invested capital:** return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted net operating profit after tax by invested capital. Invested capital is adjusted total equity and reported net debt.

The Non-IFRS Financial Measures are presented on a consolidated and segment basis. See "*Selected Consolidated Financial Information—Key Performance Indicators and Other Operating Metrics*" for a reconciliation of these Non-IFRS Financial Measures to the nearest IFRS line item.

The Group's management believes that these Non-IFRS Financial Measures provide prospective investors with additional, supplemental information by which to analyse and compare the Group's performance between periods. These Non-IFRS Financial Measures are supplementary to, and should not be regarded as a substitute for, IFRS measures, which are referred to as reported measures. The Non-IFRS Financial Measures incorporated by reference in this Offering Memorandum have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, measures presented in accordance with IFRS. In addition, the Non-IFRS Financial Measures presented by the Group may not be comparable to similarly titled measures presented by other businesses. As such, businesses may define and calculate such measures differently than the Group. Accordingly, undue reliance should not be placed on the Non-IFRS Financial Measures contained in this Offering Memorandum. Prospective investors should not consider these Non-IFRS Financial Measures in isolation, as an alternative to consolidated profit before tax, as an indication of operating performance, as an alternative to cash flows from operations, or as a measure of the Group's profitability or liquidity. All Non-IFRS Financial Measures are unaudited.

### **Non-Financial Operating Metric**

To assist prospective investors in comparing the Group's historical financial performance from period to period, or at a particular time, a non-financial operating metric has been presented in this Offering Memorandum (**Non-Financial Operating Metric**). This Non-Financial Operating Metric is defined as follows:

- **Tobacco volume:** The Group measures volumes on a stick equivalent basis to reflect combined cigarette, fine cut tobacco volumes, cigar and snus volumes.

The Non-Financial Operating Metric included in this Offering Memorandum and described above is derived from management estimates, is not part of the Group's financial statements or financial accounting records and has not been audited or otherwise reviewed by outside auditors, consultants or experts. The Group's use or computation of this measure may not be comparable to the use or computation of similarly titled measures reported by other companies in the tobacco industry. This term should not be considered in isolation or as an alternative measure of performance under IFRS. For definitions of certain other terms relating to the other information, please see "*Certain Definitions*".

### **Market, Economic and Industry Data**

Industry data and individual market data referred to in this Offering Memorandum with respect to the Group and its competitors are based on independent industry publications, reports of government agencies and other industry sources, as well as internally generated estimates based on management's knowledge and experience of the markets in which the Group operates. Such estimates may be based on data from importers, customs data, trade journals, publications and governmental statistics, as well as independently compiled market research statistics derived from point of sale surveys and trade questionnaires. Unless the context otherwise requires, market size and market share data referred to in this Offering Memorandum with respect to the Group and its competitors refer to estimates of unit sales in each market in the relevant financial year.

The Group has also used internal data to make estimates, for example, when third-party data does not cover all retail outlets in a market, provides data for periods other than the Group's financial year or collects information on non-cigarette tobacco products in volume or other measures rather than stick equivalents, the Group's internal reporting unit of sales volume. This information may prove to be inaccurate because of the method by which the Group obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

Where third-party information has been used in this Offering Memorandum, the source of such information has been identified. The Issuer and the Guarantors confirm that such information has been accurately reproduced and, as far as the Issuer and the Guarantors are aware and are able to ascertain from such information, no facts have been omitted which would render the reproduced information materially inaccurate or misleading. The Issuer and the Guarantors have not independently verified any of the data from third-party sources nor ascertained the underlying assumptions relied upon therein. However, the Issuer and the Guarantors believe these estimates to be materially accurate as of the date of the Offering Memorandum.

## CERTAIN DEFINITIONS

Unless indicated otherwise in this Offering Memorandum or the context requires otherwise:

- **2015 US Acquisition** means ITG Brands' 2015 acquisition of certain brands from Reynolds, including brands formerly owned by Lorillard Tobacco Company;
- **2016 Financial Statements** means the audited consolidated annual financial statements of the Group as at and for the year ended 30 September 2016, prepared in accordance with IFRS as adopted by the European Union;
- **2016 IBF Financial Statements** means the audited annual financial statements of the Issuer as at and for the year ended 30 September 2016 prepared in accordance with FRS 101;
- **2016 ITL Financial Statements** means the audited annual financial statements of ITL as at and for the year ended 30 September 2016 prepared in accordance with FRS 101;
- **2017 Financial Statements** means the audited consolidated annual financial statements of the Group as at and for the year ended 30 September 2017 (and unaudited comparative financial information as at and for the year ended 30 September 2016) prepared in accordance with IFRS as adopted by the European Union;
- **2017 IBF Financial Statements** means the audited annual financial statements of the Issuer as at and for the year ended 30 September 2017 (and unaudited comparative financial information as at and for the year ended 30 September 2016) prepared in accordance with FRS 101;
- **2017 ITL Financial Statements** means the audited annual financial statements of ITL as at and for the year ended 30 September 2017 (and unaudited comparative financial information as at and for the year ended 30 September 2016) prepared in accordance with FRS 101;
- **2018 Financial Statements** means the audited consolidated annual financial statements of the Group as at and for the year ended 30 September 2018 (and unaudited comparative financial information as at and for the year ended 30 September 2017) prepared in accordance with IFRS as adopted by the European Union;
- **2018 IBF Financial Statements** means the audited annual financial statements of the Issuer as at and for the year ended 30 September 2018 (and unaudited comparative financial information as at and for the year ended 30 September 2017) prepared in accordance with FRS 101;
- **2018 ITL Financial Statements** means the audited annual financial statements of ITL as at and for the year ended 30 September 2018 (and unaudited comparative financial information as at and for the year ended 30 September 2017) prepared in accordance with FRS 101;
- **2019 IBF Interim Financial Statements** means the unaudited interim financial statements of the Issuer as at and for the six months ended 31 March 2019 (and unaudited comparative financial information as at and for the six months ended 31 March 2018) prepared in accordance with DGTR and FRS 104 as adopted by the Financial Reporting Conduct using the recognition and measurement requirements of FRS 100 "Application of Financial Reporting Requirements" and FRS 101;
- **2019 Interim Financial Statements** means the unaudited condensed consolidated interim financial statements of the Group as at and for the six months ended 31 March 2019 (and unaudited comparative financial information as at and for the six months ended 31 March 2018) prepared in accordance with IAS 34 and DGTR;
- **affiliates**, unless the context otherwise requires, has the meaning given under Rule 405 of the Securities Act;
- **Altadis** means Altadis, S.A.U.;
- **Altadis Group** means Altadis and its subsidiary undertakings;
- **Americas** means the Group's tobacco operations in North and South America, including in the United States, Canada, Mexico and Argentina;
- **Annual Financial Statements** means the 2016 Financial Statements, the 2017 Financial Statements and the 2018 Financial Statements, collectively;
- **ANPRM** or **ANPRMs** means an advance notice or notices of proposed rulemaking by the FDA;

- **Asset Brands** mean Growth Brands and Specialist Brands, collectively;
- **BAT** means British American Tobacco plc;
- **BCA** means the Belgian National Competition Authority;
- **billion** means a thousand million;
- **blu** means the Group's vapour brand, which has several product variants using this brand name;
- **Board** or **Board of Directors** means the board of directors of Imperial Brands;
- **Brexit** means the UK's planned exit from the European Union;
- **Clearstream, Luxembourg** means Clearstream Banking, *société anonyme*;
- **CMP Regulations 2018** means the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore;
- **CNCT** means the French National Committee against Tobacco;
- **CNMC** means the Spanish National Authority for Markets and Competition (Comisión Nacional de los Mercados y la Competencia);
- **CO** means the Swiss Code of Obligations;
- **Code** means the UK Corporate Governance Code;
- **Commonwealth Brands** means CBHC Inc., the holding company of Commonwealth Brands Inc., a cigarette manufacturing and distribution business;
- **Consolidated Financial Statements** means the 2019 Interim Financial Statements together with the Annual Financial Statements;
- **Cuban Joint Ventures** means four joint ventures, each of which are 50 per cent owned indirectly by Imperial Brands, including Habanos, Internacional Cubana de Tabaco, S.A., Altabana S.L. and Promotora De Cigarros, S.L.;
- **DGTR** means the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority;
- **Director** or **Directors** means a director or directors of Imperial Brands;
- **DTC** means The Depository Trust Company;
- **\$, US dollars, US\$ and dollars** refer to the lawful currency of the United States;
- **EC** means the European Commission;
- **ECP** means euro commercial paper;
- **Equity Fee Statute** or **Equity Fee Statutes** means a statute or statutes enacted by a US state or states that is or are not a party or parties to the MSA;
- **EURIBOR** means the Euro Interbank Offered Rate;
- **Euroclear** means Euroclear Bank S.A./N.V.;
- **European Union** or **EU** means the European Union, which includes Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK;
- **EUTPD** means the EU Tobacco Products Directive (2014/40/EU);
- **€ and euro** refer to the lawful currency of the European Union (as adopted by certain Member States);
- **Exchange Act** means the US Securities Exchange Act of 1934, as amended;
- **Facilities Agreement** means the facilities agreement dated 15 July 2014 and made between, among others, the Issuer and Imperial Tobacco Enterprise Finance Limited as borrowers, Imperial Brands and ITL as guarantors and The Royal Bank of Scotland plc as facility agent;

- **FDA** means the US Food and Drug Administration;
- **fine cut tobacco** means loose tobacco, which is used with rolling papers or filter tubes;
- **FMCG** means fast-moving consumer goods;
- **Fontem US** means Fontem US, Inc.;
- **Fontem Ventures** means Fontem Ventures B.V., the Group’s non-tobacco company, collectively with its subsidiaries;
- **FRS 101** means United Kingdom Accounting Standards FRS 101 “Reduced Disclosure Framework”, and applicable law;
- **FRS 104** means United Kingdom Accounting Standards FRS 104 “Interim Financial Reporting”;
- **FSCMA** means the Financial Investment Services and Capital Markets Act of Korea;
- **GDPR** means the EU General Data Protection Regulation ((EU) 2016/679);
- **Growth Brands** means the Group’s brands with broad consumer appeal that are generating an increasing proportion of the Group’s total revenue, including *Davidoff*, *Gauloises*, *JPS*, *West*, *Fine*, *News*, *Winston*, *Bastos*, *Lambert & Butler*, *Parker & Simpson* and *blu*;
- **Growth Markets** means the Group’s former tobacco business segment which included markets where the Group typically has a share below 15 per cent and targets opportunities for share and profit growth over the long term. Markets were generally characterised by large profit and/or volume pools. The segment included selected markets in the EU, Eastern Europe, Asia, and the Middle East, including Iraq, Russia, Saudi Arabia and Taiwan, as well as those targeted by the Cuban Joint Ventures and Fontem Ventures. As the Group now divides its segments into geographic units, the Growth Markets business segment is now historic;
- **Guarantors** means Imperial Brands and ITL;
- **Habanos** means Corporación Habanos, S.A., a company which distributes and sells cigars manufactured in Cuba and is owned 50 per cent by Tabacalera S.L.U. and 50 per cent by Empresa Cubana del Tabaco;
- **HMRC** means Her Majesty’s Revenue and Customs of the United Kingdom;
- **IAS 34** means International Accounting Standards 34 as adopted by the European Union;
- **IBFF** means Imperial Brands Finance France SAS;
- **IFRS** means International Financial Reporting Standards as prepared by the International Accounting Standards Board and as endorsed by the EU;
- **Imperial Brands** means Imperial Brands PLC;
- **Imperial Brands Group** and the **Group** mean Imperial Brands PLC and its consolidated subsidiaries unless otherwise indicated or the context otherwise requires;
- **Initial Purchasers** means Barclays Capital Inc., BofA Securities, Inc., HSBC Securities (USA) Inc., Mizuho Securities USA LLC, MUFG Securities Americas Inc., Banca IMI S.p.A., Bank of China Limited, New York Branch, BBVA Securities Inc., Commerz Markets LLC, Crédit Agricole Securities (USA) Inc., NatWest Markets Securities Inc., Santander Investment Securities Inc., SMBC Nikko Securities America Inc. and UniCredit Bank AG;
- **Initial State Settlements** means the four settlement agreements entered into in 1997 and 1998 between Mississippi, Florida, Texas and Minnesota and the OPMs, resolving claims brought by those states, as amended, supplemented or replaced;
- **IP** means intellectual property;
- **IRC** means the US Internal Revenue Code of 1986, as amended;
- **Issue Date** means 26 July 2019;
- **Issuer** means Imperial Brands Finance PLC;

- **ITG Brands** means ITG Brands, LLC, the entity formerly known as Lignum-2, L.L.C., a private tobacco company that sells fine cut tobacco and cigarettes in the United States, which the Group acquired on 12 May 2008;
- **ITI** means Imperial Tobacco Italy S.r.l.;
- **ITL** means Imperial Tobacco Limited;
- **ITPF** means Imperial Tobacco Pension Fund, constituted by the definitive trust deed and rules dated 1 March 1995 (as amended from time to time);
- **LIBOR** means the London Interbank Offered Rate;
- **Logista** means Compañía de Distribución Integral Logista Holdings, S.A.;
- **Logistics**, when used in the financial information in this Offering Memorandum, means the Group's Distribution business described below in "*Description of the Group and its Business*";
- **London Stock Exchange** means London Stock Exchange plc;
- **Lorillard** means Lorillard Tobacco Company;
- **Member State** means a state which is a member of the European Union;
- **Moody's** means Moody's Investors Service Ltd., or its successor;
- **MSA** means the Master Settlement Agreement, dated as of 23 November 1998, among the 46 states, the District of Columbia and five US territories listed on the signature pages thereto, Phillip Morris USA, Inc. (as successor to Phillip Morris Incorporated), R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and various SPMs as listed on the National Associate of Attorneys General list of "Participating Manufacturers", as amended, supplemented or replaced;
- **Nerudia** means Nerudia Limited;
- **NGP** means next generation products (individually vapour, snus and heated tobacco);
- **Nobleza** means Nobleza Piccardo;
- **Non-Financial Operating Metric** means the tobacco volume non-financial operating metric presented in this Offering Memorandum;
- **Non-IFRS Financial Measures** means financial measures that are not calculated in accordance with IFRS;
- **Non-US Holder** means a beneficial owner of Notes that is neither a US Holder nor a partnership;
- **Noteholder** and **Holder** mean the registered holder of any Note;
- **Offering** means this offering of the Notes by the Issuer;
- **OLAF** means the European Commission's European Anti-Fraud Office;
- **Original Participating Manufacturers** or **OPMs** means Phillip Morris USA, Inc. (as successor to Philip Morris Incorporated), RJR Tobacco, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company;
- **Portfolio Brands** means local and regional brands not included in Growth Brands or Specialist Brands;
- **£, pounds sterling** and **sterling** refer to the lawful currency of the United Kingdom;
- **Professional Securities Market** means the Professional Securities Market of the London Stock Exchange;
- **PSE** means preliminary scientific evaluation;
- **Qualified Institutional Buyers** or **QIBs** means qualified institutional buyers as defined in Rule 144A under the Securities Act;
- **Rating Agency** or **Rating Agencies** means (1) each of Moody's and S&P; and (2) if either Moody's or S&P's senior unsecured long-term debt rating is not publicly available for reasons outside of the Issuer's or the Guarantors' reasonable and commercial control, a "nationally recognized statistical



rating organization” within the meaning of the Exchange Act selected by the Issuer (as certified by a resolution of the Issuer’s board of directors) as a replacement agency for Moody’s or S&P, or both of them, as the case may be;

- **RCF** means revolving credit facility;
- **Reemtsma** means the cigarette manufacturing and distribution business of Reemtsma Cigarettenfabriken GmbH;
- **Reemtsma Italy** means Reemtsma Distribution Company S.r.l.;
- **Regulation S** means Regulation S of the Securities Act;
- **Returns Markets** means the Group’s former tobacco business segment that comprised markets in which the Group had relatively large shares, mostly above 15 per cent. The Group’s objective for the Returns Markets was to grow profit while actively managing its market share. As the Group now divides its segments into geographic units, the Returns Markets business segment is now historic;
- **Returns Markets North** means the subdivision of the Returns Markets business segment that included Australia, Belgium, Germany, the Netherlands, Poland and the United Kingdom among other markets;
- **Returns Markets South** means the subdivision of the Returns Markets business segment that included markets in Southern Europe, such as France and Spain, while also including Morocco and a number of the Group’s African markets;
- **Reynolds** means Reynolds American, Inc.;
- **RJR Tobacco** means R.J. Reynolds Tobacco Company, a North Carolina corporation and wholly-owned subsidiary of Reynolds;
- **Rule 144A** means Rule 144A under the Securities Act;
- **S&P** means S&P Global Ratings Europe Limited, UK Branch, or its successor;
- **Securities Act** means the US Securities Act of 1933, as amended;
- **SEITA** means Société Nationale d’Exploitation Industrielle des Tabacs et des Allumettes S.A.;
- **SFA** means the Securities and Futures Act (Chapter 289) of Singapore, as modified and amended from time to time;
- **Specialist Brands** means a range of the Group’s cigarette, fine cut and smokeless tobaccos, papers and cigars, including *Kool*, *Horizon*, *Jadé*, *Montecristo*, *Romeo Y Julieta*, *Cohiba*, *Backwoods*, *Golden Virginia*, *Rizla*, *Skruf* and *Knox*;
- **Stabilising Manager** means BofA Securities, Inc.;
- **State Settlement Agreements** means the Initial State Settlements together with the MSA;
- **Subsequent Participating Manufacturers** or **SPMs** means companies other than the OPMs that were permitted to join the MSA even though most of them were not parties to the original actions;
- **Tobacco & NGP** means the Group’s business of manufacture and sale of tobacco products (cigarettes, fine cut and smokeless tobaccos, papers and cigars) and NGP;
- **UK Distributor** means Palmer & Harvey McLane Limited, a key distributor for the Group in the UK that went into administration in November 2017;
- **UK GAAP** means United Kingdom Generally Accepted Accounting Practice;
- **UK Listing Authority** means the UK Financial Conduct Authority in its capacity as competent authority under the FSMA;
- **United Kingdom** and **UK** mean the United Kingdom of Great Britain and Northern Ireland;
- **United States**, **USA** and **US** mean the United States of America;
- **US Holder** means a beneficial owner of a Note that is, for US federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organised in or under the laws of the United States or any political subdivision thereof;

(iii) an estate the income of which is subject to US federal income taxation regardless of its source; or  
(iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) such trust has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person;

- **US person** means a US person as defined in Regulation S;
- **WHO** means the World Health Organization;
- **WHO FCTC** means the WHO Framework Convention on Tobacco Control, which entered into effect on 27 February 2005; and
- **WTO** means the World Trade Organization.

## OVERVIEW

The following is a brief overview only and is qualified in its entirety by information contained elsewhere in this Offering Memorandum. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Notes. Accordingly, any decision by a prospective investor to invest in the Notes should be based on a consideration of this Offering Memorandum as a whole. Prospective investors should read this entire Offering Memorandum carefully, including the financial statements and related notes incorporated by reference herein and the information set forth under the headings “Forward-Looking Statements” and “Risk Factors”.

### Description of the Group’s Business

Imperial Brands, a FTSE 100 company headquartered in Bristol, UK, is the parent company of an international business specialising in tobacco and next generation product (NGP) brands. The Group’s purpose is to create something better for the world’s smokers with a portfolio of next generation and tobacco products.

The Group’s core business is built around a tobacco portfolio that offers a comprehensive range of cigarettes, fine cut and smokeless tobaccos, papers and cigars. Through its subsidiaries, the Group’s tobacco brands are sold in approximately 160 markets worldwide. The Group has a significant presence in the US, including its ITG Brands LLC (**ITG Brands**) business.

The Group wants smokers to switch to alternative products that are potentially less harmful to health. Fontem Ventures B.V. (**Fontem Ventures**) continues to prioritise vapour, and the Group is represented in this category by its vapour brand, *blu*. As more and more consumers quit smoking through vaping, the NGP business is expected to become an increasingly material part of the Group’s business.

From 1 October 2018, the Group reorganised the management of its tobacco and NGP businesses on a geographic basis to reflect the growth opportunities NGP offers across the Group’s footprint. Financial reporting is now split across the following four areas:

- **Tobacco & NGP:**
  - **Europe:** Tobacco & NGP net revenue in Europe accounted for 45.8 per cent of the Group’s net revenue during the year ended 30 September 2018 and 46.0 per cent of the Group’s net revenue during the six months ended 31 March 2019. The Group’s primary Europe markets include the United Kingdom, Germany, Spain, France and Italy and the Group manufactures and sells a comprehensive range of tobacco and NGP brands in Europe, including cigarettes, fine cut and smokeless tobaccos, vapour, snus, papers and cigars.
  - **Americas:** Tobacco & NGP net revenue in Americas accounted for 29.2 per cent of the Group’s net revenue during the year ended 30 September 2018 and 30.5 per cent of the Group’s net revenue during the six months ended 31 March 2019. The Group’s primary Americas markets include the United States and Canada. The Group’s Americas business offers a broad portfolio of cigarette, vapour and mass market and premium cigar brands. In June 2015, ITG Brands completed the acquisition of the international rights to the vapour brand *blu*, and the Group expects *blu* to represent a significant portion of the Group’s sales in its Americas segment in future periods and is expanding its markets in Europe and Africa, Asia and Australasia.
  - **Africa, Asia and Australasia:** Tobacco & NGP net revenue in Africa, Asia and Australasia accounted for 25.0 per cent of the Group’s net revenue during the year ended 30 September 2018 and 23.6 per cent of the Group’s net revenue during the six months ended 31 March 2019. The Group’s primary Africa, Asia and Australasia markets include Australia, Japan, Russia and Saudi Arabia. The Group’s Africa, Asia and Australasia business offers a broad portfolio of cigarettes and NGP.
- **Distribution:** The Group’s Distribution business (comprising Logista) distributes a range of tobacco, NGP and non-tobacco and non-NGP offerings and services for a range of manufacturers, including the Group’s Tobacco & NGP business. The Group’s Distribution business is run on an operationally neutral basis and transactions between the Group’s Tobacco & NGP business and its Distribution business are conducted on an arm’s length basis.

The Group's strategy is aligned to its purpose of creating something better for the world's smokers and focuses on driving results in three key areas. In relation to tobacco, the Group is maximising opportunities for its Growth Brands in priority markets. Through its growing portfolio of NGP, it is providing adult smokers with a range of potentially less harmful alternatives to cigarettes, with a particular focus on the vapour category. The disciplined approach the Group takes to managing cost and cash provides the funds to invest in growth. The Group's sustainability strategy frames the way in which it manages environmental, social and governance issues and supports the long-term development of its business.

The Group has two distinct growth models: the **Market Repeatable Model** for tobacco and the *blu* adoption model for vapour; see "*Description of the Group and its Business*". Consistently applying these models to the right markets and the right brands is key to delivering quality growth. The Group's overall high operating margins drive the strong cash flows that the Group believes are a hallmark of its business, and although NGP may initially dilute margins, the Group expects to see profitability improve over time. The Group uses the cash it generates to reinvest to support growth, pay down debt or return to shareholders through dividends.

The Group's Tobacco & NGP business generated net revenue of £7.7 billion and £3.7 billion in the financial year ended 30 September 2018 and the six months ended 31 March 2019, respectively, with an adjusted operating margin of 46.2 per cent and 42.1 per cent, respectively. During the financial year ended 30 September 2018, the Group's return on invested capital was 14.2 per cent and its cash conversion rate was 97 per cent. The Group's Growth Brands volume was 162.9 billion stick equivalents during the financial year ended 30 September 2018. For a reconciliation of these performance measures to the Group's IFRS results, see "*Selected Consolidated Financial Information—Key Performance Indicators and Other Operating Metrics*". The Group employed 33,300 people worldwide as at 30 September 2018. As at 31 March 2019, Imperial Brands' market capitalisation on the London Stock Exchange was £25.1 billion.

### Strategic Objectives

The Group's strategy is aligned to its purpose of creating something better for the world's smokers. The Group believes that consistently applying its two distinct growth models (Market Repeatable Model for tobacco and the *blu* adoption model for vapour) to the right markets and the right brands are key for delivering quality growth.

- **Quality growth from tobacco maximisation:** The Group believes it has an attractive portfolio of brands and markets to deliver long-term profitable growth. The successful implementation of this element of its strategy prioritises investment behind the Group's Market Repeatable Model in those markets and products that offer the best returns. Over many years, the Group has developed a track record of achieving strong price/mix growth to offset industry volume declines and enhance profitability. The Group believes that tobacco will continue to contribute materially to the Group's revenue and profit growth and targets revenue growth in the range of 1 per cent to 4 per cent from consistent sales of tobacco products and growth in sales of NGP (although there can be no assurance the Group will achieve this target), with operating margins and cash flows in line with the Group's historical performance.
- **Significant additive growth opportunity from NGP:** In creating something better for the world's smokers, the Group is encouraging smokers to switch to potentially less harmful NGP. In doing so, the Group is considerably enhancing its revenue delivery and views NGP as a significant additive growth opportunity for Imperial Brands, given its low global cigarette market share. The Group has assembled a strong NGP portfolio, built around its *blu* vapour brand. The Group believes that this, combined with excellence in science and innovation, positions the Group well to deliver growth in the years ahead. In the year ended 30 September 2018, net revenue from NGP was £200 million, and the Group expects that sales of NGP will in time contribute to Group net profit as the Group increases sale volumes and reduces unit costs in this category. In addition, the Group acquired Nerudia Limited (**Nerudia**) in October 2017, which has allowed the Group to develop and launch additional tobacco-free products, including tobacco-free snus, which was launched in Sweden in 2018 and *Pulze*, a heated tobacco product, for which a pilot programme was launched in the Japanese city of Fukuoka in 2019, and which the Group expects to launch in five additional regions in Japan.
- **Achievement of new cost efficiencies:** The Group believes that the changes it is making to its ways of working have created a business that is better equipped to deliver quality growth in both tobacco and NGP. The Group continues to focus on optimising its manufacturing footprint and reducing overheads to realise operational efficiencies. The Group announced a five-year cost optimisation programme in

January 2013, which is now complete and is delivering annual savings of £300 million from the financial year ended 30 September 2018 at a total cash restructuring cost of approximately £600 million as at 30 September 2018. An additional cost programme was announced in November 2016, and is expected to deliver a further £300 million of annual savings from 1 October 2020, at an estimated total cash restructuring cost of approximately £750 million (see “*Forward-Looking Statements*”). During the year ended 30 September 2018, the Group realised cost savings of £110 million (£10 million from the first programme and £100 million from the second), bringing the cumulative cost savings to £480 million (£300 million from the first programme and £180 million for the second). During that same period, the cash restructuring cost of the first programme was £43 million (2017: £42 million) and £173 million (2017: £132 million) for the second, bringing the cumulative net cash cost to £826 million (£521 million for the first and £305 million for the second) as at 30 September 2018 (see “*Forward-Looking Statements*”).

- **Capital discipline and cash generation:** The Group’s business has historically generated strong cash flows as a result of its historically high operating profit margins, coupled with its ability to convert a substantial proportion of profits to cash. Although NGP may initially dilute margins, the Group believes that its profitability from NGP will improve over time. To sharpen the Group’s focus on the brands, products and markets that are core to its strategy, the Group is divesting assets that are less central to its strategic agenda. The Group has identified assets that are less central to its strategic objectives, which it seeks to exit or divest in order to simplify the Group’s business, enhance its financial performance and allocate its capital more effectively in line with its growth agenda. As part of this process, during the year ended 30 September 2018, the Group divested an additional 9.99 per cent interest in its European distribution business, Logista, reducing its holding to 50.01 per cent of Logista’s issued share capital. The Group realised £281 million from the divestiture of Logista and sale of a portfolio of other tobacco products during the year ended 30 September 2018. As announced on 9 May 2018, the Group is targeting its divestment strategy to generate proceeds of up to £2 billion by May 2020 (see “*Forward-Looking Statements*”). The Group has recently announced that it intends to divest its premium cigar business as it represents a stand-alone luxury business with a different consumer base and route to market compared to the Group’s other businesses.
- **Strong governance and sustainability agenda:** The Group recognises that some of its products are controversial but strives to operate in accordance with high standards of corporate governance, which is integral to the Group’s long-term success. The Group has a sustainability strategy that frames the ways in which the Group manages its environmental, social and governance issues and supports the long-term development of its business.
- **Sustainable shareholder returns:** The Group’s dividend has grown by 10 per cent per annum for ten consecutive years, reflecting its ability to improve profitability and generate strong cash flows over that period. The Board is committed to growing shareholder returns and regularly reviews the Group’s dividend policy to ensure it is aligned to performance, the balance sheet and the investment needs of the business. On 8 July 2019, Imperial Brands announced a revised capital allocation and shareholder distributions policy to support continued growth and optimised returns for shareholders. The dividend growth in respect of the final dividend for the financial year ending 30 September 2019 is unchanged at 10 per cent growth. Thereafter, the revised dividend policy is expected to be progressive, growing annually, taking into account underlying business performance. Any surplus cash flows are expected to be returned to shareholders via share buybacks, enhanced ordinary dividends or special dividends, depending on market conditions. The new policy recognises the Group’s continued strong cash generation and the importance of growing dividends for shareholders, while providing greater flexibility in capital allocation. As part of the revised capital allocation framework, a share buyback programme will be implemented, which is expected to return up to £200 million to shareholders by 31 December 2019.

## THE OFFERING

The summary below describes the principal terms of the Notes and the Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The “Description of the Notes and the Guarantees” section of this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes. Terms used in this summary and not otherwise defined herein have the meanings given to them in “Description of the Notes and the Guarantees”.

**Issuer** ..... Imperial Brands Finance PLC, a public limited company incorporated under the laws of England and Wales on 14 June 1996. Its registered office and the business address of each of its directors is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom, and its telephone number is +44 (0) 117 963 6636. The Issuer’s legal entity identifier is: 2138008L3B3MCG1DFS50.

Under certain circumstances, other members of the Group may be substituted as the Issuer and principal debtor under the Notes without the consent of the Noteholders at any time, provided that (i) each Rating Agency shall have confirmed that the Notes will have the same or better solicited long-term public credit rating as immediately prior to such substitution, and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject. See “Description of the Notes and the Guarantees—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors”.

**Guarantors** ..... Imperial Brands and ITL.

The Guarantee of ITL may be terminated at any time at its option and other members of the Group may be substituted as Guarantors for Imperial Brands and/or ITL in certain circumstances, in each case without the consent of Noteholders and subject to certain conditions as summarised under “The Guarantees” below. See also “Description of the Notes and the Guarantees”.

**The Notes** ..... US\$1,000,000,000 aggregate principal amount of 3.125 per cent Senior Notes due 2024 (the **2024 Notes**), US\$750,000,000 aggregate principal amount of 3.500 per cent Senior Notes due 2026 (the **2026 Notes**) and US\$1,000,000,000 aggregate principal amount of 3.875 per cent Senior Notes due 2029 (the **2029 Notes** and, together with the 2024 Notes and the 2026 Notes, the **Notes**).

The Notes will be issued under an Indenture expected to be dated as of 26 July 2019 (the **Indenture**) between the Issuer, the Guarantors, The Bank of New York Mellon, acting through its London Branch (in its capacity as trustee, the **Trustee**, and in its capacity as paying agent, the **Paying Agent**) and The Bank of New York Mellon (collectively in its capacities as transfer agent and registrar, the **Transfer Agent and Registrar** and, together with the Paying Agent, the **Agent**).

**The Guarantees** ..... The guarantees of the Notes (the **Guarantees**) will be unsecured and unsubordinated obligations of the Guarantors and will rank *pari passu* in right of payment among themselves and with all of their other unsecured and unsubordinated indebtedness (save for certain obligations required to be preferred by law).

The Guarantee of ITL may be terminated at the option of ITL at any time and, under certain circumstances, other members of the Group may be substituted as Guarantors for Imperial Brands and/or ITL, in each case without the consent of Noteholders, provided that in any such termination or substitution, (i) each Rating Agency shall have confirmed that the Notes will have the same or better solicited long-term public credit rating as immediately prior to such termination or substitution, as applicable, and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject. See “*Description of the Notes and the Guarantees—Status of the Notes and Guarantees*”.

<b>Issue Price</b> . . . . .	99.505 per cent of the principal amount of the 2024 Notes, 99.093 per cent of the principal amount of the 2026 Notes and 99.133 per cent of the principal amount of the 2029 Notes.
<b>The Offering</b> . . . . .	The Notes are being offered and sold by the Initial Purchasers (i) within the United States only to QIBs in reliance on Rule 144A and (ii) outside the United States to persons other than US persons in reliance on Regulation S.
<b>Issue Date</b> . . . . .	26 July 2019.
<b>Maturity Date</b> . . . . .	The 2024 Notes will mature on 26 July 2024, the 2026 Notes will mature on 26 July 2026 and the 2029 Notes will mature on 26 July 2029 (each, a <b>Maturity Date</b> ). The Notes are redeemable prior to maturity as described under “ <i>Description of the Notes and the Guarantees—Optional Redemption</i> ”, “ <i>Description of the Notes and the Guarantees—Repurchase Upon a Change of Control Offer</i> ” and “ <i>Description of the Notes and the Guarantees—Redemption for Tax Reasons</i> ”.
<b>Interest Rate</b> . . . . .	The 2024 Notes will bear interest from the Issue Date at the rate of 3.125 per cent per annum, payable semi-annually in arrears.  The 2026 Notes will bear interest from the Issue Date at the rate of 3.500 per cent per annum, payable semi-annually in arrears.  The 2029 Notes will bear interest from the Issue Date at the rate of 3.875 per cent per annum, payable semi-annually in arrears.
<b>Interest Payment Dates</b> . . . . .	Interest on the Notes will be paid semi-annually in arrears on 26 January and 26 July of each year, beginning on 26 January 2020 (each an <b>Interest Payment Date</b> ).
<b>Interest Periods</b> . . . . .	The first interest period for the Notes will be the period from and including the Issue Date to, but excluding, the first Interest Payment Date. Thereafter, the interest periods for the Notes will be the periods from and including each Interest Payment Date to but excluding the immediately succeeding Interest Payment Date. The final interest period will be the period from and including the Interest Payment Date immediately preceding the Maturity Date to and including the Maturity Date.
<b>Regular Record Dates</b> . . . . .	The close of business on the 15th calendar day immediately preceding each Interest Payment Date (whether or not a Business Day).
<b>Business Day</b> . . . . .	Any day which is not, in London, England or New York City, United States, or any other Place of Payment (as defined herein), a Saturday, Sunday, legal holiday or a day on which banking institutions are authorised or obligated by law or regulation to close (a <b>Business Day</b> ).

**Optional Redemption** . . . . . The Issuer may redeem the Notes, in whole or in part, at its option:

- (1) in the case of the 2024 Notes, at any time prior to 26 June 2024 (one month prior to maturity), in case of the 2026 Notes, at any time prior to 26 May 2026 (two months prior to maturity) and in the case of the 2029 Notes, at any time prior to 26 April 2029 (three months prior to maturity) and from time to time at a redemption price equal to the greater of (a) 100 per cent of the principal amount of the Notes to be redeemed and (b) as determined by the Independent Investment Banker (as defined herein), the sum of the present values of the applicable Remaining Scheduled Payments (as defined herein) discounted to the date of redemption (the **Redemption Date**) on a semi-annual basis (assuming a 360-day year consisting of 12 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate (as defined herein) plus 25 basis points in the case of the 2024 Notes, 30 basis points in the case of the 2026 Notes or 30 basis points in the case of the 2029 Notes, together with accrued and unpaid interest on the principal amount of the Notes to be redeemed to the Redemption Date; and
- (2) in the case of the 2024 Notes, at any time on or after 26 June 2024, in the case of the 2026 Notes, at any time on or after 26 May 2026 and in the case of the 2029 Notes, at any time on or after 26 April 2029, at a redemption price equal to 100 per cent of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the principal amount being redeemed to but excluding the date of redemption.

**Repurchase Upon a Change of Control Offer** . . . . .

If a Change of Control Triggering Event occurs (as described under “*Description of the Notes and the Guarantees—Repurchase Upon a Change of Control Offer*”), unless the Issuer has redeemed the Notes in full, it will be required to make an offer (a **Change of Control Offer**) to each Holder of the Notes to repurchase all or any part (equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof) of that Holder’s Notes on the terms set forth in the Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101 per cent of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased, to the date of repurchase.

**Interest Rate Adjustment Based on Rating Events** . . . . .

The interest rate payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be (as described under “*Description of the Notes and the Guarantees—Interest Rate Adjustment Based on Rating Events*”). From and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the interest rate payable on the Notes shall be increased by 1.25 per cent per annum. A Step Up Rating Change may only occur once during the term of the Notes. In the event of a Step Down Rating Change following a Step Up Rating Change, from and including the first Interest Payment Date following the date of such Step Down Rating Change, the interest rate payable on the Notes shall be decreased by 1.25 per cent per annum.



**Redemption for Tax Reasons . . . . .** In the event of certain tax law changes that would require the Issuer or a Guarantor to pay Additional Amounts (as defined herein) on the Notes, the Issuer may, under certain conditions, redeem in whole, but not in part, the Notes prior to maturity at a redemption price equal to 100 per cent of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

**Payment of Additional Amounts . . . . .** If the Issuer or any Guarantor is required by a Relevant Taxing Jurisdiction (as defined herein) to deduct or withhold taxes in respect of any payment on the Notes the Issuer or such Guarantor will, subject to certain exceptions, pay additional amounts to Noteholders.

**Covenants . . . . .** The Issuer and Guarantors have agreed to certain covenants with respect to the Notes, including a negative pledge and limitation on mergers, consolidations, amalgamations and combinations. See “*Description of the Notes and the Guarantees—Covenants of the Issuer*”.

**Ranking of the Notes and Guarantees . . . . .** *The Notes*  
The Notes will be unsecured and unsubordinated obligations of the Issuer (except for the provisions of “*Description of the Notes and the Guarantees—Covenants of the Issuer—Negative Pledge*”) and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law).

*The Guarantees*

The Guarantees will be unsecured and unsubordinated obligations of the Guarantors (except for the provisions of “*Description of the Notes and the Guarantees—Covenants of the Issuer—Negative Pledge*”) and will rank *pari passu* in right of payment among themselves and with all of their other unsecured and unsubordinated indebtedness of the relevant Guarantor (save for certain obligations required to be preferred by law).

Because the Guarantors are holding companies, their rights and the rights of their respective creditors, including the Noteholders, to participate in the assets of any subsidiary upon the liquidation or recapitalisation of any Guarantor will be subject to the prior claims of such subsidiary’s creditors, except to the extent that such Guarantor itself may be a creditor with recognised claims against such subsidiary.

**Denominations, Form and Registration of Notes . . . . .** The Notes will be issued in fully registered form and only in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will be initially issued as global notes. DTC will act as depositary for the Notes. Except as set forth herein, global notes will not be exchangeable for certificated Notes.

The global notes will be deposited with The Bank of New York Mellon as custodian (the **Custodian**) for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes sold to QIBs in the United States in reliance on Rule 144A will be represented by the Rule 144A Global Note (as defined herein). The Notes sold outside the United States to persons other than US persons in reliance on Regulation S will be represented by the Regulation S Global Note (as defined herein).

<b>Governing Law of the Notes, the Guarantees and the Indenture . . . .</b>	The State of New York.
<b>Listing . . . . .</b>	Application has been made to obtain the listing of the Notes on the Official List and for the admission of the Notes to trading on the Professional Securities Market.
<b>Defeasance . . . . .</b>	The Notes will be subject to defeasance and covenant defeasance provisions in the Indenture.
<b>Further Issuances . . . . .</b>	The Issuer may, subject to certain conditions, from time to time, without notice to or the consent of the Noteholders, “reopen” the Notes and create and issue additional notes having identical terms and conditions to the Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes), so that the additional notes are consolidated and form a single series of notes with the Notes.
<b>Use of Proceeds . . . . .</b>	<p>The estimated net proceeds of the issue of the Notes, after deducting underwriting discounts and other estimated expenses payable in connection with the Offering, are expected to be approximately US\$2,719 million.</p> <p>The Group intends to add the net proceeds to its general funds, which may be used for general corporate purposes.</p> <p>For more information, see “<i>Use of Proceeds</i>” and “<i>Capitalisation</i>”.</p>
<b>Trustee and Paying Agent . . . . .</b>	The Bank of New York Mellon, acting through its London Branch.
<b>Transfer Agent and Registrar . . . .</b>	The Bank of New York Mellon, in New York, New York.
<b>Transfer Restrictions . . . . .</b>	The Notes and the Guarantees thereof have not been and will not be registered under the Securities Act and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws. The Notes are subject to certain restrictions on resale and transfer.
<b>Timing and Delivery . . . . .</b>	The Issuer expects delivery of the Notes to occur on 26 July 2019 (T+3). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities prior to the third business day before the delivery of the securities will be required, by virtue of the fact that the securities initially will settle in T+3, to specify any alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the securities who wish to make such trades should consult their own advisers.

**Ratings** ..... Imperial Brands has a solicited long-term debt rating of Baa3 (stable outlook) by Moody’s and BBB (stable outlook) by S&P. It is expected that the Notes will be rated Baa3 by Moody’s and BBB by S&P. A security rating is not a recommendation to buy, sell or hold the Notes. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by the relevant Rating Agency if, in its judgment, circumstances in the future so warrant. In the event that a rating initially assigned to the Notes is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes and the market value of the Notes is likely to be adversely affected.

Moody’s describes a long-term debt rating of Baa3 as “subject to moderate credit risk ... considered medium-grade and as such may possess speculative characteristics”. S&P describes a long-term debt rating of BBB (stable outlook) rating as having “[a]dequate capacity to meet financial commitments, but more subject to adverse economic conditions”.

**CUSIPs and ISINs** ..... The CUSIP of the 2024 Notes to be sold pursuant to Regulation S is G471AB NU0 and the ISIN number is USG471ABNU06. The CUSIP of the 2024 Notes to be sold pursuant to Rule 144A is 45262B AA1 and the ISIN number is US45262BAA17.

The CUSIP of the 2026 Notes to be sold pursuant to Regulation S is G471AB NV8 and the ISIN number is USG471ABNV88. The CUSIP of the 2026 Notes to be sold pursuant to Rule 144A is 45262B AB9 and the ISIN number is US45262BAB99.

The CUSIP of the 2029 Notes to be sold pursuant to Regulation S is G471AB NW6 and the ISIN number is USG471ABNW61. The CUSIP of the 2029 Notes to be sold pursuant to Rule 144A is 45262B AC7 and the ISIN number is US45262BAC72.

## RISK FACTORS

*The Issuer and the Guarantors believe that the following factors may affect their ability to fulfil their obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer and the Guarantors are not in a position to express a view on the likelihood of any such contingency occurring.*

*The factors described in “Risk Factors” and summarised below contain a description of all material risks that may affect the Issuer’s and the Guarantors’ abilities to fulfil their obligations to investors under the Notes. There may be additional risks that the Group currently considers immaterial or of low likelihood or of which it is currently unaware, and any of these risks could have effects in addition to the factors set forth below.*

*The Issuer and the Guarantors believe that the factors described in “Risk Factors” and summarised below represent the principal risks inherent in investing in the Notes, but their inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer and the Guarantors do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Investors should carefully read the risk factors described in “Risk Factors” and summarised below and the other information in this Offering Memorandum prior to deciding to invest in the Notes. The trading price of the Notes could decline due to any of these risks, and investors may lose all or part of their investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Group, described below and elsewhere in this Offering Memorandum.*

### **Risks Relating to the Group**

- The performance of the Group may be adversely affected by declining consumption of legitimate tobacco products
- The Group operates in highly competitive consumer markets and is subject to changes in demand and pricing pressure
- Changes in consumer purchasing patterns could have a negative impact on demand for the Group’s products
- The Group has invested heavily in NGP but there can be no assurance that its NGP adoption strategy will be successful, and the future market for vapour and similar products is uncertain
- The Group may be unable to identify and complete acquisitions or disposals of assets, and any completed transactions may demand significant management involvement or may not yield expected results
- The Group may be adversely affected by increases in illicit trade, reducing the size of the legitimate tobacco and NGP markets
- Increased product regulation may have an adverse effect on the demand for the Group’s products and/or increase compliance costs
- The Group may be impacted by increases in product-related taxes, including excise and other levies
- The Group may be exposed to potential risks arising from the UK’s decision to exit the European Union
- The Group may be affected by increasing tension between countries and the resultant adoption of protectionist trade policies
- The Group may not fully be able to protect or retain its intellectual property rights or utilise intellectual property of other parties in the development of new products
- The Group is exposed to the economic conditions of the countries in which it operates, with a particular concentration in Western Europe and the United States
- The Group is dependent on its key customers and distributors
- The availability of the Group’s products to consumers could be affected by supply chain failures
- The Group’s products could be affected by failures in product stewardship, quality control and/or contamination

- The Group is exposed to price fluctuations, inflation and supply risks in relation to tobacco leaf and other commodities and materials
- The Group's revenue and profitability may be adversely affected by a failure to realise budgeted price increases
- The Group may fail to obtain the anticipated benefits from its strategic change initiatives and may not achieve its cost savings targets
- The Group is a global business and faces the inherent risks of a diverse footprint and has significant operations in developing markets
- The Group may be adversely affected by changes in taxation legislation (or interpretation of past and/or present legislation by taxation authorities)
- The Group conducts business in countries subject to international sanctions
- The Group may be subject to investigations for alleged abuse of its market position or alleged breaches of other competition laws in certain countries
- The Group is exposed to risks in relation to data protection
- The Group may be adversely affected by a material failure in its information technology systems or by a cyber-attack
- The Group may be adversely affected by any failure of its employees to follow the Group's internal policies and procedures or the failure of retail partners to follow codes of conduct
- The Group could incur substantial damages and costs in connection with litigation
- The Group is exposed to foreign currency exchange rate and interest rate risk
- The Group has significant borrowings, which may impair operational and financial flexibility
- The Group has exposure to external financial counterparties
- The Group may be required to make significant contributions to one or more of its retirement benefit schemes
- The Group's labour relations or labour unrest may affect operational and financial performance
- The Group could fail to attract or retain key personnel
- Substantial payment obligations under the MSA and other State Settlement Agreements, along with state certification requirements, may have an adverse effect on the cash flows and operating income of the Group

#### **Risks Relating to the Offering**

- The Issuer is a financing vehicle and is reliant on the business of the Group
- There is an absence of a public market for the Notes and there are restrictions on the transfer of Notes
- The Notes will initially be held in book-entry form and, therefore, investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies
- The Group may incur substantially more debt in the future
- The Notes and the Guarantees will be unsecured, and therefore will effectively be subordinated to any secured debt
- The Issuer, ITL or Imperial Brands may be unable to raise funds necessary to finance the change of control repurchase offers required by the Indenture governing the Notes
- Imperial Brands may be dependent on the performance of, and payments from, its subsidiaries, associates and joint ventures to fund payments to investors on the Notes and its ability to pay under its Guarantees may, therefore, be affected by the Group's organisational structure
- Investors in the Notes may have limited recourse against the independent auditors
- Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information of the Group should be read in conjunction with, and is qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Selected Consolidated Financial Information” included elsewhere in this Offering Memorandum, and the Consolidated Financial Statements, including the notes thereto, incorporated by reference in this Offering Memorandum.

The financial information presented below has been derived from the Consolidated Financial Statements and unaudited comparative financial information included in the Consolidated Financial Statement.

### Summary Income Statement Data

	For the year ended 30 September			For the six months ended 31 March	
	2016	2017	2018	2018 <sup>(1)</sup>	2019
	(in £ million)				
Revenue . . . . .	27,634	30,247	30,524	14,060	14,390
Gross profit . . . . .	5,956	6,427	6,450	2,733	2,816
Operating profit . . . . .	2,229	2,278	2,407	833	1,150
Profit before tax . . . . .	907	1,861	1,823	600	1,018
<b>Profit for the period . . . . .</b>	<b>669</b>	<b>1,447</b>	<b>1,427</b>	<b>521</b>	<b>708</b>
<b>Attributable to:</b>					
Owners of the parent . . . . .	631	1,409	1,368	491	679
Non-controlling interests . . . . .	38	38	59	30	29

**Notes:**

- (1) Summary income statement data for the six months ended 31 March 2018 has been extracted from the 2019 Interim Financial Statements and has been restated for the impact of IFRS 15 application. Financial information for the six months ended 31 March 2019 reflects the application of IFRS 15.

### Summary Balance Sheet Data

	As at 30 September			As at 31 March
	2016	2017	2018	2019
	(in £ million)			
Total assets . . . . .	32,729	30,990	30,848	30,562
Total liabilities . . . . .	(26,987)	(24,764)	(24,403)	(25,036)
<b>Net assets . . . . .</b>	<b>5,742</b>	<b>6,226</b>	<b>6,445</b>	<b>5,526</b>

### Summary Cash Flow Data

	For the year ended 30 September			For the six months ended 31 March	
	2016	2017	2018	2018	2019
	(in £ million)				
<b>Operating profit . . . . .</b>	<b>2,229</b>	<b>2,278</b>	<b>2,407</b>	<b>833</b>	<b>1,150</b>
Net cash flows (used in)/generated from operating activities . .	3,157	3,065	3,087	837	(52)
Net cash used in investing activities <sup>(1)</sup> . . . . .	(191)	(287)	(230)	(152)	(136)
Net cash used in financing activities <sup>(1)</sup> . . . . .	(3,922)	(3,379)	(2,654)	(593)	(7)
Net (decrease)/increase in cash and cash equivalents . . . . .	(956)	(601)	203	92	(195)
Cash and cash equivalents at the start of period . . . . .	2,042	1,274	624	624	775
Effect of foreign exchange rates on cash and cash equivalents .	188	(49)	(52)	(58)	(41)
<b>Cash and cash equivalents at the end of period . . . . .</b>	<b>1,274</b>	<b>624</b>	<b>775</b>	<b>658</b>	<b>539</b>

**Notes:**

- (1) Net cash used in investing activities and net cash used in financing activities for the year ended 30 September 2016 have been derived from the unaudited comparative financial information included in the 2017 Financial Statements.

## RISK FACTORS

*The Issuer and the Guarantors believe that the following factors may affect their ability to fulfil their obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer and the Guarantors are not in a position to express a view on the likelihood of any such contingency occurring.*

*The factors below contain a description of all material risks that may affect the Issuer's and the Guarantors' abilities to fulfil their obligations to investors under the Notes. There may be additional risks that the Group currently considers immaterial or of low likelihood of which it is currently unaware, and any of these risks could have effects in addition to the factors set forth below.*

*The Issuer and the Guarantors believe that the factors described below represent the principal risks inherent in investing in the Notes, but their inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer and the Guarantors do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Investors should carefully read the risk factors described below and the other information in this Offering Memorandum prior to deciding to invest in the Notes. The trading price of the Notes could decline due to any of these risks, and investors may lose all or part of their investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Group, described below and elsewhere in this Offering Memorandum.*

### **Risks Relating to the Group**

#### ***The performance of the Group may be adversely affected by declining consumption of legitimate tobacco products***

Since the 1990s there has been a general decline in the consumption of legitimate tobacco products in many of the countries in which the Group operates. This decline in certain developed countries such as the UK, the US, Germany and Spain, where the Group currently has significant operations, may be attributed to a variety of factors including, but not limited to, health concerns, increasing government regulation, the diminishing social acceptance of smoking, frequent and substantial increases in the excise duty on legitimate tobacco products or a substantial increase in cost attributable to a change in the manner of excise duty collection, increases in the trade of illicit tobacco products and growth of the NGP market. Although the Group is currently selling its vapour brand, *blu*, and has recently launched its heated tobacco product, *Pulze*, in Japan, there can be no assurance that consumer acceptance of vapour or heated tobacco will offset a decline in overall tobacco consumption.

The Group estimates that during the years ended 30 September 2017 and 2018, the global tobacco industry experienced an industry volume decline of 4.4 per cent and 5.0 per cent, respectively, and, during those periods, the Group experienced a total tobacco volume decline of 4.1 per cent and 3.6 per cent, respectively, on a stick equivalent basis. Any future substantial decline in the demand for legitimate tobacco products could have an adverse effect on the Group's, the Issuer's and ITL's revenue, profits, business, financial condition, results or prospects.

#### ***The Group operates in highly competitive consumer markets and is subject to changes in demand and pricing pressure***

A majority of the Group's revenue and operating profits are generated through sales of its products in certain key consumer markets, including the UK, the US, Germany and Spain. Any changes in competitive conditions in these and the other markets in which the Group operates, such as significant increases in competitive activity or the failure by the Group to react appropriately to changes in competitive conditions could lead to a reduction in demand for the Group's products and additional pricing pressure on the Group's brands, which could have an unfavourable impact on the Group's business and growth strategy.

The Group's primary competitors include Philip Morris International Inc., British American Tobacco plc (BAT) including its subsidiary Reynolds American, Inc. (Reynolds), Japan Tobacco Inc., Altria Group Inc., Liggett Vector Brands LLC and JUUL Labs, Inc. These companies may have greater financial resources than the Group or stronger brand recognition and consumer loyalty in certain of the Group's markets. A significant increase in the competitive activity of these companies or other local manufacturers could lead to a reduction in demand for or pricing pressure on the Group's brands, which could reduce the Group's profit margins and cash flows. The Group's ability to compete with these companies may be limited by the regulatory environment in which it operates, including, among other factors, advertising restrictions, and this may adversely impact the Group's efforts to strengthen recognition of its brands in the relevant local

market. The competitive activity of the Group's competitors may also have an unfavourable impact on the Group's ability to achieve organic growth in its priority markets. Accordingly, the failure to compete effectively in the Group's priority markets may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and ITL.

***Changes in consumer purchasing patterns could have a negative impact on demand for the Group's products***

Particularly in trading environments where the price burden on consumers for the Group's products is high because of excise duties and taxation or weak economic conditions and/or declining consumer purchasing power, the Group is vulnerable to consumers down trading to lower price point products. This may include category shifts from higher-priced product categories to lower-priced product categories or from premium-priced products to economy-priced alternatives within a single product category. For example, during the periods under review, the Group has experienced down trading in mature markets in particular as consumer purchasing patterns have shown an increased demand for lower-priced products and brands. The failure by the Group to monitor and adapt to changes in consumer purchasing patterns within its markets could result in a reduction in the attractiveness of the Group's products relative to its competitors, which would have a negative impact on demand for its products and accordingly have an adverse effect on the revenue, profits, business, financial condition or results of the Group, Imperial Brands and ITL. Although the Group actively manages its brand portfolio across segments and price points, there can be no assurance that the Group will be able to predict future consumer trends or that its product portfolio will continue to attract a loyal customer base.

***The Group has invested heavily in NGP but there can be no assurance that its NGP adoption strategy will be successful, and the future market for vapour and similar products is uncertain***

The Group continues to invest heavily in its NGP adoption strategy, including the development of new nicotine, non-nicotine and smokeless delivery options. However, the NGP category, which includes vapour, heated tobacco and snus among other products, continues to evolve rapidly, both in terms of product availability from the Group and its competitors but also in terms of regulatory treatment applicable to such products (see "*Description of the Group and its Business—Products and Services*"). The Group's vapour brand, *blu*, has been available in the US market since 2009 and was launched in key European markets in 2018 and 2019, with further launches planned. Competition in the NGP category is intense and product offerings in this market are varied as the market is highly fragmented, with large companies, such as Philip Morris International Inc., BAT, Reynolds and JUUL Labs, Inc. developing new and innovative products that compete with those offered by smaller companies. In addition, larger companies, such as the Group, may look to acquire NGP companies to add NGP portfolios, although there can be no assurance that such acquisitions will prove successful or lead to a successful product launch. Should the Group fail to identify innovation opportunities or respond to developments in the NGP market in a timely manner, or fail to execute its strategy as effectively as its competitors, the Group may fail to achieve its strategic objectives in NGP.

Future sales and any future profits from the Group's NGP business are substantially dependent upon the acceptance and use of NGP by adult smokers in lieu of or in addition to traditional tobacco products. The Group's ability to generate future sales will be dependent on a number of factors, many of which are beyond its control, including the pricing of competing products, overall demand for NGP offerings, changes in consumer preferences, market competition and government regulation. While the Group attempts to influence and respond to NGP market developments, it may still be exposed to factors that limit the success of NGP generally, including, but not limited to, increases in duty and regulatory treatment of competing products. In March 2019, the US Food and Drug Administration (**FDA**) announced potential changes to vapour regulations, including an increase in the nationwide minimum age for purchase of vapour products, as well as other measures intended to prevent youth access. Such proposals and similar restrictions on the sale of NGP, if adopted by US states or other jurisdictions, could have a negative impact on the Group's ability to market and sell its NGP offerings, which would have a negative impact on growth in demand for NGP.

A failure by the Group to realise its NGP adoption strategy may have an adverse effect on the reputation, revenue, profits, business, financial condition, results or prospects of the Group, Imperial Brands or ITL.



***The Group may be unable to identify and complete acquisitions or disposals of assets, and any completed transactions may demand significant management involvement or may not yield expected results***

Historically, the Group has engaged in acquisitions that have been complementary to its organic growth. However, ITG Brands' 2015 acquisition of certain brands from Reynolds, including those formerly owned by Lorillard Tobacco Company (**Lorillard**) including the *blu* vapour brand (the **2015 US Acquisition**), and the acquisition of Nerudia, a UK-based NGP innovation business, reflect the Group's revised focus on improving its NGP offering in addition to traditional tobacco. Where the Group has identified acquisition opportunities, it has historically faced competition for these acquisitions. Such competition can raise the price of acquisitions and make them less attractive. In addition, if the Group is unable to secure the necessary financing, it may not be able to acquire businesses in furtherance of its strategy (see "*—The Group has significant borrowings, which may impair operational and financial flexibility*" below).

As announced on 9 May 2018, the Group is engaged in a divestment programme targeting proceeds of up to £2 billion by May 2020 and, as part of the programme, has recently announced that it intends to divest its premium cigar business. However, the Group may not reach this target in time or at all, and proceeds from businesses slated for sale may be lower than expected. Any proposed disposals would require the attention of management, and might divert management focus and other resources away from implementation of the Group's other strategic goals. In addition, the Group may fail to balance the Group's portfolio of business effectively or to effect disposals in a timely and effective manner.

Even if management is able to identify potential acquisition or disposal opportunities, it may be difficult to complete such transactions, given antitrust considerations or other challenges, or due to reasons such as market and financial conditions. This could adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact on the Group's and ITL's revenue, profits, business, financial condition or results.

Future acquisitions or disposals may require significant attention from management and result in the diversion of other resources away from organic growth. Although the Group anticipates synergies and cost savings may result from future acquisitions (depending on the nature of the business acquired) or disposals, it may not realise any or all of such synergies or cost savings that it believes can be realised from these transactions. The Group's ability to integrate and manage acquired businesses effectively and to handle any future growth will depend upon a number of factors including, but not limited to, the size of the acquired businesses, the nature and geographical locations of their operations, and the resulting complexity of integrating its operations into the Group, and failure to manage growth effectively may adversely affect the Group's, Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

Furthermore, there can be no assurance that the Group will be able to identify all actual or potential liabilities of a business prior to its acquisition or disposal (including, for example, environmental, litigation or health and safety liabilities). If the Group acquires a business or assets which result in the Group assuming unforeseen liabilities in respect of which it has not obtained contractual protections or for which protection is not available, this could adversely affect the Group's revenue, profit and financial condition which, in turn, could adversely affect Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

***The Group may be adversely affected by increases in illicit trade, reducing the size of the legitimate tobacco and NGP markets***

Illegal cross-border trade, in the form of counterfeit products, locally manufactured products on which applicable local sales taxes are evaded and smuggled genuine products, is a significant and, in some countries, growing threat to the legitimate tobacco industry. Illicit trade could have an adverse effect on the Group's revenue, profits, business, financial condition or results in addition to damaging the Group's brand equity and undermining supply chain distribution investments, with potential damage to the Group's reputation. This, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

A number of factors could result in a significant decline in the demand for legally purchased tobacco products, including substantial increases in excise duties or a substantial increase in cost attributable to a change in the manner of excise duty collection. Any factor that increases the costs to consumers of tobacco products could encourage more consumers to switch to cheaper, illegal tobacco products and provide greater rewards for counterfeiters, smugglers and organised crime. In addition, additional regulatory

initiatives, such as plain packaging or standardised appearance, taste or ingredients, may contribute to an increase in illicit trade of tobacco products.

Illicit trade creates a market that is uncontrolled. As a result, children can more easily obtain tobacco products, governments are deprived of tax revenue and livelihoods of tobacco retailers are threatened. Within such an environment, there is also a risk that criminal and civil sanctions, negative publicity and allegations of complicity in illegal cross-border trading and money laundering activities may be made against tobacco companies or their directors, executive officers, employees, agents and distributors.

Although the Group has implemented procedures and established controls to detect and control illegal trading of its tobacco products, these procedures and controls can provide only reasonable and not absolute assurance of detecting non-compliance by managing, rather than eliminating, risk. There is a risk that these procedures and controls may not adequately protect the Group against increases in illicit trade and the above-mentioned risks, which could have a material adverse effect on the Group's reputation, business, results of operations and financial condition and which, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

***Increased product regulation may have an adverse effect on the demand for the Group's products and/or increase compliance costs***

The manufacture, advertising, sale and consumption of tobacco products have been subject to extensive and increasing regulation from governments, influenced by health officials and anti-smoking groups, principally due to the conclusion that cigarette smoking and tobacco products are harmful to health. Regulatory initiatives affecting the tobacco industry that have been proposed, introduced or enacted include a range of initiatives restricting advertising, packaging and distribution channels, restrictions on ingredients and increased restrictions on smoking (see "*Description of the Group and its Business—Regulatory Landscape*"). These restrictions have been introduced by regulation supplemented by voluntary agreements. Examples of such regulation include the EU Tobacco Products Directive (**EUTPD**), including delegated legislation enacted in accordance with the EUTPD framework, and the WHO Framework Convention on Tobacco Control (**WHO FCTC**). The Group often has limited opportunity to offer an opinion on the likely consequences of regulatory change and, along with all other tobacco manufacturers, is sometimes excluded from consultation with regulators on these regulatory proposals. In addition, anti-smoking groups continue to advocate the exclusion of the industry from consultation processes and seek to diminish the social acceptability of smoking. Anti-smoking groups are pursuing this agenda through petitioning individual governments and the World Health Organization (the **WHO**).

In the US, the tobacco environment is regulated at both the federal level (by the FDA and Federal Trade Commission (the **FTC**)) and state level and there is therefore a risk that either federal or state regulation or both may become materially more intrusive or adverse. Any future increases in the regulation of the tobacco industry in the US or elsewhere could therefore result in a substantial decline in the demand for tobacco products. Current or future restrictions or bans relating to, among other things, product flavouring (for example, in November 2018, the FDA proposed a ban on menthol in combustible tobacco products) or to product packaging or nicotine level, may require manufacturers to review and adapt their product portfolio.

NGP are regulated either under dedicated legislation or existing frameworks. The degree and severity of such regulations vary. They may also be subject to further extensive regulation in many of the markets in which the Group operates and, in particular, by the FDA in the US and under the EUTPD in the EU. It is not possible to predict the scope of all future regulation of NGP proposed or implemented by regulatory authorities or the impact of any such regulations but current proposals include restrictions on flavourings and product specification, use and purchase. For example, in March 2019, the FDA announced potential changes to vapour regulations, including an increase in the nationwide minimum age for purchase of vapour products. There can be no certainty as to the timing or completion of such approvals or the independent adoption of such proposals by US states or municipalities (e.g. the proposed vapour ban in San Francisco). For further discussion of the regulation of NGP, please see "*Description of the Group and its Business—Regulatory Landscape—Regulation of NGP such as vapour and heated tobacco products*".

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL and could contribute to an increase in the illicit trade in the Group's products.

***The Group may be impacted by increases in product-related taxes, including excise and other levies***

Tobacco products are subject to high levels of taxation, including excise taxes, sales taxes, import duties and levies in most markets in which the Group operates. In many of these markets, taxes are generally increasing but the rate of increase varies between markets and between different types of tobacco products. Increases in tobacco excise taxes may be caused by a number of factors, including fiscal pressures, health policy objectives and increased lobbying pressure from anti-tobacco advocates. In many of the markets in which the Group operates, excise duty represents a substantial percentage of the retail price of tobacco products, and this percentage has been steadily increasing in recent years. NGP have so far only been subject to limited product-related taxes, although the risk exists that their treatment under excise and other sales-related taxes could change.

Significant or unexpected increases in tobacco and NGP taxes, the introduction of laws establishing minimum retail selling prices, changes in relative tax rates for different tobacco products or adjustments to excise structures have and may continue to result in an increase in illicit trade, a decline in overall sales volume for the Group's products or an alteration in the sales mix in favour of lower-priced products and may have an adverse effect on the Group's business, results of operations and financial conditions. Increases in tobacco-related taxes, the introduction of new tobacco/NGP-related taxes or changes to excise structures can limit the Group's ability to increase the prices on tobacco products or NGP, or necessitate absorption of tax increases. Additionally, tax increases can also lead to portfolio erosion, reduction of legal industry sales volumes and growth in illicit trade (see "*—The Group may be adversely affected by increases in illicit trade, reducing the size of the legitimate tobacco and NGP markets*" above).

Any such increases in excise duty could therefore have an adverse effect on the revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group may be exposed to potential risks arising from the UK's decision to exit the European Union***

There are a number of uncertainties in connection with the future of the UK's relationship with the European Union (EU). Pursuant to a referendum held on 23 June 2016, the UK has voted to leave the EU and the UK government invoked Article 50 of the Lisbon Treaty relating to withdrawal on 29 March 2017 (**Brexit**). Under Article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances. The Article 50 period was set to elapse on 29 March 2019; however, further to ongoing negotiations and discussions with the European Commission, the UK's departure from the EU has been postponed until 31 October 2019, with provision for an earlier departure in the event that a withdrawal agreement is concluded among the parties. There can be no assurance that any such withdrawal agreement will be concluded prior to 31 October 2019 or at all.

Negotiation of the UK's exit terms and related matters, including its future trading relationship with the EU, may take several years. Given this uncertainty and the range of possible outcomes, it is not currently possible to determine the impact that the UK's departure from the EU, its future trading position with the EU and/or any related matters may have on general economic conditions in the UK, including the performance of the UK consumer market, or the impact across the wider European economy. Given the uncertainty surrounding the UK's departure from the EU, it is likewise not possible to predict the impact that these matters will have on the business of the Group. Brexit is expected to exacerbate other current risks faced by the Group, including, but not limited to, foreign currency exchange rate exposure (see "*—The Group is exposed to foreign currency exchange rate and interest rate risk*" below), changes in taxation policy and excise duty status (see "*—The Group may be impacted by increases in product-related taxes, including excise and other levies*" above), increase in illicit trade (see "*—The Group may be adversely affected by increases in illicit trade, reducing the size of the legitimate tobacco and NGP markets*" above), conditions in the UK and European consumer product markets (see "*—The Group is exposed to the economic conditions of the countries in which it operates, with a particular concentration in Western Europe and the United States*" below), the adoption of protectionist trade policies (see "*—The Group may be affected by increasing tension between countries and the resultant adoption of protectionist trade policies*" below) and taxation (see "*—The Group may be adversely affected by changes in taxation legislation (or interpretation of past and/or present legislation by taxation authorities)*" below). Until Brexit negotiations have concluded, it will not be possible to determine the nature and extent of Brexit's impact on the Group.

Accordingly, the risks exacerbated by the Brexit process could individually or together have an adverse effect on the revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group may be affected by increasing tension between countries and the resultant adoption of protectionist trade policies***

In recent years, protectionist trade policies have been increasing around the world, particularly in the United States and as a result of US trade policy. It is unclear what additional tariffs, duties, border taxes or other similar assessments on imports might be implemented in the future and what effects these changes may have on tobacco and NGP sales in the Group's priority markets. Such protectionist trade legislation in the United States, the EU or other priority markets, including changes in the current tariff structures, export or import compliance laws, or other trade policies, could reduce the Group's ability to sell its products in such markets and increase the relative cost to foreign purchasers of the Group's products, which could have a negative impact on demand.

Increasing protectionist trade policy between nations also creates the risk of additional cost and complexity within the Group's supply chains, and places potential risks upon the security of supply. For example, the manufacture of the Group's NGP offerings, specifically its *blu* vapour products, relies on components sourced and manufactured in China. The current US tariff regime impacts the importation of certain of these components, which increases the Group's costs of manufacturing and may ultimately affect the profitability of such products. In addition, further rising tensions between the United States and China may impact the security of the Group's supply of components materials, which would have a further negative impact on the Group's supply chains (see "*—The availability of the Group's products to consumers could be affected by supply chain failures*" below).

Any increase in protectionist policies could have an adverse effect on the revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group may not fully be able to protect or retain its intellectual property rights or utilise intellectual property of other parties in the development of new products***

The Group relies on trade marks, patents, registered designs, copyrights and trade secrets. The Group attempts to protect its intellectual property rights, in the UK, the EU, the US and elsewhere, through a combination of trade marks, patents, registered designs, copyrights and trade secret laws, as well as confidentiality agreements. However, the Group may fail to obtain or maintain adequate protection of such intellectual property rights. Further, if the Group does in fact fail to obtain or maintain adequate protection of its intellectual property rights, competitors may produce products that are substantially or wholly similar to products produced by the Group. In such an occurrence, consumers may lose confidence in the affected brand or brands, resulting in a loss of sales volume which may take a long time to recover or may not recover fully or at all. During this time, the Group's competitors may substantially increase their market share, which would subsequently be difficult and costly to regain.

In the development of new products, notably NGP, the Group may wish to use technology already subject to patent, registered design or other intellectual property rights held by others. However, the Group may fail to obtain rights to access such intellectual property. The failure to obtain such rights could significantly limit the Group's ability to develop and market its NGP brands, which could significantly limit its NGP strategy or potentially result in litigation.

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group is exposed to the economic conditions of the countries in which it operates, with a particular concentration in Western Europe and the United States***

The Group is exposed to economic conditions in its largest markets, including the United Kingdom, Germany, Spain and the United States, which constituted 57 per cent of the Group's external revenue for the year ended 30 September 2018. The growth of the Group's business is underpinned by its positions in these and other key countries. Any adverse economic developments in the Group's key countries, including but not limited to recessionary conditions, default on sovereign debt, a significant decline in the credit rating of one or more sovereigns or financial institutions, or the breakup of or exit from the EU and/or eurozone by the United Kingdom or any other state which is a member of the EU (**Member State**), could

cause severe stress in the financial system generally and on the euro, pounds sterling, or US dollar, and could disrupt the banking system generally and adversely affect the markets in which the Group operates and the businesses and economic condition and prospects of the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. Please also see "*—The Group may be exposed to potential risks arising from the UK's decision to exit the European Union*" and "*—The Group may be affected by increasing tension between countries and the resultant adoption of protectionist trade policies*" above.

Any future declines in these markets or in any of the Group's priority markets, including due to adverse changes in economic conditions in these countries, could have an adverse effect on the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

***The Group is dependent on its key customers and distributors***

Group companies have a number of key customers and distributors that may be under contractual arrangements, which may have relatively short durations and termination periods. Loss of key customers or distributors may adversely affect the Group's sales volume, market share and profits. The Group may be unable to renew agreements with key customers or distributors on satisfactory terms for numerous reasons, including government regulations or consolidation within the market. The loss or consolidation of any of these key customers or distributors, or their inability to pay material amounts owed, may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The availability of the Group's products to consumers could be affected by supply chain failures***

Continuity of supply of the Group's products relies upon the effective management of its product supply chain, which includes, but is not limited to: manufacturing facilities owned and managed by the Group; contract manufacturing suppliers; raw material suppliers; logistics and warehouse suppliers; and third-party systems providers.

Material failure in the Group's manufacturing or supply chain processes could result in a short-term reduction in supply to markets. Loss of a key supplier as a result of, among other things, financial failure, failure to manage supplier relationships effectively or the decision of a third party not to supply the Group could impact supply chain planning. For example, the entry into administration of Palmer & Harvey McLane Limited (the **UK Distributor**) in 2017, a key distributor in the UK for the Group and a number of other tobacco companies had a material negative impact on profitability during the periods under review principally due to unrecoverable excise duty and sourcing alternative distribution arrangements. Although production and market contingency planning is in operation in the event of loss of production capacity due to any localised or country-specific issue, such contingency plans could be affected by a number of factors, including product regulation, notably FDA regulation, the requirements of the EUTPD and the WHO FCTC, as well as other product "track and trace" requirements. Any material failure in the Group's product supply could result in lost sales, and a potential longer-term loss of consumer loyalty.

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group's products could be affected by failures in product stewardship, quality control and/or contamination***

The Group's products may fail to comply with product stewardship standards, or become contaminated or may otherwise fail to comply with the Group's or its regulators' quality standards, for example, as a result of an accident during the manufacturing or supply chain process or deliberately with malicious intent, or a malfunction, in the case of vapour products. In these instances, significant costs may be incurred in recalling products from the market or as a result of negative publicity. In addition, consumers may lose confidence in the affected brand or brands, resulting in a loss of sales volume which may take a long time to recover or may not recover fully or at all. During this time, the Group's competitors may substantially increase their market share, which would subsequently be difficult and costly to regain. The Group may also be subject to claims in respect of such product failure.

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group is exposed to price fluctuations, inflation and supply risks in relation to tobacco leaf and other commodities and materials***

As with other agricultural commodities, the price of tobacco leaf tends to be cyclical, as supply and demand considerations (including production costs and demand for other agricultural commodities such as foods or bio-energy crops) influence tobacco plantings in those countries where tobacco is grown. Different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price and availability. In addition, political situations may result in a significantly reduced availability of tobacco leaf in any affected country. This may also lead to increases in price that the Group may be unable to pass onto customers. The Group has limited involvement in the cultivation of tobacco leaf and the Group's results will, therefore, be exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf and other commodities required in the manufacture of cigarettes. Furthermore, the Group has in the past made a majority of its leaf purchasing commitments in United States dollars, thereby exposing the Group to foreign currency exchange rate risks embedded in the cost of its tobacco purchasing. Fluctuations and/or inflation in the price of tobacco leaf may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

The Group is dependent on managing macro financial risks, including fluctuations and/or inflation in the price and/or availability of tobacco leaf, commodity prices and the price of other materials, including those used in the manufacture of NGP. Failure to manage financial risks may have an adverse effect on the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

***The Group's revenue and profitability may be adversely affected by a failure to realise budgeted price increases***

Periodic price increases are among the key drivers in increasing market profitability. However, the Group may not be able to obtain such price increases or fully realise the benefits of any price increase as a result of increased regulation, which may reduce its ability to build brand equity and enhance its value proposition to its adult tobacco consumers; stretched consumer affordability arising from deteriorating economic conditions and rising prices; sharp increases or changes in excise structures; and competitor pricing activities. As a result, the Group may be unable to achieve its strategic growth metrics, have fewer funds to invest in growth opportunities, and be faced with quicker reductions in sales volumes than anticipated due to accelerated market decline. In addition, down trading and illicit trade may increase in response to price increases for legitimate products. These in turn may impact the Group's business, results of operations and financial conditions.

***The Group may fail to obtain the anticipated benefits from its strategic change initiatives and may not achieve its cost savings targets***

In order to support its strategic objectives the Group is undertaking a number of strategic change initiatives, including cost optimisation programmes and a divestment programme. The Group continues to focus on optimising its manufacturing footprint and reducing overheads to realise operational efficiencies. The Group announced a five-year cost optimisation programme in January 2013, which is now complete and is delivering annual savings of £300 million from the financial year ended 30 September 2018 at a total cash restructuring cost of approximately £600 million as at 30 September 2018. An additional cost programme was announced in November 2016, and is expected to deliver a further £300 million of annual savings from 1 October 2020, at an estimated total cash restructuring cost of approximately £750 million. Cost optimisation initiatives can require a significantly larger investment than initially budgeted for and there can be no assurance that such initiatives will yield the anticipated cost savings when expected or at all. Suitable opportunities to pursue such initiatives may be limited.

Any failure to meet the Group's strategic change initiatives may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group is a global business and faces the inherent risks of a diverse footprint and has significant operations in developing markets***

The Group's business in developing markets may present more challenging operating environments where margins in general may be lower and in which commercial practices may be less developed and of a lower standard than those in more mature markets.

The results and prospects for the Group's operations in these countries will be dependent, in part, on the political stability, economic activity, regulatory requirements, policies and judicial systems of those countries. Some of the countries in which the Group operates face the risk of civil unrest, regime changes, nationalisation, terrorism, conflict and threat of war, as well as an increased risk of fraud and corruption, both externally and internally. Economic, political, legal, regulatory or other developments or uncertainties in developing markets could disrupt the Group's supply chain, compliance with applicable regulations, its distribution capabilities or its cash flows. These developments could also lead to loss of property or equipment that are critical to the Group's business in certain markets which could adversely affect the Group's revenue, profits, business, financial condition and results which, in turn, could impact Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

As a result of its activities in developing markets, the Group currently is, and may in the future be, a party to litigation in these markets. The outcome of legal proceedings in these jurisdictions may be particularly uncertain, as legal, administrative and judicial systems or judiciaries in some developing markets can be unpredictable.

***The Group may be adversely affected by changes in taxation legislation (or interpretation of past and/or present legislation by taxation authorities)***

The Group operates in approximately 160 markets and pays tax in accordance with the tax legislation in those markets. The Group may be adversely affected by changes relating to tax laws and tax rates, which frequently change, and by the outcome of claims and challenges by taxation authorities, whether as a result of tax audits or otherwise. Provisions arising from uncertain tax positions included in the 2018 Financial Statements were £202 million. It is possible that the amounts paid in the future could be materially different from the amounts provided for in the Consolidated Financial Statements. Any adverse changes in the tax regimes that the Group is subject to may have a significant impact on the taxes that the Group must pay and could accordingly have an adverse effect on the profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group conducts business in countries subject to international sanctions***

Some of the countries in which the Group does business or with whom it has or will have commercial dealings are subject to international sanctions including Cuba and Russia.

Historically, the Group's activities in these jurisdictions have been limited principally to selling tobacco products and to purchasing tobacco leaf and have not been material to the Group's revenue, profits or financial condition. However, the Group's business in Cuba, from which it had previously only sourced tobacco leaf prior to January 2008, grew as a result of the Group's acquisition of the Altadis Group which has ownership interests in the Cuban Joint Ventures, which manufacture, market, distribute and sell cigars manufactured in Cuba.

The Group seeks to comply fully with international sanctions to the extent they are applicable to the Group. However, in doing so, it may be restricted in supplying products sourced from certain countries to relevant jurisdictions, by the nationality of the personnel that it involves in these activities or in its sources of funding. In particular, the Cuban Joint Ventures (including their affiliates) could be materially limited by the operation of sanctions administered by the US Department of Treasury's Office of Foreign Assets Control, the US Cuban Assets Control Regulations and by the US Cuban Liberty and Democratic Solidarity (Libertad) Act 1996 (commonly known as the Helms-Burton Act). Two non-controlled joint ventures that are affiliates of the Cuban Joint Ventures are the target of US sanctions. The operations of the Cuban Joint Ventures are conducted in accordance with applicable regulations and their activities are financially ring-fenced from the activities of the rest of the Group. The revenue from the Cuban Joint Ventures amounted to less than 3 per cent of the Group's total revenue for the financial year ended 30 September 2018. New sanctions or changes in existing sanctions could further restrict or entirely prevent the Group from doing business in, or from having commercial dealings with, certain jurisdictions, including Cuba, which may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

Additionally, the Group's expansion into developing markets may present more challenging operating environments in which commercial practices may be less developed and of a lower standard than those in which the Group has historically operated. As such, although the Group seeks to comply fully with international sanctions to the extent they are applicable to the Group, it may be harder to do so in such

markets. The Group may suffer from adverse public reaction or from reputational harm as a result of doing business in, or having commercial dealings through third parties with, countries that have been identified as state sponsors of terrorism by the US State Department, or that are subject to international sanctions, notwithstanding that the Group's activities comply with applicable international sanctions and regardless of the materiality of the Group's operations in such countries to its operations or financial condition. The Group's activities in the countries subject to international sanctions could also restrict the sources of funding and financial (or other) products or services available to the Group. International sanctions may also limit the Group's ability to use existing funds to finance its operations in certain countries.

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group may be subject to investigations for alleged abuse of its market position or alleged breaches of other competition laws in certain countries***

The Group has significant market positions in certain countries in which it operates. The Group is subject from time to time and may in the future be subject to investigation or litigation for alleged current or historical abuse of its market position or alleged current or historical breaches of other competition laws, which can result in adverse regulatory action by the relevant authorities, including inspections and monetary fines, along with potential follow-on damages actions and negative publicity. The Group is currently co-operating with relevant competition authorities in relation to several ongoing competition law investigations. While the Group endeavours to comply with all applicable laws, there can be no definitive assurances that these investigations (or any future investigations to which the Group may be subject) will not result in a fine being levied and/or actions being brought against members of the Group (see “Description of the Group and its Business—Litigation”).

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group is exposed to risks in relation to data protection***

The Group holds, controls and processes a significant volume of personal data and could be adversely affected if any of this data were to be lost, compromised or not handled in accordance with the relevant data protection legislation. The EU General Data Protection Regulation (the **GDPR**), which came into force on 25 May 2018, imposes new obligations on data controllers and data processors and new rights for data subjects (all as defined in the GDPR) with which the Group must comply. The GDPR also introduces significantly increased financial penalties (including a fine of up to 4 per cent of annual global turnover) and other sanctions that can be imposed on the Group as the result of any non-compliance with the GDPR.

Although the Group has robust data protection policies and procedures in place, it is primarily reliant upon the robustness of its IT security and the actions of its employees in complying with these policies and procedures to manage the risk.

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group may be adversely affected by a material failure in its information technology systems or by a cyber-attack***

The Group's business is dependent on efficient, robust information technology (**IT**) systems for its internal communications, controls, reporting and relations with regulators, customers and suppliers. Some of the Group's critical information systems are managed by third-party service providers. Any material failure in the Group's IT processes or its operations or any material cyber-attack could impact its ability to operate, result in legal liability and affect its reputation. Failure to invest in and deploy appropriate IT systems and infrastructure to support the business and protect confidential information may lead to inefficient business operations, including (but not limited to) poor supply chain management, and have a negative impact on customer service, resulting in a loss of customers, and may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.



***The Group may be adversely affected by any failure of its employees to follow the Group's internal policies and procedures or the failure of retail partners to follow codes of conduct***

The Group requires its employees to comply with its internal policies and procedures and local legal requirements. However, the risk exists that employees fail to comply with such policies and procedures including, but not limited to, health and safety violations, and engaging in fraudulent or illegal activity by an employee. Any breach of the Group's policies and procedures (deliberate or otherwise) may expose the Group to the risk of, among other things, governmental investigation, regulatory action and civil and/or criminal liability. In addition, the Group maintains detailed codes of conduct that it requires its retail partners to adhere to that deal with, but are not limited to, restrictions on selling the Group's products to minors in compliance with local laws. There can be no assurance, however, that the Group's retail partners will adhere to these restrictions, which could result in, among other things, harm to the Group's reputation or liability to regulators.

A failure of the Group or its employees to follow internal procedures or the failure of retail partners to follow codes of conduct may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL. However, notwithstanding anything contained in this risk factor, this risk factor should not be taken as implying that either the Issuer or Imperial Brands will be unable to comply with its obligations as a company with securities admitted to the Official List.

***The Group could incur substantial damages and costs in connection with litigation***

In addition to the matters detailed in the "*Description of the Group and its Business—Litigation*" section below, it can be expected that legal actions, proceedings and claims arising out of the sale, distribution, manufacture, use, development, advertising, marketing and claimed health effects of its products, including tobacco products and NGP, will be filed against the Group in the future. The damages sought in any such claims could be significant, and the Group may not be successful in defending all of the claims that may arise. To the extent that the Group's assessment as to the likely outcome of any claim does not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be affected. In addition, regardless of the outcome of any litigation, the Group would incur costs, and need to devote management time to, defending any claims which it may not be able to recover fully or at all, irrespective of whether it was successful in defending such claims.

In the US, the jurisdiction with the greatest prevalence of smoking and health-related litigation, such claims could be brought in a variety of courts by various parties, ranging from individuals, class actions, regulators and others and (subject to certain provisions in settlements with states) could relate, *inter alia*, to a wide range of damages, including individual damages, healthcare and other costs. The Group had a relatively limited historical presence in the United States until the Group acquired Commonwealth Brands in 2007 and Altadis USA in 2008, both of which were and are manufacturers and sellers of tobacco products in the US. The cigarette brands acquired pursuant to the 2015 US Acquisition were acquired without historic product liabilities and an indemnity in respect of any liabilities relating to the period prior to completion of the deal was provided by Reynolds.

An unfavourable outcome or settlement of any pending or future smoking, NGP and health-related or other litigation (whether involving the Group or other tobacco or NGP companies) may increase the likelihood of new actions, adversely affecting the Group's ability to prevail in similar or related litigation.

Furthermore, there can be no assurance that legal aid such as attorneys' fees or other funding will continue to be denied to claimants in smoking, NGP and health-related or other litigation in any jurisdiction in the future. If future claimants are able to obtain legal aid or funding to finance their litigation against the Group, or such actions are otherwise made easier, this may increase the number of claims and claimants' likelihood of prevailing on such claims.

A material increase in the number of pending claims could significantly increase the costs and management time for the Group to defend such claims. There can be no assurances that any future litigation against the Group, if successful, would not have an adverse effect on the revenue, profits, business, financial condition or results of the Group. In addition, even if the Group is not party to litigation, any adverse judgment against a tobacco or NGP manufacturer or in relation to the tobacco or NGP market could have an impact on market conditions which may adversely affect the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

***The Group is exposed to foreign currency exchange rate and interest rate risk***

The Group is exposed to movements in foreign currency exchange rate due to its overseas subsidiaries, its commercial trading transactions denominated in foreign currencies and foreign currency cash deposits, borrowings and derivatives. For significant acquisitions of overseas companies, the Group endeavours to raise financing in the appropriate currency (or are swapped via derivatives into the appropriate currency) to minimise risk.

The Group's material foreign currency denominated costs include 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 has investments in foreign entities that operate in countries whose currency is different from pounds sterling (mainly in the EU, as well as in Morocco, Russia, Cuba, Australia and the US). Consequently, the Group is exposed to the translation of the results of overseas subsidiaries into pounds sterling, as well as to the impact of trading transactions in foreign currencies. Significant fluctuations in foreign currency exchange rates could have an adverse effect on the Group's revenue, profits, business, financial condition and results which, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

The Group is also exposed to fluctuations in interest rates on its borrowings and surplus cash balances. As approximately 72 per cent of the Group's borrowings (after adjusting for the effect of interest rate derivatives) outstanding as at 30 September 2018 were at fixed levels of interest (approximately 59 per cent as at 31 March 2019), the Group is exposed to movements in interest rates which could result in higher cash outflows, reducing the capital available to the Group. As at 30 September 2018, the Group had reported net debt of £11,899 million (£13,381 million as at 31 March 2019). Of this, approximately 68 per cent was denominated in euro and 32 per cent in US dollars (as at 31 March 2019: 79 per cent and 21 per cent, respectively). Accordingly, the Group's financial results as at 30 September 2018 (and at 31 March 2019) were exposed to gains or losses arising from fluctuations in interest rates relating to pounds sterling, euro and US dollars. Significant fluctuations in interest rates may have an adverse effect on the Group's revenue, profits, financial condition or results which, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

***The Group has significant borrowings, which may impair operational and financial flexibility***

The Group has a significant amount of indebtedness and debt service obligations, which may impair both the Group's operating and financial flexibility and could potentially cause the Group to dedicate a significant portion of cash flow from operations to debt service obligations, depending on the level of borrowings, prevailing interest rates and foreign currency exchange rate fluctuations, which may reduce the funds available to the Group for capital expenditure, investment within the Group, acquisitions and other expenditure. As at 30 September 2018 and 31 March 2019, the Group had reported net debt of £11,899 million and £13,381 million, respectively.

The Group's indebtedness could also limit its ability to borrow additional funds for capital expenditure investment within the Group, acquisitions and other expenditure; limit flexibility in planning for, or reacting to, changes in technology, customer demand, competitive pressures and the industry in which the Group operates; place the Group at a competitive disadvantage compared to competitors that may be less leveraged than the Group; and increase the Group's vulnerability to both general and industry-specific adverse economic conditions.

If conditions in credit markets are unfavourable and/or one or more of the Group's credit ratings are downgraded or placed on negative credit watch, the marketability and trading value of the Notes may be materially diminished, and the Group may not be able to obtain new sources of financing and/or such new sources of financing, together with the Group's existing financing sources, may be at higher costs and/or include additional financial, operating or other obligations.

The Group may, for a number of reasons, be unable to refinance its debt, when it matures, in the debt capital markets, bank loan markets, euro commercial paper (ECP) market or other financing markets available to the Group at that time. Access to financing in the future may depend on, among other things, the future expected performance of the Group, suitable market conditions and the maintenance of suitable long-term and short-term credit ratings. Additionally, there may be an unwillingness of financial (or other) counterparties to transact with, or facilitate transactions with, the tobacco sector (or any other sector(s) in which the Group is currently invested, may invest or have an interest from time to time).

Any of the factors listed above may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group has exposure to external financial counterparties***

The Group has financing made available from and, from time to time, places cash deposits with and has entered into derivative and other financial transactions with financial institutions. Access to such funding, repayment of cash deposits and performance under derivative and other financial transactions may be reduced due to the Group's counterparties being unable to honour their commitments in full or in part. As such, cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. The failure of any counterparty to meet the Group's payment obligations or performance undertakings to it or the deterioration in the financial condition of one or more of its counterparties could have an adverse effect on the Group's financial condition or operations. In addition, the failure of a transactional banking counterparty could cause disruption to the Group's operations.

The Group's exposure to these external financial counterparties should they not honour their commitments or perform as expected may have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

***The Group may be required to make significant contributions to one or more of its 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 ITL in the UK, Reemtsma in Germany and ITG Brands in the US. As at 30 September 2018, these schemes represented 64 per cent, 11 per cent and 7 per cent of the Group's total retirement benefit obligations and 40 per cent, 25 per cent and 10 per cent of the current service cost respectively (measured under International Accounting Standard 19 "Employee Benefits").

The largest of the three defined benefit schemes is the Imperial Tobacco Pension Fund (**ITPF**). The contributions paid to the ITPF are set by the ITPF scheme actuary every three years, and the ITPF scheme actuary is currently in the process of completing its triennial valuation as at 31 March 2019, which may result in an adjustment in the Group's contributions payable under the scheme. The scheme actuary is an external consultant, appointed by the trustees of the ITPF. Principal factors that the scheme actuary may have regard to include, but are not limited to, the covenant assessment of 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 ITPF were to be wound up.

The most recent valuation of the ITPF was carried out as at 31 March 2016 when the market value of the invested assets was £3,302 million. Based on the ongoing funding target, the total assets were sufficient to cover 96 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, ITL and the trustees agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions.

A significant future funding requirement to any of the Group's retirement benefit schemes could have an adverse effect on the revenue, profits, business, financial condition or results of the Group, the Issuer, Imperial Brands and/or ITL.

***The Group's labour relations or labour unrest may affect operational and financial performance***

The Group's management believes that all of the Group's operations have, in general, good relations with their employees, employee representatives and unions. However, there can be no assurance that the Group's business or operations will not be affected by labour-related problems in the future. In addition, there can be no assurance that any deterioration in labour or union relations, or any disputes or work stoppages or other labour-related developments (including problems experienced during any consultation procedures or programmes or the introduction of new labour regulations in countries where the Group operates) will not adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, could adversely affect Imperial Brands' and ITL's reputation, revenue, profits, business, financial condition or results.

*The Group could fail to attract or retain key personnel*

The Group's success will depend to a substantial extent on the ability and experience of its senior management as well as its ability to attract and retain, among others, a qualified sales force, team of engineers and employees with managerial, technical, sales, marketing and information technology support skills. The loss of the services of certain key employees, particularly to competitors or other consumer product companies, may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results. In addition, management believes that as the Group's business develops and expands, the Group's future success will depend on its ability to attract and retain highly skilled and qualified personnel, which cannot be guaranteed. The failure to attract or retain key personnel could significantly impede the Group's financial plans, growth, marketing and other objectives. Employee retention may be particularly challenging following acquisitions or divestures as the Group must continue to motivate employees and keep them focused on its strategies and goals. Failure to retain or loss of the skills necessary to execute integration growth plans and deliver key customer programmes may lead to reduced retailer confidence which may adversely affect the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Brands' and ITL's revenue, profits, business, financial condition or results.

*Substantial payment obligations under the MSA and other State Settlement Agreements, along with state certification requirements, may have an adverse effect on the cash flows and operating income of the Group*

In the US, the Master Settlement Agreement (MSA) is an agreement between certain tobacco manufacturers (including members of the Group) and 46 US states, the District of Columbia and five US territories, which imposes substantial payment obligations on those manufacturers. In addition, the original participating manufacturers under the MSA had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (the **Initial State Settlements** and, together with the MSA, the **State Settlement Agreements**). See "*Description of the Group and its Business—Litigation relating to the Group—US litigation environment and State Settlement Agreements*". ITG Brands and its affiliates are parties to the MSA and to one of the Initial State Settlements (with Mississippi).

The State Settlement Agreements require that the OPMs make annual payments of US\$10.4 billion, subject to adjustment for several factors, including inflation, market share and industry volume. In addition, the original participating manufacturers under the MSA are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of US\$500 million. The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions. Annual payments under the MSA and the other State Settlement Agreements for those manufacturers that are parties to them are required to be paid in perpetuity and are based on, among other things, domestic market share and unit volume and (for some manufacturers and brands) industry and individual company operating profits, with respect to the MSA, in the year preceding the year in which payment is due, and, with respect to the other State Settlement Agreements, in the year in which payment is due. As such, it is possible that any adjustments to volume, market share and industry and individual company operating profits may have an adverse effect on the MSA and State Settlement Agreements' impacts on the obligations, cash flows, revenue, profits, business, financial condition or results of the Group.

From time to time, lawsuits have been brought against participating manufacturers to the MSA, or against one or more of the Settling States, challenging the validity of the MSA and/or statutes related to it on certain grounds, including as a violation of the antitrust laws. ITG Brands and certain of its affiliates have agreed to make payments under the MSA and Mississippi's Initial State Settlement, and payments are made as to its products under the equity fee statutes (each an **Equity Fee Statute** and together the **Equity Fee Statutes**) in Minnesota, Texas and, for certain products, Mississippi. Florida, Minnesota and Texas have brought suits, claiming, among other things, that ITG Brands owes settlement payments under the relevant State Settlement Agreements. Texas has also claimed that the fees being paid on ITG Brands products under its Equity Fee Statute have been too low since June 2015. Reynolds has brought a related suit in Delaware claiming breach of the agreement relating to the 2015 US Acquisition regarding the Initial State Settlements and seeking indemnity for any payments it makes in the Florida, Minnesota, or Texas suits. Those matters have been subject to ongoing disputes.

The existence, nature, calculation and extent of payment and other obligations (or the result of any litigation in respect of the same) for the brands sold under the MSA, the Equity Fee Statutes and the other State Settlement Agreements cannot be predicted with certainty. The amounts that may be payable by the Group in respect of such taxes, agreements and statutes may be material, which could have an adverse effect on the reputation, revenue, profits, business, financial condition or results of the Group, Imperial Brands and/or ITL.

In addition, the states which are a party to the MSA have passed statutes requiring tobacco cigarette brands to be “certified” (approved for sale) by each state before they can be sold in that state. The Group may be adversely affected by decisions made by any state not to certify or to de-list brands. This, in turn, could have an adverse effect on Imperial Brands’ and ITL’s revenue, profits, business, financial condition or results.

### **Risks Relating to the Offering**

#### ***The Issuer is a financing vehicle and is reliant on the business of the Group***

The Issuer is a financing vehicle with no business operations of its own, other than raising financing, advancing funds to, receiving funds from, and providing treasury services for, Imperial Brands and other members of the Group. Accordingly, the Issuer has no trading assets and does not generate trading income. Interest payments in respect of the Notes will effectively be paid from cash flows generated from the business of the Group and accordingly the ability of the Issuer to pay interest on and repay the Notes will be subject to all the risks to which the Group is subject. The ability of the Issuer to make interest payments on the Notes is therefore dependent on its rights to receive inter-company payments from companies within the Group. If these payments are not made by companies within the Group, for whatever reason, the Issuer would not expect to have any other sources of funds available to it that would be sufficient to make payments on the Notes. In such circumstances, Noteholders would have to rely upon claims for payment under the Guarantees, which may be terminated or substituted with another Guarantor in certain circumstances without the consent of Noteholders. If the Subsidiary Guarantee (as defined herein) is terminated, the Issuer, ITL and Imperial Brands are not required to replace such Subsidiary Guarantee, and the Notes will have the benefit of fewer guarantees for the remaining maturity of the Notes (see “*Description of the Notes and the Guarantees—Status of the Notes and Guarantees*”).

#### ***There is an absence of a public market for the Notes and there are restrictions on the transfer of Notes***

The Notes are a new issue of securities for which there is currently no public market. The Issuer has applied for the listing of the Notes on the Professional Securities Market of the London Stock Exchange. However, the Issuer cannot assure investors that the Notes will be listed on any exchange at the time the Notes are delivered to the Initial Purchasers or at any other time. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Group’s performance and other factors. Because the Notes are being sold pursuant to an exemption from registration under applicable securities laws and, therefore, may not be publicly offered, sold or otherwise transferred in any jurisdiction where such registration may be required, no public market for the Notes will necessarily develop. Certain of the Initial Purchasers may make a market in the Notes after this Offering is completed. However, they are not obligated to do so, and the Initial Purchasers may cease any such market-making activities at any time. There can be no assurance that an active trading market for the Notes will develop, or if one does develop, that it will be sustained. See “*Plan of Distribution*” and “*Transfer Restrictions*”.

The Notes have not been registered under the Securities Act or any US state securities laws, and the Issuer has not agreed to and does not intend to register the Notes under the Securities Act or under any other country’s securities laws. Therefore, investors may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable US state securities laws. Investors should read the section “*Transfer Restrictions*” for further information about the transfer restrictions that apply to the Notes. It is an investor’s obligation to ensure that their offers and sales of Notes within the United States and other countries comply with all applicable securities laws.

***The Notes will initially be held in book-entry form and, therefore, investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies***

Unless and until Notes in definitive registered form are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of Notes. DTC, or its nominee, will be the registered holder of the Rule 144A Global Note and Regulation S Global Note for the benefit of its participants, including Euroclear and Clearstream, Luxembourg. After payment to the registered holder, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if investors own a book-entry interest, they must rely on the procedures of DTC, Euroclear and/or Clearstream, Luxembourg, and if they are not a participant in DTC, Euroclear and/or Clearstream, Luxembourg, on the procedures of the participant through which investors own their interest, to exercise any rights and obligations of a holder under the Indenture (see “*Book-Entry, Delivery and Form*”).

Unlike the Noteholders themselves, owners of book-entry interests will not have any direct rights to act upon the Issuer’s solicitations for consents, requests for waivers or other actions from Noteholders. Instead, if investors own a book-entry interest, they will be permitted to act only to the extent they have received appropriate proxies to do so from DTC, Euroclear and/or Clearstream, Luxembourg or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable investors to vote on any matters on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if investors own a book-entry interest, they will be restricted to acting through DTC, Euroclear and/or Clearstream, Luxembourg. The Issuer cannot assure investors that the procedures to be implemented through DTC, Euroclear and/or Clearstream, Luxembourg will be adequate to ensure the timely exercise of rights under the Notes (see “*Book-Entry, Delivery and Form*”).

***The Group may incur substantially more debt in the future***

The Group may incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may be secured by some or all of the Group’s assets. The terms of the Notes will not limit the amount of indebtedness the Group may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that the Group faces.

***The Notes and the Guarantees will be unsecured, and therefore will effectively be subordinated to any secured debt***

The Notes and the Guarantees will not be secured by any of the Issuer’s or Imperial Brands’ assets or those of other companies in the Group. As a result, the Notes and the Guarantees are effectively subordinated to any secured debt the Issuer, ITL or Imperial Brands may incur. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of the Issuer’s, ITL’s or Imperial Brands’ secured debt may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the Noteholders. In any such event, there is no assurance to holders of Notes that there will be sufficient assets to pay amounts due on the Notes.

In addition, each of the Issuer and Imperial Brands is a public limited company registered in England and Wales and ITL is a private limited company registered in England and Wales. A majority of the directors of Imperial Brands and all of the directors of the Issuer and ITL and certain of the experts named in this Offering Memorandum are not residents of the United States and a substantial portion of the assets of the Group and its directors and officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them judgments of courts of the United States with respect to payments under the Notes and the Guarantees (see “*Service of Process and Enforceability of Certain Civil Liabilities*”).

***The Issuer, ITL or Imperial Brands may be unable to raise funds necessary to finance the change of control repurchase offers required by the Indenture governing the Notes***

Under the Indenture, if a Change of Control Triggering Event occurs, unless the Issuer has redeemed the Notes in full, it will be required to make an offer to each Holder of the Notes to repurchase all or any part of that Holder’s Notes on the terms set forth in the Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101 per cent of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased, to the date of repurchase

(see “*Description of the Notes and the Guarantees—Repurchase Upon a Change of Control Offer*”). Any requirement to offer to repurchase outstanding Notes may require the Issuer, ITL, Imperial Brands or the Group to refinance some of their other outstanding debt, which they may not be able to do on commercially reasonable terms, if at all.

***Imperial Brands may be dependent on the performance of, and payments from, its subsidiaries, associates and joint ventures to fund payments to investors on the Notes and its ability to pay under its Guarantees may, therefore, be affected by the Group’s organisational structure***

Imperial Brands is a holding company, and does not itself conduct any business operations. Imperial Brands relies on dividends and other payments from its subsidiaries, associates and joint ventures to generate the funds necessary to meet its obligations. To date, Imperial Brands has wholly or partially funded its obligations with debt and cash flows from dividends. Imperial Brands’ subsidiaries, associates and joint ventures are separate legal entities and are under no obligation, contractual or otherwise, to pay dividends. The ability of Imperial Brands’ subsidiaries, associates and joint ventures to make such payments are subject to, among other things, the availability of profits or funds, the terms of each entity’s indebtedness, the terms of their articles of association, the terms of their shareholder agreements (if any) and applicable laws, including foreign currency exchange controls, withholding tax issues and other laws.

Because Imperial Brands is a holding company, its rights and the rights of its creditors, including the Noteholders, to participate in the assets of any subsidiary of Imperial Brands upon the subsidiary’s liquidation or recapitalisation will be subject to the prior claims of such subsidiary’s creditors except to the extent that Imperial Brands may itself be a creditor with recognised claims against such subsidiary.

***Investors in the Notes may have limited recourse against the independent auditors***

In respect of each of the independent auditors’ reports relating to the consolidated financial statements of the Group included herein, PricewaterhouseCoopers LLP, the Group’s independent auditors, states the following: “This report, including the opinions, has been prepared for and only for the Company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing”.

Investors in the Notes should understand that, in making these statements, the independent auditors confirmed that they do not accept or assume any liability to parties (such as the purchasers of the Notes) other than the Group, with respect to the reports and to the independent auditors’ audit work, and opinions.

The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a US court (or any other court) were to give effect to the language quoted above, the recourse that investors in the Notes may have against the independent auditors based on their report or the combined and consolidated financial information to which they relate could be limited.

***Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time***

One or more independent credit rating agency or agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above or other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

## USE OF PROCEEDS

The estimated net proceeds of the issue of the Notes, after deducting underwriting discounts and other estimated expenses payable in connection with the Offering, are expected to be approximately US\$2,719 million.

The Group intends to add the net proceeds to its general funds, which may be used for general corporate purposes.

For more information, see “*Capitalisation*”.



## CAPITALISATION

The table below presents the Group's consolidated cash and cash equivalents and capitalisation as at 31 March 2019. Investors should read this table together with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of the Notes and the Guarantees" and the Group's Annual Financial Statements and the notes to those financial statements, which are incorporated by reference in this Offering Memorandum.

	As at 31 March 2019 (in £ million)
<b>Cash and cash equivalents</b> . . . . .	<b>539</b>
Current borrowings	
Bank loans and overdrafts . . . . .	59
Capital market issuance . . . . .	3,248
<b>Total current borrowings</b> . . . . .	<b>3,307</b>
Non-current borrowings	
Bank loans and overdrafts . . . . .	—
Outstanding bonds . . . . .	10,039
<b>Total non-current borrowings</b> . . . . .	<b>10,039</b>
<b>Derivative financial instruments</b> . . . . .	<b>574</b>
<b>Total net debt<sup>(1)</sup></b> . . . . .	<b>13,381</b>
Equity attributable to equity holders of Imperial Brands . . . . .	4,916
Non-controlling interests . . . . .	610
<b>Total equity</b> . . . . .	<b>5,526</b>
<b>Total capitalisation and indebtedness<sup>(2)</sup></b> . . . . .	<b>18,907</b>

**Notes:**

- (1) Total net debt comprises cash and cash equivalents, current and non-current borrowings and derivatives.
- (2) Total capitalisation and indebtedness comprises total net debt and total equity.

As at the date of this Offering Memorandum, except as indicated above, there have been no material changes to the Group's capitalisation and indebtedness since 31 March 2019.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information of the Group should be read in conjunction with, and is qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements, including the notes thereto, incorporated by reference in this Offering Memorandum.

The financial information presented below has been derived from the Consolidated Financial Statements and unaudited comparative financial information included in the Consolidated Financial Statements.

### Selected Consolidated Income Statement Information

	For the year ended 30 September			For the six months ended 31 March	
	2016	2017	2018	2018 <sup>(1)</sup>	2019
	(in £ million)				
<b>Revenue</b> . . . . .	<b>27,634</b>	<b>30,247</b>	<b>30,524</b>	<b>14,060</b>	<b>14,390</b>
Duty and similar items . . . . .	(13,535)	(14,967)	(15,125)	(6,928)	(6,961)
Other cost of sales . . . . .	(8,143)	(8,853)	(8,949)	(4,399)	(4,613)
Cost of sales . . . . .	(21,678)	(23,820)	(24,074)	(11,327)	(11,574)
<b>Gross Profit</b> . . . . .	<b>5,956</b>	<b>6,427</b>	<b>6,450</b>	<b>2,733</b>	<b>2,816</b>
Distribution, advertising and selling costs . . . . .	(2,070)	(2,434)	(2,441)	(981)	(1,092)
Amortisation of acquired intangibles . . . . .	(1,005)	(1,092)	(1,053)	(526)	(297)
Administration of UK Distributor . . . . .	—	—	(110)	(160)	—
Fair value adjustment to contingent consideration . . . . .	—	—	—	—	(119)
Restructuring costs . . . . .	(307)	(391)	(196)	(105)	(54)
Other expenses . . . . .	(345)	(232)	(243)	(128)	(104)
Administrative and other expenses . . . . .	(1,657)	(1,715)	(1,602)	(919)	(574)
<b>Operating profit</b> . . . . .	<b>2,229</b>	<b>2,278</b>	<b>2,407</b>	<b>833</b>	<b>1,150</b>
Investment income . . . . .	634	910	631	493	490
Finance costs . . . . .	(1,984)	(1,360)	(1,257)	(745)	(646)
Net finance costs . . . . .	(1,350)	(450)	(626)	(252)	(156)
Share of profit of investments accounted for using the equity method . . . . .	28	33	42	19	24
<b>Profit before tax</b> . . . . .	<b>907</b>	<b>1,861</b>	<b>1,823</b>	<b>600</b>	<b>1,018</b>
Tax . . . . .	(238)	(414)	(396)	(79)	(310)
<b>Profit for the year</b> . . . . .	<b>669</b>	<b>1,447</b>	<b>1,427</b>	<b>521</b>	<b>708</b>
<b>Attributable to:</b>					
Owners of the parent . . . . .	631	1,409	1,368	491	679
Non-controlling interests . . . . .	38	38	59	30	29
<b>Earnings per ordinary share (pence)</b>					
—Basic . . . . .	66.1	147.6	143.6	51.7	71.2
—Diluted . . . . .	66.0	147.2	143.2	51.6	71.0

**Notes:**

- (1) Selected consolidated income statement information for the six months ended 31 March 2018 has been extracted from the 2019 Interim Financial Statements and has been restated for the impact of IFRS 15 application.

## Selected Consolidated Balance Sheet Information

	As at 30 September			As at
	2016	2017	2018	31 March
	(in £ million)			2019
<b>Non-current assets</b>				
Intangible assets . . . . .	20,704	19,763	19,117	18,428
Property, plant and equipment . . . . .	1,959	1,865	1,891	1,871
Investments accounted for using the equity method . . . . .	744	785	845	850
Retirement benefit assets . . . . .	5	358	598	566
Trade and other receivables . . . . .	89	123	82	73
Derivative financial instruments . . . . .	1,063	583	462	473
Deferred tax assets . . . . .	631	617	600	527
	<b>25,195</b>	<b>24,094</b>	<b>23,595</b>	<b>22,788</b>
<b>Current assets</b>				
Inventories . . . . .	3,498	3,604	3,692	4,071
Trade and other receivables . . . . .	2,671	2,539	2,585	2,949
Current tax assets . . . . .	45	69	164	158
Cash and cash equivalents . . . . .	1,274	624	775	539
Derivative financial instruments . . . . .	46	60	37	57
	<b>7,534</b>	<b>6,896</b>	<b>7,253</b>	<b>7,774</b>
<b>Total assets</b> . . . . .	<b>32,729</b>	<b>30,990</b>	<b>30,848</b>	<b>30,562</b>
<b>Current liabilities</b>				
Borrowings . . . . .	(1,544)	(2,353)	(2,397)	(3,307)
Derivative financial instruments . . . . .	(118)	(42)	(105)	(82)
Trade and other payables . . . . .	(7,991)	(8,104)	(8,270)	(7,634)
Current tax liabilities . . . . .	(284)	(192)	(286)	(269)
Provisions . . . . .	(188)	(187)	(179)	(141)
	<b>(10,125)</b>	<b>(10,878)</b>	<b>(11,237)</b>	<b>(11,433)</b>
<b>Non-current liabilities</b>				
Borrowings . . . . .	(12,394)	(10,196)	(9,598)	(10,039)
Derivative financial instruments . . . . .	(1,646)	(1,166)	(1,073)	(1,022)
Trade and other payables . . . . .	(17)	(21)	(47)	(121)
Deferred tax liabilities . . . . .	(1,034)	(1,091)	(1,113)	(1,104)
Retirement benefit liabilities . . . . .	(1,484)	(1,074)	(1,061)	(1,066)
Provisions . . . . .	(287)	(338)	(274)	(251)
	<b>(16,862)</b>	<b>(13,886)</b>	<b>(13,166)</b>	<b>(13,603)</b>
<b>Total liabilities</b> . . . . .	<b>(26,987)</b>	<b>(24,764)</b>	<b>(24,403)</b>	<b>(25,036)</b>
<b>Net assets</b> . . . . .	<b>5,742</b>	<b>6,226</b>	<b>6,445</b>	<b>5,526</b>
<b>Equity</b>				
Share capital . . . . .	104	103	103	103
Share premium and capital redemption . . . . .	5,836	5,837	5,837	5,837
Retained earnings . . . . .	(1,525)	(1,084)	(1,150)	(1,804)
Exchange translation reserve . . . . .	896	828	980	780
<b>Equity attributable to owners of the parent</b> . . . . .	<b>5,311</b>	<b>5,684</b>	<b>5,770</b>	<b>4,916</b>
Non-controlling interests . . . . .	431	542	675	610
<b>Total equity</b> . . . . .	<b>5,742</b>	<b>6,226</b>	<b>6,445</b>	<b>5,526</b>

## Selected Consolidated Cash Flow Statement Information

	For the year ended 30 September			For the six months ended 31 March	
	2016	2017	2018	2018	2019
	(in £ million)				
<b>Cash flows from operating activities</b>					
Operating profit	2,229	2,278	2,407	883	1,150
Dividends received from investments accounted for under the equity method	19	28	25	12	27
Depreciation, amortisation and impairment	1,244	1,364	1,266	617	413
(Profit)/loss on disposal of assets	6	(24)	(36)	—	—
Profit on disposal of brands	—	—	(40)	—	—
Profit on disposal of non-current assets	—	—	—	(41)	(16)
Post-employment benefits	(111)	(157)	(60)	(72)	(86)
Costs of employees' services compensated by share schemes	29	27	26	12	14
Provision in respect of loan to third parties	—	—	4	—	—
Fair value adjustment to contingent considerations	—	—	—	—	119
Movement in provisions	4	52	(87)	(64)	(56)
<b>Operating cash flows before movement in working capital</b>	<b>3,420</b>	<b>3,568</b>	<b>3,505</b>	<b>1,297</b>	<b>1,565</b>
Increase/(decrease) in inventories	(149)	(76)	(112)	34	(478)
Decrease/(increase) in trade and other receivables	171	189	(35)	(331)	(439)
Increase/(decrease) in trade and other payables	116	(46)	136	97	(452)
Movement in working capital	138	67	(11)	(200)	(1,369)
Tax paid	(401)	(570)	(407)	(260)	(248)
<b>Net cash generated from operating activities</b>	<b>3,157</b>	<b>3,065</b>	<b>3,087</b>	<b>837</b>	<b>(52)</b>
<b>Cash flows from (used in) investing activities</b>					
Interest received	7	11	10	6	5
Loan to joint ventures <sup>(1)</sup>	(9)	(17)	—	—	4
Loan to third parties	—	(30)	28	—	—
Proceeds from sale of non-current assets	42	30	87	59	45
Proceeds from the sale of brands	—	—	47	—	—
Purchase of property, plant and equipment	(164)	(191)	(259)	(149)	(190)
Purchase of intangible assets—software	(51)	(44)	(47)	—	—
Purchase of intangible assets—intellectual property rights	(14)	(15)	(21)	—	—
Internally generated intellectual property rights	(2)	—	—	—	—
Purchase of businesses (net of cash acquired)	—	—	(8)	(4)	—
Purchase of brands and operations	—	(31)	(67)	(64)	—
<b>Net cash used in investing activities<sup>(1)</sup></b>	<b>(191)</b>	<b>(287)</b>	<b>(230)</b>	<b>(152)</b>	<b>(136)</b>
<b>Cash flows from financing activities</b>					
Interest paid	(547)	(548)	(501)	(305)	(309)
Cash from employees on maturity/exercise of share schemes	9	12	2	1	—
Purchase of shares by employee ownership trust	(7)	—	—	—	—
Increase in borrowings	897	852	1,619	2,019	2,539
Repayment of borrowings	(2,637)	(2,183)	(2,261)	(1,119)	(912)
Cash flows relating to derivative financial instruments	(209)	(37)	41	30	(19)
Repurchase of shares	—	(119)	(41)	(41)	—
Proceeds from sale of share in subsidiary to non-controlling interests (net of fees)	—	221	234	—	—
Dividends paid to non-controlling interests	(42)	(49)	(71)	(44)	(58)
Dividends paid to owners of the parent	(1,386)	(1,528)	(1,676)	(1,134)	(1,248)
<b>Net cash used in financing activities<sup>(1)</sup></b>	<b>(3,922)</b>	<b>(3,379)</b>	<b>(2,654)</b>	<b>(593)</b>	<b>(7)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(956)</b>	<b>(601)</b>	<b>203</b>	<b>92</b>	<b>(195)</b>
<b>Cash and cash equivalents at start of period</b>	<b>2,042</b>	<b>1,274</b>	<b>624</b>	<b>624</b>	<b>775</b>
Effect of foreign exchange rates on cash and cash equivalents	188	(49)	(52)	(58)	(41)
<b>Cash and cash equivalent at end of period</b>	<b>1,274</b>	<b>624</b>	<b>775</b>	<b>658</b>	<b>539</b>

### Notes:

- (1) “Loan to joint ventures” was reported under “Cash flows from financing activities” in the 2016 Financial Statements. Therefore, the amounts of net cash used in investing activities and net cash used in financing activities for the year ended 30 September 2016 have been derived from the unaudited comparative financial information included in the 2017 Financial Statements.

## Key Performance Indicators and Other Operating Metrics

During the periods under review, the Group tracked a number of key performance indicators and other operating metrics in managing its business. These key performance indicators and other operating metrics include non-IFRS financial measures. Accordingly, they should be viewed as supplemental to, but not as a substitute for, measures presented in the Consolidated Financial Statements, which are prepared in accordance with IFRS as adopted by the EU. The Group believes that these key performance indicators and other operating metrics are useful indicators of the Group's performance. However, they may not be comparable to similarly titled measures reported by other companies due to differences in the way they are calculated.

On 1 October 2018 the Group reorganised the Tobacco and NGP businesses to manage its footprint based on geographic proximity changing from the previous approach of grouping markets based on their growth and returns profiles. Accordingly, for the six months ended 31 March 2018 and 2019, the Group has reported its key performance indicators and other operating metrics in respect of its Tobacco & NGP business under the reporting segments of Europe, Americas and Africa, Asia and Australasia:

	As at and for the six months ended 31 March	
	2018	2019
(in £ million, unless otherwise indicated)		
<b>Group</b>		
Tobacco volume (in billion stick equivalents) . . . . .	123.6	115.2
Tobacco & NGP net revenue <sup>(1)</sup> . . . . .	3,523	3,656
Asset Brands net revenue . . . . .	2,213	2,386
Tobacco & NGP adjusted operating profit . . . . .	1,533	1,538
Distribution adjusted operating profit . . . . .	99	102
Total adjusted operating profit <sup>(2)</sup> . . . . .	1,624	1,620
Adjusted net debt <sup>(3)</sup> . . . . .	(12,698)	(12,958)
Cash conversion rate (per cent) <sup>(4)</sup> . . . . .	111	66
<b>Europe</b>		
Tobacco volume (in billion stick equivalents) . . . . .	67.8	64.6
NGP net revenue . . . . .	3	73
Tobacco & NGP net revenue . . . . .	1,616	1,680
Tobacco & NGP adjusted operating profit . . . . .	740	771
<b>Americas</b>		
Tobacco volume (in billion stick equivalents) . . . . .	10.8	10.0
NGP net revenue . . . . .	39	61
Tobacco & NGP net revenue . . . . .	1,019	1,114
Tobacco & NGP adjusted operating profit . . . . .	442	439
<b>Africa, Asia and Australasia</b>		
Tobacco volume (in billion stick equivalents) . . . . .	45.0	40.6
NGP net revenue . . . . .	—	14
Tobacco & NGP net revenue . . . . .	888	862
Tobacco & NGP adjusted operating profit . . . . .	351	328

### Notes:

(1) See "Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures" for a definition of net revenue. A reconciliation of Tobacco & NGP revenue to net revenue for the periods presented is as follows:

	For the six months ended 31 March	
	2018	2019
(in £ million)		
Tobacco & NGP revenue . . . . .	10,467	10,630
Duty and similar items . . . . .	(6,928)	(6,961)
Sale of peripheral products . . . . .	(16)	(13)
<b>Tobacco &amp; NGP net revenue</b> . . . . .	<b>3,523</b>	<b>3,656</b>

- (2) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of adjusted operating profit. A reconciliation of operating profit to adjusted operating profit for the periods presented is as follows:

	<b>For the six months ended 31 March</b>	
	<b>2018</b>	<b>2019</b>
	<b>(in £ millions)</b>	
Operating profit . . . . .	833	1,150
Amortisation of acquired intangibles . . . . .	526	297
Administration of UK Distributor . . . . .	160	—
Fair value adjustment to contingent consideration . . . . .	—	119
Restructuring costs . . . . .	105	54
<b>Adjusted operating profit . . . . .</b>	<b>1,624</b>	<b>1,620</b>

- (3) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of adjusted net debt. A reconciliation of the Group’s reported net debt to adjusted net debt for the periods presented is as follows:

	<b>As at 31 March</b>	
	<b>2018</b>	<b>2019</b>
	<b>(in £ million)</b>	
Reported net debt . . . . .	(13,008)	(13,381)
Accrued interest . . . . .	147	99
Fair value of derivatives providing commercial hedges . . . . .	163	324
<b>Adjusted net debt . . . . .</b>	<b>(12,698)</b>	<b>(12,958)</b>

- (4) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of cash conversion rate. A reconciliation of the Group’s cash flows to cash conversion rate for the periods presented is as follows:

	<b>For the twelve months ended 31 March</b>	
	<b>2018</b>	<b>2019</b>
	<b>(in £ million, unless otherwise indicated)</b>	
Net cash flow from operating activities . . . . .	3,339	2,198
Administration of UK Distributor and provision in respect of loan to third parties <sup>(a)</sup> . . . . .	160	(54)
Tax . . . . .	556	395
Net capital expenditure <sup>(b)</sup> . . . . .	(224)	(248)
Restructuring cash expenditure . . . . .	208	178
Net cash flow generated from operating activities post-net capital expenditure and pre-restructuring cash expenditure, tax, administration of UK Distributor and provision in respect of loan to third parties . . . . .	4,039	2,469
Adjusted operating profit . . . . .	3,645	3,762
<b>Cash conversion rate (per cent)<sup>(a)</sup> . . . . .</b>	<b>110.8</b>	<b>65.6</b>
Working capital movement . . . . .	(652)	(1,180)

**Notes:**

- (a) Cash conversion rates for the periods presented have been adjusted to exclude the impact of the costs incurred in relation to the administration of UK Distributor and provision in respect of loan to third parties.
- (b) Net capital expenditure relating to property, plant and equipment, software and intellectual property rights consists of purchase of non-current assets net of proceeds from the sale of non-current assets and brands.

For the years ended 30 September 2016, 2017 and 2018, the Group reported its key performance indicators and other operating metrics in respect of its tobacco and NGP businesses under the following reporting segments: Growth Markets, Returns Markets North and Returns Markets South\*:

	As at and for the year ended 30 September		
	2016	2017	2018
	(in £ million, unless otherwise indicated)		
<b>Group</b>			
Tobacco volume (in billion stick equivalents) . . . . .	276.5	265.2	255.5
Tobacco & NGP net revenue <sup>(1)</sup> . . . . .	7,167	7,757	7,730
Asset Brands net revenue . . . . .	4,307	4,862	5,174
Tobacco & NGP adjusted operating profit . . . . .	3,360	3,595	3,557
Logistics adjusted operating profit . . . . .	176	181	212
Total adjusted operating profit <sup>(2)</sup> . . . . .	3,541	3,761	3,766
Adjusted net debt <sup>(3)</sup> . . . . .	12,882	12,147	11,474
Cash conversion rate (per cent) <sup>(4)</sup> . . . . .	103	96	97
Adjusted net debt/adjusted operating profit <sup>(5)</sup> . . . . .	3.6x	3.2x	3.0x
<b>Growth Markets</b>			
Growth Brands volume (in billion stick equivalents) . . . . .	46.0	49.9	50.9
Growth Markets net revenue . . . . .	1,568	1,768	1,795
Growth Markets adjusted operating profit . . . . .	443	411	364
<b>USA market</b>			
Asset Brands volume (in billion stick equivalents) . . . . .	10.9	11.1	11.1
USA market net revenue . . . . .	1,477	1,665	1,671
USA market adjusted operating profit . . . . .	823	1,013	1,040
<b>Returns Markets North</b>			
Net revenue . . . . .	2,645	2,755	2,749
Net revenue (pounds sterling per '000 stick equivalents) . . . . .	28.01	30.69	31.73
Adjusted operating profit . . . . .	1,439	1,485	1,507
<b>Returns Markets South</b>			
Net revenue . . . . .	1,477	1,569	1,515
Net revenue (pounds sterling per '000 stick equivalents) . . . . .	18.27	20.29	20.68
Adjusted operating profit . . . . .	655	686	646

**Notes:**

(1) See "Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures" for a definition of net revenue. A reconciliation of Tobacco & NGP revenue to net revenue for the periods presented is as follows:

	For the year ended 30 September		
	2016	2017	2018
	(in £ million)		
Tobacco & NGP revenue . . . . .	20,890	22,786	22,885
Duty and similar items . . . . .	(13,535)	(14,967)	(15,125)
Sale of peripheral products . . . . .	(188) <sup>(a)</sup>	(62)	(30)
<b>Tobacco &amp; NGP net revenue</b> . . . . .	<b>7,167</b>	<b>7,757</b>	<b>7,730</b>

**Notes:**

(a) This figure was derived from the unaudited comparative financial information included in the 2017 Financial Statements.

\* Following the 2015 US Acquisition, the US became a significant market and was therefore disclosed separately as the USA market.

- (2) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of adjusted operating profit. A reconciliation of operating profit to adjusted operating profit for the periods presented is as follows:

	For the year ended 30 September		
	2016	2017	2018
	(in £ million)		
Operating profit . . . . .	2,229	2,278	2,407
Amortisation of acquired intangibles . . . . .	1,005	1,092	1,053
Administration of UK Distributor . . . . .	—	—	110
Restructuring costs . . . . .	307	391	196
<b>Adjusted operating profit . . . . .</b>	<b>3,541</b>	<b>3,761</b>	<b>3,766</b>

- (3) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of adjusted net debt. A reconciliation of the Group’s reported net debt to adjusted net debt for the periods presented is as follows:

	For the year ended 30 September		
	2016	2017	2018
	(in £ million)		
Reported net debt . . . . .	(13,319)	(12,490)	(11,899)
Accrued interest . . . . .	221	208	197
Fair value of derivatives providing commercial hedges . . . . .	216	135	228
<b>Adjusted net debt . . . . .</b>	<b>(12,882)</b>	<b>(12,147)</b>	<b>(11,474)</b>

- (4) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of cash conversion rate. A reconciliation of the Group’s cash flows to cash conversion rate for the periods presented is as follows:

	For the year ended 30 September		
	2016	2017	2018
	(in £ million, unless otherwise indicated)		
Net cash flows (used in)/generated from operating activities . . . . .	3,157	3,065	3,087
Administration of UK Distributor and provision in respect of loan to third parties <sup>(a)</sup> . . . . .	—	—	106
Tax . . . . .	401	570	407
Net capital expenditure <sup>(a)</sup> . . . . .	(189)	(220)	(193)
Restructuring cash expenditure . . . . .	—	201	241
Net cash flow generated from operating activities post-net capital expenditure and pre-restructuring cash expenditure, tax, administration of UK Distributor and provision in respect of loan to third parties . . . . .	3,369	3,616	3,648
Adjusted operating profit . . . . .	3,541	3,761	3,766
<b>Cash conversion rate (per cent)<sup>(a)(c)</sup> . . . . .</b>	<b>103<sup>(b)</sup></b>	<b>96<sup>(b)</sup></b>	<b>97</b>
Working capital movement . . . . .	138	67	(11)

**Notes:**

- (a) Cash conversion rates for the periods presented have been adjusted to exclude the impact of the costs incurred in relation to the administration of UK Distributor and provision in respect of loan to third parties.
- (b) Net capital expenditure relating to property, plant and equipment, software and intellectual property rights consists of purchase of non-current assets net of proceeds from the sale of non-current assets and brands.
- (c) The cash conversion rates for 2016 and 2017 were restated in 2018 as a result of a change in calculation methodology to exclude restructuring cash costs.
- (5) See “*Presentation of Financial, Market and Other Information—Non-IFRS Financial Measures*” for a definition of adjusted net debt/adjusted operating profit. A reconciliation of the Group’s reported net debt to adjusted net debt for the periods presented is as follows:

	For the year ended 30 September		
	2016	2017	2018
	(in £ million)		
Adjusted net debt . . . . .	12,882	12,147	11,474
Adjusted operating profit . . . . .	3,541	3,761	3,766
<b>Adjusted net debt/adjusted operating profit . . . . .</b>	<b>3.6x</b>	<b>3.2x</b>	<b>3.0x</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following review of the Group's financial condition and operating results should be read in conjunction with the Consolidated Financial Statements, including the accompanying notes, incorporated by reference in this Offering Memorandum. References to financial years in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are to the financial years of the Imperial Brands Group ended 30 September, unless otherwise stated.*

*The Group adopted IFRS 15 "Revenue from Contracts with Customers" with effect from 1 October 2018. For more information on the effect of IFRS 15 on the Group's reported results, please see "—Principal Income Statement Items" below. Financial information for the years ended 30 September 2016, 2017 and 2018 in this Offering Memorandum has been extracted from the Annual Financial Statements and has not been restated for IFRS 15. Financial information for the six months ended 31 March 2018 has been extracted from the 2019 Interim Financial Statements and has been restated for the impact of IFRS 15. Financial information for the six months ended 31 March 2019 has been extracted from the 2019 Interim Financial Statements and reflects the application of IFRS 15.*

Some of the information in the discussion and analysis set forth below and elsewhere in this Offering Memorandum includes forward-looking statements that involve risks and uncertainties. See "*Forward-Looking Statements*" and "*Risk Factors*" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Offering Memorandum.

### Overview

Imperial Brands, a FTSE 100 company headquartered in Bristol, UK, is the parent company of an international business specialising in tobacco and NGP brands. The Group's purpose is to create something better for the world's smokers with a portfolio of next generation and tobacco products.

The Group's core business is built around a tobacco portfolio that offers a comprehensive range of cigarettes, fine cut and smokeless tobaccos, papers and cigars. Through its subsidiaries, the Group's tobacco brands are sold in approximately 160 markets worldwide. The Group has a significant presence in the US, including its ITG Brands business.

The Group wants smokers to switch to alternative products that are potentially less harmful to health. Fontem Ventures continues to prioritise vapour, and the Group is represented in this category by its vapour brand, *blu*. As more and more consumers quit smoking through vaping, the NGP business is expected to become an increasingly material part of the Group's business.

From 1 October 2018, the Group reorganised the management of its tobacco and NGP businesses on a geographic basis to reflect the growth opportunities NGP offers across the Group's footprint. Financial reporting is now split across the following four areas:

- **Tobacco & NGP:**
  - **Europe:** Tobacco & NGP net revenue in Europe accounted for 45.8 per cent of the Group's net revenue during the year ended 30 September 2018 and 46.0 per cent of the Group's net revenue during the six months ended 31 March 2019. The Group's primary Europe markets include the United Kingdom, Germany, Spain, France and Italy and the Group manufactures and sells a comprehensive range of tobacco and NGP in Europe, including cigarettes, fine cut and smokeless tobaccos, vapour, snus, papers and cigars.
  - **Americas** Tobacco & NGP net revenue in Americas accounted for 29.2 per cent of the Group's net revenue during the year ended 30 September 2018 and 30.5 per cent of the Group's net revenue during the six months ended 31 March 2019. The Group's primary Americas markets include the United States and Canada. The Group's Americas business offers a broad portfolio of cigarette, vapour and mass market and premium cigar brands. In June 2015, ITG Brands completed the acquisition of the international rights to the vapour brand *blu*, and the Group expects *blu* to represent a significant portion of the Group's sales in its Americas segment in future periods and is expanding its markets in Europe and Africa, Asia and Australasia.
  - **Africa, Asia and Australasia:** Tobacco & NGP net revenue in Africa, Asia and Australasia accounted for 25.0 per cent of the Group's net revenue during the year ended 30 September 2018

and 23.6 per cent of the Group's net revenue during the six months ended 31 March 2019. The Group's primary Africa, Asia and Australasia markets include Australia, Japan, Russia and Saudi Arabia. The Group's Africa, Asia and Australasia business offers a broad portfolio of cigarettes and NGP.

- **Distribution:** The Group's Distribution business (comprising Logista) distributes a range of tobacco, NGP and non-tobacco and non-NGP products and services for a range of manufacturers, including the Group's Tobacco & NGP business. The Group's Distribution business is run on an operationally neutral basis and transactions between the Group's Tobacco & NGP business and its Distribution business are conducted on an arm's length basis.

The Group's performance has been resilient despite lower global tobacco volumes, with operating profit of £1,150 million in the six months ended 31 March 2019 (six months ended 31 March 2018: £833 million) and £2,229 million, £2,278 million and £2,407 million for the financial years ending 30 September 2016, 2017 and 2018, respectively.

### **Changes in Reporting Segments and Comparability of Financial Information**

On 1 October 2018 the Group reorganised its tobacco and NGP businesses to manage its footprint based on geographic proximity changing from the previous approach of grouping markets based on their growth and returns profiles. The managerial and internal reporting structures of the Group have been revised to reflect the new structure. Following the introduction of these changes, the Group has revised its segmental reporting as required under IFRS 8. For more information, please see Note 3 ("*Segment Information*") in the 2019 Interim Financial Statements.

Accordingly, for purposes of the comparison of financial information for the six months ended 31 March 2019 as compared to 31 March 2018, the new reporting segments have been used. Historical financial results for the years ended 30 September 2016, 2017 and 2018 have been presented on the basis of the Group's prior reporting segments. The Group adopted IFRS 15 with effect from 1 October 2018 (see "*—Principal Income Statement Items*" below), so financial information for the years ended 30 September 2016, 2017 and 2018 has been extracted from the Annual Financial Statements and has not been restated for IFRS 15. Financial information for the six months ended 31 March 2018 has been extracted from the 2019 Interim Financial Statements and has been restated for the impact of IFRS 15, and financial information for the six months ended 31 March 2019 has been extracted from the 2019 Interim Financial Statements and reflects the application of IFRS 15.

### **Key Factors Affecting Results of Operations**

#### *Changes in demand for the Group's tobacco products*

The Group generates the majority of its revenue from the manufacture, distribution and sale of tobacco products, primarily cigarettes. Changes in consumer demand for tobacco products may result generally from health concerns arising from tobacco use, increasing government regulation, the diminishing social acceptance of smoking, frequent and substantial increases in the excise duty on legitimate tobacco products or a substantial increase in cost attributable to a change in the manner of excise duty collection, increases in the trade of illicit tobacco products and growth of the vapour market. Tobacco industry volumes (in the Group's geographical footprint) declined by 0.9 per cent, 4.4 per cent and 5.0 per cent, respectively, in the years ended 30 September 2016, 2017 and 2018. During these same periods, the Group's total tobacco volumes, expressed on a stick equivalent basis, declined by 3.0 per cent, 4.1 per cent and 3.6 per cent, respectively, outperforming the overall industry declines (except in 2016), primarily as a result of the Group's strategic focus on key brands and markets. The table below sets forth the Group's tobacco volumes, tobacco and NGP net revenue, Asset Brands net revenue and Asset Brands share for

each of the six months ended 31 March 2018 and 2019 and the years ended 30 September 2016, 2017 and 2018:

	For the year ended 30 September			For the six months ended 31 March	
	2016	2017	2018	2018	2019
	(in £ million, unless otherwise indicated)				
Tobacco volumes (in billion stick equivalents) . . . . .	276.5	265.2	255.5	123.6	115.2
Tobacco & NGP net revenue . . . . .	7,167	7,757	7,730	3,523	3,656
Asset Brands net revenue . . . . .	4,307	4,862	5,174	2,213	2,386
Asset Brands net revenue as percentage of total net revenue (per cent) . . . . .	60.1	62.7	66.9	62.8	65.3

While global tobacco volumes are expected to continue to decline, the Group intends to improve market share in its priority markets through focusing on its Asset Brands in its priority markets and applying its market repeatable model (see “*Description of the Group and its Business—Products and Services*”) as well as increase the percentage of its revenue attributable to its growing NGP portfolio (see “*—Investment in and growth of NGP*” below). The Group’s Asset Brands have increased from 60.1 per cent of net revenue for the year ended 30 September 2016 to 65.3 per cent of net revenue for the six months ended 31 March 2019, with its Growth Brands and Specialist Brands both increasing revenue shares. This focus has supported an improved price/mix position for the Group over the periods under review, which has helped offset the decline in overall volumes. The price/mix improvements have been driven by a combination of focus on the Group’s strongest performing brands, regular pricing increases, investment in key accounts and accommodating consumer demand shifts, including packaging formats, lower tar options, flavours and value initiatives. The Group is targeting revenue growth over the medium term in the range of 1 per cent to 4 per cent which it expects to achieve from consistent sales of tobacco products and growth in sales of NGP, although there can be no guarantee the Group will achieve this.

#### *Investment in and growth of NGP*

The global vapour market was estimated by the Group at a value of £8 billion in 2018, but is projected to reach between £30 billion and £50 billion in 2025 (representing between 300 per cent and 500 per cent growth). The Group is focused on increasing its market share in this growing market, and NGP generally, and believes that growth in NGP will deliver additional revenue growth over and above existing tobacco business growth. In the year ended 30 September 2018 and the six months ended 31 March 2019, the Group’s net revenue from NGP was £200 million and £148 million, respectively, which represented 2.6 per cent and 4.0 per cent, respectively, of the Group’s net revenue from tobacco and NGP for those periods. The Group has made significant investments in its NGP portfolio, including the acquisition of Nerudia, a vapour innovation business, in October 2017, and has developed and is implementing its *blu* adoption model (see “*Description of the Group and its Business—The Group’s Business Model—NGP*”) across its geographical footprint. As at 30 June 2019, *blu* has been launched in 13 markets worldwide. To reflect the Group’s focus on NGP and the growth opportunity it may represent, the Group reclassified *blu* as a part of Growth Brands from 1 October 2018 and will commence separately reporting the Group’s NGP revenue.

The table below presents the Group’s net revenue from NGP in each of its market segments for the periods indicated.

	For the six months ended 31 March	
	2018	2019
	(in £ million)	
Europe . . . . .	3	73
Americas . . . . .	39	61
Africa, Asia and Australasia . . . . .	—	14
NGP net revenue . . . . .	42	148

The Group believes the United States is currently the world’s largest vapour market, representing over half of worldwide sales of vapour products, with approximately 10 million vapers. While the FDA has made recent statements about potential changes to tobacco and vapour regulations (see “*Description of the Group and its Business—Regulatory Landscape—Regulation in the US*”) that have led to a recent slow-down

of the growth of the category, the Group believes that its positioning in the vapour market and its participation in the regulatory process will provide an opportunity for the Group to manage these regulatory changes (see “—*Regulation of tobacco products*” below).

In addition to its *blu* brand, the Group has launched a range of NGP tailored to specific markets, including tobacco-free snus, which was launched in Sweden in 2018 and *Pulze*, a heated tobacco product, for which a pilot programme was launched in the Japanese city of Fukuoka in 2019, and which the Group expects to launch in five additional regions in Japan.

### ***Cost optimisation programmes***

The Group continues to focus on optimising its manufacturing footprint and reducing overheads to realise operational efficiencies. As part of a strategic review of the Group’s business, the Group has implemented cost optimisation programmes in two phases. First, the Group announced a five-year cost optimisation programme in January 2013, which is now complete and is delivering annual savings of £300 million from the financial year ended 30 September 2018 at a total cash restructuring cost of approximately £600 million as at 30 September 2018. Second, an additional cost programme was announced in November 2016, and is expected to deliver a further £300 million of annual savings from 1 October 2020, at an estimated total cash restructuring cost of approximately £750 million. During the year ended 30 September 2018, the Group realised cost savings of £110 million (£10 million from the first programme and £100 million from the second), bringing the cumulative cost savings to £480 million (£300 million from the first programme and £180 million for the second). During that same period, the cash restructuring cost of the first programme was £43 million (2017: £42 million) and £173 million (2017: £132 million) for the second, bringing the cumulative net cash cost to £826 million (£521 million for the first and £305 million for the second) as at 30 September 2018.

### ***Excise duty and illicit trade***

Tobacco products are subject to excise duty in most jurisdictions and in many of the markets in which the Group operates, such as in the United States, the United Kingdom, Ireland and France, excise and other consumption taxes represent a substantial percentage of the retail price of the Group’s tobacco products. In addition, excise duty and similar items expressed as a percentage of Group revenue was 49.0 per cent, 49.5 per cent and 49.6 per cent, respectively, for the years ended 30 September 2016, 2017 and 2018 and accordingly represented a significant proportion of the Group’s cost of sales. The Group is party to the MSA (with 46 US states, the District of Columbia and five US territories) and also a separate settlement agreement with Mississippi (see “*Risk Factors—Substantial payment obligations under the MSA and other State Settlement Agreements, along with state certification requirements, may have an adverse effect on the cash flows and operating income of the Group*”). Prior to 1 October 2018, payments under the MSA and settlement agreements were accounted for in duty and similar items; however, following the adoption of IFRS 15, such payments are accounted for in other cost of sales (see Note 1 of the 2019 Interim Financial Statements “*Accounting Policies—New Accounting Standards and Interpretations*”). For comparability purposes, the Group has restated its results of operations for the six-month period ended 31 March 2018 for IFRS 15 (see “*Presentation of Financial, Market and Other Information—Presentation of the Group’s Financial Information*”). Accordingly, duty and similar items expressed as a percentage of Group revenue was 49.3 per cent and 48.4 per cent, respectively, for the six months ended 31 March 2018 and 2019.

Increasing levels of excise duty negatively impact the affordability of and therefore the demand for the Group’s products by changing consumer purchasing habits and by driving consumers into the illicit trade for smuggled or counterfeit tobacco (see “*Risk Factors—The Group may be adversely affected by increases in illicit trade, reducing the size of the legitimate tobacco and NGP markets*”). These effects tend to be greatest in markets with high excise duty rates, where consumers are under pressure from economic conditions and where the potential gains from this criminal activity are higher due to cross-border duty differentials. The Group believes that this effect has been greatest in Western Europe and that it has had a negative impact during the periods under review on demand for the Group’s products in its Returns Markets North and Returns Markets South segments, prior to 1 October 2018, and its Europe segment thereafter, due to relatively high duty rates payable in the Group’s Western European markets.

### ***Regulation of tobacco products***

The tobacco industry has been subject to increasing regulation of the sale, supply, consumption, advertising, packaging and display of tobacco products which in turn has negatively influenced consumer

demand for the Group's products and accordingly its revenue during the periods under review. In addition to the impact on revenue from reduced demand for the Group's products, regulation of tobacco products has also resulted in significant regulatory compliance costs during the period under review, which has increased the Group's overall cost of sales during the periods under review. For a further discussion of the impact of regulation on the Group's business, see "*Risk Factors—Increased product regulation may have an adverse effect on the demand for the Group's products and/or increase compliance costs*" and the regulatory regime under which the Group operates, see "*Description of the Group and its Business—Regulatory Landscape*".

Although the Group seeks to control the impact of regulatory, political and societal change on Group operations by engaging with certain internal and external stakeholders (where possible) with the goal of effecting regulatory change that is proportionate and does not lead to excessive regulation, the effect of increasing regulation has been and is likely to continue to result in increased compliance costs for the Group and restrictions on the Group's ability to market its products and to shape public perception against smoking and, overall, negatively impact demand.

### ***Acquisitions and disposals***

On an ongoing basis, the Group regularly evaluates investment opportunities, including acquisitions, which are aligned to its key strategic objectives and consistent with its strategy of creating sustainable returns for shareholders. During the periods under review, the Group has made a number of acquisitions, including the acquisition of an interest in Von Erl in June 2017, the acquisition of Nerudia in October 2017, the acquisition of an interest in Cosmic Fog in March 2018 and the acquisition of an equity stake in Oxford Cannabinoid Technologies (**OCT**) in June 2018. The aggregate consideration paid for all acquisitions during the periods under review was approximately £92 million, which is subject to certain performance adjustments. The initial cash consideration paid for Nerudia was £64 million plus an estimated contingent consideration of £22 million. The maximum amount of contingent consideration payable is £42 million with the amount payable based on certain performance targets being met. The initial investment in Von Erl was 50 per cent plus one share for an initial cash consideration of £17 million. There was also agreement to purchase the remaining shares, payable as contingent consideration, based on the level of future product sales. The purchase of the additional share capital is via four 10 per cent tranches being purchased in the years 2018 to 2021 and a final 10 per cent via the potential exercise of a put/call option from 2021. The total payment is capped at a maximum of €200 million. In August 2018 a payment of £3 million was made to purchase the first tranche of 10 per cent of the share capital, taking the total shareholding to 60 per cent. The contingent consideration liability for the remaining shares was revised upwards at 31 March 2019 to £131 million (from £12 million at 30 September 2018) reflecting updated business projections predicated on performance in the intervening six-month period to 31 March 2019. The Group funded these acquisitions from its cash flows from operating activities.

In addition, the Group regularly evaluates its corporate portfolio and seeks to divest assets and business that do not align with its strategy. During the periods under review, the Group has made a number of disposals, including 10 per cent of Logista in September 2017 and a further 9.99 per cent of Logista in July 2018, and the sale of a portfolio of other tobacco products in the US during the year ended 30 September 2018. The latter is an example of the Group's review of assets that are less central to its strategic objectives, which the Group will seek to exit or divest in order to simplify the Group's business, enhance its financial performance and allocate its capital more effectively in line with its growth agenda. The aggregate consideration received for all disposals during the periods under review is approximately £661 million.

As announced on 9 May 2018, the Group is targeting its divestment strategy to generate proceeds of up to £2 billion by May 2020, of which it has realised £296 million of proceeds as at 31 March 2019. The Group has recently announced that it intends to divest its premium cigar business as it represents a stand-alone luxury business with a different consumer base and route to market compared to the Group's other businesses. See "*Forward-Looking Statements*".

### ***Foreign currency exchange rate fluctuations***

The Group is exposed to movements in foreign currency exchange rates for transactions in foreign currencies, together with the translation of the accounts of its subsidiaries with overseas operations into the consolidated Group accounts. The Group's principal foreign currency exposures are to the euro and the US dollar, although as a business with global operations the Group is also exposed to foreign currency exchange rate movements in relation to certain other foreign currencies, among them the Australian

dollar, Russian rouble, Taiwanese dollar and Ukrainian hryvnia. Given the volatility of the impact of such foreign currency exchange rate movements (including, in particular, the recent weakness of the pound against the euro and against the US dollar following the UK's vote to leave the European Union in June 2016) on its financial results, the Group presents certain supplementary financial information on a constant currency basis to exclude the effects of foreign currency exchange rate movements on its results of operations.

The following table presents the Group's constant currency analysis for certain of the Group's IFRS financial information and non-IFRS financial measures for the periods indicated:

	Six months ended 31 March 2018	Foreign exchange	Constant currency movement	Six months ended 31 March 2019	Change	Constant currency change
(in £ million, unless otherwise indicated)						
<b>Tobacco &amp; NGP Net Revenue</b>						
Europe . . . . .	1,616	(9)	73	1,680	+4.0%	+4.5%
Americas . . . . .	1,019	54	41	1,114	+9.3%	+4.0%
Africa, Asia and Australasia . . . . .	888	—	(26)	862	-2.9%	-2.9%
Total Group . . . . .	3,523	45	88	3,656	+3.8%	+2.5%
<b>Tobacco &amp; NGP adjusted operating profit</b>						
Europe . . . . .	740	2	29	771	+4.2%	+3.9%
Americas . . . . .	442	30	(33)	439	-0.7%	-7.5%
Africa, Asia and Australasia . . . . .	351	—	(23)	328	-6.6%	-6.6%
Total Group . . . . .	1,533	32	(27)	1,538	+0.3%	-1.8%
<b>Distribution</b>						
Distribution fees . . . . .	483	(3)	19	499	+3.3%	+3.9%
Adjusted operating profit . . . . .	99	—	3	102	+3.0%	+3.0%
<b>Group adjusted results</b>						
Adjusted operating profit . . . . .	1,624	33	(37)	1,620	-0.2%	-2.3%
Adjusted net finance costs . . . . .	(244)	(1)	25	(220)	-9.8%	-10.2%

The following table sets out the constant currency analysis for the Group results for the year ended 30 September 2017 and the year ended 30 September 2018:

	Year ended 30 September 2017	Foreign exchange	Constant currency movement	Year ended 30 September 2018	Change	Constant currency change
(in £ million, unless otherwise indicated)						
<b>Tobacco &amp; NGP Net Revenue</b>						
Growth Markets . . . . .	1,768	(72)	99	1,795	+1.5%	+5.6%
USA market . . . . .	1,665	(105)	111	1,671	+0.4%	+6.7%
Returns Markets North . . . . .	2,755	(18)	12	2,749	-0.2%	+0.4%
Returns Markets South . . . . .	1,569	4	(58)	1,515	-3.4%	-3.7%
Total Group . . . . .	7,757	(191)	164	7,730	-0.3%	+2.1%
<b>Tobacco &amp; NGP adjusted operating profit</b>						
Growth Markets . . . . .	411	(29)	(18)	364	-11.4%	-4.4%
USA market . . . . .	1,013	(69)	96	1,040	+2.7%	+9.5%
Returns Markets North . . . . .	1,485	(13)	35	1,507	+1.5%	+2.4%
Returns Markets South . . . . .	686	4	(44)	646	-5.8%	-6.4%
Total Group . . . . .	3,595	(107)	69	3,557	-1.1%	+1.9%
<b>Distribution</b>						
Distribution fees . . . . .	914	15	60	989	+8.2%	+6.6%
Adjusted operating profit . . . . .	181	3	28	212	+17.3%	+15.5%
<b>Group adjusted results</b>						
Adjusted operating profit . . . . .	3,761	(104)	109	3,766	+0.1%	+2.9%
Adjusted net finance costs . . . . .	537	(93)	43	487	-9.1%	-8.0%

The following table sets out the constant currency analysis for the Group results for the year ended 30 September 2016 and the year ended 30 September 2017:

	Year ended 30 September 2016	Foreign exchange	Constant currency movement	Year ended 30 September 2017	Change	Constant currency change
(in £ million, unless otherwise indicated)						
<b>Tobacco &amp; NGP Net Revenue</b>						
Growth Markets . . . . .	1,568	203	(3)	1,768	+12.8%	-0.2%
USA market . . . . .	1,477	184	4	1,665	+12.7%	+0.3%
Returns Markets North . . . . .	2,645	222	(112)	2,755	+4.2%	-4.2%
Returns Markets South . . . . .	1,477	167	(75)	1,569	+6.2%	-5.1%
Total Group . . . . .	7,167	776	(186)	7,757	+8.2%	-2.6%
<b>Tobacco &amp; NGP adjusted operating profit</b>						
Growth Markets . . . . .	443	44	(76)	411	-7.2%	-17.2%
USA market . . . . .	823	107	83	1,013	+23.1%	+10.1%
Returns Markets North . . . . .	1,439	94	(48)	1,485	+3.2%	-3.3%
Returns Markets South . . . . .	655	70	(39)	686	+4.7%	-6.0%
Total Group . . . . .	3,360	315	(80)	3,595	+7.0%	-2.4%
<b>Distribution</b>						
Distribution fees . . . . .	809	95	10	914	+13.0%	+1.2%
Adjusted operating profit . . . . .	176	19	(14)	181	+2.8%	-8.0%
<b>Group adjusted results</b>						
Adjusted operating profit . . . . .	3,541	332	(112)	3,761	+6.2%	-3.2%
Adjusted net finance costs . . . . .	(524)	(57)	44	(537)	+2.5%	-8.4%

For further discussion of the Group's constant currency results and the impact of foreign currency exchange rate movements on the Group's results of operations, please see “—Six Months Ended 31 March 2019 as Compared to 31 March 2018”, “—Financial Year 2018 as Compared to Financial Year 2017” and “—Financial Year 2017 as Compared to Financial Year 2016” below. For additional information about the Group's exposure to currency fluctuations, see “—Quantitative and Qualitative Disclosures about Market Risk” below.

#### ***Tobacco leaf price fluctuations***

Tobacco leaf accounts for a material portion of the Group's manufacturing costs, accounting for approximately one third of those costs for each of the years ended 30 September 2016, 2017 and 2018 respectively. The Group is exposed to fluctuations in the price of tobacco leaf, the price of which, similar to other agricultural products, tends to be cyclical, but has overall remained stable during the periods under review. The Group seeks to offset these fluctuations and to reduce the Group's exposure to individual markets by sourcing tobacco leaf from a number of different countries. The Group primarily sources its tobacco leaves from third-party suppliers, rather than growing tobacco leaf itself. By sourcing its requirements in this way the Group aims to retain the flexibility to move to markets where it can maximise the value and cost advantages to the Group.

#### **Principal Income Statement Items**

The Group adopted IFRS 15 “Revenue from Contracts with Customers” with effect from 1 October 2018. IFRS 15 introduced an amended framework for revenue recognition that provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

Following the adoption of the standard, the Group has reclassified certain distribution, advertising and selling costs arising from payments to customers, from overheads/other cost of sales to discounts from revenue. This reclassification has the effect of reducing revenue. In addition, following a review of the presentation of duties, levies and similar payments against the guidance given by IFRS 15, payments made in the United States under the MSA are now being recognised in other cost of sales. This reclassification has increased the Group's net revenue. Overall, the restatements have reduced net revenue but have not had any impact on operating profit (see Note 1 of the 2019 Interim Financial Statements “Accounting Policies—New Accounting Standards and Interpretations”).

The table below presents prior period restatements following the adoption of IFRS 15 for the periods indicated:

	Year ended 30 September 2018			Six months ended 31 March 2018		
	Previously reported	IFRS 15 adjustment	Restated	Previously reported	IFRS 15 adjustment	Restated
	(in £ million)					
Revenue . . . . .	30,524	(458)	30,066	14,278	(218)	14,060
Duty and similar items . . . . .	(15,125)	425	(14,700)	(7,138)	210	(6,928)
Net revenue . . . . .	15,399	(33)	15,366	7,140	(8)	7,132
Europe . . . . .	3,812	(289)	3,523	1,750	(134)	1,616
Americas . . . . .	1,823	425	2,248	809	210	1,019
Africa, Asia and Australasia . .	2,095	(169)	1,926	972	(84)	888
Distribution . . . . .	8,383	—	8,383	3,954	—	3,954
Eliminations . . . . .	(714)	—	(714)	(345)	—	(345)
Other cost of sales . . . . .	(8,949)	(407)	(9,356)	(4,192)	(207)	(4,399)
<b>Gross profit . . . . .</b>	<b>6,450</b>	<b>(440)</b>	<b>6,010</b>	<b>2,948</b>	<b>(215)</b>	<b>2,733</b>
Distribution, advertising and selling costs . . . . .	(2,441)	440	(2,001)	(1,196)	215	(981)
Administrative and other expenses . . . . .	(1,602)	—	(1,602)	(919)	—	(919)
<b>Operating profit . . . . .</b>	<b>2,407</b>	<b>—</b>	<b>2,407</b>	<b>833</b>	<b>—</b>	<b>833</b>

### *Revenue*

For the Tobacco & NGP business, revenue comprises the sale of goods, including cigarettes, fine cut and smokeless tobaccos, vapour, snus, papers and cigars, and services, including distribution of certain third-party products, to customers. Tobacco & NGP revenue excludes sales taxes, rebates and discounts. Income arising from the licensing or sale of intellectual property, occurring in the ordinary course of business, is also treated as revenue. Revenue from the sale of goods is recognised when the Group has delivered products to the customer, the customer has accepted the products and the collectability of the related receivable is reasonably assured. Sales of services are recognised in the accounting period in which the services are rendered.

For the Distribution business, revenue comprises fees for the distribution of tobacco, NGP and non-tobacco and non-NGP offerings and services for manufacturers, including the Group, and includes distribution and marketing commissions. Distribution revenue excludes sales taxes, rebates and discounts. Distribution revenue is recognised in the accounting period in which the distribution services are rendered. The Group's Distribution business is run on an operationally neutral basis and transactions between the Group's Tobacco & NGP business and its Distribution business are conducted on an arm's length basis.

Rebates and discounts paid to customers are deducted from revenue and payments for promotional activities are also deducted from revenue in certain circumstances.

### *Duty and similar items*

Duty and similar items consists of duty and levies having the characteristics of duty. Such duties and levies include production taxes, excise taxes and similar items. In countries where duty is collected as a sales tax, such duties are payable directly to the taxation authority and are not reflected in the Group's consolidated income statement. Prior to the implementation of IFRS 15 on 1 October 2018, payments due in the US under the MSA are included in duty and similar items. Following the implementation of IFRS 15, such payments will be recognised in other cost of sales.

### *Other cost of sales*

Other cost of sales comprises the Group's direct costs of manufacturing and the cost of goods purchased for resale and includes the cost of raw materials such as tobacco leaf, filters, and other packaging materials and the freight costs of transporting these materials. As noted above, following the implementation of IFRS 15 on 1 October 2018, other cost of sales also includes payments due in the US under the MSA.



### ***Distribution, advertising and selling costs***

Included in Distribution, advertising and selling costs are freight costs for transporting the Group's products (including fees paid to the Group's Distribution business for transport of Tobacco & NGP business products), marketing spend and external transportation and distribution costs.

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 services provided. The 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 the Group's revenue, and revenue is recognised on products on consignment when these are sold by the consignee. Distribution fees comprises the Distribution business revenue, excluding the cost of distributed products. Management considers this an important measure in assessing the performance of the Distribution business.

### ***Administrative and other expenses***

Administrative and other expenses comprise the costs incurred by administering the Group's business and related expenses, including amortisation of acquired intangibles, administration of UK Distributor, restructuring costs, central support functions and other expenses. Amortisation of acquired intangibles comprises amortisation and impairment of intangible assets including goodwill associated with acquisitions, intellectual property, supply agreements and software. Administration of UK Distributor consists of costs incurred in connection with the administration of the UK Distributor and the related provision for monies considered irrecoverable. Restructuring costs include non-recurring costs incurred in connection with the Group's cost optimisation programmes and include the costs of factory closures and the implementation of a standardised operating model. Other expenses include wages and salaries payable to employees, social security costs, pensions and other retirement benefit costs and share-based payments, as well as head office administration and other expenses not separately disclosed on the Group's consolidated income statement.

### ***Net finance costs***

Net finance costs represents finance costs less investment income. Investment income comprises income from interest on bank deposits, interest income on net defined benefit assets and fair value gains on derivative financial instruments. Finance costs comprise the charges (accrued or paid) associated with the Group's bank loans, capital markets indebtedness and derivative financial instruments. Finance costs also includes amortisation of any fees associated with raising of finance that have been capitalised and spread over the life of the facility. Finance costs are recognised using the effective interest method. Adjusted net finance cost excludes fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings, as well as post-retirement benefits net financing costs. See Note 7 "Net finance costs" in the 2018 Financial Statements.

### ***Tax***

Tax comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. The Group's 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. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

### **Critical Accounting Estimates**

The Group's principal accounting policies are set out in the 2018 Financial Statements and comply with IFRS. The Group believes its most critical accounting estimates include those relating to carrying value and useful economic life of property, plant and equipment, existence and valuation of intangible assets, income taxes, legal proceedings and disputes, retirement benefits, provision accounting and control of Logista. The application of these accounting estimates involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

For more information on the Group's critical accounting estimates, please see Note 2 ("Critical Accounting Estimates and Judgments") in the 2018 Financial Statements as well as Note 2 ("Critical Accounting Estimates and Judgments") in the 2019 Interim Financial Statements.

### Dividend Policy

The Group's policy is to pay quarterly dividends in March, June, September and December of each year. On 8 July 2019, Imperial Brands announced a revised capital allocation and shareholder distributions policy. The dividend growth in respect of the final dividend for the financial year ending 30 September 2019 is unchanged at 10 per cent growth. Thereafter, the revised dividend policy is expected to be progressive, growing annually, taking into account underlying business performance. Any surplus cash flows are expected to be returned to shareholders via share buybacks, enhanced ordinary dividends or special dividends, depending on market conditions.

### Six Months Ended 31 March 2019 as Compared to 31 March 2018

The table below shows the Group's unaudited consolidated income statement for the six months ended 31 March 2019 as compared to 31 March 2018 (which has been restated for the impact of IFRS 15) (for more information, see "—Principal Income Statement Items" above):

	For the six months ended 31 March	
	2018	2019
	(in £ million)	
<b>Revenue</b> . . . . .	<b>14,060</b>	<b>14,390</b>
Duty and similar items . . . . .	(6,928)	(6,961)
Other cost of sales . . . . .	(4,399)	(4,613)
Cost of sales . . . . .	(11,327)	(11,574)
<b>Gross profit</b> . . . . .	<b>2,733</b>	<b>2,816</b>
Distribution, advertising and selling costs . . . . .	(981)	(1,092)
Amortisation of acquired intangibles . . . . .	(526)	(297)
Administration of UK Distributor . . . . .	(160)	—
Fair value adjustment to contingent consideration . . . . .	—	(119)
Restructuring costs . . . . .	(105)	(54)
Other expenses . . . . .	(128)	(104)
Administrative and other expenses . . . . .	(919)	(574)
<b>Operating profit</b> . . . . .	<b>833</b>	<b>1,150</b>
Investment income . . . . .	493	490
Finance costs . . . . .	(745)	(646)
Net finance costs . . . . .	(252)	(156)
Share of profit of investments accounted for using the equity method . . . . .	19	24
<b>Profit before tax</b> . . . . .	<b>600</b>	<b>1,018</b>
Tax . . . . .	(79)	(310)
<b>Profit for the period</b> . . . . .	<b>521</b>	<b>708</b>

### Revenue

Revenue was £14,060 million in the six months ended 31 March 2018 compared to £14,390 million in the six months ended 31 March 2019, an increase of 2.3 per cent, primarily as a result of an increase in the Group's price/mix by 7.7 per cent on a period-over-period basis (6.5 per cent on a constant currency basis), an increase in revenue from the sale of NGP and positive currency translation effects, which was offset in part by declining tobacco volumes (on a stick equivalent basis) from 123.6 billion in the six months ended 31 March 2018 to 115.2 billion in the six months ended 31 March 2019 as a result of delays in shipment timing and overall industry volume declines. The Group's price/mix benefitted from product price increases that were introduced during the previous financial year as well as market share growth in high value tobacco markets, particularly given the Group's continued focus on investing in Asset Brands.

### ***Duty and similar items***

Duty and similar items was £6,928 million in the six months ended 31 March 2018 compared to £6,961 million in the six months ended 31 March 2019, an increase of 0.5 per cent, primarily as a result of an increase in duty payments as the Group's price/mix shifted to higher value brands, offset in part by an overall decrease in tobacco volumes.

### ***Other cost of sales***

Other cost of sales was £4,399 million in the six months ended 31 March 2018 compared to £4,613 million in the six months ended 31 March 2019, an increase of 4.9 per cent, primarily as a result of improved performance in the Distribution business.

### ***Distribution, advertising and selling costs***

Distribution, advertising and selling costs was £981 million in the six months ended 31 March 2018 compared to £1,092 million in the six months ended 31 March 2019, an increase of 11.3 per cent, primarily as a result of rollout costs of *blu* in additional regions and increased Asset Brands investment.

### ***Administrative and other expenses***

Administrative and other expenses was £919 million in the six months ended 31 March 2018 compared to £574 million in the six months ended 31 March 2019, a decrease of 37.5 per cent. During the period ended 31 March 2018, the Group had significantly higher amortisation associated with certain acquired intangible assets related to Altadis, higher restructuring costs associated with the Group's optimisation programmes and incurred a non-recurring charge in connection with the administration of the UK Distributor. During the period ended 31 March 2019, the Group recognised contingent consideration in connection with the Von Erl acquisition as a result of the increased performance of *blu*, but this increase was offset in part by cost savings attributable to the Group's optimisation programmes.

### ***Operating profit***

For the reasons discussed above, the Group's operating profit was £833 million in the six months ended 31 March 2018 compared to £1,150 million in the six months ended 31 March 2019, an increase of 38.1 per cent. Adjusted operating profit was £1,624 million in the six months ended 31 March 2018 compared to £1,620 million in the six months ended 31 March 2019, a decrease of 0.2 per cent (or a decrease of 2.3 per cent on a constant currency basis), primarily as a result of the continued investment in NGP, which was largely offset by the price/mix and Asset Brands improvements discussed above resulting in a slight decline in adjusted operating profit.

### ***Net finance costs***

Net finance costs was £252 million in the six months ended 31 March 2018 compared to £156 million in the six months ended 31 March 2019, a decrease of 38.1 per cent, primarily as a result of the positive impact on the net fair value of certain derivative financial instruments as a result of foreign currency exchange movements and interest rates.

### ***Tax***

The Group's tax charge was £79 million in the six months ended 31 March 2018 compared to £310 million in the six months ended 31 March 2019, an increase of 292 per cent, primarily resulting from a reduction in deferred tax from the reduced amortisation associated with certain acquired intangible assets relating to Altadis compared to the prior period and a one-off benefit in the prior period for the deferred tax effect of certain US tax reforms. The Group's effective tax rate was 13.2 per cent in the six months ended 31 March 2018 compared to 30.5 per cent in the six months ended 31 March 2019.

## Results by segment

### Europe

	For the six months ended 31 March		Change	
	2018	2019	Actual	Constant currency
Tobacco volume (in billion stick equivalents) . . . . .	67.8	64.6	-4.7%	
NGP net revenue (in £ million) . . . . .	3	73	>100%	>100%
Tobacco & NGP net revenue (in £ million) . . . . .	1,616	1,680	+4.0%	+4.5%
Adjusted operating profit (in £ million) . . . . .	740	771	+4.2%	+3.9%
Asset Brands per cent of net revenue . . . . .	71.1	74.3	+320 bps	+320 bps

Tobacco volumes decreased (on a stick equivalent basis) in the Group's Europe segment from 67.8 billion in the six months ended 31 March 2018 to 64.6 billion in the six months ended 31 March 2019, or 4.7 per cent, reflecting overall tobacco industry declines in Europe. The overall tobacco volume decline was the result of a loss of market share in the UK, Germany, Spain and France. In the UK, this loss of market share resulted from product price increases and in France the Group elected to pass excise tax increases on to customers, which had a negative impact on market share.

Despite the decline in tobacco volumes, Tobacco & NGP net revenue increased 4.0 per cent compared to the prior period (or 4.5 per cent on a constant currency basis), from £1,616 million in the six months ended 31 March 2018 to £1,680 million in the six months ended 31 March 2019, primarily as a result of strong growth in sales of NGP following investment in the Group's national distribution networks for the *myblu* product in the UK, Germany, France, Spain and Italy as well as overall category growth. In addition, the Group's percentage of net revenue from sales of its Asset Brands has increased from 71.1 per cent in the six months ended 31 March 2018 to 74.3 per cent in the six months ended 31 March 2019 (an increase of 3.2 per cent), which the Group believes is primarily a result of increasing marketing and distribution activity through the Group's market repeatable model.

In the UK, net revenue increased as a result of an increase in price/mix with Asset Brands, including *Players*, *Gold Leaf* and *Riverstone* all increasing their market share, offset in part by a decrease in tobacco volumes following price increases implemented during the year ended 30 September 2018. In NGP, sales of *myblu* increased period-over-period following its launch last year, in part as a result of increased distribution by key customers.

In Germany, net revenue increased as the Group continued to rationalise its product portfolio by migrating some Portfolio Brands (as defined herein) to Asset Brands, to improve market share in both cigarette and fine cut tobacco. The Group launched *myblu* in Germany in October 2018 and has achieved a market-leading share in retail vapour sales.

In Spain, net revenue decreased, though the Group increased its market share in fine cut tobacco following the successful launch of *Horizon* in the market for natural tobacco wrappers and additional marketing spend on *Fortuna* and *West*. *myblu* was launched nationally in January 2019, and has achieved a market-leading share.

The French government imposed significant excise duty increases over the last two years following its strategy to move retail cigarette prices to €10 per pack of 20, and the Group has passed these on to its customers. This has had a negative impact on the Group's market share and its net revenue, despite market share growth in certain of the Group's fine cut tobacco brands (*JPS* and *News*) following an increase in marketing spend. *myblu* was launched in 2018 and has achieved a market-leading share for closed system vapour products in the retail channel.

In Italy, net revenue increased as a result of growing market share, following increased marketing spend on *JPS* and the recent launches of *Davidoff* and *West*. *myblu* was launched in 2018 and has achieved a market-leading share in the tobacconist channel.

Adjusted operating profit increased 4.2 per cent compared to the prior period (or 3.9 per cent on a constant currency basis), from £740 million in the six months ended 31 March 2018 to £771 million in the six months ended 31 March 2019, primarily as a result of increased price/mix given the higher percentage of net revenue from sales of Asset Brands, which was offset in part by additional marketing and distribution spend on market launches of *myblu*.

## Americas

	For the six months ended 31 March		Change	
	2018	2019	Actual	Constant currency
Tobacco volume (in billion stick equivalents) . . . . .	10.8	10.0	-7.6%	
NGP net revenue (in £ million) . . . . .	39	61	+56.4%	+48.7%
Tobacco & NGP net revenue (in £ million) . . . . .	1,019	1,114	+9.3%	+4.0%
Adjusted operating profit (in £ million) . . . . .	442	439	-0.7%	-7.5%
Asset Brands per cent of net revenue . . . . .	51.1	54.5	+340 bps	+340 bps

Tobacco volumes decreased (on a stick equivalent basis) in the Group's Americas segment from 10.8 billion in the six months ended 31 March 2018 to 10.0 billion in the six months ended 31 March 2019, or 7.6 per cent, primarily as a result of overall tobacco industry declines of 4.9 per cent (Source: Management Science Associates, Inc.) and the timing of shipments resulting from a product price increase in the United States, which was implemented approximately one month earlier than in the prior period.

Tobacco & NGP net revenue increased 9.3 per cent compared to the prior period (or 4.0 per cent on a constant currency basis), from £1,019 million in the six months ended 31 March 2018 to £1,114 million in the six months ended 31 March 2019, primarily as a result of an increase in price/mix resulting from market share growth in the Group's mass market cigar business led by *Backwoods* and the positive contribution from NGP as well as market share growth in *Kool*, *Maverick* and *Sonoma*. The Group's investments in *blu* have resulted in NGP net revenue growth of 56.4 per cent from £39 million in the six months ended 31 March 2018 compared to £61 million in the six months ended 31 March 2019 despite the slowdown in the category due to, among other things, recent statements by the FDA about potential changes to tobacco and vapour regulations. In addition, the Group's percentage of net revenue from sales of its Asset Brands has increased from 51.1 per cent in the six months ended 31 March 2018 to 54.5 per cent in the six months ended 31 March 2019 (an increase of 3.4 per cent), which the Group believes is primarily as a result of the market share growth of *Backwoods* and *blu*.

Adjusted operating profit decreased 0.7 per cent compared to the prior period (or 7.5 per cent on a constant currency basis), from £442 million in the six months ended 31 March 2018 to £439 million in the six months ended 31 March 2019, primarily as a result of the sale of certain of the Group's other tobacco product assets during the period and a significant increase in NGP marketing spend, offset in part by growth in net revenue.

## Africa, Asia and Australasia

	For the six months ended 31 March		Change	
	2018	2019	Actual	Constant currency
Tobacco volume (in billion stick equivalents) . . . . .	45.0	40.6	-9.9%	
NGP net revenue (in £ million) . . . . .	—	14	>100%	>100%
Tobacco & NGP net revenue (in £ million) . . . . .	888	862	-2.9%	-2.9%
Adjusted operating profit (in £ million) . . . . .	351	328	-6.6%	-6.6%
Asset Brands per cent of net revenue . . . . .	61.1	61.6	+50 bps	+100 bps

Tobacco volumes decreased (on a stick equivalent basis) in the Group's Africa, Asia and Australasia segment from 45.0 billion in the six months ended 31 March 2018 to 40.6 billion in the six months ended 31 March 2019, or 9.9 per cent, primarily as a result of volume pressures in the Middle East arising from the timing of certain excise duty increases and imposition of other regulations that impacted the phasing of shipments compared to the prior period and a temporary distributor disruption in Vietnam, offset in part by growth in market share in Australia, Japan and Russia.

Tobacco & NGP net revenue decreased 2.9 per cent compared to the prior period (or 2.9 per cent on a constant currency basis), from £888 million in the six months ended 31 March 2018 to £862 million in the six months ended 31 March 2019, primarily as a result of the decrease in tobacco volumes as well as a decrease in the price/mix in the Middle East, offset in part by strong performance in Australia, Africa and Taiwan and by growth in NGP following the launch of *myblu* in Japan and Russia. In addition, the Group's

percentage of net revenue from sales of its Asset Brands has increased from 61.1 per cent in the six months ended 31 March 2018 to 61.6 per cent in the six months ended 31 March 2019 (an increase of 0.5 per cent), as Asset Brands growth in priority markets was offset by temporary volume reductions in the Middle East, which were all in the Group's Asset Brands.

In Australia, net revenue was flat where foreign currency exchange movements were offset by the increased prices implemented during the prior year as well as market share growth following the launch of *Parker & Simpson*.

In Japan, net revenue increased as a result of market share growth of key brands, including *West*, and following the expanded roll-out of nicotine-free variants of *myblu*.

In Russia, net revenue decreased where the impact of competitor discounting and foreign currency exchange movements were partly offset by the market share growth of *Parker & Simpson* and *Maxim*. *myblu* was launched in several cities with a full national roll-out planned later in 2019.

In Saudi Arabia, net revenue was impacted by slower sales of *West* and timing of sales, which had a significant negative impact on tobacco volumes.

Adjusted operating profit decreased 6.6 per cent compared to the prior period (or 6.6 per cent on a constant currency basis), from £351 million in the six months ended 31 March 2018 to £328 million in the six months ended 31 March 2019, primarily as a result of volume declines and price/mix pressures in the Middle East as described above.

### *Distribution*

	For the six months ended 31 March	
	2018	2019
	(in £ million)	
Revenue . . . . .	3,954	4,191
Distribution fees . . . . .	483	499
Operating profit . . . . .	55	60
Adjusted operating profit . . . . .	99	102
Adjusted distribution margin (per cent) . . . . .	20.5	20.4

Revenue was £3,954 million in the six months ended 31 March 2018 compared to £4,191 million in the six months ended 31 March 2019, an increase of 6.0 per cent, primarily as a result of an increase in distribution fees and improved sales in Spain and Italy. Adjusted operating profit increased by 3.0 per cent compared to the prior period, from £99 million in the six months ended 31 March 2018 to £102 million in the six months ended 31 March 2019, primarily as a result of the effect of price increases and cost and efficiency measures implemented during the prior year and increased shipping volume in the convenience and transport divisions, offset in part by lower tobacco volumes. The Group's adjusted distribution margin was broadly unchanged at 20.5 per cent in the six months ended 31 March 2018 and 20.4 per cent in the six months ended 31 March 2019.

## Financial Year 2018 as Compared to Financial Year 2017

The table below shows the Group's audited consolidated income statement for the year ended 30 September 2017 as compared to 30 September 2018.

	For the year ended 30 September	
	2017	2018
	(in £ million)	
<b>Revenue</b> .....	<b>30,247</b>	<b>30,524</b>
Duty and similar items .....	(14,967)	(15,125)
Other cost of sales .....	(8,853)	(8,949)
Cost of sales .....	(23,820)	(24,074)
<b>Gross profit</b> .....	<b>6,427</b>	<b>6,450</b>
Distribution, advertising and selling costs .....	(2,434)	(2,441)
Amortisation of acquired intangibles .....	(1,092)	(1,053)
Administration of UK Distributor .....	—	(110)
Restructuring costs .....	(391)	(196)
Other expenses .....	(232)	(243)
Administrative and other expenses .....	(1,715)	(1,602)
<b>Operating profit</b> .....	<b>2,278</b>	<b>2,407</b>
Investment income .....	910	631
Finance costs .....	(1,360)	(1,257)
Net finance costs .....	(450)	(626)
Share of profit of investments accounted for using the equity method .....	33	42
<b>Profit before tax</b> .....	<b>1,861</b>	<b>1,823</b>
Tax .....	(414)	(396)
<b>Profit for the year</b> .....	<b>1,447</b>	<b>1,427</b>

### *Revenue*

Revenue was £30,247 million in the year ended 30 September 2017 compared to £30,524 million in the year ended 30 September 2018, an increase of 0.9 per cent, primarily as a result of an increase in the Group's price/mix of 5.7 per cent on a constant currency basis, including positive contributions both from tobacco and, to a lesser extent, NGP, which was offset in part by declining tobacco volumes (on a stick equivalent basis) from 265.2 billion in the year ended 30 September 2017 to 255.5 billion in the year ended 30 September 2018, as a result of overall industry sales volumes declines, and negative currency translation effects. Group revenue benefitted from significant investment in 2017 that improved Asset Brands market share in priority markets. As a result of this investment, Group net revenue from Asset Brands increased from 62.7 per cent in the year ended 30 September 2017 to 66.9 per cent in the year ended 30 September 2018.

### *Duty and similar items*

Duty and similar items was £14,967 million in the year ended 30 September 2017 compared to £15,125 million in the year ended 30 September 2018, an increase of 1.1 per cent, primarily as a result of an increase in duty payments as the Group's price/mix shifted to higher value brands, offset in part by an overall decrease in tobacco volumes.

### *Other cost of sales*

Other cost of sales was £8,853 million in the year ended 30 September 2017 compared to £8,949 million in the year ended 30 September 2018, an increase of 1.1 per cent, primarily as a result of inflation and currency impacts, offset in part by the Group's cost saving programmes.

### *Distribution, advertising and selling costs*

Distribution, advertising and selling costs was £2,434 million in the year ended 30 September 2017 compared to £2,441 million in the year ended 30 September 2018, which was roughly flat, reflecting an

overall decrease in distribution and other selling costs in connection with the overall decrease in tobacco sales volumes, offset in part by increased advertising spend on NGP in connection with the rollout of *blu* in priority markets.

#### *Administrative and other expenses*

Administrative and other expenses was £1,715 million in the year ended 30 September 2017 compared to £1,602 million in the year ended 30 September 2018, a decrease of 6.6 per cent, primarily as a result of decreases in restructuring costs and amortisation of acquired intangibles, offset by a non-recurring charge in connection with the administration of the UK Distributor. During the year ended 30 September 2017, the Group had significantly higher restructuring costs incurred in connection with the Group's cost optimisation programmes and higher amortisation associated with certain acquired intangible assets relating to Altadis.

#### *Operating profit*

For the reasons discussed above, operating profit was £2,278 million in the year ended 30 September 2017 compared to £2,407 million in the year ended 30 September 2018, an increase of 5.7 per cent. Adjusted operating profit was £3,761 million in the year ended 30 September 2017 compared to £3,766 million in the year ended 30 September 2018, an increase of 0.1 per cent (an increase of 2.9 per cent on a constant currency basis), primarily as a result of price/mix improvements in tobacco products and improved results in the Distribution business, offset by continued investment in NGP, the impact of adverse foreign currency exchange movements and lower other gains.

#### *Net finance costs*

Net finance costs was £450 million in the year ended 30 September 2017 compared to £626 million in the year ended 30 September 2018, an increase of 39.1 per cent, primarily as a result of the negative impact of the net fair value and exchange losses on certain derivative financial instruments, offset in part by an overall decrease in finance costs, primarily interest on bank loans, and a decrease in post-employment benefits.

#### *Tax*

The Group's tax charge was £414 million in the year ended 30 September 2017 compared to £396 million in the year ended 30 September 2018, a decrease of 4.3 per cent, primarily as a result of a one-off benefit for the deferred tax effect of certain US tax reforms. The Group's effective tax rate was 22.2 per cent in the year ended 30 September 2017 compared to 21.7 per cent in the year ended 30 September 2018.

#### *Results by segment*

##### *Returns Markets North*

	For the year ended 30 September		Change	
	2017	2018	Actual	Constant currency
Volume (in billion stick equivalents) . . . . .	89.8	86.6	-3.5%	
Net revenue (in £ million) . . . . .	2,755	2,749	-0.2%	+0.4%
Net revenue per '000 stick equivalents (£) . . . . .	30.69	31.73	+3.4%	+4.1%
Adjusted operating profit (in £ million) . . . . .	1,485	1,507	+1.5%	+2.4%
Growth Brands per cent of net revenue . . . . .	60.2	62.7	+2.5%	
Growth Brands market share (per cent) . . . . .	16.6	17.0	+0.4%	

Tobacco volumes decreased (on a stick equivalent basis) in the Group's Returns Markets North segment from 89.8 billion in the year ended 30 September 2017 to 86.6 billion in the year ended 30 September 2018, or 3.5 per cent, reflecting overall tobacco industry declines in the region, primarily in the UK.

Tobacco & NGP net revenue decreased 0.2 per cent compared to the prior period (or an increase of 0.4 per cent on a constant currency basis), from £2,755 million in the year ended 30 September 2017 to £2,749 million in the year ended 30 September 2018, primarily as a result of declining sales volumes and adverse currency exchange movements, largely offset by price increases in several priority markets, such as



Germany and Australia, which resulted in an increase in net revenue per thousand stick equivalents by 3.4 per cent (or 4.1 per cent on a constant currency basis). In addition, the Group's percentage of net revenue from sales of its Growth Brands increased from 60.2 per cent in the year ended 30 September 2017 to 62.7 per cent in the year ended 30 September 2018 (an increase of 2.5 per cent), which the Group believes is primarily as a result of significant investment in promoting its Growth Brands in those regions. Overall Growth Brands market share increased from 16.6 per cent in the year ended 30 September 2017 to 17.0 per cent in the year ended 30 September 2018.

In the UK, net revenue decreased as a result of a reduction in the size of the market, which was partly offset by an improvement in the Group's overall market share, in particular *Players* and *Gold Leaf*, and an increase in price/mix following the implementation of the EUTPD.

In Germany, net revenue increased, as a result of market share growth in fine cut tobacco (primarily *West*), offset by a decline in cigarette market share primarily as a result of *Gauloises*.

In Belgium and the Netherlands, net revenue decreased as a result of a reduction in the size of the market, offset in part by the Group's increased market share in the Netherlands through the launch of larger cigarette formats, supported by consumer activation, while market share improved in Belgium as a result of focused advertising investments.

In Australia, net revenue decreased as a result of foreign currency exchange movements, which were largely offset by an increase in sales volume, offset by a decline in overall market share. Investments in certain brands resulted in market share gains for those brands, primarily *JPS*.

In Ukraine, net revenue was impacted by a significant overall tobacco market decline, offset in part by increased prices for the Group's products.

In Poland, net revenue increased as the Group increased its market share in both cigarette and fine cut tobacco, primarily *Parker & Simpson*, as a result of increased brand investment.

Adjusted operating profit increased 1.5 per cent compared to the prior period (or 2.4 per cent on a constant currency basis), from £1,485 million in the year ended 30 September 2017 to £1,507 million in the year ended 30 September 2018, primarily as a result of strong price/mix materially offsetting declines in sales and a focus on cost control.

#### Returns Markets South

	For the year ended 30 September		Change	
	2017	2018	Actual	Constant Currency
Volume (in billion stick equivalents) . . . . .	77.3	73.3	-5.3%	—
Net revenue (in £ million) . . . . .	1,569	1,515	-3.4%	-3.7%
Net revenue per '000 stick equivalents (£) . . . . .	20.29	20.68	+1.9%	+1.6%
Adjusted operating profit (in £ million) . . . . .	686	646	-5.8%	-6.4%
Growth Brands per cent of net revenue . . . . .	54.2	61.1	+6.9%	
Growth Brands market share (per cent) . . . . .	16.8	18.8	+2.0%	

Tobacco volumes decreased (on a stick equivalent basis) in the Group's Returns Markets South segment from 77.3 billion in the year ended 30 September 2017 to 73.3 billion in the year ended 30 September 2018, or 5.3 per cent, reflecting overall tobacco industry declines in the region, primarily in France.

Tobacco & NGP net revenue decreased 3.4 per cent compared to the prior period (or 3.7 per cent on a constant currency basis), from £1,569 million in the year ended 30 September 2017 to £1,515 million in the year ended 30 September 2018, primarily as a result of a weak operating environment in France following the imposition of excise duty increases. Notwithstanding this decrease, net revenue per thousand stick equivalents increased by 1.9 per cent (or 1.6 per cent on a constant currency basis). The Group's percentage of net revenue from sales of its Growth Brands has increased from 54.2 per cent in the year ended 30 September 2017 to 61.1 per cent in the year ended 30 September 2018 (an increase of 6.9 per cent), primarily as a result of stronger performance from certain Growth Brands. Overall Growth Brands market share increased from 16.8 per cent in the year ended 30 September 2017 to 18.8 per cent in the year ended 30 September 2018.

In Spain, net revenue decreased as overall industry volumes in the dark tobacco segment continued to decline. The Group maintained its blonde tobacco share as a result of additional investment and market share for larger formats and fine cut tobacco remained stable.

In France, net revenue decreased as a result of significant excise increases which the Group generally passed on to its customers in the form of increased prices, which had a negative impact on market share.

In Algeria, Group net revenue decreased as a result of increased excise duties (which the Group passed on to its customers) and disruption to local third-party production.

In the Moroccan market, net revenue was flat despite positive market share growth from *Gauloises* and *Marquise*.

Adjusted operating profit decreased 5.8 per cent compared to the prior period (or 6.4 per cent on a constant currency basis), from £686 million in the year ended 30 September 2017 to £646 million in the year ended 30 September 2018, primarily as a result of a weaker trading environment in France.

#### *Growth Markets and the USA*

The results of the Growth Markets for the years ended 30 September 2017 and 2018 are set out in the table below:

	For the year ended 30 September		Percentage change	
	2017	2018	Actual	Constant currency
Volume (in billion stick equivalents) . . . . .	74.8	73.5	-1.7%	
Net revenue (in £ million) . . . . .	1,768	1,795	+1.5%	+5.6%
Adjusted operating profit (in £ million) . . . . .	411	364	-11.3%	-4.4%
Growth Brands per cent of net revenue . . . . .	49.1	45.8	-3.3%	
Growth Brands volume (in billion stick equivalents) . . . . .	49.9	50.9	+2.2%	
Growth Brands market share (per cent) . . . . .	4.3	4.7	+0.4%	

In Growth Markets, tobacco volumes decreased (on a stick equivalent basis) in the Group's Growth Markets segment from 74.8 billion in the year ended 30 September 2017 to 73.5 billion in the year ended 30 September 2018, or 1.7 per cent, reflecting overall tobacco industry declines.

Tobacco & NGP net revenue increased 1.5 per cent compared to the prior period (or 5.6 per cent on a constant currency basis), from £1,768 million in the year ended 30 September 2017 to £1,795 million in the year ended 30 September 2018, primarily as a result of improved market share in Russia, Saudi Arabia, Italy and Japan. The Group's percentage of net revenue from sales of its Growth Brands decreased from 49.1 per cent in the year ended 30 September 2017 to 45.8 per cent in the year ended 30 September 2018 (a decrease of 3.3 per cent), primarily as a result of revenue pressure in Saudi Arabia and Taiwan and the categorisation of *blu* as a Specialist Brand in these periods at a time of significant growth (*blu* has been recategorised as a Growth Brand from 1 October 2018). Overall Growth Brands market share increased from 4.3 per cent in the year ended 30 September 2017 to 4.7 per cent in the year ended 30 September 2018, as a result of continued focus on Growth Brands, supported by sustained investment, which resulted in improved market share performances in the countries mentioned above.

Adjusted operating profit decreased 11.3 per cent compared to the prior period (or 4.4 per cent on a constant currency basis), from £411 million in the year ended 30 September 2017 to £364 million in the year ended 30 September 2018, primarily as a result of a decreasing price/mix in Middle Eastern markets, adverse foreign currency exchange rate movements and increased investment in *blu*, which was partially offset by a stronger performance in Russia.

The results from the US market for the years ended 30 September 2017 and 2018 are set out in the table below:

	For the year ended 30 September		Percentage change	
	2017	2018	Actual	Constant currency
Volume (in billion stick equivalents) . . . . .	23.3	22.1	-5.0%	
Net revenue (in £ million) . . . . .	1,665	1,671	+0.4%	+6.7%
Adjusted operating profit (in £ million) . . . . .	1,013	1,040	+2.7%	+9.5%
Asset Brands per cent of net revenue . . . . .	44.5	50.2	+5.7%	
Asset Brands volume (in billion stick equivalents) . . . . .	11.1	11.1	+0.0%	
Growth Brands market share (per cent) . . . . .	2.4	2.5	+0.1%	

Tobacco volumes decreased (on a stick equivalent basis) in the Group's US market from 23.3 billion in the year ended 30 September 2017 to 22.1 billion in the year ended 30 September 2018, or 5.0 per cent, reflecting overall tobacco industry declines. The Group's US strategy focused on growing its strongest and most recognised brands: *Winston*, *Kool* and *Maverick* in cigarettes and *Backwoods* in mass market cigars.

Tobacco & NGP net revenue increased 0.4 per cent compared to the prior period (or 6.7 per cent on a constant currency basis), from £1,665 million in the year ended 30 September 2017 to £1,671 million in the year ended 30 September 2018, primarily as a result of improved price/mix. In addition, the Group's percentage of net revenue from sales of its Asset Brands has increased from 44.5 per cent in the year ended 30 September 2017 to 50.2 per cent in the year ended 30 September 2018 (an increase of 5.7 per cent) as the Group continued to reshape its portfolio, including through the launch of *Winston Black*, and achieved market share gains for *Kool* and *Maverick*. Overall Growth Brands market share increased from 2.4 per cent in the year ended 30 September 2017 to 2.5 per cent in the year ended 30 September 2018.

Adjusted operating profit increased 2.7 per cent compared to the prior period (or 9.5 per cent on a constant currency basis), from £1,013 million in the year ended 30 September 2017 to £1,040 million in the year ended 30 September 2018, primarily as a result of revenue growth and the achievement of cost efficiencies in connection with the Group's cost optimisation programmes, offset in part by increased investment in the Group's key brands.

#### Distribution

	For the year ended 30 September	
	2017	2018
	(in £ million)	
Revenue . . . . .	8,269	8,383
Distribution fees . . . . .	914	989
Operating profit . . . . .	94	128
Adjusted operating profit . . . . .	181	212
Adjusted operating margin (per cent) . . . . .	19.8	21.4

Revenue was £8,269 million in the year ended 30 September 2017 compared to £8,383 million in the year ended 30 September 2018, an increase of 1.4 per cent, primarily as a result of an increase in distribution fees and stronger tobacco performance in France and Italy in 2018 compared to 2017. Adjusted operating profit increased by 17.1 per cent compared to the prior period, from £181 million in the year ended 30 September 2017 to £212 million in the year ended 30 September 2018, primarily as a result of increased distribution fees from the increased range of services and further growth of non-tobacco products. The Group's adjusted operating margin increased from 19.8 per cent in the year ended 30 September 2017 to 21.4 per cent in the year ended 30 September 2018, primarily as a result of higher distribution fees and a focus on cost control.

## Financial Year 2017 as Compared to Financial Year 2016

The table below shows the Group's audited consolidated income statement for the year ended 30 September 2016 as compared to the year ended 30 September 2017.

	For the year ended 30 September	
	2016	2017
	(in £ million)	
<b>Revenue</b> .....	<b>27,634</b>	<b>30,247</b>
Duty and similar items .....	(13,535)	(14,967)
Other cost of sales .....	(8,143)	(8,853)
Cost of sales .....	(21,678)	(23,820)
<b>Gross profit</b> .....	<b>5,956</b>	<b>6,427</b>
Distribution, advertising and selling costs .....	(2,070)	(2,434)
Amortisation of acquired intangibles .....	(1,005)	(1,092)
Restructuring costs .....	(307)	(391)
Other expenses .....	(345)	(232)
Administrative and other expenses .....	(1,657)	(1,715)
<b>Operating profit</b> .....	<b>2,229</b>	<b>2,278</b>
Investment income .....	634	910
Finance costs .....	(1,984)	(1,360)
Net finance costs .....	(1,350)	(450)
Share of profit of investments accounted for using the equity method .....	28	33
<b>Profit before tax</b> .....	<b>907</b>	<b>1,861</b>
Tax .....	(238)	(414)
<b>Profit for the year</b> .....	<b>669</b>	<b>1,447</b>

### *Revenue*

Revenue was £27,634 million in the year ended 30 September 2016 compared to £30,247 million in the year ended 30 September 2017, an increase of 9.5 per cent, primarily as a result of an increase in the Group's price/mix of 1.5 per cent on a constant currency basis and positive currency translation effects, which was offset in part by declining tobacco volumes (on a stick equivalent basis) from 276.5 billion in the year ended 30 September 2016 to 265.2 billion in the year ended 30 September 2017, as a result of overall industry sales volumes decline. Group revenue benefitted from significant investment in 2017 that improved Asset Brands market share in priority markets. As a result of this investment, Group net revenue from Asset Brands increased from 60.1 per cent in the year ended 30 September 2016 to 62.7 per cent in the year ended 30 September 2017. On a constant currency basis, revenue decreased by 2.6 per cent reflecting the overall challenging market conditions and additional investments made by the Group to support its competitive pricing strategy.

### *Duty and similar items*

Duty and similar items was £13,535 million in the year ended 30 September 2016 compared to £14,967 million in the year ended 30 September 2017, an increase of 10.6 per cent, primarily as a result of an increase in duty payments as the Group's price/mix shifted to higher value brands, offset in part by an overall decrease in tobacco volumes.

### *Other cost of sales*

Other cost of sales was £8,143 million in the year ended 30 September 2016 compared to £8,853 million in the year ended 30 September 2017, an increase of 8.7 per cent, primarily as a result of revenue growth and inflation, offset in part by an overall decrease in tobacco sales volumes.

### *Distribution, advertising and selling costs*

Distribution, advertising and selling costs was £2,070 million in the year ended 30 September 2016 compared to £2,434 million in the year ended 30 September 2017, an increase of 17.6 per cent, primarily as

a result of the ongoing reallocation of costs to sales activities, principally related to implementing the Group's market repeatable model with respect to Growth Brands in the Group's priority markets.

#### *Administrative and other expenses*

Administrative and other expenses was £1,657 million in the year ended 30 September 2016 compared to £1,715 million in the year ended 30 September 2017, an increase of 3.5 per cent, primarily as a result of an increase in amortisation of acquired intangibles and restructuring costs, offset by a decrease in other expenses. The Group had significantly higher restructuring costs incurred in connection with the Group's cost optimisation programmes and higher amortisation associated with the translational exchange rate of annual amortisation.

#### *Operating profit*

For the reasons discussed above, operating profit was £2,229 million in the year ended 30 September 2016 compared to £2,278 million in the year ended 30 September 2017, an increase of 2.2 per cent. Adjusted operating profit was £3,541 million in the year ended 30 September 2016 compared to £3,761 million in the year ended 30 September 2017, an increase of 6.2 per cent, primarily as a result of a large positive foreign currency translation impact as well as the increase in non-operating income (including a significant one-off gain principally from the restructuring of the UK pension fund to cap the Group's liabilities), offset by investments in developing Growth Brands and new products. As a result of these investments and the challenging trading environment, on a constant currency basis, adjusted operating profit declined by 3.2 per cent.

#### *Net finance costs*

Net finance costs was £1,350 million in the year ended 30 September 2016 compared to £450 million in the year ended 30 September 2017, a decrease of 66.7 per cent, primarily as a result of the positive impact of the net fair value and foreign currency exchange gains on certain derivative financial instruments, offset in part by a £13 million increase in net bank interest.

#### *Tax*

The Group's tax charge was £238 million in the year ended 30 September 2016 compared to £414 million in the year ended 30 September 2017, an increase of 73.9 per cent, primarily as a result of increased pre-tax profits in 2017 and fair value and foreign currency exchange losses on derivative financial instruments in the prior period resulting in a tax benefit. The Group's effective tax rate was 26.2 per cent in the year ended 30 September 2016 compared to 226.2 per cent in the year ended 30 September 2017.

#### *Results by segment*

##### *Returns Markets North*

	For the year ended 30 September		Change	
	2016	2017	Actual	Constant currency
Volume (in billion stick equivalents) . . . . .	94.4	89.8	-4.9%	
Net revenue (in £ million) . . . . .	2,645	2,755	+4.2%	-4.2%
Net revenue per '000 stick equivalents (£) . . . . .	28.01	30.69	+9.6%	+0.7%
Adjusted operating profit (in £ million) . . . . .	1,439	1,485	+3.2%	-3.3%
Growth Brands per cent of net revenue . . . . .	57.2	60.2	+3.0%	
Growth Brands market share (per cent) . . . . .	15.0	16.6	+1.6%	

Tobacco & NGP net revenue increased 4.2 per cent compared to the prior period (or a decrease of 4.2 per cent on a constant currency basis), from £2,645 million in the year ended 30 September 2016 to £2,755 million in the year ended 30 September 2017, primarily as a result of impact of previous investment in the Group's Growth Brands, offset by a difficult trading environment and EUTPD-imposed volume regulations in certain European markets. Notwithstanding overall industry volume declines, Group net revenue per thousand stick equivalents increased from £28.01 in the year ended 30 September 2016 to £30.69 in the year ended 30 September 2017 as a result of an increase in price/mix. In addition, the Group's percentage of net revenue from sales of its Growth Brands has increased from 57.2 per cent in the year

ended 30 September 2016 to 60.2 per cent in the year ended 30 September 2017 (an increase of 3.0 per cent), primarily as a result of market share gains share in the UK, Australia, Germany and Poland, offset by market share pressure in Ukraine and Belgium. Overall Growth Brands market share increased from 15.0 per cent in the year ended 30 September 2016 to 16.6 per cent in the year ended 30 September 2017.

In the UK, there were a number of challenging factors, including the introduction of the EUTPD and plain packaging, and discounting in lower cost segments. Accordingly, net revenue decreased as a result of a decline in the size of the market, partly offset by market share growth due to the Group's pricing strategy together with investment in activation and distribution. The Group's fine cut market share continued to grow with strong performances from *Gold Leaf* and *Players*, and cigarette share increased due to the success of *Players*.

In Germany, net revenue decreased as a result of a decline in the size of the market, partly offset by market share growth following investments in distribution, brand equity building and activations. *Fairwind* and *West* increased their market share in fine cut tobacco while cigarette market share increased, in part due to sales of *JPS*.

In Belgium and the Netherlands, net revenue decreased due to a decline in the size of the market, partly offset by market share growth in the Netherlands as a result of increased sales of *JPS* and *Gauloises* as well as through the launch of larger formats supported by consumer activation.

In Australia, net revenue increased as a result of growth in market share, primarily as a result of investments in *JPS*.

In Ukraine, net revenue increased as a result of product price increases despite a decrease in overall industry volumes. *West* increased in market share following the migration of *Stolichnys* and as a result of the successful launch of larger formats.

In Poland, net revenue decreased as a result of the competitive pricing environment, partly offset by an increase in the Group's market share as a result of increased sales of *Parker & Simpson* fine cut tobacco, supported by portfolio optimisation and investment in a wider distribution network.

Adjusted operating profit increased 3.2 per cent compared to the prior period (or a decrease of 3.3 per cent on a constant currency basis), from £1,439 million in the year ended 30 September 2016 to £1,485 million in the year ended 30 September 2017, primarily as a result of foreign currency exchange rate movement.

#### Returns Markets South

	For the year ended 30 September		Change	
	2016	2017	Actual	Constant currency
Volume (in billion stick equivalents) . . . . .	80.9	77.3	- 4.4%	
Net revenue (in £ million) . . . . .	1,477	1,569	+6.2%	- 5.1%
Net revenue per '000 stick equivalents (£) . . . . .	18.27	20.29	+11.1%	- 0.7%
Adjusted operating profit (in £ million) . . . . .	655	686	+4.7%	- 6.0%
Growth Brands per cent of net revenue . . . . .	50.0	54.2	+4.2%	
Growth Brands market share (per cent) . . . . .	16.2	16.9	+0.7%	

Tobacco & NGP net revenue increased 6.2 per cent compared to the prior period (or a decrease of 5.1 per cent on a constant currency basis), from £1,477 million in the year ended 30 September 2016 to £1,569 million in the year ended 30 September 2017, primarily as a result of positive foreign currency exchange rate movements. Notwithstanding overall industry volume declines, Group net revenue per thousand stick equivalents increased from £18.27 in the year ended 30 September 2016 to £20.29 in the year ended 30 September 2017 as a result of an increase in price/mix. In addition, the Group's percentage of net revenue from sales of its Growth Brands increased from 50.0 per cent in the year ended 30 September 2016 to 54.2 per cent in the year ended 30 September 2017 (an increase of 4.2 per cent), primarily as a result of strong organic performance. Overall Growth Brands market share increased from 16.2 per cent in the year ended 30 September 2016 to 16.9 per cent in the year ended 30 September 2017.

In Spain, net revenue decreased as a result of weakened product mix driven by declines in the sale of cigars and cigarillos, as well as competitive pressures which prevented the market from taking normal levels of pricing in order to preserve market share.

In France, net revenue was flat as a result of a challenging economic environment due to a number of tax and regulatory changes (including plain packaging), although the Group's *New* brand delivered a strong sales performance, benefitting from prior investment in trade programmes. The Group's blond tobacco portfolio maintained its market share during the period.

In Algeria, net revenue decreased following disruption to local third-party production. As a result, the Group's market share declined following strong performance in the prior year due to increased competitive pressure.

In Morocco, net revenue was flat despite improved market share performance, particularly from the Group's *Maghreb* and *Marquise* brands.

Adjusted operating profit increased 4.7 per cent compared to the prior period (or a decrease of 6.0 per cent on a constant currency basis), from £655 million in the year ended 30 September 2016 to £686 million in the year ended 30 September 2017, primarily as a result of the impact of positive foreign currency exchange rate improvements.

#### *Growth Markets and USA market*

The results of the Growth Markets for the years ended 30 September 2016 and 2017 are set out in the table below:

	For the year ended 30 September		Change	
	2016	2017	Actual	Constant Currency
Volume (in billion stick equivalents) . . . . .	76.3	74.8	- 2.0%	
Net revenue (in £ million) . . . . .	1,568	1,768	+ 12.8%	- 0.2%
Adjusted operating profit (in £ million) . . . . .	443	411	- 7.2%	- 17.2%
Growth Brands per cent of net revenue . . . . .	47.2	49.1	+ 1.9%	
Growth Brands volume (in billion stick equivalents) . . . . .	46.0	49.9	+ 8.5%	
Growth Brands market share (per cent) . . . . .	3.7	4.3	+ 0.6%	

In Growth Markets, Tobacco & NGP net revenue increased 12.8 per cent compared to the prior period (or a decrease of 0.2 per cent on a constant currency basis), from £1,568 million in the year ended 30 September 2016 to £1,768 million in the year ended 30 September 2017, primarily as a result of appreciation of the US dollar compared to sterling. In addition, the Group's percentage of net revenue from sales of its Growth Brands has increased from 47.2 per cent in the year ended 30 September 2016 to 49.1 per cent in the year ended 30 September 2017 (an increase of 1.9 per cent), which the Group believes is primarily related to the performance of Growth Brands in priority markets and *Winston* and *Kool* in the US. Overall Growth Brands market share increased from 3.7 per cent in the year ended 30 September 2016 to 4.3 per cent in the year ended 30 September 2017, primarily as a result of targeted investment in Growth Brands and the implementation of the Group's market repeatable model. The Group's focus on Growth Brands resulted in improved share performances in Russia, Saudi Arabia, Italy and Japan and Growth Brands tobacco volume grew from 46.0 billion stick equivalents in the year ended 30 September 2016 to 49.9 billion stick equivalents in the year ended 30 September 2017.

Adjusted operating profit decreased 7.2 per cent compared to the prior period (or 17.2 per cent on a constant currency basis), from £443 million in the year ended 30 September 2016 to £411 million in the year ended 30 September 2017, primarily as a result of increased investments in Growth Brands to increase market share, offset by industry volume declines in Russia as a result of difficult economic conditions.

Following the 2015 US Acquisition, the US became a significant market and was therefore disclosed separately as the USA market. The results from the USA market for the years ended 30 September 2016 and 2017 are set out in the table below:

	For the year ended 30 September		Change	
	2016	2017	Actual	Constant Currency
Volume (in billion stick equivalents) . . . . .	24.9	23.3	-6.6%	
Net revenue (in £ million) . . . . .	1,477	1,665	+12.7%	+0.3%
Adjusted operating profit (in £ million) . . . . .	823	1,013	+23.1%	+10.1%
Asset Brands per cent of net revenue . . . . .	41.8	44.5	+2.7%	
Asset Brands volume (in billion stick equivalents) . . . . .	10.9	11.1	+1.8%	
Growth Brands market share (per cent) . . . . .	2.3	2.5	+0.2%	

In the US, Tobacco & NGP net revenue increased 12.7 per cent compared to the prior period (or 0.3 per cent on a constant currency basis), from £1,477 million in the year ended 30 September 2016 to £1,665 million in the year ended 30 September 2017, primarily as a result of increased pricing and adjustments to the timing of payments under the MSA, offset in part by certain buydown programmes, which are incentives offered to retailers. In addition, the Group's percentage of net revenue from sales of its Asset Brands increased from 41.8 per cent in the year ended 30 September 2016 to 44.5 per cent in the year ended 30 September 2017 (an increase of 2.7 per cent), primarily as a result of market share growth in *Winston* and *Kool* that benefitted from a retail programme which encompassed 172,000 stores nationwide, as well as a new pack design and direct mail and digital marketing initiatives. Overall Growth Brands market share increased from 2.3 per cent in the year ended 30 September 2016 to 2.5 per cent in the year ended 30 September 2017, which corresponds to Asset Brands tobacco volume growth from 10.9 billion stick equivalents in the year ended 30 September 2016 to 11.1 billion stick equivalents in the year ended 30 September 2017. Although *Winston* and *Kool* both benefitted from increasing market share gains following the Group's investment in those brands, overall market share declined in the US as a result of market share losses in certain of the Group's legacy Portfolio Brands.

Adjusted operating profit increased 23.1 per cent compared to the prior period (or 10.1 per cent on a constant currency basis), from £823 million in the year ended 30 September 2016 to £1,013 million in the year ended 30 September 2017, primarily as a result of revenue growth, the benefit of certain cost efficiencies and a one-off gain arising from changes to post-retirement benefits which were offset in part by significant investment in brand-focused marketing.

#### Distribution

	For the year ended 30 September	
	2016	2017
	(in £ million, unless otherwise indicated)	
Revenue . . . . .	7,505	8,269
Distribution fees . . . . .	809	914
Operating profit . . . . .	98	94
Adjusted operating profit . . . . .	176	181
Adjusted distribution margin (per cent) . . . . .	21.8	19.8

Revenue was £7,505 million in the year ended 30 September 2016 compared to £8,269 million in the year ended 30 September 2017, an increase of 10.2 per cent, primarily as a result of an increase in distribution fees and currency impacts. Adjusted operating profit increased by 2.8 per cent compared to the prior period, from £176 million in the year ended 30 September 2016 to £181 million in the year ended 30 September 2017, primarily as a result of the effect of cost control measures and efficiencies improvements which continue to mitigate the impact of tobacco volume declines and the positive impact of exchange rate movements. The Group's adjusted distribution margin declined from 21.8 per cent in the year ended 30 September 2016 to 19.8 per cent in the year ended 30 September 2017. The period was impacted by one-off pension costs and the unfavourable pricing in France and Italy. This was partly offset



by increased distribution fees from the broadened range of services provided and expanding distribution of non-tobacco products.

### **Liquidity and Capital Resources**

The Group broadly defines liquidity as its ability to generate sufficient cash flow from its operating activities to meet its contractual obligations and commercial commitments together with its undrawn committed bank facilities, committed ECP, cash and cash equivalents and expectation of obtaining appropriate bank facilities, capital markets debt, ECP, and/or equity financing in the future. The Group's principal long-term capital resources consist of its bank credit facilities and capital market issuances, as described below, as well as expected operating cash flow.

The Group has consistently converted a high level of its profit from operations into operating cash flow. The Group's cash conversion rate in the years ended 30 September 2016, 2017 and 2018 was 103 per cent, 96 per cent and 97 per cent, respectively.

As at 31 March 2019, the Group had total committed funding in place of approximately £16,836 million, comprising approximately 67 per cent capital market bond issuances, 20 per cent bank facilities and 12 per cent ECP. As of such date, the Group's debt weighted average maturity (excluding ECP) was 3.85 years, of which the capital market bond-weighted average debt maturity was 4.37 years. As at 31 March 2019, the Group had available liquidity consisting of approximately £3.424 billion of committed undrawn facilities and £539 million of cash and cash equivalents.

For a discussion of the Group's funding and treasury matters, see Note 18 "*Borrowings*", Note 19 "*Financial Risk Factors*" and Note 20 "*Derivative Financial Instruments*" to the 2018 Financial Statements.

## Cash flows

The table below shows the Group's consolidated cash flows for the years ended 30 September 2016, 2017 and 2018 and for the six months ended 31 March 2018 and 2019:

	For the year ended 30 September			For the six months ended 31 March	
	2016	2017	2018	2018	2019
	(in £ million)				
<b>Cash flows from operating activities</b>					
Operating profit	2,229	2,278	2,407	883	1,150
Dividends received from investments accounted for under the equity method	19	28	25	12	27
Depreciation, amortisation and impairment	1,244	1,364	1,266	617	413
Loss/(profit) on disposal of assets	6	(24)	(36)	—	—
Profit on disposal of brands	—	—	(40)	—	—
Profit on disposal of non-current assets	—	—	—	(41)	(16)
Post-employment benefits	(111)	(157)	(60)	(72)	(86)
Costs of employees' services compensated by share schemes	29	27	26	12	14
Provision in respect of loan to third parties	—	—	4	—	—
Fair value adjustment to contingent considerations	—	—	—	—	119
Movement in provisions	4	52	(87)	(64)	(56)
<b>Operating cash flows before movement in working capital</b>	<b>3,420</b>	<b>3,568</b>	<b>3,505</b>	<b>1,297</b>	<b>1,565</b>
Increase/(decrease) in inventories	(149)	(76)	(112)	34	(478)
(Increase)/decrease in trade and other receivables	171	189	(35)	(331)	(439)
Increase/(decrease) in trade and other payables	116	(46)	136	97	(452)
Movement in working capital	138	67	(11)	(200)	(1,369)
Tax paid	(401)	(570)	(407)	(260)	(248)
<b>Net cash generated from operating activities</b>	<b>3,157</b>	<b>3,065</b>	<b>3,087</b>	<b>837</b>	<b>(52)</b>
<b>Cash flows from (used in) investing activities</b>					
Interest received	7	11	10	6	5
Loan to joint ventures <sup>(1)</sup>	(9)	(17)	—	—	4
Loan to third parties	—	(30)	28	—	—
Proceeds from sale of non-current assets	42	30	87	59	45
Proceeds from the sale of brands	—	—	47	—	—
Purchase of property, plant and equipment	(164)	(191)	(259)	(149)	(190)
Purchase of intangible assets—software	(51)	(44)	(47)	—	—
Purchase of intangible assets—intellectual property rights	(14)	(15)	(21)	—	—
Internally generated intellectual property rights	(2)	—	—	—	—
Purchase of businesses (net of cash acquired)	—	—	(8)	(4)	—
Purchase of brands and operations	—	(31)	(67)	(64)	—
<b>Net cash used in investing activities</b>	<b>(191)</b>	<b>(287)</b>	<b>(230)</b>	<b>(152)</b>	<b>(136)</b>
<b>Cash flows from financing activities</b>					
Interest paid	(547)	(548)	(501)	(305)	(309)
Cash from employees on maturity/exercise of share schemes	9	12	2	1	—
Purchase of shares by employee ownership trust	(7)	—	—	—	—
Increase in borrowings	897	852	1,619	2,019	2,539
Repayment of borrowings	(2,637)	(2,183)	(2,261)	(1,119)	(912)
Cash flows relating to derivative financial instruments	(209)	(37)	41	30	(19)
Repurchase of shares	—	(119)	(41)	(41)	—
Proceeds from sale of share in subsidiary to non-controlling interests (net of fees)	—	221	234	—	—
Dividends paid to non-controlling interests	(42)	(49)	(71)	(44)	(58)
Dividends paid to owners of the parent	(1,386)	(1,528)	(1,676)	(1,134)	(1,248)
<b>Net cash used in financing activities</b>	<b>(3,922)</b>	<b>(3,379)</b>	<b>(2,654)</b>	<b>(593)</b>	<b>(7)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(956)</b>	<b>(601)</b>	<b>203</b>	<b>92</b>	<b>(195)</b>
<b>Cash and cash equivalents at start of period</b>	<b>2,042</b>	<b>1,274</b>	<b>624</b>	<b>624</b>	<b>775</b>
Effect of foreign exchange rates on cash and cash equivalents	188	(49)	(52)	(58)	(41)
<b>Cash and cash equivalent at end of period</b>	<b>1,274</b>	<b>624</b>	<b>775</b>	<b>658</b>	<b>539</b>

### Notes:

- (1) "Loan to joint ventures" was reported under "Cash flows from financing activities" in the 2016 Financial Statements. Therefore, the amounts of net cash used in investing activities and net cash used in financing activities for the year ended 30 September 2016 have been derived from the unaudited comparative financial information included in the 2017 Financial Statements.

*Six months ended 31 March 2019 as compared to six months ended 31 March 2018*

In the six months ended 31 March 2018, the Group used cash flows of £837 million from operating activities compared to generating cash flows of £52 million in the six months ended 31 March 2019, primarily reflecting changes in movement of working capital, which was negative £200 million in the six months ended 31 March 2018 compared to negative £1,369 million in the six months ended 31 March 2019. Taxation payments in the six months ended 31 March 2018 were £260 million compared to £248 million in the six months ended 31 March 2019.

Net cash used in investing activities was £152 million in the six months ended 31 March 2018 compared to £136 million in the six months ended 31 March 2019, primarily reflecting the acquisition of Nerudia in 2017, offset in part by purchases of non-current assets.

Net cash used in financing activities was £593 million in the six months ended 31 March 2018 compared with £7 million in the six months ended 31 March 2019, primarily reflecting net repayment of debt during the period. Interest paid in the six months ended 31 March 2018 was £305 million compared with £309 million during the six months ended 31 March 2019.

*Year ended 30 September 2018 as compared to year ended 30 September 2017*

In the year ended 30 September 2017, the Group generated £3,065 million of net cash from operating activities compared to £3,087 million in the year ended 30 September 2018, primarily reflecting changes in working capital and tax paid. Tax paid in the year ended 30 September 2017 was £570 million compared to £407 million in the year ended 30 September 2018.

Net cash used in investing activities was £287 million in the year ended 30 September 2017 compared to £230 million in the year ended 30 September 2018, primarily reflecting higher proceeds from the sale of surplus assets.

Net cash used in financing activities was £3,379 million in the year ended 30 September 2017 compared with net cash used in the year ended 30 September 2018 of £2,654 million, primarily reflecting repayments of debt. Interest paid in the year ended 30 September 2018 was £501 million compared with £548 million in the year ended 30 September 2017.

*Year ended 30 September 2017 as compared to year ended 30 September 2016*

In the year ended 30 September 2016, the Group generated £3,157 million of net cash from operating activities compared to £3,065 million in the year ended 30 September 2017, primarily due to working capital movements and higher tax paid. Taxation payments in the year ended 30 September 2016 were £401 million compared to £570 million in the year ended 30 September 2017.

Net cash used in investing activities was £191 million in the year ended 30 September 2016 compared to £287 million in the year ended 30 September 2017, primarily reflecting the acquisition of brands and operations, loans granted to third parties and increased investment in property, plant and equipment.

Net cash used in financing activities was £3,922 million in the year ended 30 September 2016 compared with cash used in the year ended 30 September 2017 of £3,379 million, primarily reflecting lower repayment of debt in 2017 coupled with proceeds received on the sell-down of the Group's stake in Logista. Interest paid in the year ended 30 September 2016 was £547 million compared with £548 million in the year ended 30 September 2017.

***Indebtedness***

At as 30 September 2018, the Group's borrowings were £11,995 million, consisting principally of the capital market bond issuances and bank facilities described below. Inclusive of cash and cash equivalents of £775 million, reported net debt was £11,899 million and, excluding accrued interest and the fair value of interest rate derivative financial instruments, the adjusted net debt of the Group at 30 September 2018 was £11,474 million. At 31 March 2019, the Group's borrowings were £13,346 million. Reported net debt was £13,381 million, inclusive of cash and cash equivalents of £539 million, and adjusted net debt was £12,958 million.

### Capital market bond issuances

Under the Group's €1.5 billion euro medium-term note debt issuance programme (the **EMTN Programme**), the obligations of the Issuer are guaranteed by Imperial Brands and ITL and extend to the ultimate balance of all sums payable by the Issuer under the EMTN Programme. The guarantee provided by ITL may be terminated at the option of ITL at any time, provided that the termination does not cause a downgrade in the solicited long-term public ratings of the notes issued under the EMTN Programme.

As at 31 March 2019, the Group had capital market bond indebtedness of approximately £11.3 billion, comprising 16 bond issues, as set forth below:

<u>Issue date</u>	<u>Amount (in millions)</u>	<u>Annual interest rate<sup>(1)</sup></u>	<u>Maturity</u>
1 December 2011 . . . . .	€750	5.00%	2 December 2019
21 July 2015 . . . . .	US\$1,250	2.95%	21 July 2020
28 February 2014 . . . . .	€1,000	2.25%	26 February 2021
27 January 2017 . . . . .	€500	0.50%	27 July 2021
17 February 2009 . . . . .	€1,000	9.00%	17 February 2022
21 July 2015 . . . . .	US\$1,250	3.75%	21 July 2022
11 February 2013 . . . . .	US\$1,000	3.50%	11 February 2023
12 February 2019 . . . . .	€750	1.125%	14 August 2023
15 September 2008 . . . . .	€600	8.125%	15 March 2024
27 January 2017 . . . . .	€500	1.375%	27 January 2025
21 July 2015 . . . . .	US\$1,500	4.25%	21 July 2025
28 February 2014 . . . . .	€650	3.375%	26 February 2026
26 September 2011 . . . . .	€500	5.50%	26 September 2026
12 February 2019 . . . . .	€750	2.125%	12 February 2027
28 February 2014 . . . . .	€500	4.875%	7 June 2032

#### Notes:

(1) Before interest and cross-currency swaps (where applicable).

In addition, the Group has access to an ECP programme and as at 31 March 2019 had issued a total of €2,404 million under that programme.

### Bank credit facilities

On 15 July 2014, the Issuer and Imperial Brands Enterprise Finance Limited (as borrowers) and Imperial Brands and ITL (as guarantors) entered into a facilities agreement (the **Facilities Agreement**) with BNP Paribas Fortis SA/NV, The Royal Bank of Scotland plc, Santander UK plc and Banco Santander, S.A., London Branch as original lenders, whereby committed bank facilities of approximately £7.8 billion (equivalent) comprising term loans and revolving credit facilities were made available to the borrowers. The term loans and a proportion of the revolving credit facilities have since matured or been cancelled.

As at 31 March 2019, under the Facilities Agreement, the Group has a multi-currency revolving credit facility (**RCF**) outstanding with a final maturity date of 15 July 2021. This RCF is itself subdivided into two separate tranches: a €2,835 million tranche (**RCF B1**) and a £500 million tranche (**RCF B2** and, together with RCF B1, the **Remaining Facilities**).

The rate of interest under the Facilities Agreement is EURIBOR or LIBOR, as applicable, plus a margin. The margin on the Remaining Facilities is linked to Imperial Brands' solicited long-term credit rating from Moody's and S&P or other agreed substitute statistical rating agencies if a rating from Moody's or S&P is not available.

The Group has given undertakings and financial covenants in respect of its business and financial position under the Facilities Agreement. The financial covenants are a minimum ratio of the Group's consolidated "earnings before interest, tax, depreciation and amortisation" (**Consolidated EBITDA**, as defined in the Facilities Agreement) to the Group's consolidated net interest (**Consolidated Net Interest Payable** as defined in the Facilities Agreement) and a maximum ratio of the Group's net debt (**Consolidated Total Net Borrowings** as defined in the Facilities Agreement) to Consolidated EBITDA. The Group has been in compliance with these covenants since inception of the Facilities Agreement, including the most recent measurement period (as defined in the Facilities Agreement). In addition, a lender under the Facilities

Agreement may require, by notice to the facility agent not earlier than 30 days and no later than 60 days following notification of a change of control of Imperial Brands (as defined therein) by the facility agent under the Facilities Agreement, its participation in any outstanding loans under the Facilities Agreement to be immediately repaid and the commitments of that lender to be immediately cancelled. The facility agent must give not less than five days' notice to the Issuer with respect to any such cancellation of the commitments and required repayment.

The Facilities Agreement also contains certain other warranties, undertakings and indemnities from Imperial Brands and certain other Group companies which are a party to the Facilities Agreement in favour of the lenders that are customary for such an agreement.

The Issuer and Imperial Brands Enterprise Finance Limited (as borrowers) and Imperial Brands and ITL (as guarantors) have entered into the following facility agreements: (a) a bilateral RCF agreement dated 30 April 2018 with Banco Santander S.A., London Branch as original lender, for a committed RCF of €285 million (the **Santander RCF**); (b) a bilateral RCF agreement dated 15 May 2018 with Crédit Agricole Corporate and Investment Bank as original lender, for a committed RCF of €287.5 million (the **CACIB RCF**); and (c) a bilateral RCF agreement dated 29 March 2019 with Sumitomo Mitsui Banking Corporation, London Branch as original lender, for a committed RCF of €300 million (the **SMBC RCF** and, together with the Santander RCF and the CACIB RCF, the **Bilateral RCFs**), each of which was made available to the borrowers on substantially similar legal terms as the Facilities Agreement, save for certain technical updates and bilaterally negotiated provisions.

The Santander RCF has a final maturity date of two years after the date of the facility agreement under which it is documented. The CACIB RCF has a final maturity date of two years after the date of the facility agreement under which it is documented, subject to an option to extend the final maturity date beyond this period for one year at the lender's option where requested by the borrower. The SMBC RCF has a final maturity date of 15 June 2020, subject to an option to extend the final maturity date beyond this date for one year at the lender's option where requested by the borrower.

The rate of interest under each of the Bilateral RCFs is EURIBOR or LIBOR, as applicable, plus a margin.

#### *Table of principal committed bank facilities*

As at 31 March 2019, the Group's principal bank facilities are set out below. There were no utilisations outstanding under the Facilities Agreement and the Bilateral RCFs as at that date.

<u>Facility</u>	<u>Amount (in millions)</u>	<u>Annual interest basis</u>	<u>Maturity</u>
RCF B1 . . . . .	€2,835	EURIBOR/LIBOR + margin	15 July 2021
RCF B2 . . . . .	£500	EURIBOR/LIBOR + margin	15 July 2021
Swingline credit facility, a sublimit of			
RCF B1 . . . . .	€750	EURIBOR <sup>6</sup> /LIBOR + margin	15 July 2020
Santander RCF . . . . .	€285	EURIBOR/LIBOR + margin	30 April 2020
CACIB RCF . . . . .	€287.5	EURIBOR/LIBOR + margin	15 May 2020 <sup>(1)</sup>
SMBC RCF . . . . .	€300	EURIBOR/LIBOR + margin	15 June 2020 <sup>(2)</sup>

#### **Notes:**

- (1) Two-year facility extendable by a maximum of one year with lender consent.
- (2) Extendable by a maximum of one year with lender consent.

On 28 July 2017, the Issuer, ITL and Imperial Brands entered into deeds of counter indemnities (each a **Counter Indemnity**) in favour of certain surety companies in consideration for the issue of guarantees by such surety companies in favour of Imperial Tobacco Pension Trustees Limited (or its successor(s) in title) as trustee of the ITPF constituted by the definitive trust deed and rules dated 1 March 1995 (as amended from time to time) to guarantee the obligations of ITL and other participating companies (or any of their successors) in respect of the ITPF for a total amount of up to £600 million. The expiration date of each guarantee is 28 January 2023. There are no longer any other participating companies.

Each Counter Indemnity contains certain warranties, undertakings and indemnities in respect of the business and financial position of the Group.

The Group has five bilateral financing arrangements that have been made available to the Issuer by five different banks. The facilities under each of these arrangements are uncommitted and together they total £400 million.

The Group has two standalone bilateral financing arrangements provided by two different banks that finance Corporación Habanos S.A., the Group's joint venture in Cuba. The facilities under these arrangements are committed and are guaranteed by either Imperial Tobacco España S.L.U. or Altadis. As at 30 September 2018, they totalled €75 million, with no change as at 31 March 2019. Additionally, the Group has nine standalone bilateral financing arrangements that finance the Group's other joint venture in Cuba, Altabana S.L. As at 30 September 2018, these facilities totalled respectively €10.6 million and 60 million Russian roubles, with an increase to €13.1 million and 69 million Russian roubles, respectively, as at 31 March 2019.

#### *Other obligations and facilities*

In accordance with supplementary documentation to the Group's International Swaps and Derivatives Association agreements for derivative contracts, the Group has obligations to provide credit support, above certain thresholds on a periodic basis, to certain of its financial counterparties for certain designated derivatives that have a mark-to-market valuation adverse to the Group. As at 30 September 2018, the Group had collateral totalling £81.5 million on deposit under these arrangements split between two financial counterparties.

In addition, the Group has a number of guarantee and credit facilities in place that allow it to temporarily defer the payment of tax and duty.

#### **Contractual Obligations**

The following table sets forth the aggregate maturities of the Group's debt, operating leases and other long-term obligations for the years subsequent to 30 September 2018. For a discussion of the Group's capital commitments, see "*—Capital commitments*" below.

	<u>Balance sheet amount</u>	<u>Contractual cash flows total</u>	<u>Payment due by period</u>			
			<u>Less than 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>After 5 years</u>
<i>(in £ million)</i>						
Non-derivative financial liabilities						
Bank loans . . . . .	147	152	152	—	—	—
Capital market issuance . . . . .	11,848	13,745	2,670	2,002	4,843	4,230
Total payables . . . . .	<u>1,198</u>	<u>1,198</u>	<u>1,198</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total non-derivative financial liabilities . . . . .</b>	<b><u>13,193</u></b>	<b><u>15,095</u></b>	<b><u>4,020</u></b>	<b><u>2,002</u></b>	<b><u>4,843</u></b>	<b><u>4,230</u></b>

#### *Capital commitments*

In the 2018 Financial Statements, the Group reported capital commitments (contracted but not provided for) of £208 million relating to property, plant and equipment, and software for the year ended 30 September 2018. The capital commitments relate principally to investment in manufacturing capability to improve efficiency and support new products in growth areas.

#### **Off-Balance Sheet Arrangements**

The Group does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. Please refer to "*—Liquidity and Capital Resources—Indebtedness*" and "*—Contractual Obligations*" above for a description of certain guarantees of Imperial Brands subsidiaries and collateral commitments to which the Group is subject.

#### **Quantitative and Qualitative Disclosures about Market Risk**

Information on the Group's financial risk management policies can be found in Note 19 ("*Financial Risk Factors*") of the 2018 Financial Statements.

## DESCRIPTION OF THE GROUP AND ITS BUSINESS

### Overview

Imperial Brands, a FTSE 100 company headquartered in Bristol, UK, is the parent company of an international business specialising in tobacco and NGP brands. The Group's purpose is to create something better for the world's smokers with a portfolio of next generation and tobacco products.

The Group's core business is built around a tobacco portfolio that offers a comprehensive range of cigarettes, fine cut and smokeless tobaccos, papers and cigars. Through its subsidiaries, the Group's tobacco brands are sold in approximately 160 markets worldwide. The Group has a significant presence in the US including its ITG Brands business.

The Group wants smokers to switch to alternative products that are potentially less harmful to health. Fontem Ventures continues to prioritise vapour, and the Group is represented in this category by its vapour brand, *blu*. As more and more consumers quit smoking through vaping, the NGP business is expected to become an increasingly material part of the Group's business.

From 1 October 2018, the Group reorganised the management of its tobacco and NGP businesses on a geographic basis to reflect the growth opportunities NGP offers across the Group's footprint. Financial reporting is now split across the following four areas:

- **Tobacco & NGP:**
  - **Europe:** Tobacco & NGP net revenue in Europe accounted for 45.8 per cent of the Group's net revenue during the year ended 30 September 2018 and 46.0 per cent of the Group's net revenue during the six months ended 31 March 2019. The Group's primary Europe markets include the United Kingdom, Germany, Spain, France and Italy and the Group manufactures and sells a comprehensive range of tobacco and NGP in Europe, including cigarettes, fine cut and smokeless tobaccos, vapour, snus, papers and cigars.
  - **Americas:** Tobacco & NGP net revenue in Americas accounted for 29.2 per cent of the Group's net revenue during the year ended 30 September 2018 and 30.5 per cent of the Group's net revenue during the six months ended 31 March 2019. The Group's primary Americas markets include the United States and Canada. The Group's Americas business offers a broad portfolio of cigarette, vapour and mass market and premium cigar brands. In June 2015, ITG Brands completed the acquisition of the international rights to the vapour brand *blu*, and the Group expects *blu* to represent a significant portion of the Group's sales in its Americas segment in future periods, and is expanding its markets in Europe and Africa, Asia and Australasia.
  - **Africa, Asia and Australasia:** Tobacco & NGP net revenue in Africa, Asia and Australasia accounted for 25.0 per cent of the Group's net revenue during the year ended 30 September 2018 and 23.6 per cent of the Group's net revenue during the six months ended 31 March 2019. The Group's primary Africa, Asia and Australasia markets include Australia, Japan, Russia and Saudi Arabia. The Group's Africa, Asia and Australasia business offers a broad portfolio of cigarettes and NGP.
- **Distribution:** The Group's Distribution business (comprising Logista) distributes a range of tobacco, NGP and non-tobacco and non-NGP offerings and services for a range of manufacturers, including the Group's Tobacco & NGP business. The Group's Distribution business is run on an operationally neutral basis and transactions between the Group's Tobacco & NGP business and its Distribution business are conducted on an arm's length basis.

The Group's strategy is aligned to its purpose of creating something better for the world's smokers and focuses on driving results in three key areas. In relation to tobacco, the Group is maximising opportunities for its Growth Brands in priority markets. Through its growing portfolio of NGP, it is providing adult smokers with a range of potentially less harmful alternatives to cigarettes, with a particular focus on the vapour category. The disciplined approach the Group takes to managing cost and cash provides the funds to invest in growth. The Group's updated sustainability strategy frames the way in which it manages its environmental, social and governance issues and supports long-term development of its business.

The Group has two distinct growth models: the **Market Repeatable Model** for tobacco and the *blu* adoption model for vapour. Consistently applying these models to the right markets and the right brands is key to delivering quality growth. The Group's overall high operating margins drive the strong cash flows that the Group believes are a hallmark of its business, and although NGP may initially dilute margins, the

Group expects to see profitability improve over time. The Group uses the cash it generates to reinvest to support growth, pay down debt or return to shareholders through dividends.

The Group's Tobacco & NGP business generated net revenue of £7.7 billion and £3.7 billion in the financial year ended 30 September 2018 and the six months ended 31 March 2019, respectively, with an adjusted operating margin of 46.2 per cent and 42.1 per cent, respectively. During the financial year ended 30 September 2018, the Group's return on invested capital was 14.2 per cent and its cash conversion rate was 97 per cent. The Group's Growth Brands volume was 162.9 billion stick equivalents during the financial year ended 30 September 2018. For a reconciliation of these performance measures to the Group's IFRS results, see "*Selected Consolidated Financial Information—Key Performance Indicators and Other Operating Metrics*". The Group employed 33,300 people worldwide as at 30 September 2018. As at 31 March 2019, Imperial Brands' market capitalisation on the London Stock Exchange was £25.1 billion.

## Strategic Objectives

The Group's strategy is aligned to its purpose of creating something better for the world's smokers. The Group believes that consistently applying its two distinct growth models (Market Repeatable Model for tobacco and the *blu* adoption model for vapour) to the right markets and the right brands are key for delivering quality growth.

- **Quality growth from tobacco maximisation:** The Group believes it has an attractive portfolio of brands and markets to deliver long-term profitable growth. The successful implementation of this element of its strategy prioritises investment behind the Group's Market Repeatable Model in those markets and products that offer the best returns. Over many years, the Group has developed a track record of achieving strong price/mix growth to offset industry volume declines and enhance profitability. The Group believes that tobacco will continue to contribute materially to the Group's revenue and profit growth and targets revenue growth in the range of 1 per cent to 4 per cent from consistent sales of tobacco products and growth in sales of NGP (although there can be no guarantee the Group will achieve this), with operating margins and cash flows in line with the Group's historical performance.
- **Significant additive growth opportunity from NGP:** In creating something better for the world's smokers, the Group is encouraging smokers to switch to potentially less harmful NGP. In doing so, the Group is considerably enhancing its revenue delivery and views NGP as a significant additive growth opportunity for Imperial Brands, given its low global cigarette market share. The Group has assembled a strong NGP portfolio, built around its *blu* vapour brand. The Group believes that this, combined with excellence in science and innovation, positions the Group well to deliver growth in the years ahead. In the year ended 30 September 2018, net revenue from NGP was £200 million, and the Group expects that sales of NGP will contribute to Group net profit as the Group increases sales volumes and reduces unit costs over time in this category. In addition, the Group acquired Nerudia in October 2017, which has allowed the Group to develop and launch additional tobacco-free products, including tobacco-free snus, which was launched in Sweden in 2018 and *Pulze*, a heated tobacco product, for which a pilot programme was launched in the Japanese city of Fukuoka in 2019, and which the Group expects to launch in five additional regions in Japan.
- **Achievement of new cost efficiencies:** The Group believes that the changes it is making to its ways of working have created a business that is better equipped to deliver quality growth in both tobacco and NGP. The Group continues to focus on optimising its manufacturing footprint and reducing overheads to realise operational efficiencies. The Group announced a five-year cost optimisation programme in January 2013, which is now complete and is delivering annual savings of £300 million from the financial year ended 30 September 2018 at a total cash restructuring cost of approximately £600 million as at 30 September 2018. An additional cost programme was announced in November 2016, and is expected to deliver a further £300 million of annual savings from 1 October 2020, at an estimated total cash restructuring cost of approximately £750 million. During the year ended 30 September 2018, the Group realised cost savings of £110 million (£10 million from the first programme and £100 million from the second), bringing the cumulative cost savings to £480 million (£300 million from the first programme and £180 million for the second). During that same period, the cash restructuring cost of the first programme was £43 million (2017: £42 million) and £173 million (2017: £132 million) for the second, bringing the cumulative net cash cost to £826 million (£521 million for the first and £305 million for the second) as at 30 September 2018 (see "*Forward-Looking Statements*").



- **Capital discipline and cash generation:** The Group's business has historically generated strong cash flows as a result of its intrinsically high operating profit margins, coupled with its ability to convert a substantial proportion of profits to cash. Although NGP may initially dilute margins, the Group believes that its profitability from NGP will improve over time. To sharpen the Group's focus on the brands, products and markets that are core to its strategy, the Group is divesting assets that are less central to its strategic agenda. The Group has identified assets that are less central to its strategic objectives, which it seeks to exit or divest in order to simplify the Group's business, enhance its financial performance and allocate its capital more effectively in line with its growth agenda. As part of this process, during the year ended 30 September 2018, the Group divested an additional 9.99 per cent interest in its European distribution business, Logista, reducing its holding to 50.01 per cent of Logista's issued share capital. The Group realised £281 million from the divestiture of Logista and sale of a portfolio of other tobacco products during the year ended 30 September 2018. As announced on 9 May 2018, the Group is targeting its divestment strategy to generate proceeds of up to £2 billion by May 2020 (see "*Forward-Looking Statements*"). The Group has recently announced that it intends to divest its premium cigar business as it represents a stand-alone luxury business with a different consumer base and route to market compared to the Group's other businesses.
- **Strong governance and sustainability agenda:** The Group recognises that some of its products are controversial but strives to operate in accordance with high standards of corporate governance, which is integral to the Group's long-term success. The Group has a sustainability strategy that frames the way in which the Group manages its environmental, social and governance issues and supports long-term development of its business.
- **Sustainable shareholder returns:** The Group's dividend has grown by 10 per cent per annum for ten consecutive years, reflecting its ability to improve profitability and generate strong cash flows over that period. The Board is committed to growing shareholder returns and regularly reviews the Group's dividend policy to ensure it is aligned to performance, the balance sheet and the investment needs of the business. On 8 July 2019, Imperial Brands announced a revised capital allocation and shareholder distributions policy to support continued growth and optimised returns for shareholders. The dividend growth in respect of the final dividend for the financial year ending 30 September 2019 is unchanged at 10 per cent growth. Thereafter, the revised dividend policy is expected to be progressive, growing annually, taking into account underlying business performance. Any surplus cash flows are expected to be returned to shareholders via share buybacks, enhanced ordinary dividends or special dividends, depending on market conditions. The new policy recognises the Group's continued strong cash generation and the importance of growing dividends for shareholders, while providing greater flexibility in capital allocation. As part of the revised capital allocation framework, a share buyback programme will be implemented, which is expected to return up to £200 million to shareholders by 31 December 2019.

## History

The Imperial Tobacco Company (of Great Britain and Ireland) Limited was formed in 1901. Since its formation, the Group has experienced expansion, diversification and rationalisation, mergers, demergers and acquisitions. In late 1985, Hanson Trust (later Hanson PLC) made a successful bid to buy Imperial Group PLC (as it was then called) and the takeover was completed in April 1986. In October 1996, after ten years of ownership by Hanson PLC, the Group was listed on the London Stock Exchange as a FTSE 100 company. Between 1997 and 2008, the Group spent approximately £17 billion on acquisitions, which enhanced the Group's position in many overseas markets. By 2009, the Group had become an established international tobacco company with a track record of creating value for its shareholders. Following a ten-year period of intense industry consolidation, the Group remained one of just four international tobacco companies competing against each other on a global scale. Since 2010, the tobacco market has been characterised by high levels of illicit trade and increasing regulation, with smoking in public places bans becoming commonplace. In this context, and against the backdrop of the 2008 financial crisis and the resulting recession, the Group refocused its strategy to improve its organic growth and strengthen the sustainability of its business. Imperial Tobacco Group PLC was renamed Imperial Brands PLC in February 2016 to reflect the breadth of the Group's brands focus.

## Products and Services

Consumer preferences are changing; consumers are using a broader repertoire of nicotine products than ever before. The Group seeks to shape development in vapour, focusing on innovation and brand strength

in *blu* through leading-edge innovation of its high-quality portfolio to meet evolving consumer preferences. The Group has strong market positions in cigarettes, fine cut tobacco, papers and cigars and has also built a portfolio of NGP assets in snus, oral nicotine, vapour and most recently in heated tobacco with the launch of *Pulze*.

The Group focuses on maximising opportunities for its brands by building the contribution from its Growth Brands and Specialist Brands. Together these brands form the Group's Asset Brands and as at 31 March 2019, these brands accounted for 65.3 per cent of the Group's tobacco net revenue.

Growth Brands are quality brands with broad consumer appeal that are generating an increasing proportion of the Group's total revenue. Several Growth Brands have been developed into total tobacco offerings providing consumers with both cigarette and fine cut tobacco experiences. The Group is managing these brands to drive quality sustainable growth. The Growth Brands are *Davidoff*, *Gauloises*, *JPS*, *West*, *Fine*, *News*, *Winston*, *Bastos*, *Lambert & Butler*, *Parker & Simpson* and now *blu*. During the six months ended 31 March 2019, the Group reclassified *blu* as a Growth Brand from a Specialist Brand, reflecting its importance to the Group's growth agenda.

Specialist Brands consist of a dynamic range of cigarette, fine cut and smokeless tobaccos, papers and cigars. Specialist Brands have strong positions in their own categories and are enjoyed by specific consumer groups. The Specialist Brands are *Kool*, *Horizon*, *Jadé*, *Montecristo*, *Romeo Y Julieta*, *Cohiba*, *Backwoods*, *Golden Virginia*, *Rizla*, *Skruf* and *Knox*.

The remainder of the Group's portfolio consists of local and regional brands. These Portfolio Brands support the Group's volume and revenue development, while others are delisted or migrated into Growth Brands.

## The Group's Business Model

### *Tobacco Maximisation*

The Group believes that consistently applying the Market Repeatable Model for tobacco to the right markets and the right brands is key to delivering quality growth. The Market Repeatable Model consists of six component parts:

- **Simple market-focused portfolio:** The Market Repeatable Model starts with a simple market-focused portfolio that is built around an optimal number of brands and stock keeping units that are aligned with consumer needs. The Group's strongest assets are its Growth Brands and Specialist Brands and the Group is focused on driving their performance to generate quality market share growth.
- **Sustainable brand investments:** The Group's simple portfolios drive a sharper focus on investments, as the lack of complexity makes it easier to prioritise investment behind Growth Brands and Specialist Brands. The Group aims to build equity through regular targeted initiatives, including above-the-line and point of sale advertising and consumer activations to create brand awareness.
- **Always on price strategy:** The Group aims to develop and implement a consistent pricing strategy for all brand portfolios and markets across the Group's geographic footprint and it continually monitors its operating environment to ensure that the pricing of its brands remains competitive.
- **Core range availability:** Ensuring the core range of the Group's brands is always available is crucial for building consumer loyalty. The Group strives to make sure that the right brands are available in the right outlets at all times. This targeting is enabled by the simplicity of the Group's portfolios, which are welcomed by retailers as they have less complexity to deal with and have lower working capital.
- **Tailored customer solutions:** In a continually evolving regulatory environment, the Group believes that retailers are an increasingly important part of the shopper brand purchasing experience. The Group focuses on developing strong retail partnerships and creating tailored customer solutions that provide retailers with real commercial benefits and encourages retailers to become advocates for the Group's brands.
- **Honest and accurate learning:** The Group seeks to continually improve through honest and accurate learning. Markets measure their performance against agreed metrics and knowledge is shared with the wider business. This includes being honest, both when things go well and when things do not turn out as planned, ensuring the Group builds capabilities and improving and continually optimising the model.

## NGP

Consistently applying the *blu* adoption model for NGP is key to the Group's goal of delivering quality growth. The *blu* adoption model consists of four elements:

- **Believe:** Believe is about triggering connections and raising awareness of the *blu* brand among adult smokers through a variety of methods, including responsible marketing. The aim is to encourage smokers to understand that *blu* truly does offer something better than cigarettes.
- **Buy:** The Group believes that smokers who are aware of the benefits of *blu* are inspired to buy the product. The Group has adopted an omnichannel approach by offering *blu* products through traditional retail outlets, specialist vape stores and online. Online sales are age verified and the Group requests its retail outlet and vape store partners to abide by strict restrictions limiting the sale of *blu* to adults.
- **Buy again:** The Group believes that a smoker who has had a positive initial experience with *blu* will have the confidence to buy again. The Group aims to build brand loyalty and relies on its omnichannel approach to help ensure that *blu* products are available through outlets when and where smokers want to buy them.
- **Belong:** The Group's objective is to convert smokers to *blu* and to not revert back to conventional cigarette smoking. Accordingly, the Group has developed an online community through its *blu.com* channel in which it interacts with its customer base by offering exclusive access to products and advertising promotions. The Group also offers its *bluNation* loyalty programme to consumers in jurisdictions where legally permissible.

During the year ended 30 September 2018, the Group expanded the *blu* franchise with three new product launches: *myblu*, *myblu Intense* and *blu ACE*. *myblu* is a pod format that has been designed to deliver an improved vaping experience. *myblu Intense* is a nicotine salt product that is designed to more closely replicate the experience and satisfaction of smoking a cigarette. *Intense* is part of a broad range of different nicotine levels offered by *blu*, including a nicotine-free variant. *blu ACE* is designed as an open system product (meaning that consumers have the ability to use their own liquids with the device) and is aimed at smokers and vapers who want to tailor their vaping experience yet retain the look and feel of a minimalist design with intuitive controls. The Group believes that flavours are a key aspect of the vaping experience and play an important role in converting smokers to vapour and keeping them in the category. Both *myblu* and *blu ACE* provide vapers with a wide range of flavours in multiple nicotine strengths, including nicotine-free offerings. During the six months ended 31 March 2019, the Group made an additional £94 million gross investment in NGP.

As a result of the implementation of the Group's *blu* adoption model and the launch of new products and market roll-outs that have resulted in an increasing number of smokers transitioning to *blu*, the Group's net revenue from NGP increased to £200 million or 2.6 per cent of total Tobacco & NGP business net revenue for the year ended 30 September 2018. During that period, revenue from NGP is included in Specialist Brands. During the six months ended 31 March 2019, revenue from NGP was £148 million with growth in Europe, the US and Japan, and *blu* was designated a Growth Brand. *blu* has been established as a leading vapour brand in the growing retail channel in the United Kingdom, France, Germany, Spain, Italy and Japan. The Group targets the US market, which it believes is the world's biggest vapour market, through its existing distribution network in traditional retail outlets and through an expanding presence in specialist vape retailers and online. Although the FDA has made recent statements about potential changes to tobacco and vapour regulations (see “—Regulatory Landscape—Regulation in the US” below), which has led to a recent slow-down of category growth, the Group believes that its positioning in the vapour market and its participation in the regulatory process will allow it to manage these regulatory changes while it continues to develop its *blu* product offering. In the UK, the Group is actively marketing *myblu* and the *blu ACE* open system device through an omnichannel approach as in accordance with its *blu* adoption model. *myblu* was launched in France, Italy, Spain, Germany, Russia, Canada and other markets in 2018 and 2019, and further country launches are planned. In addition, the Group launched a non-nicotine *myblu* variant in the city of Fukuoka, Japan (where the sale of nicotine-based liquids is currently prohibited), which received a strong response from smokers.

While the Group is continuing to prioritise its investment in vapour, it has also developed its own heated tobacco product, *Pulze*, a heated nicotine product that features personalised heat modes and three flavours of heated nicotine. *Pulze* was launched in Fukuoka, Japan in May 2019 as an initial pilot. Following positive customer feedback, the Group expects to expand its *Pulze* launch to a further five regions in Japan. The

Group has also developed a tobacco-free snus product, *Skruf Super White*, that was launched in 2018, and which is currently marketed in Scandinavia, Austria and Russia.

### **The Group's Businesses Segments**

Historically, Imperial Brands had divided its tobacco business by segment into Returns Markets and Growth Markets and separately disclosed its performance in the US. However, from 1 October 2018, the Group reorganised the management of its business on a geographic basis to reflect the growth opportunities NGP offers across its footprint. Accordingly, the Group's tobacco and NGP businesses have been renamed Tobacco & NGP, reflecting the growing importance of NGP for the Group's future growth. The Group now reports its results for three geographic segments for Tobacco & NGP (Europe, Americas, and Africa, Asia and Australasia) and Distribution.

#### ***Europe***

During the year ended 30 September 2018 and the six months ended 31 March 2019, the Group generated net revenue of £3.5 billion and £1.7 billion, respectively, from sales of tobacco and NGP in its Europe segment, representing 45.8 per cent and 46.0 per cent of the Group's net revenue in its Tobacco & NGP business. The Group's primary European markets consist of the United Kingdom, Germany, Spain, France, Italy, Greece, Sweden, Norway, Belgium, the Netherlands, Ukraine and Poland and the Group's total tobacco volume for this segment for the periods ended 31 March 2018 and 31 March 2019 were 67.8 billion and 64.6 billion stick equivalents, respectively.

The Group manufactures and sells a comprehensive range of tobacco and NGP in Europe, including cigarettes, fine cut and smokeless tobaccos, vapour, snus, papers and cigars.

The Group founded Fontem Ventures, a consumer goods company with a portfolio that now includes the Group's vapour brand, *blu*, in December 2012. The Group is focused on expanding its sales and distribution of *blu* and developing new NGP that it believes will provide a sustainable future revenue stream independent of fluctuations in the tobacco market. *blu* is currently sold in nine markets in the Group's Europe segment. The Group is focused on building national distribution systems for *myblu* in the UK, Germany, France, Spain and Italy, including increasing availability in traditional retail outlets, which the Group believes will increase consumer demand for *blu* in line with the Group's *blu* adoption model (see "*—The Group's Business Model—NGP*" above). The Group has also developed a tobacco-free snus product, *Skruf Super White*, that was launched in 2018, and which is currently marketed in Scandinavia, Austria and Russia. In addition to vapour, the Group has made additional investments in NGP and cannabinoid products. The Group acquired Nerudia Limited, a UK-based NGP company, in October 2017, which has allowed the Group to develop and launch additional tobacco-free products, including *Skruf Super White* and *Pulze*, a heated tobacco product, for which a pilot programme was launched in the Japanese city of Fukuoka in 2019. The Group continues to explore other avenues of growth and in June 2018 purchased an equity stake in Oxford Cannabinoid Technologies (**OCT**), a biopharmaceutical company focused on researching, developing and licensing cannabinoid-based compounds and therapies. OCT's activities are licensed for operation by the UK Home Office. The Group believes that cannabinoid products have significant potential and the Group's investment enables it to support OCT's important research while building a deeper understanding of the medical cannabis market. Accordingly, the Group is continuing to investigate opportunities in the cannabis space and may seek to capitalise on future opportunities if the Group believes that it has the potential to create shareholder value, including the Canadian market as a result of the clear regulatory landscape and legal development of the market.

#### ***Americas***

Americas is the Group's second-largest market segment and, during the year ended 30 September 2018 and the six months ended 31 March 2019, the Group generated net revenue of £2.2 billion and £1.1 billion, respectively, from sales of tobacco and NGP in this segment, representing 29.2 per cent and 30.5 per cent of the Group's revenue in its Tobacco & NGP business. The Group's Americas market consists of the United States and Canada and the Group's total tobacco volume in this segment for the periods ended 31 March 2018 and 31 March 2019 were 10.8 billion and 10.0 billion stick equivalents, respectively.

The Group's Americas business offers a broad portfolio of cigarette, vapour and mass market and premium cigar brands. The Group's current US business was formed through the combination of its US-based operations with cigarette brands and assets acquired under the 2015 US Acquisition. As a result, the Group's US business became the third largest tobacco company in the US by volume (according to

Group estimates), which is currently one of the most profitable tobacco markets in the world and a priority market for the Group. Key brands in the Group's Americas segment include *Kool*, *Winston*, *Maverick* and *Sonoma*. In addition to tobacco sales, the Group's *blu* brand in the US market delivered revenue growth of 56.4 per cent from £39 million in the six months ended 31 March 2018 compared to £61 million in the six months ended 31 March 2019, despite a slowing in the overall category growth because of uncertainty with retailers and wholesalers following statements by the FDA (see “—Regulatory Landscape—Regulation in the US” below for more information on recent FDA regulation of the Group's business). The Group has invested in brand equity, distribution and consumer trials to drive consumer adoption and repeat purchase in both the US and Canada.

### *Africa, Asia and Australasia*

Africa, Asia and Australasia is the Group's smallest market segment and, during the year ended 30 September 2018 and the six months ended 31 March 2019, generated net revenue of £1.9 billion and £862 million, respectively, from sales of tobacco and NGP, representing 25.0 per cent and 23.6 per cent of the Group's net revenue in its Tobacco & NGP business. The Group's primary Africa, Asia and Australasia markets include Australia, Japan, Russia, Saudi Arabia, Taiwan and certain African markets, including Algeria and Morocco. The Group's total tobacco volume for this segment for the periods ended 31 March 2018 and 31 March 2019 were 45.0 billion and 40.6 billion stick equivalents, respectively.

The Group's Africa, Asia and Australasia segment offers a broad portfolio of cigarettes, fine cut and smokeless tobaccos. The Group has launched *myblu* in Japan and Russia and has launched a pilot for its *Pulze* heated tobacco product in the Japanese city of Fukuoka in 2019, and which the Group expects to launch in five other regions in Japan.

The Group's international premium cigar business, Tabacalera S.A. (**Tabacalera**), is headquartered in Madrid, Spain, and is included in the Africa, Asia and Australasia segment. The Group's key premium cigar brands include *Cohiba*, *Montecristo* and *Romeo y Julieta*. Tabacalera's operations are divided into three main areas: Cuban cigars, the US premium cigar market and sales of other cigar products. The international marketing of Cuban hand-made cigars is carried out through Corporación Habanos S.A. (**Habanos**), in which the Group has a 50 per cent equity interest. The US operations of Tabacalera operate the US premium cigar business, which is the world's largest premium cigar market. Other cigar products, including the significant Spanish and French markets are managed separately. In addition to Habanos, the Group has 50 per cent stakes in each of Altabana S.L., Promotora de Cigarros, S.L. and Internacional Cubana de Tabaco, S.A. (together with Habanos, the **Cuban Joint Ventures**), which manufacture and market a range of Cuban cigars across the Americas and Africa. The Group has recently announced that it intends to divest its premium cigar business as it represents a stand-alone luxury business with a different consumer base and route to market compared to the Group's other businesses.

### *Distribution*

During the year ended 30 September 2018 and the six months ended 31 March 2019, the Group generated revenue of £8.4 billion and £4.2 billion, respectively, from its Distribution business, representing 27.9 per cent and 29.1 per cent of the Group's total revenue.

The Group's Distribution business comprises the distribution of tobacco and related products for a range of manufacturers, including the Group's Tobacco & NGP business, as well as a wide range of non-tobacco products and services. The Distribution business is one of the largest distribution businesses in Europe, serving 300,000 outlets across Spain, France, Italy, Portugal and Poland. The business services tobacco and non-tobacco customers and has established a long track record of delivering sustainable value. The Group's Distribution business is run on an operationally neutral basis ensuring all customers are treated equally, and transactions between the Group's Tobacco & NGP business and the Group's Distribution business are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

The Distribution business comprises the Group's controlling shareholding (held by Altadis S.A.U.) in *Compañía de Distribución Integral Logista Holdings, S.A.* (**Logista**). Logista operates through two divisions: (i) tobacco logistics, which involves the transportation of tobacco products primarily in Italy, Spain, Portugal, France and Poland, and (ii) other logistics, which provides transport services for various industries including publishing and pharmaceuticals. Logista distributes tobacco products for domestic and international tobacco companies, including the Group, to tobacconists and other sales outlets in Spain, France, Italy, Portugal and Poland. Logista also provides distribution and specialised services for customers

in a number of different sectors including pharmaceuticals, publishing and lottery. It is a leading distributor of products to the convenience retailers, covering outlets that include tobacconists, petrol stations and grocery stores. In addition, Logista operates in the transportation segment, through courier and industrial parcel activities in Spain and Portugal. Logista is listed on the Spanish Stock Exchange.

## **Manufacturing**

The Group seeks to share technology and expertise across its 37 factories around the world in order to reduce manufacturing costs and increase efficiency. It focuses on high-quality, low-cost manufacturing and has an ongoing drive to improve productivity across the business. It aims to ensure that its manufacturing base is structured effectively, to ensure a fast response to changing market dynamics and consumer requirements. In the last few years, the Group has closed a number of cigarette, fine cut tobacco and cigar factories as part of an ongoing review of its manufacturing footprint in order to maximise efficiencies (see “—*Strategic Objectives*” above).

### ***Conventional tobacco products***

The Group’s main materials are tobacco leaf, paper, acetate tow (for the production of cigarette filter tips), printed packaging materials and other materials used in the manufacture of tobacco products, which are purchased from a number of suppliers. The Group’s policy is not to be reliant, where practical, on any one supplier, and it has not suffered any significant production losses as a result of an interruption in the supply of raw materials. Where there are only a few major suppliers of a main material, the failure of any one supplier could potentially have an impact on the Group’s business.

With regard to tobacco leaf, the Group seeks to reduce its exposure to individual markets by sourcing tobacco leaf from a number of different countries, including Brazil, China, India, Spain, Tanzania and Malawi. Different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. Political instability may significantly affect tobacco crops. The Group seeks to offset these risks by purchasing tobacco crops from numerous areas of the world, and to ensure a consistent leaf supply if there is a crop failure.

### ***Tobacco blends and brands***

Tobacco comes in a number of varieties, the most common of which are lighter coloured Virginia, Burley, Oriental and dark air-cured. In general, dark tobacco is used for pipes and cigars and lighter coloured leaf is used in the manufacture of cigarettes. Fine cut tobacco is manufactured using blends of light and dark tobacco.

While there are local variations, cigarettes are manufactured using two principal tobacco blends, Virginia blend and American blend, each accounting for approximately half of the world market. Virginia blend products are predominant in the UK, Australia and most Asian markets, including China and India. American blend products are predominant in Western (other than the UK), Central and Eastern Europe, the US and Latin America.

There are significant differences among tobacco markets resulting from local preferences for tobacco blends and brands, the degree of governmental regulation, excise duty structures and distribution mechanisms in each market. Tobacco products are generally branded products, with different brands preferred in different geographic regions. Consequently, brand ownership and management are important factors. In a number of markets, tobacco distribution arrangements and governmental regulations, including duty and tariff structures, may act as barriers for new entrants into such markets.

## ***NGP***

The Group manufactures its packs, liquid container systems, batteries and chargers for *blu* at its third-party manufacturing partners in China, the US and the EU. The vapour products themselves contain an e-liquid (only applicable to “pre-filled” products) that is made in the US or UK with domestic and imported materials. The filling of the liquid containers, either a pod, tank or bottle, takes place at the Group’s partners in the US, UK and China. There are two main components: the device (including the battery) and the container for flavoured liquids.

## **Sales and Distribution**

With a number of countries being subject to the EU Directive 2003/33/EC, regulating the advertising and sponsorship of tobacco products, and with many countries adopting the WHO FCTC, tobacco advertising and sponsorship has been banned or restricted in a large number of markets. As conventional means of communication between manufacturers and consumers such as advertising and promotion are progressively withdrawn, effectiveness at the point of sale becomes increasingly important. The Group seeks to ensure the wide availability of its product ranges at competitive prices, by optimising the points of sale at which its products are offered and constantly monitoring retail outlets for availability and price competitiveness. The Group has continued to invest in sales communications technology and analysis tools across the Group, and it believes the information provided not only gives it a competitive advantage, but also supports regular, frequent contact with retailers.

The manner in which the Group distributes its products varies by country. In some countries, particularly in Western Europe, the Group distributes its products itself (including through the logistics channels of Logista). In other countries, particularly in emerging markets, the Group distributes under agreements with third parties.

## **Market Background and Environment**

### *Cigarettes*

While consumers' smoking habits are changing, smokers can now enjoy a wide range of nicotine categories, with NGP growing in popularity. Nevertheless, the Group estimates that the worldwide tobacco market remains significant at approximately US\$785 billion (excluding China), with more than 5,300 billion cigarettes consumed a year. More than 1 billion adults still choose to smoke; however, an increasing number of smokers are switching to NGP, such as vapour (also known as e-cigarettes), snus (oral tobacco) and heated tobacco.

In the calendar year 2018, an estimated 5.33 trillion cigarettes (2017: 5.37 trillion) were sold throughout the world, with the world's largest cigarette market, China, accounting for approximately 2.37 trillion in sales (2017: 2.34 trillion), almost half of global consumption. Approximately 0.47 trillion cigarettes were sold in Western Europe (2017: 0.47 trillion), approximately 0.44 trillion in North and Latin America (2017: 0.46 trillion), approximately 3.45 trillion in Asia Pacific (2017: 3.44 trillion), approximately 0.48 trillion in Eastern Europe and the former Soviet Union (2017: 0.51 trillion) and approximately 0.47 trillion in the Middle East and Africa (2017: 0.47 trillion), according to Euromonitor.

In the UK, the Group estimates that sales of UK duty-paid cigarettes were approximately 39.7 billion cigarettes in 2018 (2017: 41.8 billion). Total UK duty-paid cigarette consumer sales between 2015 and 2018 fell by an average of approximately 4.7 per cent per annum.

In Germany, sales of duty-paid cigarettes were approximately 111.3 billion cigarettes in 2018 (2017: 112.9 billion), according to Group estimates. Between 2015 and 2018, market volume for cigarettes fell by an average of approximately 2.0 per cent per annum.

In Spain, total duty-paid sales of approximately 52.3 billion cigarettes were recorded in 2018 (2017: 52.4 billion), according to Group estimates. Between 2015 and 2018, market volume for cigarettes recovered following sharp declines from 2011 to 2014 as a result of significant duty increases, the introduction of a ban on smoking in public places in January 2011 and an increase in illicit trade. There was an average decrease of approximately 1.5 per cent per annum between 2015 and 2018. For reference, total duty-paid sales of approximately 62.1 billion cigarettes were recorded in 2012.

The high levels of excise duty imposed on the sale of tobacco products in many Western European markets have resulted in significant quantities of cigarettes being imported from jurisdictions where excise duty is lower. These consist of legal imports of both duty-free and duty-paid products purchased in other EU countries and of illegal imports. KPMG Project SUN (2017) estimates that 8.7 per cent of cigarettes consumed in Europe is counterfeit or contraband costing governments an estimated €10 billion in lost tax revenue.

In Russia, which has seen the introduction of large increases in excise tax as well as increased anti-smoking legislation, the Group estimates that sales of duty-paid cigarettes were approximately 235.3 billion cigarettes in 2018 (2017: 255.9 billion). Between 2015 and 2018, market volume for cigarettes fell by an average of approximately 7.1 per cent per annum.

Market sales of duty-paid cigarettes in the US were approximately 226.2 billion cigarettes in 2018 (2017: 237.6 billion), according to Group estimates. Between 2015 and 2018, there has been an average market decline of approximately 3.7 per cent per annum.

### ***Cigars***

Worldwide cigar consumption reached 28.1 billion units in calendar year 2018, according to Euromonitor. Consumption is concentrated in the US and Western Europe. There are two major segments which are clearly differentiated: cigars (large, standard and small cigars) with 13.0 billion units in 2018 and cigarillos with 15.1 billion units in 2018. In Western Europe, ownership of cigar brands is splintered among a large number of private companies and dominated by local brands. Spain is the largest cigar market in the region (excluding cigarillos) with sales in calendar year 2018 of approximately 0.35 billion.

In the US, the biggest cigar market by volume, the cigar market increased by around 7.4 per cent with sales of 8.4 billion units in calendar year 2018 (2017: 7.9 billion units).

### ***NGP***

In NGP, the Group's priority is to transition smokers to the *blu* vapour brand, which the Group believes is a potentially less harmful product than cigarettes. Vapour is the largest and most developed NGP category, with Euromonitor estimating around 41 million consumers worldwide as at 2018 and the category has grown considerably since 2011 when the number of vapers was around 6 million. The global vapour market was estimated at a value of £8 billion in 2018, but the Group expects it to reach between £30 billion and £50 billion in 2025 (representing between 300 per cent and 500 per cent growth). The Group estimates that the United States is currently the world's largest vapour market, with approximately 10 million regular vapers. Europe represents the second largest vapour market with approximately 16 million regular vapers.

According to a 2018 global cross-category survey conducted by Ipsos MORI UK, only 39 per cent of smokers (and 45 per cent of nicotine users) consume products in one category. Approximately 39 per cent of smokers (and 36 per cent of nicotine users) consume products in two or three categories and 22 per cent of smokers (and 19 per cent of nicotine users) consume products in more than four categories. As approximately 32 per cent of smokers (and 38 per cent of nicotine users) also consume vapour, this represents a significant market opportunity for the Group.

According to a Millward Brown study, 76 per cent of vapers cite harm reduction as a reason for consuming such products, 67 per cent cite social acceptability and 67 per cent state that they consume such products for relaxation.

The FDA has recently stated that it is considering changes to tobacco and vapour regulations, which may include possible restrictions on menthol and the level of nicotine in cigarettes, changes to the regulation of cigars, an increase in the national minimum age for the purchase of tobacco and vapour products as well as other measures designed to prevent youth access. The Group is an active participant in the regulatory process and supports the FDA's evidence-based approach to regulation.

### **Competition**

In the tobacco cigarette market (excluding China and the US) there are a small number of international companies, of which the Group believes Imperial Brands is the fourth largest by volume. The four largest international tobacco companies are Philip Morris International Inc., BAT, Japan Tobacco Inc. and Imperial Brands. The competitive environment for NGP is fractured as the four largest tobacco companies are each seeking to expand into the NGP market, whether through acquisitions of NGP companies or through the development of new products. Additionally, each of the four tobacco companies, including the Group, compete against smaller technology-focused companies that are similarly developing their own NGP offerings.

### **Illicit Trade**

The Group's anti-illicit trade activities seek to protect the legitimate duty-paid, duty-free and travel retail tobacco market. By actively tackling the illicit trade problem, the Group seeks to regain some of the lost volume in legitimate duty-paid cigarettes and tobaccos, contributing to its sales growth ambitions and protecting government revenue, the legitimate businesses of tobacco retailers and its consumers.



Illicit trade is a significant problem in many markets. There are three elements to illicit trade:

- Counterfeit: products which illegally copy existing brands which are manufactured and/or sold in violation of trade mark rights, often smuggled into other markets to be sold without any duty being paid;
- Illicit whites: tobacco products produced by smaller manufacturers (paying minimum tax at the point of manufacture) which are often smuggled into and sold illegally in other markets; and
- Contraband: genuine products purchased on a duty-paid or duty-free basis but smuggled into and sold illegally in other markets in contravention of fiscal or customs laws.

Accurately quantifying the scale of illicit trade is difficult. The Euromonitor International Strategy Briefing, November 2018, estimated that in 2017, excluding China, illicit trade accounted for 456 billion cigarettes, depriving governments of approximately US\$40 billion in legitimate tax.

The Group has built on the co-operation agreement signed in 2010 with the European Commission's European Anti-Fraud Office (**OLAF**) and Member States to jointly combat illicit trade in cigarettes, which for these purposes includes fine cut tobacco. This has involved coordinated anti-illicit trade activity and information sharing with customs authorities and industry partners across the EU and neighbouring states. This agreement includes payments by the Group to the European Commission of US\$300 million over 20 years to fund anti-illicit trade initiatives. Additionally, under the agreement, in the event of a seizure of contraband Imperial Brands cigarettes in the EU, the Group is required to pay an additional payment equal to 100 per cent of the taxes and duties that would have been paid on the seized brands if they had been legally sold in the Member State, or on a similar legal product if the seized brands are not sold in the Member State. These additional payments must be made regardless of fault and are intended to compensate the EU and participating Member States for lost taxes, duties and other costs, as well as to provide an additional source of possible funding for anti-contraband enforcement. The Group is also required to make a supplemental payment to OLAF equal to 400 per cent of the corresponding additional payment, but only if the seized number of contraband Imperial Brands cigarettes exceeds a baseline amount of 90 million cigarettes in one calendar year, excluding any seizures of less than 50,000 cigarettes and certain other types of seizures as outlined in the agreement.

The Group extended its memoranda of understanding and cooperation agreements with national governments to tackle illicit trade, with 25 total agreements signed. Similar agreements are being sought in other markets.

The Group is implementing track and trace technology across its portfolio to enable it to track products through the supply chain from manufacturing to first customer and also trace any product back to source if it is found to have entered the illegal channel. All manufacturing sites and warehouses supplying EU markets have been equipped with track and trace technology; other sites will follow over the next five years. The revised EUTPD and the WHO FCTC's Anti-Illicit Trade Protocol both require the application of track and trace technology, initially for cigarettes and fine cut tobacco, with a longer time frame for all other tobacco products.

With regard to NGP, the leading brands in both the vapour and heated tobacco categories are being counterfeited. The scale and impact of counterfeiting is difficult to gauge, but it is already recognised as a threat to the legitimate market; as the popularity of different products grows, counterfeiting will almost certainly increase. There is currently no evidence that the Group's products are being directly counterfeited, although products described as "*blu* compatible" are advertised on the internet. Excise duty revenue from tobacco is under pressure in many countries and individual governments seek and will seek to recoup an element of any shortfalls through taxes on NGP. At this time, tax policies for NGP are still being formulated, but significant variances between countries already exist. If these variances continue, they will be exploited and illicit and non-taxed trade will increase.

## **Regulatory Landscape**

A variety of regulatory initiatives affecting the tobacco and NGP industries have been proposed, introduced or enacted over many years, including: the levying of substantial and increasing excise duties; restrictions or bans on advertising, marketing and sponsorship; the display of larger health warnings, graphic health warnings and other labelling requirements on tobacco product packaging; restrictions on packaging design, including the use of colours in plain or standardised packaging regulations; restrictions on pack content, including minimum quantity per pack; restrictions or bans on the display of tobacco

product packaging at the point of sale and restrictions or bans on cigarette vending machines; restrictions on the type of retail outlets that are permitted to sell tobacco products; requirements regarding testing, verification and maximum limits for tar, nicotine and carbon monoxide; requirements regarding ingredients and emissions reporting, evaluation and possible bans of certain tobacco product ingredients, including menthol; restrictions on flavourings for tobacco products and NGP; requirements that products and changes to products are approved by regulatory authorities prior to sale; requirements that cigarettes meet safety standards for ignition propensity; increased restrictions on smoking in public and work places and, in some instances, in private places and outdoors; implementation of measures restricting certain descriptive terms (including those which might be argued to create an impression that one brand of cigarettes is less harmful than another); requirements for the tracking and tracing of tobacco products; and annual registration of tobacco companies.

Imperial Brands continues to manage these challenges and seeks to engage with governments and other regulatory bodies to find reasonable, proportionate and evidence-based solutions to changing regulations.

### ***World Health Organization Framework Convention on Tobacco Control***

The WHO FCTC is an all-encompassing instrument for regulating tobacco products on a global level. It has been ratified by 181 countries to date. The original treaty is being supplemented by protocols and guidelines, some of which are currently under development. While the guidelines are not legally binding, they provide a framework of recommendations for parties to the WHO FCTC. These guidelines influence the regulatory landscape in which the Group operates.

The guideline on advertising, for instance, seeks to broaden the definition of tobacco advertising to include product display and vending, as well as the pack itself. The guideline on packaging and labelling further introduces the idea of “innovative health warnings”, i.e. health warnings printed on the actual cigarette. The parties have also adopted a protocol in relation to anti-illicit trade. The protocol has now received the required number of ratifications and came into force on 26 September 2018. It places legal obligations on all parties to the protocol, including a track and trace regime and a licensing regime for the manufacture, import and export of tobacco products and machinery.

Other areas include the suggestion to introduce plain packaging, the rejection of any industry partnership and the regulation of electronic nicotine and non-nicotine devices.

All parties to the WHO FCTC meet at the Conference of the Parties, a set of periodic meetings to discuss the framework. The last such meeting was held in Geneva in October 2018.

Future areas of work to be progressed into guidelines include further product regulation and the provision of support for economically viable alternatives to tobacco growing.

Almost all of the WHO FCTC provisions entail extra costs for the tobacco industry in one way or another. A change in the number and size of on-pack health warnings which is subject to regular rotation, for instance, requires new printing cylinders to be commissioned, while the implementation of new plant protection product standards, product testing and the submission of ingredients information to national governments require extensive resources, time and material.

### ***EU Tobacco Products Directive (2014/40/EU)***

The EU Tobacco Products Directive (2001/37/EC) was adopted in May 2001 for introduction into Member States' laws by September 2002, to set maximum tar, nicotine and carbon monoxide yields, introduce larger health warnings and ban descriptors such as “light” and “mild”.

A review of the original directive commenced in 2010 and a revised directive, the EU Tobacco Directive (2014/40/EU) (**EUTPD**) entered into force on 20 May 2014. Provisions include: increased pictorial health warnings to 65 per cent of the front and back of packs; restrictions on pack shape and size, including minimum pack sizes of 20 sticks for cigarettes and 30g for roll-your-own/make-your-own tobacco; increased ingredients reporting; a ban on characterising flavours (unless the products fall under the derogation which *de facto* allows menthol cigarettes on the market until 20 May 2020); “tracking and tracing” requirements (from 20 May 2019 for cigarettes and fine cut tobacco and 2024 for all other tobacco products); and for vapour products, nicotine limits, pre-market notification, ingredients reporting and advertising bans.

This Directive is an important piece of EU legislation for the Group's European markets as well as having an impact on the entire tobacco product portfolio.

### *EU Tobacco Excise Directive (2011/64/EU)*

In the European Union, excise duties for tobacco products are regulated principally through the EU Tobacco Excise Directive (2011/64/EU) (**EUTED**). EUTED defines the product categories, structure and minimum rates for excise duties on manufactured tobacco. The excise duty on cigarettes must consist of two components: a specific component (i.e. a fixed amount per 1,000 cigarettes) and an ad valorem component (i.e. a percentage of the retail selling price). These two components must be the same for cigarettes of all price categories. Minimum rates are set out in the EUTED, which Member States must respect, although they are free to go above these minima in the taxes they apply. For tobacco other than cigarettes, Member States can choose between a specific duty or an ad valorem duty, or may apply a mixture of the two. Minimum rates are set out for three different categories of tobacco products, other than cigarettes, in the EUTED. Member States are free to apply national rates above these minima.

Article 19 of the EUTED requires the European Commission to submit, every four years, a report to the European Council and, where appropriate, a proposal for amending the EUTED. The European Commission has confirmed that it will not alter the EUTED in 2018–2019. However, the European Commission almost simultaneously announced it would start the preparations for the next review of the EUTED, which are expected to last at least until the beginning of 2020.

### *EU Directive on Single Use Plastics*

The EU has agreed legislation aimed at reducing single-use plastics. The industry will be subject to an extended producers' responsibility scheme (although the exact details remain unknown) and will have to apply specific marking on all cigarettes and filter tips packs (the details of which are expected to be determined at second stage). The EU directive entered into force in June 2019, with two years for Member States to transpose the provisions into national legislations. Vapour components are out of scope of this legislation.

### *Plain and standardised packaging*

The issue of plain packaging is high on the agenda of tobacco control groups. The WHO FCTC recommends the introduction of plain packaging through its guidelines on advertising, promotion and sponsorship and on packaging and labelling. In the EU, a review of plain packaging was initially proposed as part of revisions considered for the EUTPD but was rejected by most Member States early on in the process. However, the UK, France, Ireland, Norway, Slovenia and Hungary have all adopted standardised packaging on a national level.

In the UK, the industry mounted a legal challenge against this legislation in the High Court which upheld the legislation in May 2016. The ruling has subsequently been unsuccessfully appealed by some of the claimants.

The Australian government's tobacco plain packaging legislation took effect in December 2012. A challenge brought by Imperial Tobacco Australia Limited and other manufacturers in 2011 was unsuccessful. In June 2018, the World Trade Organization (**WTO**) issued a decision in a dispute brought in 2013 by a number of tobacco and cigar producing WTO member states concerned about the restrictions on trade marks, geographical indications and other requirements imposed by Australia. The WTO found that the parties failed to demonstrate that Australia's plain packaging measures are inconsistent with WTO rules. In New Zealand, relevant legislation came into effect in March 2018.

### *Product display bans at point of sale*

Product display restrictions at point of sale have been in place in a number of countries beginning in 2001 and have been implemented both at national and state levels. These include Norway, Iceland, Finland, New Zealand, Thailand, Canada, Australia, Russia and several other countries.

Ireland was the first Member State to introduce a point of sale display ban effective July 2009. Since then England, Wales and Scotland and Northern Ireland have all banned the display of tobacco products at the point of sale.

Product display bans affect the consumer purchasing process and competition between tobacco manufacturers and retailers. Retailers may reduce the number of stock keeping units that they are likely to stock, which in turn may make it necessary for tobacco products manufacturing companies to review and adapt their product portfolio in certain markets.

### *Pictorial health warnings*

Pictorial health warnings have also been mandated in all 28 Member States through the EUTPD from 20 May 2016 (or such date as stipulated in delayed national transpositions).

There is a general trend towards the introduction of pictorial health warnings on tobacco products and further countries including Canada, Brazil, Australia, New Zealand, Thailand and Singapore have already implemented them.

Some Member States have extended the requirement of pictorial health warnings to additional product categories such as cigars.

In the US, the Family Smoking Prevention and Tobacco Control Act of 2009 (**FSPTC Act**) required the FDA to develop and implement graphic health warning statements. The initial proposal was found to be unconstitutional and the agency has been working to develop an alternative that will not violate legal standards.

### *Smoking and use of NGP in public places*

The majority of countries in which the Group operates have enacted restrictions on smoking in public places, although the degree and severity of these restrictions vary. Comprehensive smoking bans in hospitality venues are in place in many markets including in Ireland, the United Kingdom, Norway, New Zealand and Australia, as well as within Canada and the US.

In the EU, smoking in public places and workplaces is regulated at a Member State level.

As tobacco regulation increases in speed, scale, scope and sophistication, some countries are also seeking to regulate public smoking in non-workplace environments such as outdoor dining areas, parks, beaches, balconies and cars carrying children. Some US and Australian states and Canadian provinces have already passed legislation to this end and others are likely to follow at some point in the near to mid-term future. In the UK, England, Wales, Scotland and Northern Ireland banned smoking in cars carrying anyone aged below 18.

Experience in many markets has shown that following the introduction of public place smoking restrictions there is usually an initial decline in consumption, the rate of which diminishes over time.

### *Regulation of other flavoured tobacco products and NGP*

Some countries are now seeking to restrict or ban the use of certain flavours in tobacco products, arguing that such products disproportionately appeal to minors and act as a catalyst for young people taking up smoking. In the US, the FSPTC Act bans characterising flavours other than tobacco and menthol. The FSPTC Act flavour ban is currently only applicable to cigarettes and roll-your-own/make-your-own (including pipes and papers), and the Deeming Rule (as defined below) does not include a flavour ban. In November 2018, the FDA made public statements regarding its possible future regulation of menthol in combustible tobacco products, and has recently announced plans to move forward with a rulemaking process to develop a product standard banning menthol and flavours in all combustible tobacco products. In addition, local government authorities in cities such as New York City and Boston have taken up the flavouring ban issue. In Canada, the manufacture and sale of cigarettes, little cigars and blunt wraps with characterising flavours are banned. The majority of Australian states have also banned flavours in cigarettes that give an “overtly” fruit-flavoured taste and the government is currently considering further regulatory options. The issue may also be extended to cigars at some point in the future. The EUTPD also bans the use of characterising flavours from May 2016 with a four-year derogation for products with a characterising flavour whose EU-wide sales volume represents 3 per cent or more in a particular product category until May 2020.

A ban on flavoured tobacco products or NGP would require manufacturers to review and adapt their product portfolio in order to offer consumers alternatives when flavoured tobacco products or NGP are no longer available.

### *Regulation of NGP such as vapour and heated tobacco products*

On 8 May 2016, the FDA published a final rule deeming certain previously unregulated tobacco products (including cigars and vapour products) to be subject to the regulatory authority of the FDA (the **Deeming Rule**). The Deeming Rule became effective on 8 August 2016. As part of the regulatory environment,

newly deemed products are subject to, among other things, minimum age restrictions, health warning requirements and a requirement to register product and ingredient information with the FDA. In addition, all newly deemed products introduced on the market after 15 February 2007 must obtain FDA pre-market approval. Since most vapour products were placed on the market after that date, the result is that virtually all vapour products need to be submitted to the FDA for review. However, products on the market as of the effective date of the Deeming Rule are allowed to remain in the market for a continued period provided the manufacturer files a pre-market submission within the prescribed time limit. The Deeming Rule impacts new product introductions due to the pre-market review process. The FDA has also announced new enforcement actions and a Youth Tobacco Prevention Plan to stop youth use of, and access to, vapour products in the US. In addition to its public statement regarding menthol (see “—*Regulation of other flavoured tobacco products and NGP*” above), the FDA also announced plans to pursue further regulatory initiatives on flavoured vapour products, with the aim that only tobacco, mint and menthol vapour products could be sold in traditional retail outlets. Under the proposals, other flavoured vapour products may only be sold at age-restricted locations or through online channels that use age verification checks.

In the EU, vapour products with a nicotine content of up to 20 mg/ml will be regulated in accordance with Article 20 of the revised EUTPD, which requires, among other things, on-pack health warnings, pre-market notification, and annual submission by manufacturers of a comprehensive data set to Member State authorities (please see “—*EU Tobacco Products Directive (2014/40/EU)*” above for more detail about the EUTPD). Article 20 also prohibits cross-border sponsorship or sponsorship of national events that have a cross-border effect, and bans the advertising of nicotine-containing vapour products in print media, on television, radio and the internet. Nicotine-free vapour products are subject to the General Product Safety Directive 2001/95/EC of 3 December 2001, but such vapour products may be regulated more strictly by Member States.

In 2014, Italy became the first country to introduce an excise category for vapour products but more recently reduced the rate from 50 per cent to 10 per cent of the factory-made cigarette equivalent. Excise on vapour products varies across the markets, though the majority of countries levy no rates whatsoever (including, for example, France, Germany, Spain and the Netherlands).

Outside of the EU and the US, vapour regulation varies, ranging from little or no regulation to a complete ban (for example, in Australia, Japan, Taiwan and the United Arab Emirates) of selling nicotine-containing vapour products outside of pharmaceutical regulations. Comprehensive regulation of vapour products, such as in the EU and the US, could increase in future.

Currently, regulation and excise of heated tobacco products also varies across jurisdictions, with some countries treating the product under tobacco legislative frameworks (such as Portugal and Norway), while in other countries the product is relatively unregulated (such as in Russia).

### ***Regulation in the US***

The FSPTC Act granted the FDA regulatory authority over all tobacco products with immediate effect over cigarettes, roll-your-own/make-your-own and smokeless products.

Key elements of the FSPTC Act regulate the annual registration of tobacco companies, product testing and the submission of ingredient information; require FDA approval for all new products or product modifications; ban all characterising artificial or natural flavours other than tobacco or menthol in cigarettes; establish “user fees” to fund FDA regulation of tobacco products; provide for the increase in health warning sizes on cigarette packs with the option to introduce pictorial health warnings; provide for implementation of good manufacturing practices; revise the labelling and advertising requirements for smokeless tobacco products; require the investigation of menthol; and allow the FDA to issue regulations deeming other tobacco products to be subject to the FSPTC Act.

One of the provisions of the FSPTC Act required all US cigarette manufacturers to file “Substantial Equivalence” reports on products in the market place as of 22 March 2011, which were either introduced or changed since 15 February 2007. The FDA refers to these reports, filed as of March 2011, as “provisional” Substantial Equivalence reports. Along with other companies, Reynolds indicated that it complied with the FDA’s requirements by filing provisional Substantial Equivalence reports regarding the brands acquired by the Group under the 2015 US Acquisition. The FDA has only approved a very small number of the provisional Substantial Equivalence reports which were filed, including those for Reynolds. It is anticipated that these reports will be approved, and Reynolds has transferred these reports to ITG

Brands, and will cooperate with ITG Brands in obtaining FDA approval. In relation to Lorillard brands acquired under the 2015 US Acquisition, Lorillard filed provisional Substantial Equivalence reports on or before the 22 March 2011 deadline as required by the FSPTC Act. On 14 July 2016, the FDA issued a Not Substantially Equivalent notice regarding the provisional Substantial Equivalence report filed for *Maverick Menthol Silver Box 100s*. ITG Brands decided not to challenge the FDA's position regarding this particular menthol variant and has taken all necessary steps to remove this product from the market. It is anticipated that the remaining provisional reports will be approved. In 2018, the FDA issued Not Substantially Equivalent notices on six variants of *Montclair*, one *Rave*, two *Salems* and one *Kool* product. The FDA agreed to suspend any action on these products while ITG Brands pursued an administrative appeal of the findings. The FDA subsequently issued an order that five of the *Montclair* variants should be issued Substantial Equivalence orders and the sixth should be granted further scientific review by the agency. On 7 June 2019, the FDA issued Not Substantially Equivalent notices on nine variants of *Crowns*. This determination is being appealed by ITG Brands and no immediate action is anticipated.

For a discussion of US regulation of NGP, please see “—*Regulation of NGP such as vapour and heated tobacco products*” above.

In July 2017, the FDA announced a multi-year plan to lower nicotine levels in combustible cigarettes to “non-addictive” levels. At the same time, the FDA noted that it is committed to encouraging innovations that have the potential to make a public health difference, stating that nicotine is both the problem and the solution to the question of addiction. In March 2018, the FDA announced three advance notices of proposed rulemaking (ANPRMs) regarding the regulation of premium cigars, the regulation of flavours in tobacco products (including menthol), and a potential standard for nicotine level in cigarettes. The FDA then solicited and accepted public comments on these various matters for review and consideration in the potential development of a rule or rules. In November 2018, the FDA's Commissioner issued a press release indicating that the FDA intended to undertake action on flavoured vapour products and flavoured combustible tobacco products. This action would include commencing a rulemaking on a product standard that would ban menthol in combustible tobacco products. The timeline for commencing this rulemaking and whether the FDA will issue any such rule remains unclear. The FDA has also stated it intends to seek to limit distribution of flavoured vapour products in certain retail channels, but the basis for this statement is not clear.

The FTC also monitors certain reporting, advertising, and other obligations regarding tobacco sales. In August 2018, a consumer petition was filed with the FTC asking it to act on alleged violations regarding social media use by several manufacturers, including Imperial Brands. The allegations related to Imperial Brands occurred in Australia, Egypt, Bosnia and Herzegovina, and the United Arab Emirates. No action has been taken on the petition as of the date of this Offering Memorandum.

The FDA has recently stated that it is considering changes to tobacco and vapour regulations, which may include possible restrictions on menthol and the level of nicotine in cigarettes, changes to the regulation of cigars, an increase in the national minimum age for the purchase of tobacco and vapour products as well as other measures designed to prevent youth access.

The Group continues to actively participate in the regulatory process and supports the FDA's evidence-based approach to regulation.

### ***Menthol Regulation in the US***

The FSPTC Act of 2009 required the FDA to establish the Tobacco Products Scientific Advisory Committee (TPSAC) to evaluate, among other things, “the impact of the use of menthol in cigarettes on the public health, including such use among children, African-Americans, Hispanics, and other racial and ethnic minorities”. In addition, the FSPTC Act permits the FDA to impose restrictions regarding the use of menthol in cigarettes, including a ban, if those restrictions would be appropriate for the public health. The findings of the TPSAC report, which is not binding on the FDA, included that menthol likely increases experimentation and regular smoking, menthol likely increases the likelihood and degree of addiction for youth smokers, non-white menthol smokers (particularly African-Americans) are less likely to quit smoking and are less responsive to certain cessation medications, and that consumers continue to believe that smoking menthol cigarettes is potentially less harmful than smoking non-menthol cigarettes as a result of the cigarette industry's historical marketing. TPSAC's overall recommendation to the FDA was that “removal of menthol cigarettes from the marketplace would benefit public health in the US”.

On 27 June 2011, the FDA provided a progress report on its review of the science related to menthol cigarettes. In this report, the FDA stated that “experts within the FDA Center for Tobacco Products are conducting an independent review of the science related to the impact of menthol in cigarettes on public health”. The FDA stated that it would submit its draft independent review of menthol science to an external peer review panel in July 2011. On 26 January 2012, the FDA provided a second progress report on its review of the science related to menthol cigarettes. In this update, the FDA stated that the “FDA submitted its report to external scientists for peer review, and the agency is revising its report based on their feedback”.

On 24 July 2013, the FDA made available its preliminary scientific evaluation (**PSE**) of public health issues related to the use of menthol in cigarettes and peer review comments thereto. Although the FDA PSE found that menthol in cigarettes is not associated with increased smoke toxicity, increased levels of biomarkers of exposure or increased disease risk, the evaluation concluded that menthol in cigarettes is likely associated with increased initiation and progression to regular cigarette smoking, increased dependence, reduced success of smoking cessation, especially among African-American menthol smokers, altered physiological responses to tobacco smoke and particular patterns of smoking. In the PSE, the FDA concluded that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. The FDA also issued an ANPRM seeking comments on the PSE and requesting additional information related to potential regulatory options it might consider for the regulation of menthol. The FDA has sought comments regarding, among other things, information on potential product standards for levels of menthol in cigarettes; the timeframe for compliance with any product standard enacted; whether a stepped approach to lowering or removing menthol from cigarettes would be appropriate; whether sales, distribution, advertising or promotion restrictions are appropriate; and evidence, including public health impact, of any potential illicit market in menthol cigarettes should they no longer be available. In addition, the FDA announced that it is funding new research on, among other things, the differences between menthol and non-menthol cigarettes to obtain information to assist the FDA in making informed decisions related to potential regulation of menthol in cigarettes. The FDA established a comment period, which ended on 22 November 2013, for the ANPRM and PSE, and said it will consider all comments and other information submitted to determine what, if any, regulatory action is appropriate. If the FDA determines that regulation of menthol is warranted, the FDA could promulgate regulations that, among other things, could result in a ban on, or restrictions on the use of, menthol in cigarettes, or further restrictions on the marketing and advertising of menthol cigarettes. The timing of the release of any such proposed regulation remains uncertain. While no formal action has been taken in this regard since 2013, as stated above, the FDA has requested comments on a notice of proposed rulemaking regarding flavours in tobacco products, including menthol. Further, as noted above in “—*Regulation in the US*”, in November 2018 the FDA made public statements regarding its possible future regulation of menthol in cigarettes, and has recently announced it plans to move forward with a rulemaking process to develop a product standard banning menthol. The timing of the FDA’s process remains unclear as no formal proposed rule has been developed or issued.

### **Intellectual Property**

The Group’s intellectual property rights relating to its brands are valuable assets and their protection and reputation are critical to the operation of its business. The Group’s brands are protected by a variety of intellectual property (**IP**), the predominant form of which is trade marks. Trade marks protect the brand name of a tobacco product, e.g. *blu*, as well as the logos and trade dress associated with that brand, for example, the *blu* triangle device. As trade marks can potentially be infinite in duration, they are of key value to the Group.

IP rights are geographic in scope. For instance, registered trade mark protection must be applied for in a particular territory, usually a country. The Group, like many international cigarette manufacturers, does not have exclusive ownership of all of its brands in all territories, due to historical arrangements in the tobacco industry, prior obstacles on the IP register or simply a lack of commercial interest in a specific brand in a specific territory. In particular, in 1973, when the UK joined the EU, an agreement was reached with BAT for the exchange of certain trade marks. As a result of these historical arrangements and subsequent arrangements with BAT and other third parties, the Group does not have exclusive ownership of all its pre-1973 brands in all the territories in which it operates. However, the Group owns, or has the right to use, the trade mark rights to all of its brands in all countries where they are used.

Copyright and design rights (both registered and unregistered) play a smaller, supporting role in protecting the Group’s brand assets and the shape of product packaging.

Patent protection is not brand-specific, but patents play an important role in protecting the Group's technical innovations, especially within the NGP category. The Group has more than 1,300 granted patents worldwide and over 1,100 pending patent applications. The Group's patent portfolio, as a whole, is material to the business. However, no one patent, or group of related patents, is material. The Group also has proprietary secrets, technology, know-how, processes and other IP rights that are not registered but are protected by appropriate confidentiality measures.

## **Litigation**

Except for the matters detailed below, there have been no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened) of which the Issuer, Imperial Brands or ITL are aware during the 12 months preceding the date of this Offering Memorandum which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, Imperial Brands, ITL or the Group.

In relation to the matters detailed below, and any other proceedings brought against any member of the Group in the future, the Group could incur substantial damages and costs (please see "*Risk Factors—The Group could incur substantial damages and costs in connection with litigation*").

### ***Litigation relating to the Group***

#### ***US litigation environment and State Settlement Agreements***

In the US, claims could be brought in federal, state or local courts, or by way of enforcement actions, and by individuals, by a class or by way of group action by a number of parties (whether in actions in which a class has been certified (or in which plaintiffs (claimants) are seeking class certification) or in which individual cases have been grouped for a consolidated trial), by national, state or local regulatory authorities or other public institutions, by corporations, unions, funds or other incorporated entities, or by political or social organisations (such as Native American tribes). The claims (subject to certain provisions in settlements with states) could relate, *inter alia*, to personal injury, addiction, death, costs of providing healthcare (including cost recovery actions), costs of court-supervised health monitoring programmes, settlement/fee payments with regard to cigarettes and business, sales or advertising conduct. Furthermore, in a report entitled "The Health Consequences of Involuntary Exposure to Tobacco Smoke: A Report of the Surgeon General, 2006", the US Surgeon General summarised conclusions from previous Surgeon General's reports concerning health risks to non-smokers from exposure to environmental tobacco smoke, also called second-hand smoke. The Surgeon General also addressed health risks to non-smokers from exposure to environmental tobacco smoke in reports published in 2010 and 2014. These reports could form the basis of or be used to support additional litigation against cigarette manufacturers, including against the Group.

Other than as noted below, before 2007 the Group had not sold cigarettes in the US, the jurisdiction with the greatest prevalence of smoking and health-related litigation. However, three subsidiaries, Reemtsma, SEITA and Altadis, sold relatively small quantities of cigarettes and/or fine cut tobacco in the US domestic market up to 1999, 2005 and 2004, respectively. In 2007 and 2008, respectively, the Group acquired Commonwealth Brands and Altadis USA, both of which were and are manufacturers and sellers of tobacco products in the US. The cigarette brands acquired pursuant to the 2015 US Acquisition were acquired without historic product liabilities and an indemnity in respect of any liabilities relating to the period prior to completion of the deal was provided by Reynolds.

In respect of state health care costs, Commonwealth Brands, SEITA, ITG Brands, ITL and several other affiliates of the Group are signatories to the Master Settlement Agreement (**MSA**) in the US, which is an agreement between tobacco manufacturers and 46 US states, the District of Columbia and five US territories, and which imposes substantial payment obligations on those manufacturers. In 1998, Phillip Morris USA, Inc. (as successor to Phillip Morris Incorporated), R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (the **Original Participating Manufacturers** or **OPMs**) entered into an MSA to settle asserted and unasserted health care cost recovery and other claims of those states that were a party to the MSA (the **Settling States**). The OPMs had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (the **Initial State Settlements** and, together with the MSA, the **State Settlement Agreements**). The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the OPMs to avoid the further expense, inconvenience, burden and uncertainty of litigation.



Smaller companies were also permitted to join the MSA as Subsequent Participating Manufacturers (or **SPMs**) even though most of them had not been party to the original action by the states. Commonwealth Brands became an SPM in 1998, with SEITA and ITG Brands becoming SPMs in 1999. In November 2007, the Group received confirmation that the application of Imperial Brands and of several affiliated companies to become SPMs to the MSA had been approved.

The State Settlement Agreements require that the OPMs make annual payments of US\$10.4 billion, subject to adjustment for several factors, including inflation, market share and industry volume. In addition, the OPMs are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of US\$500 million, and were required to pay an additional amount of up to US\$125 million in each year to 2008. The portion of ongoing adjusted settlement payments and legal fees to be paid by each OPM is based on its relative share of domestic cigarette shipments in the year preceding that in which the payment is due. These payment obligations are the several and not joint obligations of each OPM. The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions.

On 12 June 2015, ITG Brands also joined a settlement agreement with another state, Mississippi, with respect to certain of ITG Brands' cigarettes in the US, acquired under the 2015 US Acquisition.

*NPM Adjustment Disputes:* The MSA includes an adjustment mechanism, known as a non-participating manufacturer (**NPM**) adjustment, which potentially reduces participating tobacco manufacturers' annual MSA payment obligations. In order for an NPM adjustment to be made, an independent auditor must determine that the participating manufacturers have experienced a market share loss to those manufacturers who are not participants, and an independent firm of economic consultants must determine that the MSA was a significant factor contributing to that loss. The adjustment is then allocated among the settling states that are MSA parties according to whether they "diligently enforced" statutes known as "Qualifying Statutes". Although, for each year from 2003 to 2016 inclusive, the two requirements for application of the adjustment have been fulfilled (some through settlement), the relevant settling states dispute that any adjustment is required on the basis that they "diligently enforced" the "Qualifying Statutes". This dispute is continuing and encompasses NPM adjustments for 2017 to 2018 as well. The states and manufacturers have completed arbitration over the 2003 NPM adjustment and state-court challenges to certain of the arbitrators' decisions have been resolved, reducing the recovery by approximately 50 per cent. Arbitration over the 2004 NPM adjustment commenced in 2016 and is continuing. The proceedings in the state of Montana, which was not required by its courts to arbitrate the adjustment, have been resolved. State court proceedings are underway for another state, New Mexico, that is appealing an order compelling arbitration. Disputes over the remaining years (2005 to 2018) are still to be arbitrated. The manufacturers have corresponded with the states regarding commencing the arbitration for 2005 to 2007.

Approximately US\$13 million was recovered on the 2003 NPM adjustment in the form of credits to MSA payments. The potential recovery on the 2004 to 2018 adjustments is unquantifiable at present.

The manufacturers have now resolved by settlement the NPM adjustments for most of the disputed NPM adjustment years with 36 states representing approximately 75 per cent of the MSA share. Commonwealth Brands and ITG Brands have received substantial credits under these settlements with additional credits due or possibly due in the future. At this stage in the proceedings, approximately US\$148 million has been recovered on the NPM adjustment arbitrations and settlements in the form of credits to MSA payments. The NPM adjustment settlement is an ongoing claim by a number of manufacturers and estimates of future credits on settled claims are subject to change depending upon a number of factors included in the calculation of the credits.

*State Settlement disputes in relation to the 2015 US Acquisition:* As required by the MSA, ITG Brands agreed in the Asset Purchase Agreement relating to the 2015 US Acquisition (the **Asset Purchase Agreement**) to assume, and did assume, payment responsibility for the *Winston, Salem, Kool* and *Maverick* brands under the MSA. As there were no similar provisions in the other State Settlements with Mississippi, Florida, Texas and Minnesota, ITG Brands agreed in the Asset Purchase Agreement to use its "reasonable best efforts" to reach agreement with those states to become a party to those settlements, subject to certain conditions. ITG Brands became a party to the Mississippi settlement with respect to the acquired brands effective 12 June 2015 and has been making settlement payments to Mississippi on the acquired brands

since that date. Notwithstanding its efforts to do so, ITG Brands has not become a party to the Florida, Texas, or Minnesota settlements.

Philip Morris USA Inc. (**Philip Morris USA**) filed a challenge to ITG Brands' 12 June 2015 joinder in the Mississippi settlement agreement for certain US brands. Philip Morris USA agreed that it is appropriate for ITG Brands to join the agreement but disagreed with certain of the joinder provisions addressing a profit adjustment under the settlement, claiming that they adversely affect Philip Morris USA and were entered without notice to it or its consent. The state of Mississippi opposed the motion along with ITG Brands. The state trial-level court denied the motion in December 2015, finding that Philip Morris USA was not entitled to notice of the joinder because it was not affected by it. Philip Morris USA appealed that decision but later dropped the appeal. On 26 December 2018, Philip Morris USA filed a motion in Mississippi challenging treatment of profit adjustment issues. The parties are engaged in litigating discovery issues at present. No substantive response is currently due. A hearing is anticipated in the spring of 2020.

In January 2017, Philip Morris USA and Florida filed motions in the court administering the Florida settlement payments to "enforce" the settlement against Reynolds and ITG Brands. They claimed alternatively that Reynolds continued to owe settlement payments on the transferred brands and that ITG Brands was a "successor" or "assign" to Reynolds' payment obligations on the brands under the Florida settlement and thus ITG Brands owed settlement payments of approximately US\$30 million a year on the acquired brands from 12 June 2015 onwards. Philip Morris USA and Florida also challenged the way in which the profit adjustment to settlement payments was calculated. A trial was held on 19 to 21 December 2017. On 27 December 2017, the Florida court issued an order denying Florida's and Philip Morris USA's motions with respect to ITG Brands, but granting them with respect to Reynolds. The court found that ITG Brands was not a successor or assign to obligations under the Florida settlement agreement and did not owe Florida any payments under it as a result of the transfer of the acquired brands to ITG Brands. It also found that Reynolds continued to be liable for settlement payments on the acquired brands. Reynolds and Philip Morris USA appealed, but those appeals were dismissed. Florida, Philip Morris USA and Reynolds reached an agreed final judgment assessing amounts owed by Reynolds, and the court entered that judgment on 15 August 2018. Reynolds has appealed the portion of the judgment that applies to it and Philip Morris USA has purported to appeal the determination that ITG Brands has no liability for settlement payments. ITG Brands moved to dismiss Philip Morris USA's appeal as to it as either untimely and/or waived because the order was final as to it in December 2017. The appellate court denied that motion on 22 October 2018. Briefing on the appeals has begun, with initial briefs filed in May 2019 and the second set of briefs due on 30 August 2019.

In March 2018, Minnesota, joined by Philip Morris USA, filed a complaint against ITG Brands and a motion to enforce against Reynolds regarding the Minnesota settlement. Minnesota and Philip Morris USA's claim, like Florida, was that either Reynolds continues to be liable for settlement payments to it for the acquired brands or that ITG Brands become liable for settlement payments for them as a result of the acquisition of brands under the 2015 US Acquisition. They also raise the same issues regarding the profit adjustment that were raised in Mississippi and Florida. The complaint and motion to enforce have been consolidated. ITG Brands' response to the complaint was filed on 8 June 2018 and a scheduling order governing the case was entered on 22 June 2018. Discovery has been completed. Minnesota, Philip Morris USA and ITG Brands filed dispositive motions, with Minnesota and Philip Morris USA seeking a determination that either Reynolds or ITG Brands must pay settlement payments to Minnesota, and ITG Brands seeking a determination that it has no liability for settlement payments to Minnesota. A hearing on the dispositive motions was held on 26 June 2019 and a decision is awaited.

On 28 January 2019, Texas, the other state with a separate settlement agreement that is not part of the MSA, filed a motion to enforce the settlement agreement in the federal district court with continuing jurisdiction over the settlement, claiming that Reynolds or ITG Brands must make settlement payments on the acquired brands, along with a motion to join ITG Brands as a party to the settlement litigation. Philip Morris USA filed a similar motion to enforce (also raising its profit adjustment issues) and joined Texas's motion to join ITG Brands as a party. Texas has also claimed that if ITG Brands does not make settlement payments, increased fees (along with interest and substantial penalties) are due on the acquired brands for 2015 to 2019 under Texas's equity fee law. On 1 April 2019, Texas changed ITG Brands' classification under Texas's equity fee law, thereby increasing the fees that distributors of the acquired brands must pay with respect to Texas sales by almost 300 per cent. On 17 April 2019, ITG Brands filed a new litigation in the federal district court with respect to the settlement agreement and the related equity fee issues, including the reclassification by Texas of ITG Brands for purposes of equity fee payments. ITG Brands also sought

temporary injunctive relief suspending the change in its equity fee classification pending resolution of that suit. On 22 May 2019, the court joined ITG Brands as a party to the original litigation, and ordered the parties to submit proposals for discovery with completion in 60 days. On 6 June 2019, the court dismissed three of ITG Brands' counts in the new litigation without prejudice in favour of the original litigation. It stayed ITG Brands' fourth count (alleging lack of due process when Texas changed ITG Brands' classification). The court also denied without prejudice ITG Brands' petition for temporary injunctive relief, finding that its damages were monetary and indicating that it was issuing relief in reliance on the assurance of Texas that ITG Brands could obtain refunds in Texas court for amounts it reimbursed distributors for the fee. On 1 July 2019 the court ordered discovery to be completed by 15 August 2019, and set a hearing on the motions to enforce the settlement on 19 September 2019.

On 28 January 2017, Reynolds filed a motion in Florida court seeking permission to file a claim there that ITG Brands had not used its "reasonable best efforts" as required by the Asset Purchase Agreement to join the Florida settlement. On 17 February 2017, ITG Brands filed a complaint against Reynolds in Delaware Chancery Court contending that court had exclusive jurisdiction over disputes under the Asset Purchase Agreement and seeking a declaration that it had used "reasonable best efforts". On 1 March 2017, the Delaware court issued an order forbidding Reynolds from prosecuting a "reasonable best efforts" claim affirmatively in the Florida action. On 17 May 2017, the Delaware court denied Reynolds' motion to stay the Delaware proceeding. On 6 December 2017, the Delaware court denied a motion by ITG Brands for judgment on the pleadings, rejecting the argument that as a matter of law the duty of reasonable best efforts ceased due to the closing and stating that whether reasonable best efforts had occurred and when such duty terminated was a fact question for future determination. On 28 September 2018, Reynolds filed an amended complaint adding allegations regarding the Minnesota litigation. On 29 October 2018, ITG Brands answered that amended complaint. On 4 January 2019, Reynolds filed a motion seeking an order that ITG Brands must indemnify it for settlement payments it is required to pay to Florida or other states on the acquired brands and that one of the conditions to ITG Brands' obligation to use reasonable best efforts to reach agreement on settlements did not apply to Florida. ITG Brands' response was filed on 1 March 2019, and a hearing was held on 4 June 2019. Future proceedings in Delaware may address whether ITG Brands has exercised reasonable best efforts to join the Florida, Texas, and Minnesota settlements and whether ITG Brands is required to indemnify Reynolds for amounts Reynolds may be required to pay with respect to the acquired brands under those settlements.

In March 2017, March 2018 and March 2019, the states that are parties to the MSA and Philip Morris USA disputed the MSA calculations performed by PricewaterhouseCoopers LLP as independent auditor to the MSA (the **MSA Auditor**) insofar as they reduced ITG Brands' payments by a "PSS Reduction". In all three years, the MSA Auditor rejected the dispute and found that ITG Brands was entitled to the PSS Reduction under the MSA's language. The PSS Reduction currently results in a reduction of approximately US\$65 million in ITG Brands' MSA payments. In April 2018, Philip Morris USA placed approximately US\$3 million in the MSA's "disputed payments account", citing this dispute. It is possible that Philip Morris USA or the MSA states will seek to submit this dispute to arbitration in the future under the MSA's arbitration clause.

#### *Other US litigation*

On 12 June 2015, ITG Brands became a party for purposes of remedies and became subject to a remedial order in *United States v. Philip Morris USA Inc.*, No. 99-2496 (GK), pending in the United States District Court for the District of Columbia. In the suit, the federal government sued certain of the US tobacco companies (not including ITG Brands) alleging violations of the federal Racketeer Influenced and Corrupt Organizations Act. In 2009, the trial court found for the government and imposed remedial remedies on Reynolds and Philip Morris USA, among others. The remedial order, after some alteration on appeal, remains in place. Under the terms of the order, ITG Brands was required to become subject to that order and to the federal court's jurisdiction as a condition of acquiring certain brands from Reynolds. The order imposes certain conduct and disclosure requirements, enforceable by injunctive relief, but no monetary liability. One conduct requirement contained in the order is the publication of "corrective statements" regarding tobacco and smoking on various media. On 18 June 2018, ITG Brands published the corrective statements on its corporate website and two branded websites, for *Winston* and *Kool*. Since 21 November 2018, ITG Brands has been required to ship products with "onserts" bearing the corrective statements on the packaging, with onserts being placed on shipments of two weeks' estimated annual volume of product occurring six times over approximately two years. The federal court is currently considering whether to

require the applicability of additional corrective statements in retail stores, and has ordered the parties to propose a schedule for an evidentiary hearing on the issue.

Fontem US, Inc. (**Fontem US**) is named as a defendant in a case captioned *Petrucci vs. 7-Eleven Distribution Company, et al.*, filed in the Superior Court of the State of California for the County of Los Angeles, Central District (Case No. BC695450). The original and amended complaints in this case named 17 defendants, in addition to Fontem US. The plaintiffs seek recovery of money damages, including punitive damages, against all defendants based on the claim that the principal plaintiff, Edith Anne Petrucci, was injured as a result of her use of e-cigarette and other vaping devices, including those manufactured by Fontem US. The original complaint asserted claims against all defendants styled as eight causes of action as follows: negligence; strict liability—failure to warn; strict liability—design defect; fraudulent concealment; intentional misrepresentation; negligent misrepresentation; breach of implied warranties; and loss of consortium (asserted on behalf of plaintiff Robert Petrucci).

A number of defendants, including Fontem US, filed demurrers to the original complaint and either filed or joined motions to strike the punitive damage claims. Demurrers were sustained as to four causes of action with leave given to the plaintiffs to replead. The first amended complaint asserted the same eight causes of action and, with the exception of one cause of action asserted against Fontem US and three other defendants, they were again asserted against all defendants. A number of defendants, including Fontem US, filed demurrers to the first amended complaint and either filed or joined motions to strike the punitive damage claims. Demurrers filed by a co-defendant were heard first and sustained as to two causes of action with leave given to the plaintiffs to again replead. The second amended complaint contains the same eight causes of action, seven of which are now asserted against Fontem US. Fontem US filed demurrers to three of those causes of action and filed a motion to dismiss the punitive damage claims. Other defendants have also filed demurrers and motions to dismiss. The demurrers to the second amended complaint and the motions to dismiss are scheduled to be heard on 29 July 2019. At this stage of the proceedings, the Group can neither evaluate the likelihood of an unfavourable outcome nor estimate Fontem US's potential loss (if any).

ITG Brands has been named in various product liability claims and lawsuits asserted in Massachusetts state court between 2016 and 2018. This litigation involves claims by individual plaintiffs, based upon their personal smoking history. ITG Brands has the benefit of an indemnity from Reynolds in respect of any part of these individual claims and lawsuits relating to the use of *Winston*, *Kool*, and *Maverick* cigarettes.

Based upon the indemnity by Reynolds, plaintiffs' counsel in all pending Massachusetts cases and claims involving ITG Brands have agreed to refrain from naming ITG Brands as a defendant in smoking-related cases until 13 June 2023. As part of that agreement, plaintiffs' counsel have dismissed ITG Brands without prejudice from all pending Massachusetts state court cases or, alternatively, have agreed in cases where the plaintiff has died to omit ITG Brands from the amended complaint when it is filed by the estate administrator. This agreement with plaintiffs has resulted in ITG Brands' dismissal without prejudice in six Massachusetts state court cases, including those brought by plaintiffs Alfred Federico, Cheryl Brightman, Billie Ann Brown, Deborah MacNeil, Edwin Bonelli and Richard McCurran. The Federico case has since been dismissed as to all parties. Based on the indemnity agreement, plaintiffs' counsel has agreed to omit ITG Brands in the amended complaints that have been or will be filed by the estate administrators of three plaintiffs who have died since their lawsuits were filed, including Cheryl Harris (ITG Brands was not named in amended complaint), Walter Raleigh and Jeanne Quinn. ITG Brands was also not named in lawsuits filed by plaintiffs in five Massachusetts state court cases in which *Winston*, *Kool*, and/or *Maverick* cigarette use was alleged, including lawsuits filed by plaintiffs Michael Zonak, Philip DeRoo, Reuben Lee, Gloria Waters and Jean Restani/Leslie Power. Finally, claimants Frances LaPointe and Katherine Fowler have not filed lawsuits in Massachusetts state court in furtherance of their claims. In her claim, Ms LaPointe had also alleged that she smoked *Montclair* cigarettes. Commonwealth Brands has the benefit of an indemnity from Reynolds (the successor in interest to Brown & Williamson) that would cover any claim in respect to *Montclair* cigarettes between 1955 (when the claimant Ms LaPointe began smoking) and 1996 (when Commonwealth Brands purchased the *Montclair* brand from Brown & Williamson).

#### *Litigation in Argentina*

In January 2016, SEITA was notified of a claim which has been filed with a Civil Court of the City of Buenos Aires against Nobleza Piccardo (**Nobleza**) by an individual seeking redress for damages suffered as a consequence of smoking. Nobleza manufactures and distributes two brands of cigarettes owned by SEITA in Argentina under the terms of a licence agreement. Nobleza has sought to invoke an indemnity

contained in the licence agreement, pursuant to which SEITA is responsible for any product liability to third parties. The amount claimed is 8,980,200 Argentine pesos (approximately £190,000) plus interest, costs and legal expenses, and such larger or smaller amount that may arise from the evidence. The claimant has requested that he be granted the benefit of suing in *forma pauperis* which, if granted, will affect the costs payable by the claimant and/or recoverable by Nobleza. The claim is currently in the evidence production period, during which all information, expert and witness evidence will be produced. As part of this, several hearings have taken place to take the testimony of four of the claimant's five factual witnesses (the claimant has relinquished the right to take the testimony of the fifth). The last of these hearings took place on 20 December 2017. In October and November 2017, the biochemical expert provided his report and responses to various requests from Nobleza for clarification of his report. In November 2017, the court replaced the previously-appointed psychiatric expert. During February 2018, the forensic expert reported that she had completed the examinations of the claimant necessary for her report. In March 2018, the court requested that the newly-appointed psychiatric expert schedule a date for the claimant's examination. The psychiatric expert filed his report in October 2018. The forensic expert has not yet filed her report, despite the court ordering her to do so in October 2018 and again in late December 2018. This is the only outstanding expert report. The information evidence offered by both parties has also not yet been produced.

#### *Litigation in France*

On 16 January 2018, the French National Committee against Tobacco (the **CNCT**) filed a criminal complaint with the Paris Public Prosecutor against the four main tobacco manufacturers, including a French subsidiary of Imperial Brands named Imperial Brands Finance France SAS (**IBFF**), on the grounds of "reckless life endangerment". Neither IBFF nor any of its employees or managers have been charged or placed under formal investigation in any ongoing proceedings as a result of the complaint. Imperial Brands strongly denies the allegations made by the CNCT and is monitoring developments.

#### *Litigation in Italy*

Logista, as a distributor of cigarettes, is currently a defendant in a claim commenced before a First Instance Judge (Giudice di Pace) in Naples by Mr Eduardo Arnese. The amount of the claim has not been precisely quantified by the claimant and is for damages suffered as a consequence of alleged addiction. Logista filed a challenge to the competence of the Giudice di Pace which was heard in 2006. The judgment on this and other procedural issues is awaited.

A further litigation proceeding has been brought by two individuals who have summoned Imperial Tobacco Italy S.r.l (**ITI**) and Reemtsma Distribution Company S.r.l (**Reemtsma Italy**) in relation to harm allegedly suffered as a consequence of the use of tobacco which had allegedly been damaged as a result of the use of a humidifying stone. The humidifying stone was not produced by either ITI or Reemtsma Italy. Rather, the stone was produced by a third party, whom the court has ruled cannot be made a party to the proceedings. Each individual is claiming €400,000 (approximately £346,560). ITI and Reemtsma Italy have denied liability. ITI and Reemtsma Italy have, to date, rejected two settlement offers made by the claimants. At hearings on 8 February 2017 and 18 October 2017, the judge was informed that ITI and Reemtsma Italy had not accepted settlement proposals made by the claimants. In January 2018, ITI was informed that a new judge had been assigned to the case. He scheduled a hearing for 7 February 2018 to deal with a historic issue regarding service of the claim form on Reemtsma Italy. At the hearing, the claimants confirmed that Reemtsma Italy should be a party to the proceedings and requested a further period for settlement discussions. ITI and Reemtsma Italy requested that the procedural irregularities surrounding service be remedied by the claimants. The judge reserved his decision on service, scheduled the next hearing for 17 October 2018 and invited the parties to seek to settle the dispute. The hearing on 17 October 2018 was postponed until 3 July 2019 and again until 5 February 2020. The judge has not yet made a decision on the parties' requests for oral and expert evidence.

#### *Litigation in Poland*

On 9 October 2017, Imperial Tobacco Polska (**Imperial Polska**) received notice that a claim had been filed against it in the Regional Court in Poznan by an individual, Mr Wieslaw Kuzlak, claiming 1,000,000 Polish złoty (approximately £201,800) by way of compensation for alleged smoking related health effects. Mr Wieslaw Kuzlak is a prisoner in Wronki prison in the north-west of Poland. Imperial Polska denied the claim in full. At a hearing on 21 March 2018, Mr Wieslaw Kuzlak was questioned by the court and Imperial Polska's advocate on a number of issues, including his smoking and medical history. At a further hearing

on 18 May 2018, the court dismissed the claim in full and ordered that Mr Wieslaw Kuzlak pay Imperial Polska's costs in the sum of 10,817 Polish zloty (approximately £2,180). On 18 July 2018, Mr Wieslaw Kuzlak filed an appeal. Imperial Polska filed a reply to the claimant's appeal on 10 August 2018. The hearing before the Appellate Court in Poznan has been scheduled for 17 September 2019.

#### *Litigation in Russia*

In March 2018, Imperial Tobako LLC received a copy of a claim by an individual, Mr Aleksey Vyacheslavovich Kalinin. The claim is directed against a number of tobacco companies, including Imperial Tobako LLC. Mr Kalinin is seeking damages in the amount of 6,600,000 Russian roubles (approximately £74,580) for psychological harm allegedly caused by nicotine in cigarettes. The claim has not been filed at court and the copy of the claim was received directly from Mr Kalinin. As a result, no court proceedings have yet been initiated and Imperial Tobako LLC has not been properly served in accordance with Russian procedural law.

#### *Recent European Commission proceedings*

On 25 April 2019, the European 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 and so the UK government should identify and recover any state aid. Details of that assessment and recovery process are still to be announced by the UK government. In mid-June 2019, the UK government appealed against the European Commission's decision. The Group considers that the potential amount of additional tax payable remains between nil and £300 million depending on the basis of calculation. Based upon current advice the Group does not currently consider any provision is required in relation to this investigation or any other EU state aid investigation. The assessment of uncertain tax positions is subjective and significant management judgment is required. This judgment is based on current interpretation of legislation, management experience and professional advice.

#### *Tax audit in Russia*

In 2017 new legislation was introduced in Russia, prospectively limiting the amount of production that could take place prior to new excise tax increases without being subject to a higher excise tax rate. On 28 September 2018, the Russian tax authorities issued a preliminary tax audit report for the calendar years 2014 to 2016 seeking to assess retrospectively additional excise and VAT with associated interest and penalties of approximately £132 million in respect of pre-production prior to new excise duty increases. In the event that the Russian tax authorities were to apply the same ruling to 2017, the Group estimates further excise and VAT with associated interest and penalties of £74 million could be assessed. The Group believe they have strong grounds for objecting to the preliminary report which were discussed with the Russian tax authorities in November 2018. Subsequent to these discussions, additional audit measures were commenced by the tax authorities. The Group received a revised report from the Russian tax authorities on 12 July 2019 which has not materially changed the rouble tax adjustment sought. The Group is working through the revised report to submit objections due by 2 August 2019. These will be discussed with the Russian tax authorities on 14 August 2019. Should the position of the Russian tax authorities remain unchanged it is likely they will issue a final assessment shortly thereafter. An immediate payment of the assessment would give a period of a year to file a court appeal rather than one month. At this stage no provision has been made.

#### ***Product liability litigation relating to the assets acquired pursuant to the 2015 US Acquisition***

Certain members of the Reynolds group of companies and certain members of the Lorillard group of companies were or are, in respect of the cigarette brands acquired as part of the 2015 US Acquisition, subject to ongoing, pending and threatened product liability proceedings in the US including: (a) individual claims alleging personal injury or death; (b) class actions alleging personal injury or requesting court-supervised programmes for ongoing medical supervision and monitoring; (c) claims brought to recover the costs of providing health care; and (d) claims in relation to the labelling of products as "light" or "ultra-light". However, as these brands were acquired without historic product liabilities, these proceedings and the respective quantum of such claims are not described in further detail in this document. Litigation related to the State Settlement Agreements and the 2015 US Acquisition are described above.

### ***Competition Matters***

On 29 May 2017, the National Competition Authority in Belgium (the **BCA**) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. The Group's subsidiary in Belgium received a visit from the BCA and is assisting with enquiries including responding to a request for information.

On 10 April 2019, the Spanish National Authority for Markets and Competition (Comisión Nacional de los Mercados y la Competencia, or **CNMC**) issued, and publicly announced, a final decision regarding alleged anti-competitive practices in the Spanish market for the manufacture, distribution and marketing of cigarettes. The CNMC has found that by receiving market sales volume data from its distributor, Altadis has infringed EU and Spanish competition law between 2008 and February 2017, and has issued a fine against the company of €11,426,112. A fine of €20,987,496 was imposed on Logista. Both Altadis and Logista have indicated that they will appeal the decision to the Courts in Spain.

### **Insurance**

The Group maintains the types and amounts of insurance that are customary for businesses in the sectors and geographic regions in which it operates, including insurance for property damage and business interruption, transit, public and products liability and directors and officers liability. The Group considers its insurance coverage to be adequate, given the financial strength, and business contingency plans, of the Group.

### **Property**

The Group owns or leases factories in over 30 countries to cut, blend and warehouse tobacco and for the production and manufacture of its cigarettes, fine cut tobacco, cigars, snus, rolling papers and other products. Details of certain of the largest production factories and significant warehouse properties of the Group are set out below. They are all held freehold or long leasehold. Management believes that they are

adequate for their purpose and are at present substantially utilised in line with their nature and function. In most instances, the Group's facilities are operating below their estimated maximum capacity output.

<u>Location</u>	<u>Principal use</u>	<u>Manufacturing capacity—Cigarettes (annual, million sticks)/other units as shown</u>	<u>Factory finished goods storage capacity in Kg/Warehouse area</u>
Le Havre, France . . . . .	Factory—Blending and expanded tobacco production	—	54,586,000
Joure, Netherlands . . . . .	Factory—Roll your own, make your own, pipe tobacco	—	25,207,000
Wilrijk, Belgium . . . . .	Factory—Rolling paper (million papers)	112,000	—
Langenhagen, Germany . . . . .	Factory—Cigarettes, roll your own, make your own, expanded tobacco	74,000	7,531,000
Trossingen, Germany . . . . .	Factory—Tubes (million tubes)	49,000	—
Tarnowo, Poland . . . . .	Factory—Cigarettes, make your own, expanded tobacco	47,000	10,615,000
Radom, Poland . . . . .	Factory—Cigarettes, make your own	41,000	3,471,000
Sävsjö, Sweden . . . . .	Factory—Snus	—	3,675,000
Cantabria, Spain . . . . .	Factory—Machine-made cigars (million)	1,832	—
Volgograd, Russia . . . . .	Factory—Cigarettes, expanded tobacco	45,000	747,000
Kiev, Ukraine . . . . .	Factory—Cigarettes	42,000	—
Liverpool, UK . . . . .	Factory—E-liquids	—	30,000
Manisa, Turkey . . . . .	Factory—Cigarettes	19,000	—
Ain Harrouda, Morocco . . . . .	Factory—Cigarettes	22,000	—
Sitam, Madagascar . . . . .	Factory—Threshing green tobacco	—	4,500,000
Jhunan, Taiwan . . . . .	Factory—Cigarettes	13,000	—
Wellington, New Zealand . . . . .	Factory—Cigarettes, roll your own	16,000	1,886,000
La Romana, Dominican Republic	Factory—Machine-made cigars (million)	1,732	
	Factory—Hand-made cigars (million)	34	
	Factory—Wrapper cuts (million)	1,026	—
Cayey, Puerto Rico . . . . .	Factory—Machine-made cigars (million)	866	—
Greensboro, US . . . . .	Factory—Cigarettes	16,000	—
Madrid, Spain . . . . .	Warehouse—Logista head office and main warehouse	—	92,400m <sup>2</sup> (approximate building area)

### Key Subsidiaries and Associated Undertakings

A full list of the Group's key subsidiaries and associated undertakings is included in "Related Undertakings" in the 2018 Financial Statements.

### Joint Ventures

A full list of the Group's Key Subsidiaries and Associated Undertakings is included in "Related Undertakings—Joint Ventures: Incorporated Overseas" in the 2018 Financial Statements.



## Employees

The following table sets out the average number of persons employed by the Group for each of the financial years indicated, by location and business segment (rounded to the nearest 100):

	<u>2016</u>	<u>2017</u>	<u>2018</u>
EU . . . . .	16,000	15,600	15,400
Americas . . . . .	8,800	8,500	8,500
Rest of the World . . . . .	9,800	9,800	9,400
<b>Total Group</b> . . . . .	<b>34,600</b>	<b>33,900</b>	<b>33,300</b>
Tobacco & NGP . . . . .	28,700	27,900	27,200
Distribution . . . . .	5,900	6,000	6,100
<b>Total Group</b> . . . . .	<b>34,600</b>	<b>33,900</b>	<b>33,300</b>

As at 31 September 2018, the total number of employees in the Group was 33,300.

## DIRECTORS AND SENIOR MANAGEMENT

The following table shows the Board of Directors and senior management of Imperial Brands as at the date of this Offering Memorandum.

<u>Board of Directors</u>	<u>Title</u>
Mark D. Williamson . . . . .	Chairman and Non-Executive Director
Alison J. Cooper . . . . .	Chief Executive and Executive Director
Oliver R. Tant <sup>(1)</sup> . . . . .	Chief Financial Officer and Executive Director
Matthew R. Phillips . . . . .	Chief Development Officer and Executive Director
Sue M. Clark . . . . .	Non-Executive Director
Therese M. Esperdy . . . . .	Senior Independent Non-Executive Director
Simon A.C. Langelier . . . . .	Non-Executive Director
Steven P. Stanbrook . . . . .	Non-Executive Director
Jon A. Stanton . . . . .	Non-Executive Director
Karen Witts . . . . .	Non-Executive Director
John M Downing <sup>(2)</sup> . . . . .	Company Secretary

**Notes:**

- (1) Also a board member of Imperial Tobacco Limited and Imperial Brands Finance PLC.
- (2) Also a board member of Imperial Tobacco Limited.

<u>Operating Executive</u>	<u>Title</u>
Alison Cooper . . . . .	Chief Executive
Oliver Tant . . . . .	Chief Financial Officer
Matthew Phillips . . . . .	Chief Development Officer
Joerg Biebernick . . . . .	Division Director, Europe
Dominic Brisby . . . . .	Division Director, Americas, Africa, Asia and Australasia
Richard Hill . . . . .	Group Commercial Director, Vapour
David Newns . . . . .	Group Innovation Director
Amal Pramanik . . . . .	Group Strategy Director
Walter Prinz . . . . .	Group Manufacturing and Supply Chain Director

The business address of each of the Directors and members of senior management is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom.

There are no existing or potential conflicts of interest between any duties to Imperial Brands of the Directors and senior management and/or their respective private interests and other duties, except as disclosed in the footnotes to the charts under the headings “*Imperial Brands Finance PLC*”, “*Imperial Tobacco Limited*” and this “*Directors and Senior Management*”.

### Board of Directors

*Mark D Williamson, CA (SA), Chairman*, appointed Non-Executive Director in July 2007, appointed Senior Independent Non-Executive Director in February 2012, Deputy Chairman of the Board in January 2013, and Chairman of the Board in February 2014.

Committee membership: Chairman of the Succession & Nominations Committee.

Skills and experience: Mr Williamson is a qualified accountant who has considerable international financial and general management experience. Mr Williamson joined International Power plc in 2000 as a group financial controller and was appointed to the board as the Chief Financial Officer in 2003, where he worked until 2012. Previously, he was a group financial controller and a group chief accountant at Simon Group, the engineering and bulk chemicals storage group.

External appointments: Serves as the chairman of Spectris plc and as senior independent non-executive director and chair of the audit committee of National Grid Plc.

In anticipation of the requirements of the 2018 UK Corporate Governance Code (which applies to Imperial Brands from 1 October 2019) regarding a Chairman’s tenure on a Board, the Group announced in February 2019 that it had initiated a process to search for a Non-Executive Chairman to succeed Mr Williamson.

*Alison J. Cooper, BSc, ACA, Chief Executive and Executive Director*, appointed to the Board in July 2007 and appointed Chief Executive and Executive Director in May 2010.

Skills and experience: Mrs Cooper joined the Group in 1999 and has held a number of senior roles in the Group including Director of Finance and Planning, Regional Director Western Europe, Corporate Development Director and Chief Operating Officer. Previously she was with PricewaterhouseCoopers where she had worked with Imperial Brands for several years in a number of areas, including acquisitions.

External appointments: Currently no external director appointments.

*Oliver R. Tant, BSc, CA (Scotland), Chief Financial Officer and Executive Director*, appointed to the Board of Directors in October 2013 and appointed Chief Financial Officer in November 2013.

Skills and experience: Mr Tant held a number of senior positions in a 32-year career at KPMG, including as the global managing director of the private equity division and the head of the UK audit group. He was also a member of both the UK and German boards of KPMG. He brings to the Group international experience in change management, organisational restructuring, corporate finance and mergers and acquisitions.

External appointments: Director of The Copse House Cider Company Ltd, a director of Landshire Estates Ltd, a director of Landshire Cider Ltd, a member of the board of directors of Future Fuels No. 1 LLP, a member of the board of directors of Cobalt Data Centre 2 LLP, a member of the board of Invicta Martineau Place LP and a member of the board of directors of Green Power Plant LLP.

*Matthew R. Phillips, LLB, Chief Development Officer and Executive Director*, appointed to the Board of Directors as Executive Director in the role of Corporate Affairs Director in June 2012 and Chief Development Officer in June 2015.

Skills and experience: Mr Phillips joined the Group's legal department in 2000 having previously worked for law firms Linklaters and Burges Salmon. Mr Phillips has held a number of senior roles in the Group, including Company Secretary, General Counsel and Group Corporate and Legal Affairs Director prior to his appointment to the Board as Corporate Affairs Director in June 2012 and Chief Development Officer in June 2015. In his current role, Mr Phillips is responsible for NGP innovation, product science, smokeless tobacco, corporate development and corporate and legal affairs.

External appointments: Currently no external director appointments.

*Sue M. Clark, BSc (Hon), MBA, Non-Executive Director*, appointed Non-Executive Director in December 2018 and Chairman of the Remuneration Committee in February 2019.

Committee Membership: Chairman of the Remuneration Committee and member of the Succession & Nominations Committee.

Skills and experience: Ms Clark has strong international business credentials with over 20 years' executive committee and board level experience in fast-moving consumer goods (FMCG), regulated transport and utility sectors. She 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.

External appointments: Non-executive director and chairman of the Remuneration Committee of Britvic plc, non-executive director and member of the Audit and Remuneration Committees of Bakkavor Group plc. Ms Clark is also a non-executive director of Tulchan Communications LLP and Heriot-Watt Business School and a member of the supervisory board and remuneration committee of AkzoNobel N.V.

*Therese M. Esperdy, BA, MPPM, Senior Independent Non-Executive Director*, appointed Senior Independent Non-Executive Director in May 2019, having been appointed to the Board in July 2016.

Committee membership: Member of the Succession & Nominations Committee and Audit Committee.

Skills and experience: Ms Esperdy has significant international investment banking experience having held a number of roles at JP Morgan, including Global Chairman 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.

External appointments: Non-executive director and chairman of the Finance Committee of National Grid Plc., non-executive director of Moody's Corporation.

*Simon A.C. Langelier, BSc (Hon), Non-Executive Director*, appointed Non-Executive Director in June 2017.

Committee membership: Member of the Succession & Nominations Committee and Audit Committee.

Skills and experience: Mr Langelier 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, Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses.

External appointments: Chairman of PharmaCielo Limited and Ambassador of Lancaster University.

*Steven P. Stanbrook, Non-Executive Director*, appointed Non-Executive Director in February 2016.

Committee membership: Member of the Remuneration Committee and Succession & Nominations Committee.

Skills and experience: Mr Stanbrook brings considerable international executive experience to the Board, gained in a number of FMCG companies. This includes 18 years at SC Johnson & Sons Inc., most recently as Chief Operating Officer, where he was responsible for managing their international operations. Previously, he held senior positions at Sara Lee Corporation, including as Chief Executive Officer of Sara Lee Bakery, and at CompuServe Corp. He is also a former non-executive director of Chiquita Brands International, Inc. and Hewitt Associates.

External appointments: Partner of Wind Point Partners, a director of The Vollrath Company LLC, and a non-executive director of Cott Corporation.

*Jon A. Stanton, ACA, Non-Executive Director*, appointed Non-Executive Director in May 2019.

Committee membership: Member of the Succession & Nominations Committee and the Audit Committee.

Skills and experience: Mr Stanton has a wide range of experience, with a first-class international business track record, including significant US exposure. In 2016, he was appointed Chief Executive of Weir Group PLC, 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 an audit partner.

External appointments: Chief Executive of Weir Group PLC.

*Karen Witts, FCA, Non-Executive Director*, appointed Non-Executive Director in February 2014 and Chairman of the Audit Committee in February 2017.

Committee membership: Chairman of the Audit Committee, and member of the Succession & Nominations Committee and Remuneration Committee.

Skills and experience: Mrs Witts brings significant financial and management expertise to the Board. She is currently Chief Financial Officer and executive director of Compass Group plc and was previously Chief Financial Officer of Kingfisher plc and Chief Financial Officer of the Africa, Middle East, Asia and the Asia Pacific Region at Vodafone plc. Prior to that Mrs Witts held a number of senior positions at BT.

External appointments: Chief Financial Officer and executive director of the Compass Group.

*John M. Downing, MA, Solicitor, Company Secretary*, appointed Company Secretary in June 2012.

Skills and experience: Mr Downing joined Imperial Brands in 2005 having previously worked for the law firm Linklaters. He has had a number of senior legal roles in Imperial Brands, including playing a leading role in the Altadis acquisition and becoming the 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 role as Company Secretary, Mr Downing also has responsibility for the Group's governance, code of conduct, security, anti-illicit trade initiatives and information security.

### **Operating Executive**

*Alison J. Cooper, BSc, ACA, Chief Executive and Executive Director*, appointed to the Board of Directors in July 2007, and became Chief Executive and Executive Director in May 2010.

See “—Board of Directors—Alison J. Cooper” above.

*Oliver R. Tant, BSc, CA (Scotland), Chief Financial Officer and Executive Director*, appointed to the Board of Directors in October 2013, and appointed Chief Financial Officer in November 2013.

See “—Board of Directors—Oliver R. Tant” above.

*Matthew R. Phillips, LLB, Chief Development Officer and Executive Director*, appointed to the Board of Directors as Executive Director in the Role of Corporate Affairs Director in June 2012 and appointed Chief Development Officer in June 2015.

See “—Board of Directors—Matthew R. Phillips” above.

*Joerg Biebernick, Dipl.-Kfm (MBA equivalent), Division Director, Europe*, joined Imperial Brands in November 2017.

Skills and experience: Mr Biebernick has considerable brand marketing and general management experience built during a 25-year career in Europe and the US. Prior to joining Imperial Brands, he served as President, Latin America for Kimberly Clark. He has also held senior positions working in the consumer goods sector for both Georgia Pacific and Procter & Gamble. In addition to managing the Group’s Europe Division, Mr Biebernick has responsibility for its Market Repeatable Model and the Imperial Brands brand portfolio.

*Dominic Brisby, MA (Hon), Division Director, Americas, Africa, Asia and Australasia*, appointed a Division Director in 2013.

Skills and experience: Mr Brisby leads the Americas, Africa, Asia & Australasia Division, which includes the Group’s US business, ITG Brands, and its Premium Cigar Division. He has also been responsible for global brand marketing in the Group’s tobacco business since 2016. Prior to the geographic reclassification of the Group’s operations in 2018, he first led its Returns Division, then its Growth Division. A Division Director since 2013, Mr Brisby has also previously held a number of international general management roles in a long and successful career at Imperial including responsibility for Czechia, Poland and Iberia.

*Richard Hill, BSc (Hon), Group Commercial Director, Vapour*, appointed to Group Commercial Director, Vapour in April 2018, and previously headed up Group Transformation and HR, having joined Imperial in October 2016.

Skills and experience: Mr Hill has 30 years of international experience in consumer goods and banking. After an early career leading sales and marketing teams in Europe, he performed global CFO roles in both Allied Domecq and Standard Chartered. He was President and CEO of SC First Bank, South Korea’s largest foreign investor and has held several public non-executive board positions. In his current role he leads the Fontem Ventures Amsterdam team, which is focused on the development of the Group’s vapour commercial strategies and branding.

*David Newns, Group Innovation Director*, appointed Group Innovation Director in December 2018 having joined Imperial in October 2017.

Skills and experience: Mr Newns has played a pioneering role in the nicotine products industry since 2008 when he built the CN Creative business with his business partner, Chris Lord. Together they went on to co-found the vapour and nicotine product innovation business Nerudia in 2013. Both joined the Group when Nerudia was acquired by Fontem Ventures in 2017.

*Amal Pramanik, B Tech., PGDM, Group Strategy Director*, appointed as Group Strategy Director in November 2017 having joined the Operating Executive in 2016.

Skills and experience: Mr Pramanik has 30 years of FMCG experience across the tobacco, soft drinks and personal care sectors, gained from his time in Europe, India and Australia. Prior to his appointment as Strategy Director, Mr Pramanik was responsible for the Group’s Growth Division, building its position in over 50 markets around the world. Before taking up his global roles, he led both the Group’s UK and Dutch businesses. Mr Pramanik is a qualified executive coach and has mentored senior managers across the world on a variety of operational and leadership themes. His role includes overall responsibility for Group Transformation and HR.

*Walter Prinz, Dipl.-Ing, Group Manufacturing & Supply Chain Director*, appointed Group Manufacturing, Research & Development Director in October 2010, taking on additional responsibility for the supply chain in October 2014.

Skills and experience: Mr Prinz has overall responsibility for all tobacco and NGP manufacturing and supply chain operations. He joined Reemtsma in 1987 and has held a number of senior roles. Prior to his appointment to the Operating Executive, Mr Prinz was Director of Product Development and Purchasing.

## **Board Practices**

The Board remains committed to maintaining high standards of corporate governance, which it sees as a cornerstone in managing the business affairs of the Group and a fundamental part of discharging its stewardship responsibilities. Accordingly, for the financial years up to and including the year ended 30 September 2018, Imperial Brands has complied with the governance rules and best practice provisions applying to UK listed companies as contained in section 1 of the version of the UK Corporate Governance Code (the **Code**) that applied to Imperial Brands for the relevant financial year.

### ***Board structure***

The Board currently comprises a Non-Executive Chairman, six independent Non-Executive and three Executive Directors.

There is a clear separation of the roles of the Chairman, Mark D. Williamson, and the Chief Executive, Alison J. Cooper, to ensure an appropriate balance of power and authority. The Chairman is responsible for the leadership of the whole Board, with the Chief Executive, supported by the Operating Executive, responsible for managing the Group and implementing the strategy and policies which have been set by the Board.

Therese M. Esperdy is the recognised Senior Independent Non-Executive Director to whom Imperial Brands encourages shareholders to raise any concerns they may have.

Following the annual Board evaluation and consideration of all other relevant factors contained in the Code, the Board concluded at its meeting in September 2018 that all Non-Executive Directors continue to contribute effectively and constructively to Board debate, to demonstrate commitment to their role, objectively challenge and robustly question management and at all times to have the best interests of the Group in mind and that, taking account of these factors, together with the other relevant factors contained in the Code (with the exception of the Chairman, as required by the Code) remain independent as defined in the Code.

The Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments on boards of, or relationships with, companies outside the Group. The Board requires Directors to declare all appointments and other situations that could result in any possible conflict of interest and has adopted appropriate processes to manage and, if appropriate, approve any such conflicts.

The Directors' biographies, appearing in "*—Board of Directors*" above, demonstrate a detailed knowledge of the tobacco industry and the wider FMCG, together with a range of business and financial experience that is vital to the management of an international company. The biographies also include details of any other major directorships.

### ***Board operations***

The Board is the principal decision-making forum of the Group and manages overall control of the Group's affairs. Key to this control is the schedule of matters that are reserved for consideration by the Board and on which any final decision must be made by the Board. These include, *inter alia*, approving commercial strategy, corporate plans, major corporate activities, financial statements, payment of dividends and appointment and removal of directors and the Company Secretary.

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters and for ensuring Board procedures are followed and applicable rules and regulations complied with.

All directors are equally accountable in law for the proper stewardship of the Group's affairs, with the Non-Executive Directors having a particular responsibility for ensuring that strategies proposed for the development of the business, resources and standards of conduct are critically reviewed using their independent judgment and experience. This seeks to ensure that the Board acts in the best long-term interests of all shareholders, takes account of the wider community of interests represented by employees, customers and suppliers, and that environmental, community, ethical and reputational issues are fully integrated into the Group's decision-making and risk assessment processes.

The Non-Executive Directors also play a leading role in corporate accountability and governance through their membership of the Remuneration Committee, the Succession & Nominations Committee and the Audit Committee. The membership and remit of each committee are described below.

The Directors may also seek independent professional advice, at the Group's expense, if they think this is necessary for them to carry out their responsibilities. In addition, they have access to the advice and support of the Company Secretary and, where appropriate, the services of other employees, for all governance and regulatory matters. The Group maintains appropriate insurance cover in respect of directors' and officers' liabilities. Imperial Brands has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that comply with the requirements of the Companies Act 2006.

#### ***Remuneration Committee***

The Remuneration Committee comprises three independent Non-Executive Directors who have no personal financial interest, other than as shareholders, in the matters to be decided.

The members of the Committee are Sue M. Clark (Chairman), Steven P. Stanbrook and Karen Witts. The Deputy Company Secretary acts as secretary to the Committee.

Alison J. Cooper (Chief Executive) is invited to attend to respond to questions raised by the Committee. She is, however, specifically excluded from any matter concerning the details of her own remuneration.

The Committee sets the remuneration package for each Executive Director and the Group's most senior executives after taking advice principally from external sources, including FIT Remuneration Consultants LLP (**FIT**) and Willis Towers Watson, both of whom are engaged by the Committee as required. FIT also reviews the Group's remuneration principles and practices against corporate governance best practice.

The Group Reward Director also provides internal support and advice to the Committee. Law firms Allen & Overy LLP and Ashurst LLP provide services to the Committee as and when required. They both also provide other legal services to the Group. Pinsent Masons LLP is retained by the Group to provide legal advice on its employee share plans.

The Committee has appointed Alithos Limited to undertake total shareholder return (**TSR**) calculations and provide advice on all TSR-related matters, including advice in respect of the bespoke comparator group. Alithos Limited provides no other services for the Group.

The Board is ultimately responsible for the framework and cost of executive remuneration but has delegated to the Committee, within its terms of reference, responsibility for certain activities.

The Committee's terms of reference are published on the Group website, [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com).

In discharging its responsibilities, the most significant issues addressed by the Committee during the year ended 30 September 2018 were:

- a) considering base salary and bonus targets;
- b) considering the achievement of performance criteria for the annual bonus and share plans and approving vesting levels;
- c) ensuring remuneration arrangements support the Group's strategy, align with its values and drive performance;
- d) maintaining a competitive remuneration policy appropriate to the business environment of the countries in which the Group operates thereby ensuring the Group can attract and retain high-calibre individuals;
- e) aligning senior executives' remuneration with the interests of long-term shareholders while ensuring that remuneration is fair but not excessive;
- f) considering the output from the evaluation of the effectiveness of the Remuneration Committee; and
- g) undertaking the annual review of the Committee's terms of reference.

The Committee's approach is fully consistent with the Group's overall remuneration strategy and philosophy that all employees should be competitively rewarded to attract and retain their valued skills in the business, as well as supporting corporate strategy, by directly aligning executive management reward with the Group's strategic business goals.

### *Succession & Nominations Committee*

The Succession & Nominations Committee comprises all the Non-Executive Directors and meets on an as-required basis. The members of the Committee are Mark Williamson (Chairman), Sue M. Clark, Therese M. Esperdy, Simon A.C. Langelier, Steven P. Stanbrook, Jon A. Stanton and Karen Witts. John M. Downing, Company Secretary, acts as secretary to the Committee.

The Committee's terms of reference are published on the Group website, [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com). The responsibilities of the committee include the evaluation of the balance of skills, knowledge and experience on the Board, the development of role specifications, the formulation of succession plans and the making of recommendations to the Board with regard to the appointment of Directors.

Following recommendation by the Committee, directors are appointed by the Board. They must, however, submit themselves for election by shareholders at the annual general meeting following their appointment and annually thereafter. The performance of each director is considered before recommending such election or re-election.

### *Audit Committee*

The Audit Committee has determined that all of its members are independent Non-Executive Directors. The members of the Committee are Karen Witts (Chairman), Therese M. Esperdy, Simon A.C. Langelier and Jon A. Stanton. John M. Downing, the Company Secretary, acts as secretary to the Committee. Ms Witts and Mr Stanton are qualified accountants and, therefore, are appropriately qualified to discharge the responsibilities that membership entails and meet the requirements of the Code and the Committee's terms of reference that at least one of its members has recent and relevant financial experience. The remaining members of the Committee supply a supporting mix of skills and backgrounds.

The Committee's terms of reference cover the matters recommended by the Code and are published on the Group's website, [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com). For the year ended 30 September 2018, the Committee's responsibilities included, *inter alia*:

- a) reviewing the Group's financial results throughout the financial year, including periodic announcements to the market;
- b) considering significant and complex accounting transactions;
- c) reviewing the processes to ensure the Group has adequate procedures in place to control bribery and corruption risks;
- d) evaluating the Board's going concern review;
- e) considering reports from managers involved in the Group internal audit, finance and other functions which provide the Committee with information required to oversee the Group's systems of internal control for financial reporting, internal control policies, corporate governance procedures, the system of risk management and to assess the review and mitigation of associated risks;
- f) reviewing the internal audit plan for the year ended 30 September 2018;
- g) reviewing annually and confirming the independence of the external auditors, their proposed audit plan and fee proposal, allowing the Committee, together with management's assessment of the auditors' effectiveness and independence, to establish the scope, effectiveness, independence and objectivity of the auditors and, if appropriate, to recommend to the Board for their reappointment;
- h) an audit tender process and appointment of a new audit firm;
- i) considering the output from the evaluation of the effectiveness of the Committee;
- j) approving accounting policies, as required; and
- k) considering the accounting treatment relating to ongoing matters.

During the year ended 30 September 2018, the Committee undertook its annual review of the scope and control of the risk assessment and compliance programme implemented by the Group compliance function and confirmed its approval thereof. The Audit Committee monitors and critically reviews the authority, effectiveness and level of resource allocated to the Group compliance function.



### *Operating Executive*

The Operating Executive comprises the Executive Directors and key members of Imperial Brands' senior leadership team, meets on a monthly basis or more frequently if necessary and is responsible for assisting the Chief Executive in developing and implementing the Group's strategy and the day-to-day management of the Group. The members of the Operating Executive are Alison J. Cooper (chairman), Oliver R. Tant, Matthew R. Phillips, Joerg Biebernick, Dominic Brisby, Richard Hill, David Newns, Amal Pramanik and Walter Prinz.

## IMPERIAL BRANDS FINANCE PLC

The Issuer was incorporated as a private company with limited liability under the laws of England and Wales on 14 June 1996. It was re-registered on 21 October 1997 as a public company limited by shares within the meaning of the Companies Act 1985 following a special resolution of its members on 20 October 1997. Its registered office is at 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom (telephone number: +44 (0) 117 963 6636). It is registered with the Registrar of Companies in England and Wales with company number 03214426.

The Issuer is an indirect wholly-owned subsidiary of Imperial Brands. It has an issued share capital of £2,100,000,000 as at 30 September 2018, comprising 2,100,000,000 ordinary shares of £1 each.

The Issuer is a finance subsidiary of Imperial Brands with no business operations of its own, other than advancing funds to, receiving funds from, and providing treasury services for, Imperial Brands and its subsidiaries. The Issuer has no subsidiaries of its own.

The directors and company secretary of the Issuer are as follows:

<u>Name</u>	<u>Title</u>
Oliver R. Tant <sup>(1)</sup> . . . . .	Director
John M. Jones . . . . .	Director
Thomas R. W. Tildesley <sup>(2)</sup> . . . . .	Director
Marie A. Wall <sup>(2)</sup> . . . . .	Director
John M. Downing . . . . .	Company Secretary

**Notes:**

(1) Also a board member of Imperial Tobacco Limited and Imperial Brands.

(2) Also a board member of Imperial Tobacco Limited.

The business address of the directors is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom. Two of the current directors hold external positions outside the Group, as follows: Oliver R. Tant is a director of The Copse House Cider Company Ltd, a director of Landshire Estates Ltd, a director of Landshire Cider Ltd, a member of the board of directors of Future Fuels No. 1 LLP, a member of the board of directors of Cobalt Data Centre 2 LLP, a member of the board of directors of Invicta Martineau Place LP and a member of the board of directors of Green Power Plant LLP. Thomas R. W. Tildesley is director of W.H. Tildesley Investment Holdings Limited and W.H. Tildesley Investments Limited.

There are no existing or potential conflicts of interest between any duties to the Issuer of the directors and/or their respective private interests and other duties.

## IMPERIAL TOBACCO LIMITED

ITL was incorporated as a private company with limited liability under the laws of England and Wales on 1 November 1984. Its registered office is at 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom (telephone number: +44 (0) 117 963 6636). It is registered with the Registrar of Companies in England and Wales with company number 01860181.

ITL is an indirect wholly-owned subsidiary of Imperial Brands. It has an issued share capital of £18,831,139 as at 30 September 2018, comprising 18,831,139 ordinary shares of £1 each.

The principal activity of ITL, as the Group's main UK operating subsidiary, is the manufacture, marketing and sale of tobacco and tobacco-related products. ITL is also a holding company and an intermediate parent company for a significant proportion of the Group's subsidiaries. The Directors and Company Secretary of ITL are as follows:

<u>Name</u>	<u>Title</u>
Oliver R. Tant <sup>(1)</sup> . . . . .	Director
John M. Downing . . . . .	Director
Thomas R. W. Tildesley <sup>(2)</sup> . . . . .	Director
Marie A. Wall <sup>(2)</sup> . . . . .	Director
Trevor Williams . . . . .	Company Secretary

**Notes:**

- (1) Also a board member of Imperial Brands and Imperial Brands Finance PLC.
- (2) Also a board member of Imperial Brands Finance PLC.

The business address of the directors is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom. Two of the current directors hold external positions outside the Group as follows: Oliver R. Tant is a director of The Copse House Cider Company Ltd, a director of Landshire Estates Ltd, a director of Landshire Cider Ltd, a member of the board of directors of Future Fuel No. 1 LLP, a member of the board of directors of Cobalt Data Centre 2 LLP, a member of the board of directors of Invicta Martineau Place LP and a member of the board of directors of Green Power Plant LLP. Thomas R. W. Tildesley is director of W.H. Tildesley Investment Holdings Limited and W.H. Tildesley Investments Limited.

There are no existing or potential conflicts of interest between any duties to ITL of the directors and/or their respective private interests and other duties.

## MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As at the date of this Offering Memorandum, insofar as it is known to Imperial Brands, the name of each person who, directly or indirectly, has a notifiable interest in 3 per cent or more of the Imperial Brands' share capital, and the amount of such person's interest, is as follows:

<u>Name</u>	<u>Number of shares (millions)</u>	<u>Percentage of shares<sup>(1)</sup></u>
BlackRock Inc. . . . .	53	5.59%
Capital Group Companies Inc. . . . .	48	5.00%

**Notes:**

(1) Excluding treasury shares.

So far as Imperial Brands is aware, no person or persons, directly or indirectly, jointly or severally, exercise or could exercise control over Imperial Brands.

There are no differences between the voting rights enjoyed by the shareholders described above and those enjoyed by any other holder of shares in Imperial Brands.

Other than the guarantees described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness*”, Imperial Brands did not enter into any related party transactions with any member of the Group during the three years ended 30 September 2018 and the six months ended 31 March 2019.

## DESCRIPTION OF THE NOTES AND THE GUARANTEES

*The following is a summary of the material provisions of the Notes, the Guarantees and the Indenture (as described below). The summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Notes, the Guarantees and the Indenture. It does not restate those securities or the Indenture in their entirety. A copy of the Indenture will be available for inspection during normal business hours at any time after the initial issuance date of the Notes at the specified office of the Agent (as defined herein) (see “General Information—Documents Available”). Any capitalised term used herein but not defined shall have the meaning assigned to such term in the Indenture.*

### General

The US\$1,000,000,000 3.125 per cent senior notes due 2024 (the **2024 Notes**), the US\$750,000,000 3.500 per cent senior notes due 2026 (the **2026 Notes**) and the US\$1,000,000,000 3.875 per cent senior notes due 2029 (the **2029 Notes** and, together with the 2024 Notes and the 2026 Notes, the **Notes** and each separately a **Note**) will be issued in registered form under an Indenture to be dated as of 26 July 2019 (the **Indenture**) among the Issuer, the Guarantors (as defined below), The Bank of New York Mellon, acting through its London Branch (in its capacity as trustee, the **Trustee**, and in its capacity as paying agent, the **Paying Agent**) and The Bank of New York Mellon (collectively in its capacities as transfer agent and registrar, the **Transfer Agent and Registrar**, and together with the Paying Agent, the **Agent**).

The Indenture is not required to be, and will not be, qualified under, incorporate by reference or include, or be subject to, any of the provisions of the US Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**), including Section 316(b) thereof. Consequently, the Holders of Notes generally will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture, including those requiring a trustee to resign in the event of certain conflicts of interest and to inform the holders of Notes of certain relationships between it and the Issuer. In this “*Description of the Notes and the Guarantees*”, the terms **Holder**, **Noteholder** and other similar terms refer to a registered holder of Notes, and not to a beneficial owner of a book-entry interest in any Notes, unless the context otherwise clearly requires.

For so long as any Notes remain outstanding and are restricted securities within the meaning of Rule 144(a)(3) under the US Securities Act of 1933, as amended (the **Securities Act**), the Issuer and each Guarantor will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Holder (or any beneficial owner of a book-entry interest in such Notes designated by the holder thereof) in connection with any sale thereof and to any prospective purchaser of Notes or a book-entry interest in Notes designated by such Holder, in each case upon request of such Holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act. As of the date of this Offering Memorandum, Imperial Brands is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

The Regulation S Notes will be resold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

### Guarantees

The Notes will benefit from a guarantee (the **Parent Guarantee**) from Imperial Brands (the **Parent Guarantor**). In addition, the Notes will benefit from a guarantee (the **Subsidiary Guarantee** and, together with the Parent Guarantee, the **Guarantees**) from ITL (the **Subsidiary Guarantor** and, together with the Parent Guarantor, the **Guarantors**). In the Guarantees, each Guarantor will (i) guarantee the due and prompt payment of any principal, accrued and unpaid interest (and all Additional Amounts (as defined below), if any) due under the Notes in accordance with the Indenture, and (ii) guarantee the Issuer’s other obligations under the Indenture. The Guarantees will be set forth in the Indenture. The Subsidiary Guarantee may be terminated at the option of the Subsidiary Guarantor at any time, and under certain circumstances, other members of the Group may be substituted as Guarantors for the Parent Guarantor and the Subsidiary Guarantor, in each case without the consent of Noteholders (see “—*Status of the Notes and Guarantees*” and “—*Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*” below).

## Principal and Maturity

The Notes will be unsecured and unsubordinated obligations of the Issuer. The 2024 Notes are initially issuable in an aggregate principal amount of US\$1,000,000,000 and will mature on 26 July 2024. The 2026 Notes are initially issuable in an aggregate principal amount of US\$750,000,000 and will mature on 26 July 2026. The 2029 Notes are initially issuable in an aggregate principal amount of US\$1,000,000,000 and will mature on 26 July 2029.

## Interest

The 2024 Notes will bear interest at 3.125 per cent per annum, the 2026 Notes will bear interest at 3.500 per cent per annum and the 2029 Notes will bear interest at 3.875 per cent per annum (subject, in each case, to adjustment as described below under “—*Interest Rate Adjustment Based on Rating Events*” below) from the date of the initial issuance of the Notes, payable semi-annually in arrears on 26 January and 26 July of each year (each, an **Interest Payment Date**) commencing on 26 January 2020 to the person in whose name any Note is registered at the close of business on the 15th calendar day immediately preceding such Interest Payment Date (whether or not a Business Day) (each, a **Record Date**), notwithstanding any transfer or exchange of such Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names outstanding Notes are registered at the close of business on a subsequent Record Date (which shall not be less than ten days prior to the date of payment of such defaulted interest) established by notice given by first class mail by or on behalf of the Issuer to the Holders (which term means registered holders) of the Notes not less than 15 days preceding such subsequent Record Date. Interest will be computed on the basis of a 360-day year consisting of 12 30-day months or, in the case of an incomplete month, the number of days elapsed. If the date on which any interest payment, principal payment or Additional Amount is to be made is not a Business Day, such payment will be made on the next day which is a Business Day without any further interest or other amounts being paid or payable in connection therewith.

## Optional Redemption

The Issuer may redeem the Notes in whole or in part, at the Issuer’s option:

- (i) in the case of the 2024 Notes at any time prior to 26 June 2024 (one month prior to maturity), in the case of the 2026 Notes, at any time prior to 26 May 2026 (two months prior to maturity) and in the case of the 2029 Notes, at any time prior to 26 April 2029 (three months prior to maturity) and from time to time at a redemption price equal to the greater of (a) 100 per cent of the principal amount of the Notes to be redeemed and (b) as determined by the Independent Investment Banker (as defined herein), the sum of the present values of the applicable Remaining Scheduled Payments discounted to the relevant date of redemption (the **Redemption Date**) on a semi-annual basis (assuming a 360-day year consisting of 12 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate plus 25 basis points in the case of the 2024 Notes, 30 basis points in the case of the 2026 Notes and 30 basis points in the case of the 2029 Notes, together with accrued and unpaid interest on the principal amount of the Notes to be redeemed to the Redemption Date; and
- (ii) in the case of the 2024 Notes, at any time on or after 26 June 2024, in the case of the 2026 Notes, at any time on or after 26 May 2026 and in the case of the 2029 Notes, at any time on or after 26 April 2029, at a redemption price equal to 100 per cent of the principal amount of the Notes being redeemed plus, in each case, accrued and unpaid interest on the principal amount being redeemed to but excluding the date of redemption.

In connection with such optional redemption, the following defined terms apply:

- **Comparable Treasury Issue** means the United States Treasury security selected by the Independent Investment Banker that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.
- **Comparable Treasury Price** means, with respect to any Redemption Date, (a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding that Redemption Date, as set forth in the daily statistical release designated H.15 (519) (or any successor release) published by the Board of

Governors of the Federal Reserve Bank of New York and designated “Composite 3.30 p.m. Quotations for US Government Notes” or (b) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (i) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest (or, if there is more than one such highest quotation, only one of such quotations) and lowest (or, if there is more than one such lowest quotation, only one of such quotations) of such Reference Treasury Dealer Quotations or (ii) if the Independent Investment Banker for the Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.

- **Independent Investment Banker** means one of the Reference Treasury Dealers appointed by the Issuer to act as the Independent Investment Banker.
- **Reference Treasury Dealer** means each of Barclays Capital Inc., BofA Securities, Inc., HSBC Securities (USA) Inc. and Mizuho Securities USA LLC, and a Primary Dealer (as defined herein) selected by MUFG Securities Americas Inc., and each of their respective successors; provided, however, that if any of the foregoing shall cease to be a primary US government securities dealer in New York City (a **Primary Treasury Dealer**), the Issuer shall substitute therefor another nationally recognised investment banking firm that is a Primary Treasury Dealer.
- **Reference Treasury Dealer Quotation** means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that Redemption Date.
- **Remaining Scheduled Payments** means, with respect to each Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Redemption Date but for such redemption, assuming the Notes were redeemed on 26 July 2024 in the case of the 2024 Notes, or 26 July 2026 in the case of the 2026 Notes, or 26 July 2029 in the case of the 2029 Notes; provided, however, that if that Redemption Date is not an Interest Payment Date with respect to such Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.
- **Treasury Rate** means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

#### **Repurchase Upon a Change of Control Offer**

If a Change of Control Triggering Event occurs with respect to the Notes, unless: (i) the Issuer has exercised its option to redeem the Notes in full as described above in “—*Optional Redemption*” or (ii) the Notes have been redeemed in full for tax reasons as described below in “—*Redemption for Tax Reasons*”, the Issuer will be required to make an offer (the **Change of Control Offer**) to each Holder of the Notes to repurchase all or any part (equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof) of that Holder’s Notes on the terms set forth in the Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101 per cent of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to the date of repurchase (a **Change of Control Payment**). Within 30 days following any Change of Control Triggering Event or, at the Issuer’s option, prior to any Change of Control (as defined herein), but after public announcement of the transaction that constitutes or may constitute the Change of Control, a notice will be mailed to the Noteholders describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase the Notes on the date specified in the applicable notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the **Change of Control Payment Date**). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the Change of Control Payment Date.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- accept for payment all Notes or portions of Notes properly tendered and not withdrawn pursuant to the Change of Control Offer;

- deposit with the Paying Agent and the Agent in its capacity as the Transfer Agent an amount equal to the Change of Control Payment in respect of all applicable Notes or portions of Notes properly tendered; and
- deliver or cause to be delivered to the Agent the Notes properly accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased.

The Agent will promptly mail to each Holder of Notes properly tendered the purchase price for the Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each Holder a new note equal in principal amount to any unpurchased portion of any Notes surrendered; provided that each new Note will be in the principal amount of US\$200,000 or an integral multiple of US\$1,000 in excess thereof.

If the Change of Control Payment Date is on or after a Record Date immediately preceding an Interest Payment Date and on or before such related Interest Payment Date, any accrued and unpaid interest, if any, will be paid to the person in whose name the Note is registered at the close of business on such Record Date immediately preceding an Interest Payment Date, and no additional interest will be payable to Holders who tender pursuant to the Change of Control Offer.

The Issuer will not be required to make a Change of Control Offer if a third party makes an offer on substantially the same terms as the Change of Control Offer and repurchases all Notes properly tendered and not withdrawn pursuant to its offer. In addition, the Issuer will not repurchase any Notes if there has occurred and is continuing on the Change of Control Payment Date an Event of Default (as defined below under “—*Events of Default*”) under the Notes, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

If 95 per cent or more in nominal amount of the Notes of any series then outstanding immediately prior to any Change of Control Offer have been redeemed or purchased pursuant to such Change of Control Offer, the Issuer may, having given not less than 10 nor more than 60 days' notice to the Noteholders in accordance with the Indenture, such notice to be given within 30 days after the Change of Control Payment Date, redeem or, at the Issuer's option, purchase (or procure the purchase of) all but not some only of, the applicable series of Notes then outstanding at 101 per cent of the aggregate principal amount of the applicable series of Notes repurchased together with interest accrued to but excluding the date of such redemption. The notice referred to in the preceding sentence shall be irrevocable and shall specify the date fixed for redemption (which shall not be more than 60 days after the date of the notice). Upon expiry of such notice, the Issuer will redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder, to the extent that those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the Notes, the Issuer will comply with those securities laws and regulations and will not be deemed to have breached the Issuer's obligations under the Change of Control Offer provisions of the Notes by virtue of any such conflict.

The Notes will not specifically prohibit the Parent Guarantor from entering into a merger, consolidation or similar combination with or into another party, or transferring all or substantially all of its assets to another party, whether or not the other party becomes liable for the Parent Guarantor's obligations under the Notes. Such a transaction may, however, constitute a Change of Control. See “—*Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*” below.

The Change of Control provisions above may deter certain mergers, tender offers and other proposed corporate actions involving the Parent Guarantor by increasing the capital required to effectuate such transactions.

For the purposes of the Change of Control Offer provisions of the Notes, the following terms will be applicable:

- **Change of Control** means the occurrence of any of the following: (1) the consummation of any transaction (including, without limitation, any merger, consolidation, amalgamation or other combination) the result of which is that any “person” (as that term is used in Section 13(d)(3) of the Exchange Act) (other than the Parent Guarantor or one of its Subsidiaries) becomes the beneficial



owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50 per cent of the Parent Guarantor's voting stock or other voting stock into which the Parent Guarantor's voting stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (2) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation, amalgamation or other combination), in one or more series of related transactions, of all or substantially all of the Parent Guarantor's assets and the assets of the Parent Guarantor's Subsidiaries, taken as a whole, to one or more "persons" (as that term is used in Section 13(d)(3) of the Exchange Act) (other than the Parent Guarantor or one of its Subsidiaries); or (3) the first day on which a majority of the members of the Parent Guarantor's board of directors are not Continuing Directors (as defined herein). Notwithstanding the foregoing, a transaction will not be deemed to involve a change of control if (1) the Parent Guarantor becomes a direct or indirect wholly-owned subsidiary of a holding company (the **New Parent Company**) and (2)(A) the direct or indirect holders of the voting stock of the New Parent Company immediately following that transaction are substantially the same as the holders of the Parent Guarantor's voting stock immediately prior to that transaction or (B) immediately following that transaction no person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50 per cent of the voting stock of the New Parent Company. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the Parent Guarantor's assets. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Noteholder may require the Issuer to make an offer to repurchase the Notes as described above.

- **Change of Control Triggering Event** means the occurrence of both a Change of Control and a Rating Event in respect of that Change of Control.
- **Continuing Directors** means, as of any date of determination, any member of the Parent Guarantor's board of directors who (1) was a member of such board of directors on the date the Notes were issued; or (2) was nominated for election, elected or appointed to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination, election or appointment (either by a specific vote or by approval of the Parent Guarantor's notice of annual general meeting in which such member was named as a nominee for election as a director, without objection to such nomination).
- **Investment Grade Rating** means a rating equal to Baa3 or higher (or the equivalent) by Moody's and a rating equal to BBB– or higher (or the equivalent) by S&P, and a rating equal to or higher than the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Issuer.
- **Moody's** means Moody's Investors Service Ltd., or its successor.
- **Rating Agencies** means: (1) each of Moody's and S&P; and (2) if either Moody's or S&P ceases to rate the Issuer's senior unsecured long-term debt or fails to make a rating of the Issuer's senior unsecured long-term debt publicly available for reasons outside of the Issuer's or the Guarantors' control, a "nationally recognized statistical rating organization" within the meaning of the Exchange Act selected by the Issuer (as certified by a resolution of the Issuer's board of directors) as a replacement agency for Moody's or S&P, or both of them, as the case may be.
- **Rating Event** means the solicited credit rating of the Issuer's senior unsecured long-term debt is lowered by both of the Rating Agencies, and the solicited credit rating of the Issuer's senior unsecured long-term debt is then below an Investment Grade Rating by both of the Rating Agencies, on any day within the 60-day period (which 60-day period will be extended so long as the rating of the Notes is under publicly announced consideration for a possible downgrade by either of the Rating Agencies) after the earlier of: (1) the occurrence of a Change of Control; and (2) public notice of the occurrence of a Change of Control or the Parent Guarantor's intention to effect a Change of Control; provided, however, that a Rating Event otherwise arising by virtue of a particular reduction in rating will not be deemed to have occurred in respect of a particular Change of Control (and thus will not be deemed a Rating Event for purposes of the definition of Change of Control Triggering Event) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Agent in writing at its or the Issuer's request that the reduction was the result, in whole or in part, of any event or circumstance composed of or arising as a

result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control has occurred at the time of the Rating Event).

- **S&P** means S&P Global Ratings Europe Limited, UK Branch, or its successor.
- **voting stock** means, with respect to any specified “person” (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date, the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

#### **Interest Rate Adjustment Based on Rating Events**

The interest rate payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be.

From and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the interest rate payable on the Notes shall be increased by 1.25 per cent per annum. A Step Up Rating Change may only occur once during the term of the Notes. In the event of a Step Down Rating Change following a Step Up Rating Change, from and including the first Interest Payment Date following the date of such Step Down Rating Change, the interest rate payable on the Notes shall be decreased by 1.25 per cent per annum.

The Issuer will notify the Trustee promptly following the occurrence of a Step Up Rating Change or a Step Down Rating Change, but such notice will in any event be given no later than the fifth Business Day following the Step Up Rating Change or the Step Down Rating Change.

The Issuer will use all reasonable efforts to maintain the issuance of solicited public credit ratings for its senior long-term debt from Rating Agencies.

For purposes of the “*Interest Rate Adjustment Based on Rating Events*” provisions of the Notes, the following terms will be applicable:

- **Investment Grade Rating** means a rating equal to Baa3 or higher (or the equivalent) by Moody’s and a rating equal to BBB– or higher (or the equivalent) by S&P, and a rating equal to or higher than the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Issuer.
- **Rating Agencies** and related definitions have the meaning set forth under “—*Repurchase Upon a Change of Control Offer*” above.
- **Step Down Rating Change** means the first public announcement after a Step Up Rating Change by either a Rating Agency or both Rating Agencies of an increase in the solicited credit rating of the Issuer’s senior unsecured long-term debt with the result that, following such public announcement(s), both Rating Agencies rate the Issuer’s senior unsecured long-term debt as Baa3 or higher (in the case of Moody’s) and BBB– or higher (in the case of S&P). Any further increases in the solicited credit rating of the Issuer’s senior unsecured long-term debt above Baa3 (in the case of Moody’s) or above BBB– (in the case of S&P) shall not constitute a Step Down Rating Change.
- **Step Up Rating Change** means the first public announcement by either a Rating Agency or both Rating Agencies of a decrease in the solicited credit rating of the Issuer’s senior unsecured long-term debt to below Baa3 (in the case of Moody’s) or below BBB– (in the case of S&P). Any further decreases in the solicited credit rating of the Issuer’s senior unsecured long-term debt from below Baa3 (in the case of Moody’s) or from below BBB– (in the case of S&P) shall not constitute an additional Step Up Rating Change.

If the rating designations employed by any Rating Agency are changed from those which are described above, the Issuer and the Parent Guarantor shall determine, and notify the Trustee of, the rating designations of such entity as are most equivalent to the ratings described above or any other prior rating designations of such entity, and the provisions hereof shall be construed accordingly.

## Form and Denomination

The Notes will be issued in fully registered form and only in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will be issued initially as global notes.

## Further Issues

The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, reopen any series of the Notes and create and issue additional notes having identical terms and conditions as the applicable series of Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series of notes with the applicable series of Notes.

The Issuer will not issue any additional notes having the same CUSIP, ISIN or other identifying number as the Notes of any series unless such additional notes have no more than a *de minimis* amount of original issue discount or such issuance would constitute a “qualified reopening” of the Notes of the relevant series for federal income tax purposes.

## Status of the Notes and Guarantees

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law).

The Guarantees will be unsecured and unsubordinated obligations of the Guarantors and will rank *pari passu* in right of payment among themselves and with all of their other unsecured and unsubordinated indebtedness of the relevant Guarantor (save for certain obligations required to be preferred by law).

In certain circumstances, including, but not limited to, a corporate reorganisation, the Parent Guarantor may substitute as Parent Guarantor a holding company of which it has become a direct or indirect wholly-owned subsidiary.

The Subsidiary Guarantee may be terminated at the option of the Subsidiary Guarantor at any time, and under certain circumstances, other members of the Group may be substituted as Guarantors for the Parent Guarantor and/or the Subsidiary Guarantor, in each case without the consent of the Noteholders, provided that (i) in any such termination or substitution, each Rating Agency shall have confirmed that the Notes will have the same or better solicited long-term public credit rating as immediately prior to such termination or substitution, as applicable and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject.

## Payment of Additional Amounts

The Issuer and each Guarantor will make all payments of, or in respect of, principal, premium (if any) and interest on the Notes without withholding or deduction for or on account of any present or future tax, levy, impost or other governmental charge whatsoever and wherever imposed, assessed, levied or collected (**Taxes**), unless such withholding or deduction is required by law.

If the Issuer or any Guarantor or any of their respective paying agents is required to deduct or withhold any amount in respect of Taxes for or on account of the United Kingdom or, if different, their jurisdiction of organisation or tax residence or, if and only if the Issuer or any such Guarantor has consolidated, merged, amalgamated or combined with, or transferred or leased its assets substantially as an entirety to, any person and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor (and references herein to the Issuer or any Guarantor shall include any such successor obligor) in respect of payments on the Notes, for or on account of the jurisdiction under the laws of which the successor person in relation to the relevant payment is organised or resident for tax purposes or otherwise generally subject to tax (and in each case including any political subdivision thereof or any authority therein or thereof having the power to tax) (each, a **Relevant Taxing Jurisdiction**), the Issuer or such Guarantor, as the case may be, will pay to a Holder of a Note such additional amounts (**Additional Amounts**) as may be necessary so that the net amount received by such Holder will not be less than the amount such Holder would have received if such Taxes had not been withheld or deducted; provided,

however, that the Issuer and the Guarantors shall not be required to pay any Additional Amounts for or on account of:

- a) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that the Holder or beneficial owner of the Note (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation) is or has been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business or maintaining or having maintained a permanent establishment or being or having been physically present in, a Relevant Taxing Jurisdiction or otherwise having or having had some connection with a Relevant Taxing Jurisdiction other than the mere holding or ownership of, or the collection of principal of, and premium (if any) or interest on, a Note;
- b) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the Note was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later, except to the extent that the Holder thereof would have been entitled to Additional Amounts had the Note been presented for payment on any day during such 30-day period;
- c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- d) any Taxes that are payable otherwise than by deduction or withholding from payments on or in respect of the applicable Note;
- e) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the Holder or the beneficial owner of the Note to comply with a written request to the Holders (or any request made in accordance with the procedures set out in the Indenture) (i) to provide any certification, identification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or the beneficial owner or its connection with the Relevant Taxing Jurisdiction or (ii) to make any valid or timely declaration or claim or satisfy any other reporting, information or procedural requirements relating to such matters if, in either case, compliance is required by statute, regulation or administrative practice of the Relevant Taxing Jurisdiction as a condition to relief or exemption from such Taxes; or
- f) any combination of the Taxes described in paragraphs a) to e) above.

In addition, Additional Amounts will not be paid in respect of any payment in respect of the Notes or any Guarantee to any Holder of the Notes that is a fiduciary, partnership, limited liability company or any person other than the sole beneficial owner of such Notes to the extent such payment would be required by the laws of a Relevant Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the Holder of such Notes or Guarantees.

Unless otherwise stated, references in any context to the payment of principal of, and any premium or interest on, any Note, will be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

### **Redemption for Tax Reasons**

The Notes are redeemable by the Issuer, in whole but not in part, upon not less than 30 nor more than 60 days' notice as provided for herein, at 100 per cent of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts if any, to the applicable Redemption Date at the Issuer's option at any time prior to their maturity if due to a Change in Tax Law (as defined herein): (a) the Issuer or, if applicable, any Guarantor, in accordance with the terms of the Notes, or the relevant Guarantee, as applicable, has, or would, become obligated to pay any Additional Amounts to the Holders of the Notes; and (b) such obligation cannot be avoided by the Issuer, the Parent Guarantor or such Guarantor taking reasonable measures available to it including, in the case of a Guarantor, providing the Issuer with funds to allow the Issuer to make such payment; provided that, (i) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as applicable, would be obligated to pay any such Additional Amounts were a payment in respect of the Notes then due and (ii) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Trustee (A) an officers'

certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent counsel of recognised standing with respect to tax matters of the Relevant Taxing Jurisdiction to the effect that the Issuer or such Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such Change in Tax Law.

For the purposes hereof, **Change in Tax Law** shall mean (a) except as described in (b), any change in, or amendment to, any law of a Relevant Taxing Jurisdiction (including any regulations or rulings promulgated thereunder but not including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the Issue Date of the Notes or (b) if the Issuer or the relevant Guarantor consolidates, merges, amalgamates or combines with, or transfers or leases its assets substantially as an entirety to, any person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Taxing Jurisdiction as of the date of such transaction and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor in respect of Additional Amounts that may become payable (in which case, for purposes of this redemption provision, all references to the Issuer or such Guarantor shall be deemed to be and include references to such person), any change in, or amendment to, any law of the jurisdiction of incorporation or tax residence of such person or any successor entity, or any political subdivision or taxing authority thereof or therein for purposes of taxation (including any regulations or rulings promulgated thereunder but not including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the date of such consolidation, merger, amalgamation, combination or other transaction.

#### **Redemption—General**

Upon presentation of any Note redeemed in part only, the Issuer will execute and the Agent will authenticate and deliver (or cause to be transferred by book-entry) to or on the order of the Holder thereof, at the expense of the Issuer, a new Note or Notes, of authorised denominations, in principal amount equal to the unredeemed portion of the Note so presented.

On or before any Redemption Date, the Issuer shall deposit with the Agent money sufficient to redeem on the Redemption Date all the Notes so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption (other than Notes or portions thereof called for redemption on that date which have been delivered by the Issuer to the Agent for cancellation). If less than all the Notes are to be redeemed, the Trustee will select Notes for redemption pro rata, by lot, or by such other method as the Trustee in its sole discretion shall deem fair and appropriate and is consistent with the rules of DTC and/or Euroclear and/or Clearstream, Luxembourg.

On and after any Redemption Date, to the extent the Issuer has deposited sufficient moneys with the Agent as provided in the preceding paragraph, interest will cease to accrue on the Notes or any portion thereof called for redemption.

#### **Maturity**

Unless previously purchased or redeemed and cancelled by the Issuer, the Parent Guarantor or any of the Parent Guarantor's Subsidiaries, the principal amount of the 2024 Notes will mature and become due and payable on 26 July 2024, the principal amount of the 2026 Notes will mature and become due and payable on 26 July 2026 and the principal amount of the 2029 Notes will mature and become due and payable on 26 July 2029, each in an amount equal to its principal amount, with accrued and unpaid interest to such date.

#### **Reacquisition**

There is no restriction on the ability of the Issuer, the Parent Guarantor or any of the Parent Guarantor's Subsidiaries to purchase or repurchase Notes, provided that any Notes so repurchased shall be cancelled and not reissued.

## Covenants of the Issuer

### *Negative Pledge*

So long as any Notes remain outstanding, neither the Issuer, the Parent Guarantor nor any of their respective Subsidiaries will create any Lien (as defined herein) over the whole or any part of its undertaking, assets or revenue (including any uncalled capital), present or future, in order to secure any Relevant Debt (as defined herein) or to secure any guarantee of or indemnity in respect of Relevant Debt unless, at the same time or prior thereto the Issuer's obligations under the Notes and the Indenture or, as the case may be, the Parent Guarantor's obligations under the Parent Guarantee (i) are secured equally and ratably therewith or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement not materially less beneficial to the Noteholders or as shall be approved by holders of a majority of the principal amount of the Notes.

### **Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors**

The Indenture provides that, subject to the provisions described above under “—*Repurchase Upon a Change of Control Offer*”, without the consent of the Noteholders, at any time (i) the Issuer and any Guarantor may consolidate with or merge into any other person or sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person (other than any sale or conveyance by way of a lease in the ordinary course of business), (ii) the Parent Guarantor may substitute for the Issuer another Subsidiary (as defined herein) of the Parent Guarantor as principal debtor under the Notes (a **Substitute Issuer**), (iii) the Parent Guarantor may substitute as Parent Guarantor a holding company of which it has become a direct or indirect wholly-owned subsidiary (a **Substitute Parent Guarantor**), (iv) the Subsidiary Guarantor may substitute as Subsidiary Guarantor another Subsidiary of the Parent Guarantor (a **Substitute Subsidiary Guarantor** and, together with the Substitute Parent Guarantor, a **Substitute Guarantor**), and (v) the Issuer may appoint another Subsidiary of the parent company as additional Guarantor (an **Additional Guarantor**) if and only if:

- a) any Substitute Issuer, Substitute Guarantor or other successor person shall expressly assume the Issuer's or such Guarantor's respective obligations in their entirety under the Notes or the relevant Guarantee, as the case may be, and under the Indenture;
- b) any Additional Guarantor shall guarantee the Issuer's obligations under the Notes and the Indenture in the manner set forth therein, shall duly authorise the execution and delivery of an indenture supplemental thereto to provide for such guarantee, and shall do all things necessary to make such supplemental indenture a valid agreement;
- c) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;
- d) the Substitute Issuer, Substitute Guarantor, Additional Guarantor or other successor person is organised under the laws of the United States, the United Kingdom (including the Channel Islands and the Isle of Man), the Cayman Islands or any other country that is a member of the Organisation for Economic Co-operation and Development as of the date of such succession;
- e) the Substitute Issuer, Substitute Guarantor, Additional Guarantor or other successor person agrees to pay any Additional Amounts in respect of any Taxes imposed by the jurisdiction in which such person is incorporated or is a resident for tax purposes or in which it is otherwise generally subject to tax;
- f) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Parent Guarantor or any Principal Subsidiary (as defined herein) would become subject to a Lien to secure payment of any Relevant Debt for borrowed money of the Parent Guarantor or any Principal Subsidiary which would not be permitted under the Indenture, the Parent Guarantor or any Principal Subsidiary or such successor person, as the case may be, prior to or simultaneous to the consolidation or merger or such sale, conveyance, transfer or lease, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all Relevant Debt for borrowed money secured thereby;
- g) in the case of a Substitute Issuer, (i) the obligations of the Substitute Issuer arising under or in connection with the Notes are guaranteed by the Parent Guarantor (or the Substitute Parent Guarantor, if applicable), the Subsidiary Guarantor (or the Substitute Subsidiary Guarantor, if

applicable) and any Additional Guarantor at such time, in each case on the same terms as existed immediately prior to such substitution under the Guarantees given by such Guarantors, (ii) the Parent Guarantor (or the Substitute Parent Guarantor, if applicable), the Issuer and the Substitute Issuer jointly and severally indemnify each beneficial owner of Notes for any income tax or other tax (if any) payable by such beneficial owner of Notes solely as a result of the substitution of the Substitute Issuer, and (iii) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute Issuer, the Notes will continue to be listed on such stock exchange; and

- h) in the case of a Substitute Issuer or Substitute Guarantor, each Rating Agency that rates the Notes shall have confirmed following the proposed substitution of the Substitute Issuer or the Substitute Guarantor, as the case may be, that (i) the Notes will have the same or better solicited long-term public credit rating as immediately prior to such substitution and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject.

In addition, the Subsidiary Guarantee may be terminated at any time and the Subsidiary Guarantor may be released from its obligations thereunder without the consent of the Noteholders if at any time each Rating Agency shall have confirmed to the Trustee that the Notes will continue, following the proposed termination of the Subsidiary Guarantee, to have the same or better solicited long-term public credit rating as immediately prior to such termination.

The Notes will not contain covenants or other provisions to afford protection to the Noteholders in the event of a highly leveraged transaction or a change in control of the Parent Guarantor, except as provided above.

Upon the effectiveness of any substitution, all of the foregoing provisions will apply *mutatis mutandis*, and references elsewhere herein to the Issuer or a Guarantor will, where the context so requires, be deemed to be or include references, to any successor company.

A substitution of the Issuer or the Guarantors of the Notes of any series might be deemed for US federal income tax purposes to be an exchange of those Notes for new notes by each beneficial owner, resulting in a recognition of taxable gain or loss for US federal income tax purposes and possibly certain other adverse tax consequences. Investors should consult their tax adviser regarding the US federal, state and local income tax consequences of a substitution.

### **Certain Definitions**

Set forth below is a summary of certain of the defined terms used in the Notes and the Indenture. Investors should refer to the Notes and the Indenture for the full definition of all defined terms as well as any other terms used herein for which no definition is provided.

**Business Day** means each day which is not, in London, England or New York City, United States or any other Place of Payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorised or obligated by law or regulation to close.

**Lien** means any mortgage, charge or deed of trust, pledge, lien or other form of encumbrance or similar security interest.

**person** means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organisation or government or any agency or political subdivision thereof.

**Place of Payment** means in London, England an office or agency (a) where the Notes may be presented for payment, (b) where the Notes may be presented for registration of transfer and for exchange as provided in the Indenture and (c) where notices and demands to or upon the Issuer in respect of the Notes or the Indenture may be served.

**Principal Subsidiary** means:

- a) any Subsidiary of the Parent Guarantor which is an active trading company and whose adjusted unconsolidated assets or pre-tax profit equal or exceed 10 per cent of the consolidated assets or adjusted consolidated pre-tax profit of the Group, and for the purposes of this definition:
  - (i) the consolidated assets of the Group shall be ascertained by reference to the latest audited published consolidated accounts of the Group;
  - (ii) the adjusted consolidated pre-tax profit of the Group shall be the aggregate of:
    - A the consolidated pre-tax profit of the Group ascertained by reference to the latest audited published consolidated accounts of the Group; and
    - B the consolidated pre-tax profit (the pre-acquisition profit) of any Subsidiary which became a member of the Group during the period for which the latest audited published consolidated accounts of the Group were prepared (an acquired Subsidiary) for the part of that period which falls before the effective date of that acquisition, calculated in accordance with IFRS and used in the preparation of the latest audited published accounts of the Group;
  - (iii) the assets of any Subsidiary shall be the assets of that Subsidiary calculated in accordance with IFRS and used in the preparation of the latest audited published accounts of the Group; and
  - (iv) the pre-tax profit of any Subsidiary shall be the pre-tax profit of that Subsidiary calculated in accordance with IFRS and used in the preparation of the latest audited published accounts of the Group plus, in the case of any acquired subsidiary, an amount equal to any pre-acquisition profit.

For the purposes of the above, “assets” in respect of the Group or any such Subsidiary means the non-current assets and current assets of the Group or that trading Subsidiary (as the case may be) but excluding investments in any Subsidiary and intra-Group balances and “pre-tax profit” in respect of the Group or any such Subsidiary excludes intra-Group interest payable and receivable and intra-Group dividends; or

- b) a Subsidiary of the Parent Guarantor to which has been transferred (whether by one transaction or a series of transactions related or not) the whole or substantially the whole of the assets of a Subsidiary which immediately prior to those transactions was a Principal Subsidiary.

A certificate signed by two directors or authorised signatories of the Parent Guarantor whether or not addressed to the Trustee that, in their opinion, a Subsidiary of the Parent Guarantor is or is not or was or was not at any particular time or throughout any specified period, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Parent Guarantor and the Noteholders, all as further provided in the Indenture.

**Relevant Debt** means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities that are for the time being or are capable of being listed, quoted or ordinarily traded on any stock exchange, automated trading system, over-the-counter or other securities market.

**Subsidiary** of any person means any entity whose affairs are required by law or in accordance with IFRS to be consolidated in the consolidated accounts of such person.

#### **Events of Default**

The following will be Events of Default (each an **Event of Default**) with respect to a series of Notes:

- a) *Non-Payment*: default is made for more than 30 days (in the case of interest or Additional Amounts) in the payment on the due date of interest or Additional Amounts in respect of such series of Notes, or default in the payment of all or any part of the principal or premium, if any, of any Note of such series as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise and continuance of such default for seven days; or
- b) *Breach of Other Obligations*: other than as described in paragraph a) above, the Issuer, the Parent Guarantor or the Subsidiary Guarantor or any substitutes therefor does not perform or comply with any one or more of its other obligations under the series of Notes, the Guarantees, or the Indenture which is not remedied within 30 days after written notice of such default shall have been given to the Issuer (with copies to the Parent Guarantor) by the Trustee; or



- c) *Cross-Default*: (i) any other present or future indebtedness for borrowed money of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) and remains unpaid, (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period or (iii) the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid provided that (A) in the case of (iii) above, such guarantee or indemnity is not being contested in good faith and in accordance with legal advice or (B) the aggregate amount of the relevant indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in (i), (ii) and (iii) has or have occurred and is or are continuing, equals or exceeds £50,000,000 or its equivalent in any other currency of the relevant indebtedness for borrowed money, guarantee or indemnity; or
- d) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenue of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries and is not discharged or stayed within 60 days thereof; or
- e) *Insolvency*: any of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries is insolvent or bankrupt or unable to pay its debts (within the meaning of Section 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganisation, merger or consolidation or other similar arrangement, or in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Parent Guarantor, or any substitute therefor, or another of its Subsidiaries) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries; or
- f) *Winding-up*: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries, or the Issuer, the Parent Guarantor or any of the Parent Guarantor's Principal Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation or other similar arrangement, or in the case of a Principal Subsidiary, whereby the undertakings and assets of the Principal Subsidiary (or, as applicable, the relevant part thereof) are transferred to or otherwise vested in the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or another of its Subsidiaries and except that neither the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, nor any of the Parent Guarantor's Principal Subsidiaries shall be treated as having threatened to cease or having ceased to carry on all or substantially all of its business or operations by reason of any announcement of any disposal or by reason of any disposal on an arm's length basis; or
- g) *Ownership of the Issuer*: the Issuer or, if applicable, Substitute Issuer ceases to be directly or indirectly wholly-owned by the Parent Guarantor or, if applicable, the Substitute Parent Guarantor except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation permitted hereby (including, for greater certainty, pursuant to the events described in "*—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*" above); or
- h) *Guarantees*: any of the Guarantees cease to be valid and legally binding for any reason other than a termination in accordance with its terms or a Guarantor seeks to deny or disaffirm its obligations under its Guarantee.

The Indenture provides that if an Event of Default with respect to a series of Notes occurs and is continuing, then and in each and every such case (other than certain Events of Default specified in paragraphs e) and f) above with respect to the Issuer and the Guarantors), unless the principal of all such Notes shall have already become due and payable, either the Trustee or the Holders of not less than 25 per cent in aggregate principal amount of the applicable series of Notes then outstanding, by notice in writing to the Issuer and the Guarantors (and to the Trustee if given by the Holders), may, and the Trustee at the request of such Holders shall, subject to its receiving indemnification and/or security to its satisfaction, declare the entire principal amount of all outstanding Notes of such series issued pursuant to the Indenture and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of the Trustee or any Holder. If certain Events of Default described in paragraphs e) and f) above occur with respect to the Issuer and the Guarantors and are continuing, the principal amount of and accrued and unpaid interest on all outstanding Notes of such series issued pursuant to the Indenture shall become immediately due and payable, without any declaration or other act on the part of the Trustee or any Holder. Under certain circumstances, the Holders of a majority in aggregate principal amount of the applicable series of Notes then outstanding, by written notice to the Issuer, the Guarantors and the Trustee, may waive certain defaults (except with respect to payments of interest and principal) and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

An Event of Default for one series of Notes shall not necessarily constitute an Event of Default for any other series of Notes issued under the Indenture.

The Holders of a majority in aggregate principal amount of the applicable series of Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, subject to certain limitations to be specified in the Indenture.

The Indenture provides that no Holder of any Note may institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the Indenture, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the Indenture (except suits for the enforcement of payment of overdue principal or interest) unless such Holder previously shall have given to the Trustee written notice of an Event of Default and continuance thereof and unless the Holders of not less than 25 per cent in aggregate principal amount of the Notes of such series then outstanding shall have made written request upon the Trustee to institute such action or proceedings in its own name as Trustee and shall have offered the Trustee indemnity and/or security (in the manner and form provided in the Indenture) as it may require against the costs, expenses and liabilities to be incurred therein or thereby, the Trustee shall not have instituted any such action or proceeding within 60 days of its receipt of such notice, request and offer of indemnity and/or security and the Trustee shall not have received direction inconsistent with such written request by the Holders of a majority in aggregate principal amount of the Notes at the time outstanding.

The Indenture will also provide that the Issuer will furnish to the Trustee on or before 31 January in each year (commencing on 31 January 2020), if any Notes are then outstanding, and within 15 days of a written request of the Trustee, a certificate from an officer of the Issuer as to his or her best knowledge of the Issuer's compliance with all conditions and covenants under the Indenture, which certificate may merely state that such officer has no knowledge of any default.

### **Defeasance**

The Indenture will provide that the Issuer will have the option either (a) to be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the applicable series of Notes and to have satisfied all the obligations under the Indenture (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of Notes, to pay Additional Amounts, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the 91st day after the applicable conditions described below have been satisfied or (b) to cease to be under any obligation to comply with the covenants described above under “—*Covenants of the Issuer—Negative Pledge*” and the condition relating to the absence of any events of default under “—*Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*” under the applicable series of Notes, and non-compliance with any such sections or

provisions will not give rise to any Event of Default under the applicable series of Notes, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must deposit with the Trustee or with the Trustee's agent as the Trustee directs, irrevocably in trust, money, Government Obligations (as defined in the Indenture) or a combination of these sufficient for the payment of principal of, premium, if any, and interest on the outstanding Notes of such series on the dates such instalments of interest or principal are due or to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (i) comply with certain other conditions as stated in the Indenture, including delivering to the Trustee an opinion of US counsel, or a ruling received from the United States Internal Revenue Service, to the effect that beneficial owners of the Notes of such series will not recognise income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amount and in the same manner and at the same time as would have been the case if such defeasance had not occurred and, in the case of paragraph (a) above, such opinion must state that it is based on a change of applicable US federal income tax law after the Issue Date of the Notes and (ii) pay in full all other amounts due and owing under the Indenture.

## **Modification and Waiver**

### ***Without Consent of Noteholders***

The Indenture will contain provisions permitting the Issuer, the Guarantors, the Trustee and the Agent, without notice to or the consent of the Holders of any of the Notes at any time outstanding, from time to time and at any time, to enter into an indenture or indentures supplemental thereto:

- to convey, transfer, assign, mortgage or pledge to the Trustee as security for the Notes any property or assets;
- to evidence the succession of another person to the Issuer or any Guarantor, or the substitution or addition of another person as Guarantor, or successive successions, substitutions or additions and the assumption by such person(s) of the covenants, agreements and obligations of the Issuer or any Guarantor pursuant to the Indenture;
- to evidence and provide for the acceptance of appointment of a successor or successors to the Trustee, the Agent and/or any paying agent, transfer agent or registrar, as applicable;
- to add to the covenants of the Issuer or any Guarantor, such further covenants, restrictions, conditions or provisions as the Issuer, any such Guarantors and the Trustee shall consider to be for the protection of the Holders of the Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the Notes permitting the enforcement of all or any of the several remedies provided in the Indenture; provided that, in respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Trustee upon such an Event of Default or may limit the right of Holders of a majority in aggregate principal amount of the Notes to waive such an Event of Default;
- to modify the restrictions on, and procedures for, resale and other transfers of the Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;
- (i) to cure any ambiguity, omission or error or to correct or supplement any provision contained in the Indenture which may be defective or inconsistent with any other provision contained therein or in any supplemental indenture, or (ii) to make such other provisions in regard to matters or questions arising under the Indenture or under any supplemental indenture as the Issuer or the Trustee may deem necessary or desirable and which will not adversely affect the interests of the Holders of the Notes in any material respect; and
- to reopen any series of Notes and create and issue additional notes having identical terms and conditions as the Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series with the applicable series of outstanding Notes.

### *With Consent of Noteholders*

The Indenture will contain provisions permitting the Issuer, the Guarantors, the Trustee and the Agent, with the consent of the Holders of not less than a majority in aggregate principal amount of any series of the Notes at the time outstanding (including consents obtained in connection with a tender offer or exchange offer for the Notes), from time to time and at any time, to enter into an indenture or indentures supplemental thereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or any supplemental indenture or of modifying in any manner the rights of the Holders of the applicable series of the Notes, provided that no such indenture may, without the consent of the Holder of each of the Notes of such series so affected:

- change the stated maturity of, or the date for payment of any principal of, or instalment of interest on, any Note; or
- reduce the principal amount of or the rate or amount of interest on any Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default; or
- change the currency of payment of principal of or interest on any Note or Additional Amounts payable with respect thereto; or
- change the obligation of the Issuer or any Guarantor to pay Additional Amounts (except as otherwise permitted by such Note); or
- impair the right to institute suit for the enforcement of any such payment on or with respect to any Note; or
- reduce the percentage of the aggregate principal amount of the Notes outstanding, the consent of whose Holders is required for any such supplemental indenture; or
- reduce the aggregate principal amount of any Note outstanding necessary to modify or amend the Indenture or any such Note or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any Notes outstanding required for the adoption of any action at any meeting of Holders of such Notes or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of all accrued and unpaid interest on any Note to be due and payable,

provided that no consent of any Holder of any Note shall be necessary to permit the Agent, the Trustee, the Guarantors and the Issuer to execute a supplemental indenture as described under “—*Modification and Waiver—Without Consent of Noteholders*” above.

Any modifications, amendments or waivers to the Indenture or to the conditions of any series of the Notes will be conclusive and binding on all Holders of those Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future Holders of those Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any Holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered Holders of such Note.

### **Restrictions on Transfer**

The Initial Purchasers propose to resell the Rule 144A Notes to certain QIBs in the United States in reliance upon Rule 144A under the Securities Act. The Rule 144A Notes may not be sold or otherwise transferred except, in the United States, pursuant to registration under the Securities Act or in accordance with Rule 144A or, outside the United States, pursuant to Rule 904 of Regulation S thereunder or, in either case, in a resale transaction that is otherwise exempt from such registration requirements, and each global note representing Rule 144A Notes will bear a legend to this effect. In light of current US securities laws, subject to certain exceptions, an exemption should be available for a sale or transfer of a Rule 144A Note after its Specified Date. The **Specified Date** means, with respect to any Rule 144A Note, the date following the expiration of the applicable required holding period determined pursuant to Rule 144 of the Securities Act (such period, the **Applicable Holding Period**) from the later of the date of acquisition of such Rule 144A Note from (i) the Issuer or (ii) an affiliate of the Issuer, and any resale of such Rule 144A Note in reliance on Rule 144 under the Securities Act for the account of either the acquirer or any subsequent holder of such Rule 144A Note, in each case demonstrated to the reasonable satisfaction of the

Issuer (which may require delivery of legal opinions). Unless a holder of a Rule 144A Note holds such Rule 144A Note for the entire Applicable Holding Period, such holder may not be able to determine the Specified Date because such holder may not be able to determine the last date on which the Issuer or any affiliate thereof was the beneficial owner of such holder's Rule 144A Note. The Agent for the Notes will not be required to accept for registration or transfer any Rule 144A Notes, except upon presentation of satisfactory evidence (which may include legal opinions) that the restrictions on transfer have been complied with, all in accordance with such reasonable regulations as the Issuer may from time to time agree with the Agent.

### **Prescription**

Under New York's statute of limitations, any legal action upon the Notes and the Guarantees in respect of interest or principal must be commenced within six years after the payment thereof is due. Thereafter any such legal action on the Notes and the Guarantees will become generally unenforceable.

### **Notice**

Notices to Holders of Notes will be given by first class mail postage or internationally recognised courier service prepaid to the last addresses of such Holders as they appear in the Notes register. Such notices will be deemed to have been given on the date of such mailing. Neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

So long as any global notes representing the Notes are held in their entirety on behalf of a clearing system, or any of its participants, notices to holders regarding the Notes will be delivered to the clearing system, and its participants, for communication by them to the entitled accountholders. Any such notice shall be deemed to have been given to the accountholders on the third day after the day on which the said notice was given to the clearing system, and its participants.

### **Listing**

Application has been made to list the Notes on the Official List and for the Notes to be admitted to trading on the Professional Securities Market of the London Stock Exchange.

### **Consent to Service**

The Issuer will initially designate CT Corporation System, with offices at 28 Liberty Street, New York, NY, 10005, United States of America, as its authorised agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the Indenture and the Notes brought in any state or federal court in the Borough of Manhattan, the City of New York, and will irrevocably submit (but for those purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

### **Governing Law**

The Notes, the Guarantees and the Indenture shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws thereof.

## BOOK-ENTRY, DELIVERY AND FORM

The Notes that are initially offered and sold in the United States to QIBs (the **Rule 144A Notes**) will be represented by beneficial interests in one or more global notes (the **Rule 144A Global Note**) in registered form without interest coupons, which will be deposited on or about the closing date of the Offering of the Notes (the **Closing Date**) with The Bank of New York Mellon as custodian (the **Custodian**) for DTC and registered in the name of Cede & Co. as nominee of DTC.

The Notes that are offered and sold in reliance on Regulation S (the **Regulation S Notes**) will be represented by beneficial interests in one or more global notes (the **Regulation S Global Note**) in registered form without interest coupons, which will be deposited on or about the Closing Date with the Custodian, and registered in the name of Cede & Co., as nominee of DTC. Investors may hold their interests in the global notes directly through DTC if they are participants in, or indirectly through organisations that are participants in, such systems. Euroclear and Clearstream, Luxembourg will hold interests in the Rule 144A Notes or Regulation S Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

So long as DTC or its nominee is the registered holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the applicable global note for all purposes under the Indenture and the Notes (except as the context otherwise requires in respect of Additional Amounts). The Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear a legend regarding such restrictions as set forth under "*Transfer Restrictions*". Under certain circumstances, transfers may be made only upon receipt by the Agent, in its capacity as transfer agent, as well as the Trustee and the Issuer, of a written certification (in the form set out in the Indenture).

### Transfers within Global Notes

Subject to the procedures and limitations described herein, transfers of beneficial interests within a global note may be made without delivery to the Issuer, the Trustee or the Agent of any written certifications or other documentation by the transferor or transferee.

### Transfers between Global Notes

A beneficial interest in a Rule 144A Note may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Regulation S Note only upon receipt by the Agent of a written certification (in the form set out in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or, in the case of an exchange occurring following the Specified Date, Rule 144. A beneficial interest in a Regulation S Note may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Rule 144A Note only upon receipt by the Agent of a written certification (in the form set out in the Indenture) from the transferor to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. Any beneficial interest in a Rule 144A Note or a Regulation S Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other global note will, upon transfer, cease to be a beneficial interest in such global note and become a beneficial interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other global note for so long as such person retains such an interest.

### Transfers or Exchanges from Global Notes to Definitive Notes

No global note representing a Rule 144A Note or Regulation S Note may be exchanged in whole or in part for Notes in definitive registered form (**definitive notes**) unless:

- DTC notifies the Issuer that it is unwilling or unable to hold the applicable global note or DTC ceases to be a clearing agency registered under the Exchange Act, and in each case the Issuer does not appoint a successor depositary that is registered under the Exchange Act within 90 days; or
- a payment default has occurred and is continuing; or

- in the event of a bankruptcy default, the Issuer fails to make payment on the Notes when due; or
- the Issuer shall have determined in its sole discretion that the Notes shall no longer be represented by global notes.

The holder of a definitive note may transfer such note by surrendering it at the specified office of the Agent. Upon the transfer, exchange or replacement of a Rule 144A definitive note bearing the applicable legend set forth under “*Transfer Restrictions*” herein, or upon specific request for removal of such legend on a definitive note, the Issuer will deliver only definitive notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Agent such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Each such definitive note will include terms substantially in the form of those set forth in the Indenture. Except as set forth herein, no global note may be exchanged in whole or in part for definitive notes.

### **Clearing and Settlement**

The information set out below in connection with DTC is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect. The information about DTC set forth below has been obtained from sources that the Issuer and the Guarantors believe to be reliable, including DTC, but none of the Issuer, the Guarantors or any of the Initial Purchasers takes any responsibility for the accuracy of the information. If investors wish to use the facilities of any clearing system they should confirm the applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, the Guarantors, the Trustee or any of the Initial Purchasers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of interests in, Notes held through the facilities of any clearing system, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC participants and to facilitate the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants, thereby eliminating the need for physical movement of certificates. DTC participants include certain of the Initial Purchasers, securities brokers and dealers, banks, trust companies and clearing corporations and may in the future include certain other organisations (**DTC participants**). Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly (**indirect DTC participants**).

Under the rules, regulations, and procedures creating and affecting DTC and its operations (the **Rules**), DTC is required to make book-entry transfers of Notes among DTC participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system as described below (the **DTC Notes**) and to receive and transmit distributions of the nominal amount and interest on the DTC Notes. DTC participants and indirect DTC participants with which beneficial owners of DTC Notes (**Owners**) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through DTC participants or indirect DTC participants will not possess Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which such Owners will receive payments and will be able to transfer their interests with respect to the Notes.

Transfers of ownership or other interests in the Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant. DTC has no knowledge of the actual beneficial owners of the Notes. DTC’s records reflect only the identity of the DTC participants to whose accounts the Notes are credited, which may not be the beneficial owners. DTC participants will remain responsible for keeping account of their holdings on behalf of their customers and for forwarding all notices concerning the Notes to their customers. So long as DTC, or its nominee, is the registered holder of a global note, payments on the Notes will be made in immediately available funds to DTC. DTC’s practice is to credit DTC participants’ accounts on the applicable payment date in accordance with their respective holdings shown on its records, unless DTC has reason to believe

that it will not receive payment on that date. Payments by DTC participants to beneficial owners will be governed by standing instructions and customary practices, and will be the responsibility of the DTC participants and not of DTC, or any other party, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the Agent. Disbursement of payments for DTC participants will be DTC's responsibility, and disbursement of payments to the beneficial owners will be the responsibility of DTC participants and indirect DTC participants.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants, and because owners of beneficial interests in the Notes holding through DTC will hold interests in the Notes through DTC participants or indirect DTC participants, the ability of the owners of the beneficial interests to pledge Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to the Notes, may be limited. DTC will take any action permitted to be taken by an Owner only at the direction of one or more DTC participants to whose account with DTC such Owner's DTC Notes are credited. Additionally, DTC has advised the Issuer that it will take such actions with respect to any percentage of the beneficial interest of Owners who hold Notes through DTC participants or indirect participants only at the direction of and on behalf of DTC participants whose account holders include undivided interests that satisfy any such percentage.

To the extent permitted under applicable law and regulations, DTC may take conflicting actions with respect to other undivided interests to the extent that such actions are taken on behalf of DTC participants whose account holders include such undivided interests.

Ownership of interests in the Rule 144A Notes and the Regulation S Notes will be shown on, and the transfer of that ownership will be effected only through records maintained by, DTC, the DTC participants and the indirect DTC participants, including Euroclear and Clearstream, Luxembourg. Transfers between participants in DTC, as well as transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with DTC rules.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and participants in Euroclear or Clearstream, Luxembourg, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be. Such cross-market transactions, however, will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to DTC to take action to effect final settlement on its behalf by delivering or receiving payment in accordance with DTC's Same Day Funds Settlement System.

According to DTC, the foregoing information with respect to DTC has been provided to the industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantors, the Trustee or the Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

#### **Initial Settlement in Relation to DTC Notes**

Upon the issue of a DTC Note deposited with DTC or a custodian therefor, DTC or its custodian, as the case may be, will credit, on its internal system, the respective nominal amount of the individual beneficial interest represented by such relevant DTC Note or Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Initial Purchasers. Ownership of beneficial interest in a DTC Note will be limited to DTC participants, including Euroclear and Clearstream, Luxembourg or indirect DTC participants. Ownership of beneficial interests in DTC Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of indirect DTC participants). Investors that hold their interests in a DTC Note will follow the settlement procedures applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same day funds on the Issue Date.



## **Secondary Market Trading in Relation to DTC Notes**

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date. Although DTC has agreed to the following procedures in order to facilitate transfers of interests in global notes deposited with DTC or a custodian therefor among participants of DTC, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any agent of the Issuer will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Secondary market trading between DTC participants will be settled using the procedures applicable to global bond issues in same day funds.

## **Payments**

So long as any of the Notes remains outstanding and the Notes are admitted to trading on the Professional Securities Market of the London Stock Exchange, the Issuer will maintain in London, England an office or agency (a) where the Notes may be presented for payment, (b) in the case of the Issuer, where the Notes may be presented for registration of transfer and for exchange and (c) where notices and demands to or upon the Issuer in respect of the Notes or the Indenture may be served. The Issuer will give the Agent and the Trustee written notice of the location of any such office or agency and of any change of location thereof. The Issuer will initially designate the Agent for such purposes. The Issuer may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes or where such notices or demands may be served and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Issuer of any obligation to maintain an office or agency in London, England for such purposes. The Issuer shall give written notice to the Agent and the Trustee of any such designation or rescission and of any such change in the location of any other office or agency.

A holder of Notes may transfer or exchange Notes in accordance with their terms. The Agent will not be required to accept for registration or transfer any Notes, except upon presentation of satisfactory evidence (which may include legal opinions) that the restrictions on transfer have been complied with, all in accordance with such reasonable regulations as the Issuer may from time to time agree with such Agent.

Notwithstanding any statement herein, the Issuer reserves the right to impose or remove such transfer, certification, substitution or other requirements, and to require such restrictive legends on the Notes, as it may determine are necessary to ensure compliance with the securities laws of the United States and the states therein and any other applicable laws or as may be required by any stock exchange on which the Notes are listed. The Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of Notes and any other expenses (including the fees and expenses of the Trustee and/or the Agent). No service charge will be made for any such transaction.

The Agent will not be required to exchange or register a transfer of (a) any Notes for a period of 15 days ending the due date for any payment of principal in respect of the Notes or the first mailing of any notice of redemption of Notes to be redeemed or (b) any Notes selected, called or being called for redemption.

The Notes will be issued in registered form without coupons and transferable in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The laws of some jurisdictions require that certain persons take physical delivery in definitive form of securities which they own. Consequently, the ability to transfer beneficial interests in the global notes is limited to such extent.

## UK TAX CONSIDERATIONS

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current United Kingdom law and published Her Majesty's Revenue and Customs practice relating to certain aspects of United Kingdom taxation. References to "interest" refer to interest as that term is understood for United Kingdom tax purposes. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

### Interest on the Notes

#### *Payment of interest on the Notes*

Payments of interest on the Notes by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the Act). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes paid by the Issuer may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that Her Majesty's Revenue and Customs (HMRC) has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source by the Issuer on account of United Kingdom income tax at the basic rate (currently 20 per cent), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

The United Kingdom withholding tax treatment of payments by the Guarantors under the terms of the Guarantee which have a United Kingdom source is uncertain. In particular, such payments by the Guarantors may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if the Guarantors make any such payments, these may be subject to United Kingdom withholding tax at the basic rate.

### Further United Kingdom Tax Issues

Interest on the Notes that constitutes United Kingdom source income for tax purposes may, as such, be subject to income tax by direct assessment even where paid without withholding.

However, a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom who receives interest with a United Kingdom source without deduction or withholding on account of United Kingdom tax will not be liable for United Kingdom tax on such interest unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such

as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

### **United Kingdom Corporation Tax Payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their IFRS or UK GAAP accounting treatment.

### **Other United Kingdom Tax Payers**

#### *Taxation of Chargeable Gains*

A disposal of Notes by an individual Noteholder who is resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss for the purposes of the United Kingdom taxation of chargeable gains. An individual Noteholder who ceases to be resident in the UK for tax purposes and then reacquires UK tax residence before five complete tax years have elapsed and who disposes of their Notes during that period of non-residence may also be liable on their return to the UK to tax on any capital gain realised. Otherwise, the disposal of the Notes by an individual Noteholder who is neither resident in the United Kingdom nor carries on a trade, profession or vocation in the United Kingdom through a branch or agency should not give rise to a chargeable gain or allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

#### *Taxation of discount or premium (if any)*

The Notes may constitute “deeply discounted securities” for the purposes of Chapter 8 of Part 4 Income Tax (Trading and Other Income) Act 2005. Any gain realised on redemption or transfer of Notes which are “deeply discounted securities” by a Noteholder who is within the charge to United Kingdom income tax in respect of the Notes will generally be taxable as income, but such Noteholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption of such Notes or losses incurred on the transfer or redemption of such Notes.

#### *Accrued Income Scheme*

On a disposal of Notes by a Noteholder, any interest which has accrued since the last Interest Payment Date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

The Notes may constitute variable rate securities for the purposes of the accrued income scheme. Under the accrued income scheme, on a disposal of Notes by a Noteholder who is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, the Noteholder may be charged to income tax on an amount of income which is just and reasonable in the circumstances. The purchaser of such a Note will not be entitled to any equivalent tax credit under the accrued income scheme to set against any actual interest received by the purchaser in respect of the Notes (which may therefore be taxable in full).

### **Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes. No United Kingdom stamp duty or SDRT is payable on the transfer of the Notes if (i) the Notes are “exempt loan capital” (that is, if section 79(4) of the Finance Act 1986 applies to the Notes) or (ii) the transfer is effected otherwise than by way of written instrument and the Notes are held within DTC such that the requirements of section 90(5) of the Finance Act 1986 are satisfied (provided that DTC has not and will not make an election under section 97A of the Finance Act 1986). The Issuer understands that DTC has not made such an election.

However, stamp duty and/or stamp duty reserve tax may become payable in relation to or following the exercise of the Issuer’s defeasance option. This will depend upon the basis upon which money or government obligations are deposited with the Trustee.

## US FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain US federal income tax consequences to a US Holder (as defined herein) of purchasing, owning and disposing of Notes, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such Notes. This discussion only applies to US Holders who hold Notes as capital assets for US federal income tax purposes and acquire such Notes pursuant to this Offering at the "issue price", which for each series of Notes will equal the first price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of initial purchasers, placement agents or wholesalers) at which a substantial amount of the Notes of such series is sold for money. This discussion is for general information purposes only and does not describe all of the US federal income tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as: (i) certain financial institutions; (ii) insurance companies; (iii) dealers and certain traders in securities; (iv) regulated investment companies; (v) real estate investment trusts; (vi) partnerships, certain pass-through entities or persons that hold Notes through pass-through entities; (vii) persons holding Notes as part of a hedge, straddle, conversion or other integrated transaction; (viii) persons whose functional currency for US federal income tax purposes is not the US dollar; (ix) tax-exempt organisations; (x) certain persons who have ceased to be United States citizens or resident aliens; or (xi) persons subject to special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account in an applicable financial statement. This discussion does not address US federal estate, gift, Medicare contribution or alternative minimum tax considerations, or non-US, state or local tax considerations.

This discussion is based on the Internal Revenue Code of 1986, its legislative history, administrative pronouncements, published rulings and judicial decisions, and final, temporary and proposed Treasury regulations, all as of the date of this Offering Memorandum, all of which are subject to change at any time, possibly on a retroactive basis. Prospective purchasers should consult their own tax advisers concerning the US federal, state, local and non-US tax consequences of purchasing, owning and disposing of Notes in their particular circumstances.

As used herein, the term **US Holder** means a person that, for US federal income tax purposes, is a beneficial owner of a Note and: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organised in or under the laws of the United States or any political subdivision thereof; (iii) an estate, the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) such trust has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person. A **Non-US Holder** is a beneficial owner of Notes that is neither a US Holder nor a partnership (or other pass-through entity).

The US federal income tax treatment of a partner in a partnership, or other entity treated as a partnership for US federal tax purposes, that holds Notes will depend on the status of the partner and the activities of the partnership. Partnerships owning Notes and partners in such partnerships should consult their own tax advisers regarding the tax consequences of acquiring, holding and disposing of the Notes.

### **Payments of Interest**

It is expected, and the following discussion assumes, that the Notes will be issued with no more than a *de minimis* amount of original issue discount for US federal income tax purposes. Accordingly, interest paid on a Note (including any Additional Amounts and, without duplication, any amount withheld in respect of United Kingdom taxes) will be taxable to a US Holder as ordinary interest income at the time it accrues or is received in accordance with the US Holder's method of accounting for US federal income tax purposes. Interest income paid to a US Holder with respect to a Note will constitute foreign source income for US federal income tax purposes, which may be relevant to a US Holder in calculating the US Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. US Holders should consult their tax advisers concerning the foreign tax credit implications of any payment of UK taxes in the case UK taxes are withheld from payments on a Guarantee.

## **Substitution of the Issuer**

In certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity as described under “*Description of the Notes and the Guarantees—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*”. Any such assumption might be treated for US federal income tax purposes as a deemed disposition of Notes by a US Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a US Holder could be required to recognise gain or loss for US federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for US federal income tax purposes) and the US Holder’s adjusted tax basis in the Notes.

## **Sale, Exchange or Other Taxable Disposition of the Notes**

Upon the sale, exchange or other taxable disposition of a Note, a US Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or other taxable disposition and the US Holder’s adjusted tax basis in the Note, which will generally be its cost. For these purposes, the amount realised does not include any amount attributable to accrued interest, which will be treated as interest as described under “*—Payments of Interest*” above.

Gain or loss realised on the sale, exchange or other taxable disposition of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or other disposition the Note has been held for more than one year. Long-term capital gain may be taxable at reduced rates in the case of a US Holder that is an individual, estate or trust. The deductibility of capital losses is subject to significant limitations. Gain or loss will generally be treated as derived from US sources for purposes of computing a US Holder’s foreign tax credit limitation.

## **Non-US Holders**

A Non-US Holder generally should not be subject to US federal income or withholding tax on any payments on the Notes or gain from the sale, redemption or other disposition of the Notes unless: (i) that payment or gain is effectively connected with the conduct by that Non-US Holder of a trade or business within the United States (and, if required under an applicable income tax treaty, is attributable to a permanent establishment within the United States) or (ii) in the case of any gain realised on the sale, redemption or other disposition of a Note by an individual Non-US Holder, that Non-US Holder is present in the United States for 183 days or more in the taxable year of the sale, redemption or other disposition and certain other conditions are met.

## **Information Reporting and Backup Withholding**

Payments on the Notes and proceeds from the sale of a Note that are made within the United States or through certain US-related financial intermediaries may be subject to information reporting and to backup withholding at the applicable statutory rate, unless the US Holder is a corporation or other exempt recipient or, in the case of backup withholding, the US Holder provides a correct taxpayer identification number, certifies that no loss of exemption from backup withholding has occurred, and otherwise complies with the backup withholding rules. Amounts withheld under the backup withholding rules are not additional taxes. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against such US Holder’s US federal income tax liability and may entitle such US Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain US Holders that own “specified foreign financial assets” that meet certain US dollar value thresholds generally are required to file an information report with respect to such assets (or, if such assets are held through a non-US account, such non-US accounts with their tax returns). The Notes generally will constitute specified foreign financial assets subject to these reporting requirements unless the Notes are held in an account at certain financial institutions. US Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Notes. Non-US Holders may be required to comply with applicable certification procedures to establish that they are not US Holders in order to avoid the application of such information reporting requirements and backup withholding.

## PLAN OF DISTRIBUTION

Pursuant to a Purchase Agreement dated 23 July 2019 among the Initial Purchasers, the Issuer and the Guarantors (the **Purchase Agreement**), the Initial Purchasers have severally and not jointly agreed with the Issuer, subject to the satisfaction of certain conditions, to purchase the aggregate principal amount of each series of Notes. The respective principal amount of Notes to be purchased by each of the Initial Purchasers from the Issuer is set forth opposite its name below:

<u>Initial Purchaser</u>	<u>Principal amount of the 2024 Notes</u>	<u>Principal amount of the 2026 Notes</u>	<u>Principal amount of the 2029 Notes</u>
Barclays Capital Inc. . . . .	US\$ 130,000,000	US\$ 97,500,000	US\$ 130,000,000
BofA Securities, Inc. . . . .	US\$ 180,000,000	US\$ 135,000,000	US\$ 180,000,000
HSBC Securities (USA) Inc. . . . .	US\$ 130,000,000	US\$ 97,500,000	US\$ 130,000,000
Mizuho Securities USA LLC . . . . .	US\$ 130,000,000	US\$ 97,500,000	US\$ 130,000,000
MUFG Securities Americas Inc. . . . .	US\$ 130,000,000	US\$ 97,500,000	US\$ 130,000,000
Banca IMI S.p.A. . . . .	US\$ 33,334,000	US\$ 25,000,000	US\$ 33,334,000
Bank of China Limited, New York Branch . .	US\$ 33,334,000	US\$ 25,000,000	US\$ 33,334,000
BBVA Securities Inc. . . . .	US\$ 33,334,000	US\$ 25,000,000	US\$ 33,334,000
Commerz Markets LLC . . . . .	US\$ 33,333,000	US\$ 25,000,000	US\$ 33,333,000
Crédit Agricole Securities (USA) Inc. . . . .	US\$ 33,333,000	US\$ 25,000,000	US\$ 33,333,000
NatWest Markets Securities Inc. . . . .	US\$ 33,333,000	US\$ 25,000,000	US\$ 33,333,000
Santander Investment Securities Inc. . . . .	US\$ 33,333,000	US\$ 25,000,000	US\$ 33,333,000
SMBC Nikko Securities America Inc. . . . .	US\$ 33,333,000	US\$ 25,000,000	US\$ 33,333,000
UniCredit Bank AG . . . . .	US\$ 33,333,000	US\$ 25,000,000	US\$ 33,333,000
<b>Total</b> . . . . .	<b>US\$1,000,000,000</b>	<b>US\$750,000,000</b>	<b>US\$1,000,000,000</b>

The Purchase Agreement entitles the Initial Purchasers to terminate the purchase of the Notes in certain circumstances prior to payment to the Issuer. The Issuer and the Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities in connection with the offer and sale of the Notes, including liabilities under the Securities Act, and may be required to contribute to payments the Initial Purchasers may be required to make in respect thereof.

The Initial Purchasers, or certain of their respective affiliates as selling agents, initially propose to offer part or all of the Notes at the respective Issue Prices set forth on the cover page hereof. After the initial Offering the Issue Prices and other selling terms may from time to time be varied by the Initial Purchasers.

The Issuer and each of the Guarantors have agreed with the Initial Purchasers that neither they nor any person acting on their behalf will, without the prior written consent of the Initial Purchasers, for the period from and including the date of the Purchase Agreement through and including the Closing Date, offer, sell, contract to sell or otherwise dispose of any debt securities of or guaranteed by the Issuer or the Guarantors, or warrants to purchase debt securities (other than private placements of debt securities) of or guaranteed by the Issuer or the Guarantors, that rank *pari passu* in right of payment with the Notes (other than the Notes).

The Notes are a new issue of securities with no established trading market. The Notes are expected to be admitted to trading on the Professional Securities Market of the London Stock Exchange.

The Initial Purchasers are not obligated to make a market in the Notes and, even if such activities are commenced, they may be discontinued at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or any trading market for, the Notes. If the Notes are traded, they may trade at a discount from their initial Issue Price depending on prevailing interest rates, the market for similar securities, the operating performance and financial condition of the Group, general economic conditions and other factors.

In connection with the Offering, BofA Securities, Inc. may effect stabilisation transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the date of issue of the Notes. However, there is no obligation on the part of the Initial Purchasers to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or the possession, circulation or distribution of any material relating to the Offering in any jurisdiction where

action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, nor may any offering material or advertisement in connection with the Notes (including this document and any amendment or supplement hereto) be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Group. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Group or its affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with the Group routinely hedge their credit exposure to the Group consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Group's securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Issuer and Guarantors expect that delivery of the Notes will be made to investors on or about 26 July 2019 (such settlement being referred to as T+3). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities prior to the third business day before the delivery of the securities will be required, by virtue of the fact that the securities initially will settle in T+3, to specify any alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the securities who wish to make such trades should consult their own advisers.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Initial Purchasers or any affiliate of an Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or affiliate on behalf of the Issuer in such jurisdiction.

Banca IMI S.p.A., Bank of China Limited, London Branch and UniCredit Bank AG are not US-registered broker-dealers and will not effect any offers or sales of the Notes in the United States other than through one or more US-registered broker-dealers as permitted by the regulations of the Financial Industry Regulatory Authority, Inc.

#### **United States**

The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (i) outside the United States in reliance on Regulation S and (ii) within the United States to QIBs in accordance with Rule 144A.

Each Initial Purchaser has represented and agreed with the Issuer and the Guarantors that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until and including the 40th day after the later of the commencement of the Offering and the Closing Date for the sale of any Notes pursuant to the Purchase Agreement (the **distribution compliance period**), within the United States or to, or for the account or benefit of, US persons except in accordance with Rule 144A or Rule 903 of Regulation S. Each Initial Purchaser has also agreed that it, each of its affiliates and each person acting on its or their behalf has complied and will comply with the offering restriction requirements of Regulation S; and that at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A, if permitted) it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the

restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons.

Terms used in the preceding two paragraphs have the meanings ascribed to them by Rule 144A and Regulation S under the Securities Act, as applicable.

In addition, until 40 days after the commencement of the Offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the Offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The Purchase Agreement also provides that the Initial Purchasers or their affiliates may arrange for the placing of a portion of the Notes to persons reasonably believed to be QIBs pursuant to Rule 144A.

### **European Economic Area**

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### **United Kingdom**

Each Initial Purchaser has represented and agreed with the Issuer and the Guarantors that:

- it has communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA), received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **Hong Kong**

The Notes are not being offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances that do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or that do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Notes has been or will be issued or has been or will be in the possession of the Initial Purchasers for the purposes of issue, whether in Hong Kong or elsewhere, that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended) (the **Financial Instruments and Exchange Law**). Accordingly, each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell the Notes in Japan or to, or for the benefit of, a resident of Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, a “resident of Japan” means any person resident in Japan.



## Singapore

Each Initial Purchaser has acknowledged that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person pursuant (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law; or
- as specified in Section 276(7) of the SFA.

Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in section 309A(1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## South Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea (the **FSCMA**). Accordingly, each Initial Purchaser severally but not jointly has represented and agreed, and each further Initial Purchaser appointed under the Purchase Agreement will be required to represent and agree, that the Notes have not been and will not be offered, sold or delivered, directly or indirectly, in Korea or to or for the account or benefit of any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea and its Enforcement Decree) except as otherwise permitted under applicable Korean laws and regulations. Furthermore, a holder of the Notes will be prohibited from offering, delivering or selling any Notes, directly or indirectly, in Korea or to any Korean resident for a period of one year from the date of issuance of the Notes except (i) in the case where the Notes are issued as bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, and where the other relevant requirements are further satisfied, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of qualified institutional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, or (ii) as otherwise permitted under applicable Korean laws and regulations. Each Initial Purchaser severally but not jointly undertakes, and each further Initial Purchaser appointed under the Purchase Agreement will be required to undertake, to use commercially reasonable best measures as an Initial Purchaser in the ordinary course of its business so

that any securities dealer to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Initial Purchaser that it will comply with the restrictions described above.

### **Switzerland**

Each Initial Purchaser has represented and agreed that (a) it has not publicly offered, sold or advertised, and will not publicly offer, sell or advertise, directly or indirectly, the Notes in or from Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations (CO); and (b) neither this Offering Memorandum nor any documents related to the Notes constitute a prospectus within the meaning of art. 652a or art. 1156 CO. Neither the Issuer nor any Initial Purchaser has applied for a listing of the Notes on the SIX Swiss Exchange or any other regulated securities market in Switzerland and, consequently, the information presented in this Offering Memorandum does not necessarily comply with the information standards set out in the listing rules of SIX Swiss Exchange or any other rules.

### **Taiwan**

The Notes have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan. No person or entity in Taiwan has been authorised to offer or sell the Notes in Taiwan.

### **Notice to Prospective Investors in Other Jurisdictions**

Each Initial Purchaser has represented and agreed with the Issuer that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Offering Memorandum or any amendment or supplement thereto, insofar as such laws, regulations and directives relate to the purchase, offer, sale or delivery of the Notes or the possession or distribution of this Offering Memorandum or any amendment or supplement thereto.

## TRANSFER RESTRICTIONS

The Notes and the Guarantees have not been and will not be registered under the Securities Act or any state securities laws and, unless so registered, may not be offered, sold or delivered except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only (i) within the United States to QIBs in reliance on Rule 144A under the Securities Act and (ii) in offshore transactions to non-US persons in reliance on Regulation S under the Securities Act.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers as follows:

1. It understands and acknowledges that the Notes and the Guarantees have not been and will not be registered under the Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and may not be offered, sold or otherwise transferred within the United States except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraphs 4 and 5 below.
2. It is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Issuer or the Guarantors, nor acting on behalf of the Issuer or the Guarantors and it is either:
  - a QIB and is aware that any sale of Notes to it will be made in reliance on Rule 144A under the Securities Act, of which the purchase will be for its own account or for the account of another QIB; or
  - purchasing the Notes in an offshore transaction in accordance with Regulation S under the Securities Act and not a US person.
3. It acknowledges that none of the Issuer, the Guarantors, or the Initial Purchasers, nor any person representing the Issuer, the Guarantors, their respective subsidiaries or the Initial Purchasers, has made any representation to it with respect to the Offering or sale of any Notes, other than the information contained in this Offering Memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It has had access to such financial and other information concerning the Issuer, the Guarantors and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes.
4. It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act.
5. If such a purchaser is a purchaser of Notes issued in reliance on Rule 144A, it agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree not to offer, sell or otherwise transfer such Notes except (i) to the Issuer or the Guarantors, (ii) pursuant to a registration statement that has been declared effective under the Securities Act, (iii) for so long as the Notes are eligible for resale pursuant to Rule 144A under the Securities Act, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the Securities Act, (iv) pursuant to offers and sales that occur outside the US in compliance with Regulation S under the Securities Act or (v) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and in compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer’s, the Trustee’s and the Agent’s rights prior to any such offer, sale or transfer (A) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (B) in each of the foregoing cases, to require that a transfer notice in

the form attached as a schedule to the Indenture is completed and delivered by the transferor to the Agent.

6. It understands that the Notes being sold pursuant to Rule 144A will bear a legend to the following effect:

**THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OR A DEPOSITARY OR A SUCCESSOR DEPOSITARY. NEITHER THIS NOTE, THE GUARANTEES, NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE UNITED STATES IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.**

**THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE ONLY (A) TO THE ISSUER, AND THE GUARANTOR AND ANY SUBSIDIARY OR ANY AFFILIATE THEREOF (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S, THE TRUSTEE'S AND/OR THE AGENT'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM OF SCHEDULE 6 TO THE INDENTURE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE AGENT. THE FOREGOING RESTRICTIONS ON RESALE WILL NOT APPLY SUBSEQUENT TO THE SPECIFIED DATE. THE INDENTURE CONTAINS A PROVISION REQUIRING THE AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.**

7. It understands that the Notes being sold in reliance on Regulation S will bear a legend to the following effect:

**THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OR A DEPOSITARY OR A SUCCESSOR DEPOSITARY. NEITHER THIS NOTE, THE GUARANTEES, NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN OR WILL BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY US PERSON, UNLESS SUCH NOTES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF IS AVAILABLE. THIS LEGEND WILL BE REMOVED AFTER THE EXPIRATION OF FORTY DAYS FROM THE LATER OF (i) THE DATE ON WHICH THESE NOTES ARE FIRST OFFERED AND (ii) THE DATE OF ISSUE OF THESE NOTES.**

8. It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes.

9. It acknowledges that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.
10. (i) It is not and is not acting on behalf of (and will not be and will not be acting on behalf of), indirectly or directly, an employee benefit plan (as defined in Section 3(3) of the US Employees Retirement Income Security Act of 1974, as amended (**ERISA**)) subject to Title I of ERISA, a plan or other arrangement subject to Section 4975 of the US Internal Revenue Code of 1986, as amended (the **IRC**), an entity whose underlying assets include “plan assets” by reason of any such employee benefit plans or plan’s or arrangement’s investment in the entity, or a governmental, church or non-US plan subject to any federal, state, local or non-US laws or regulations that are substantially similar to the provisions of Section 406 of ERISA and/or Section 4975 of the IRC (**similar law**); or (ii) its purchase, holding and subsequent disposition of such Notes (or any interests therein) shall not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the IRC or, in the case of any governmental, church or non-US plan, any similar law.
11. It acknowledges that the Trustee and/or Agent will not be required to accept for registration of transfer any Notes except upon presentation of evidence satisfactory to the Issuer and the Guarantors, the Trustee and/or the Agent that the restrictions set forth therein have been complied with.
12. It acknowledges that the Issuer, Imperial Brands, ITL, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

## **LEGAL MATTERS**

The validity of the Notes and certain other matters with respect to the Notes offered hereby will be passed on for the Issuer and the Guarantors by Allen & Overy LLP as to matters of English law, US federal law and New York state law. The validity of the Notes and certain other matters with respect to the Notes offered hereby will be passed on for the Initial Purchasers by Davis Polk & Wardwell London LLP as to matters of US federal law and New York state law.

## **INDEPENDENT AUDITORS**

The Annual Financial Statements, the 2016 IBF Financial Statements, the 2017 IBF Financial Statements, the 2018 IBF Financial Statements, the 2016 ITL Financial Statements, the 2017 ITL Financial Statements and the 2018 ITL Financial Statements incorporated by reference herein have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their independent auditors' reports incorporated by reference herein. PricewaterhouseCoopers LLP is a member of the Institute of Chartered Accountants of England and Wales. The current address of PricewaterhouseCoopers LLP is 31 Great George Street, Bristol, BS1 5QD, United Kingdom.

## GENERAL INFORMATION

### Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Professional Securities Market. The admission of the Notes to the Official List will be expressed as a percentage of their aggregate principal amount (excluding accrued interest). It is expected that admission to the Official List and to trading on the London Stock Exchange's Professional Securities Market will be granted on or about 29 July 2019, subject only to the issue of the Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

The Issuer expects that total expenses related to the listing and admission of the Notes to trading will be approximately US\$11,500.

### Authorisation and Consents

The Issuer, Imperial Brands and ITL have obtained all necessary consents, waivers, approvals and authorisations in connection with the issue of the Notes and the Guarantees. The Notes were issued pursuant to a resolution adopted by the board of directors of the Issuer on 22 July 2019. The giving of the Guarantee by Imperial Brands was authorised by a resolution adopted by the Imperial Brands board of directors at a meeting held on 18 and 19 June 2019 and by ITL by a resolution adopted by the ITL board of directors on 22 July 2019.

### Significant or Material Adverse Change

There has been no significant change in the financial performance or position of the Group since 31 March 2019 and there has been no material adverse change in the prospects of the Issuer, ITL and Imperial Brands since 30 September 2018.

### Litigation

Except as disclosed in “*Description of the Group and its Business—Regulatory Landscape*” and “*Description of the Group and its Business—Litigation*” in this Offering Memorandum on pages 87 to 98 (inclusive) under the sub-headings “*Description of the Group and its Business—Regulatory Landscape—Regulation in the US*”, “*Description of the Group and its Business—Regulatory Landscape—Plain and standardised packaging*”, “*Description of the Group and its Business—Regulatory Landscape—Product display bans at point of sale*” and “*Description of the Group and its Business—Litigation—Litigation relating to the Group*”, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Issuer, Imperial Brands or ITL are aware during the 12 months preceding the date of this Offering Memorandum which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, Imperial Brands, ITL or the Group.

### Material Contracts

Save as disclosed in this Offering Memorandum under “*Management's Discussion and Analysis of Financial Condition and Results of Operations*” and “*Description of the Group and its Business*”, the Group has not entered into any material contract outside the ordinary course of its business, which could result in the Group being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

### Clearing Systems

The global notes representing the Rule 144A Notes and the Regulation S Notes are expected to be accepted for clearance through DTC and through the facilities of Euroclear and Clearstream, Luxembourg (as indirect participants in DTC).

The CUSIP of the 2024 Notes to be sold pursuant to Regulation S is G471AB NU0 and the ISIN number is USG471ABNU06. The CUSIP of the 2024 Notes to be sold pursuant to Rule 144A is 45262B AA1 and the ISIN number is US45262BAA17.



The CUSIP of the 2026 Notes to be sold pursuant to Regulation S is G471AB NV8 and the ISIN number is USG471ABNV88. The CUSIP of the 2026 Notes to be sold pursuant to Rule 144A is 45262B AB9 and the ISIN number is US45262BAB99.

The CUSIP of the 2029 Notes to be sold pursuant to Regulation S is G471AB NW6 and the ISIN number is USG471ABNW61. The CUSIP of the 2029 Notes to be sold pursuant to Rule 144A is 45262B AC7 and the ISIN number is US45262BAC72.

The address of DTC is 55 Water Street, New York, New York 10041, United States, the address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **Indication of Yield**

The initial yield on the 2024 Notes will be 3.233 per cent per annum, the 2026 Notes will be 3.648 per cent per annum and the 2029 Notes will be 3.981 per cent per annum, calculated on an annual basis. The yield is calculated on the Issue Date on the basis of the price of the relevant Note. It is not an indication of future yield.

### **Interests of Natural and Legal Persons Involved in the Issue**

Save for any fees payable to the Initial Purchasers, so far as the Issuer is aware, no person involved in the issue of Notes has an interest material to the Offering.

### **Credit Rating**

As of the date of this Offering Memorandum, Imperial Brands has a solicited long-term debt rating of Baa3 (stable outlook) by Moody's, BBB (stable outlook) by Fitch and BBB (stable outlook) by S&P. It is expected that the Notes will be rated Baa3 by Moody's and BBB by S&P.

### **General**

For the avoidance of doubt, any website referred to in this Offering Memorandum does not form part of the Offering Memorandum prepared in accordance with the proposed Offering of the Notes.

### **Documents Available**

For the period of 12 months following the date of this Offering Memorandum, copies of the following documents will be available for inspection from [www.imperialbrandspc.com](http://www.imperialbrandspc.com):

- (i) the articles of association of the Issuer and Guarantors;
- (ii) the Annual Financial Statements, the 2016 IBF Financial Statements, the 2017 IBF Financial Statements, the 2018 IBF Financial Statements, the 2016 ITL Financial Statements, the 2017 ITL Financial Statements and the 2018 ITL Financial Statements, in each case together with the independent auditors' reports thereon;
- (iii) the 2019 Interim Financial Statements;
- (iv) the 2019 IBF Interim Financial Statements;
- (v) this Offering Memorandum; and
- (vi) the Indenture.

In addition, this Offering Memorandum will also be available at the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/engh/pricenews/marketnews/](http://www.londonstockexchange.com/engh/pricenews/marketnews/).

Registered Office of  
**Imperial Brands PLC,  
Imperial Brands Finance PLC and  
Imperial Tobacco Limited**

121 Winterstoke Road  
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United Kingdom

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United Kingdom

**LEGAL ADVISERS TO THE JOINT BOOK-RUNNING MANAGERS**

*As to matters of US law*

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United Kingdom

**TRANSFER AGENT AND REGISTRAR**

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**INDEPENDENT AUDITORS TO IMPERIAL TOBACCO LIMITED**

**PricewaterhouseCoopers LLP**  
31 Great George Street  
Bristol BS1 5QD  
United Kingdom

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# Imperial Brands Finance PLC

**US\$2,750,000,000**

consisting of

**US\$1,000,000,000 3.125 per cent Senior Notes due 2024**

**US\$750,000,000 3.500 per cent Senior Notes due 2026**

**US\$1,000,000,000 3.875 per cent Senior Notes due 2029**

**Guaranteed by Imperial Brands PLC and Imperial Tobacco Limited**

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**OFFERING MEMORANDUM**

**23 July 2019**

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*Joint Book-Running Managers*

**BARCLAYS**  
**BOFA MERRILL LYNCH**  
**HSBC**  
**MIZUHO SECURITIES**  
**MUFG**

*Co-managers*

**BANCA IMI**  
**BANK OF CHINA**  
**BBVA**  
**COMMERZBANK**  
**CREDIT AGRICOLE CIB**  
**NATWEST MARKETS**  
**SANTANDER**  
**SMBC NIKKO**  
**UNICREDIT**

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