IMPERIAL BRANDS

ANNUAL REPORT AND ACCOUNTS 2019

OUR PURPOSE

Our purpose is to create something better for the world's smokers with our portfolio of high quality next generation and tobacco products. In doing so we are transforming our business and strengthening our sustainability and value creation.

OUR VALUES

Our values express who we are and capture the behaviours we expect from everyone who works for us.

WE CAN

Everything is possible, together we win

I OWN

See it, seize it, make it happen

WE SURPRISE

New thinking, new actions, exceed what's possible

I AM

My contribution counts, think free, speak free, act with integrity

WE ENJOY

Thrive on challenge, make it fun

I ENGAGE

Listen, share, make connections

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

Reporting requirement	Policies and standards which govern our approach[1]	Information necessary to understand our business and its impact, policy due diligence and outcomes	Page reference
Environmental matters	• Occupational health, safety and environmental policy and framework • Sustainable tobacco programme	Environmental targets	21
		International management systems	21
		Climate and energy	21
		Reducing waste	19
		Sustainable tobacco supply	20
		Supporting wood sustainability	20
Employees	• Code of Conduct • Our values • Group wide employment policy • Fairness at work policy • Occupational health, safety and environmental policy and framework	Diverse and engaged workforce	22
		Workforce Engagement Director	41 and 61
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		International management systems	21
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		Responsible operations and people	21
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Social matters	• International marketing standards • Fontem marketing standards • Policy on taxation • Community contributions and volunteering policy • Information security policy	Responsible operations and people	21
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Anti-corruption and anti-bribery	• Code of Conduct • Fraud risk management policy • Speaking up policy • Finance manual • Group control matrix	How we manage risk	33
		Governance, risk management and internal control	55
Description of principal risks and impact of business activity	• Principal risks and uncertainties • Governance, risk management and internal control		33 to 40 55
Description of the business model	• Our business model		4
Non-financial key performance indicators	• Key performance indicators • Sustainability performance indicators		16 17

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

2019 OVERVIEW

TOBACCO & NGP NET REVENUE*

£8.0bn

+2.2%

ASSET BRAND NET REVENUE*

£5.3bn

+4.4%

REPORTED EARNINGS PER SHARE

106.0p

-26.2%

ADJUSTED EARNINGS PER SHARE*

273.3p

-1.6%

DIVIDEND PER SHARE

206.6p

+10%

* Movement on a constant currency basis

PERFORMANCE MEASURES USED THROUGHOUT THE REPORT

Reported (GAAP)	Complies with International Financial Reporting Standards and the relevant legislation.
Adjusted (Non-GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next. Reconciliations can be found in notes 3, 8, 10 and 30.
Constant currency basis	Removes the effect of exchange rate movements on the translation of the results of our overseas operations. We translate current year results at prior year foreign exchange rates.
Market share	Market share data is presented as a 12-month moving average weighted across the markets in which we operate.
Stick equivalent	Stick equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.

OVERVIEW

STRATEGY

PERFORMANCE

GOVERNANCE

FINANCIALS

SUPPLEMENTARY INFORMATION

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Managing our environmental, social and governance issues

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DELIVERING GOOD GOVERNANCE

High standards of governance underpin our long-term sustainability

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"This report provides an overview of performance and the actions we are taking to strengthen our sustainability and create long-term value for our stakeholders."

MARK WILLIAMSON
Chairman

This was a difficult year for the Group, one in which our financial delivery was impacted by a challenging Next Generation Products (NGP) market in the USA and lower than expected results in our Africa, Asia and Australasia division.

On a constant currency basis these factors resulted in Tobacco & NGP revenue growth of 2.2 per cent, and a 1.6 per cent decline in adjusted earnings per share. Reported earnings per share declined 26.2 per cent. Whilst this is disappointing, we continue to believe that NGP provides a significant opportunity to deliver additive growth to complement the resilience of our tobacco business.

We have a robust tobacco value creation model that will continue to grow profit and cash flows in the years ahead. In NGP we have adjusted our plans for growth in light of the volatile environment in the USA and continue to work with stakeholders globally to develop a regulatory framework that enforces high product and marketing standards.

NEW DIVIDEND POLICY

We increased the dividend by 10 per cent this year, in line with our long-standing policy. In July the Board announced a revised dividend policy to support continued growth and optimise returns for shareholders.

The new policy recognises the Company's continued strong cash generation and the importance of growing dividends for shareholders, while providing greater flexibility in capital allocation.

ASSET DIVESTMENT PROGRAMME

We have identified a number of assets that are not central to our growth strategy, including our premium cigar business which is in the process of being sold as part of a divestment programme that will realise up to £2 billion by May 2020. The Board will make a decision at that time regarding the most appropriate use of the proceeds.

A RESPONSIBLE BUSINESS

We run our business responsibly and take pride in the positive stakeholder contributions we make across our international footprint, including providing employment for more than 30,000 people, respecting the natural resources we use and contributing around £17 billion every year to governments in taxes.

In May we convened a panel of stakeholders and invited them to review our sustainability strategy. This has further informed the approach we take to managing our environmental, social and governance responsibilities and I would like to thank everyone involved for their valuable feedback.

BOARD CHANGES

In February, I announced my intention to step down from the Board in anticipation of the requirements of the new UK Corporate Governance Code regarding a Chairman's Board tenure. I will be succeeded by Thérèse Esperdy, currently Senior Independent Director, who will be appointed Chairman on 1 January 2020.

Thérèse has made a significant contribution since she became a Non-Executive Director in 2016 and I am delighted that she has agreed to take on this role. Her international executive experience and the acute understanding she has of the business, the sector we operate in and the concerns of investors is invaluable.

In October Chief Executive Officer Alison Cooper and the Board agreed that Alison will step down from the role of CEO and from the Board once a suitable successor is found. Alison has worked tirelessly and with great energy and passion during her 20 years with Imperial, nine of which have been as CEO. Under Alison's leadership the business has been simplified and reshaped to strengthen its long-term growth potential and around £12 billion in dividends has been returned to shareholders. The Board thanks her for the tremendous contribution she has made.

Details of further Board changes are included in our Governance Report, which provides an overview of our governance framework and the work of the Board and its Committees.

STRENGTHENING DELIVERY

I would like to thank our employees for all their hard work during the year and I know that the learnings taken from 2019 will be used to drive a stronger performance in 2020. I would also like to thank my Board colleagues for their support during my 12 years with the Company.

It has been a privilege to serve as Chairman for five of those years and I look forward to seeing Imperial Brands grow and prosper as it continues to focus on creating something better for the world's smokers.

MARK WILLIAMSON
Chairman

GENERATING GROWTH

Our strategy is aligned to our purpose of creating something better for the world's smokers and focuses on driving performance in three key areas: Tobacco, Next Generation Products (NGP) and Cost and Cash. In tobacco we maximise opportunities for our Asset Brands and priority markets. Through our expanding NGP portfolio we are providing adult smokers with a range of potentially less harmful alternatives to cigarettes. The approach we take to managing cost and cash provides funds to invest in the business and return to shareholders. Our sustainability strategy is central to our growth aspirations and frames the way we manage our environmental, social and governance issues, with everything we do underpinned by high standards of governance.

MAXIMISE SUSTAINABLE SHAREHOLDER RETURNS

LONG-TERM QUALITY GROWTH

TOBACCO MAXIMISATION

- Clear focus on driving growth in our priority markets
- Building the contribution from our high-quality Asset Brands
- Market Repeatable Model for growth

NEXT GENERATION PRODUCTS

- Portfolio of vapour, heated tobacco and oral nicotine brands
- 4Bs brand adoption model for moving adult smokers into the NGP category
- Dynamic innovation pipeline supports growth

COST AND CASH

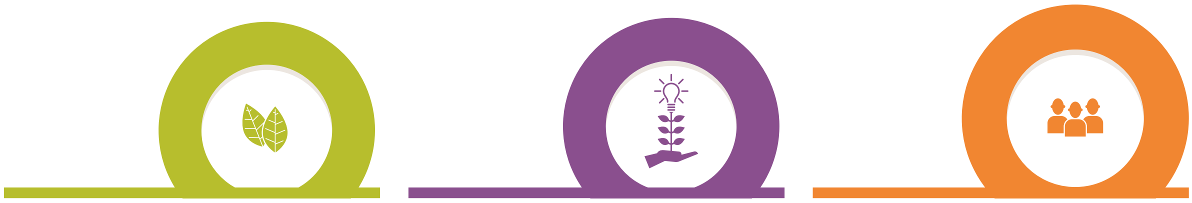
- Disciplined capital allocation
- Simplify operating model
- Lean manufacturing
- Control of overheads
- Maximise cash conversion

ENABLING THE BUSINESS TO GROW AND CREATE VALUE

TOBACCO
SUSTAINABLE SUPPLY

NEXT GENERATION PRODUCTS
REDUCED HARM

BEHAVING RESPONSIBLY
PEOPLE AND OPERATIONS



HIGH STANDARDS OF GOVERNANCE

VALUE CREATION

We create value through two distinct business growth models, our Market Repeatable Model for tobacco and our Brand Adoption Model for NGP. Consistently applying these models to the right markets and the right brands is key for delivering quality growth. Our high operating margins drive the strong cash flows that are a hallmark of our business and although investment in NGP may initially dilute these margins we expect to see profitability improve over time. We use the cash we generate to reinvest to support growth, pay down debt or return to shareholders through dividends.

NEXT GENERATION PRODUCTS

BRAND ADOPTION MODEL

1 BELIEVE

'Believe' is the first element of our 4Bs brand adoption model. This is about triggering connections and raising awareness of our NGP brands amongst adult smokers through a variety of methods, including responsible marketing. The aim is to encourage smokers to recognise that blu and our other NGP brands are potentially less harmful than cigarettes.

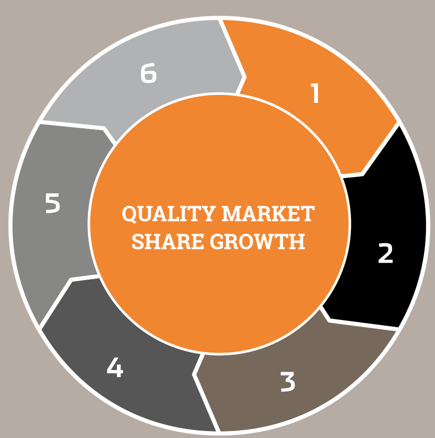
4 BELONG

We want smokers to stay with our NGP offerings and not revert to smoking, so we welcome, for example, blu users to belong to a thriving community (blu.com). It is here that we deepen our connection with consumers and increase the level of interaction. This includes offering exclusive access to products and promotions and the chance to participate in our bluNation loyalty programme.

RIGHT MARKETS + RIGHT BRANDS

TOBACCO MAXIMISATION

MARKET REPEATABLE MODEL



1 SIMPLE MARKET FOCUSED PORTFOLIO

Our 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. Our strongest offerings are our Asset Brands and we focus on driving their performance to generate quality market share growth.

6 HONEST ACCURATE LEARNING

The final step of the model is about continuous improvement through honest and accurate learning. Markets measure their performance against agreed metrics and learnings are shared with the wider business. This includes being honest, both when things go well and when things do not turn out as planned, ensuring we build capabilities, improve together and continually optimise the model.

5 TAILOR CUSTOMER SOLUTIONS

In a continually evolving regulatory environment, retailers are an increasingly important part of the shopper brand purchasing experience. We focus on developing strong retail partnerships, creating tailored customer solutions that provide retailers with real commercial benefits and encourage them to become advocates for our brands.

2

BUY

Smokers who believe are inspired to buy. We take an omnichannel approach, with sales across traditional retail outlets, specialist vape stores and online. Online sales are age verified and we insist that our retail outlet and vape store partners only ever sell to adults.

3

BUY AGAIN

'Buy again' is about generating repeat purchase. A smoker who has had a positive initial experience with one of our NGP brands will have the confidence to buy again. It is the start of building brand loyalty and relies on a frictionless omnichannel experience, ensuring our products are always available when and where smokers want to buy them.

= QUALITY GROWTH

2

SUSTAINABLE BRAND INVESTMENTS

Our simple portfolios drive a sharper focus on investments, as the lack of complexity makes it easier to prioritise investment behind our Asset Brands. We build brand equity through a regular drumbeat of targeted initiatives, including above-the-line and point of sale advertising and consumer activations to create brand awareness.

3

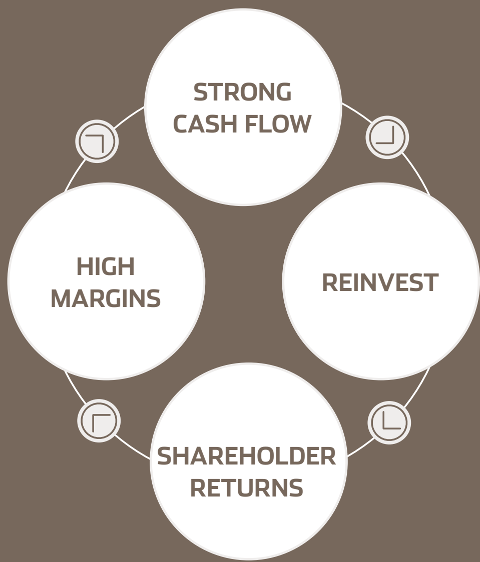
ALWAYS ON PRICE STRATEGY

The third element of this dynamic growth model is about the pricing of our brands. We make sure that all markets across our geographic footprint develop and implement a consistent pricing strategy for their portfolios and continually monitor our operating environment to ensure that the pricing of our brands remains competitive.

4

CORE RANGE EVERYWHERE ALL THE TIME

Ensuring the core range of our brands is always available is crucial for building consumer loyalty. We make sure that the right brands are available in the right outlets at all times. This targeting is enabled by the simplicity of our portfolios, which are welcomed by retailers as they have less complexity to deal with and enjoy lower working capital.



CREATING VALUE FOR OUR STAKEHOLDERS

CONSUMERS • SHAREHOLDERS • SUPPLIERS • RETAILERS • EMPLOYEES • GOVERNMENTS • NON-GOVERNMENTAL ORGANISATIONS

Turn to page 14
for more on our stakeholders

MARKET PRIORITISATION

We sell our brands and products in a diverse spread of international markets which we manage through three distinct divisions: Europe, Americas and Africa, Asia and Australasia (AAA). In the mature tobacco markets of Europe, we focus on balancing financial returns with optimising our share positions, while building our presence in NGP. The Americas is principally the USA, one of our most important markets for tobacco and vapour, and the AAA division offers a number of attractive growth opportunities across our multi-category portfolio.

NEXT GENERATION PRODUCTS

NGP represent a significant additive growth opportunity for Imperial and we remain focused on managing the operational and regulatory market challenges associated with a rapidly evolving category.

Our pioneering blu brand sits at the heart of our NGP portfolio and is available in the USA, Japan and various European markets including the UK, Spain, France, Germany and Italy.

Deteriorating trading conditions in the second half of the year, combined with a general slowdown in the growth of the vapour category, impacted blu sales and as a result, we have adjusted our investment and growth plans for 2020.

We actively campaign for higher product and marketing standards, which are fundamental for developing a stable and orderly vapour market.

Our first heated tobacco offering Pulze was launched in the Japanese city of Fukuoka during the year and was well-received by consumers. Pulze will be rolled out across the country in 2020 and we are also evaluating other potential market launches for the brand.

We also have a growing range of oral nicotine products that are led by our Skruf brand and available in an increasing number of European markets including Austria, Germany, Switzerland, Denmark and the Czech Republic.

TOBACCO MAXIMISATION

The 160 tobacco markets in which we sell our tobacco products have been classified as Priority, Key and Partner. This enables us to focus our investments in the markets where we can get the biggest return on the money we spend.

This classification has been informed by a detailed profit pool analysis that identified where we have the best opportunities, capabilities and assets to deliver sustainable value creation. In allocating markets to one of the three categories, we take into account market size, potential growth, affordability, regulatory environment and our ability to win.

This approach provides focus and simplicity to the way we operate and is governed by clear principles that distinguish the levels of investment and central support that each market category gets. Priority Markets are our most important markets, accounting for 47 per cent of our volume and 72 per cent of our operating profit.

The rest of our geographic footprint is divided into 23 Key Markets and over 100 Partner Markets. Each of these markets has a clear role to play in delivering our strategy and achieving our commercial goals.

VAPOUR

USA

JAPAN

EUROPE

HEATED TOBACCO

JAPAN

ORAL NICOTINE

EUROPE

10 PRIORITY MARKETS

The largest share of our tobacco investment is allocated to Priority Markets, recognising their importance to our success.

Priority Markets include Australia, Germany, the UK and the USA. These markets focus on generating quality growth in market share, Growth Brand volumes, revenue and profit.

23 KEY MARKETS

Key Markets focus on delivering profitable growth and include Algeria, Greece, Ireland, Laos, Morocco and Taiwan.

100+ PARTNER MARKETS

In smaller Partner Markets we strive to keep our operations as simple as possible and look for opportunities to foster mutually beneficial partnerships with distributors.

Partner Markets include Ivory Coast, Vietnam, Madagascar and Hungary.

"Our tobacco business continued to generate modest growth, with Next Generation Products adding to our revenue delivery."

ALISON COOPER
Chief Executive

We have remained focused on driving the performance of our tobacco business, while expanding our Next Generation Products (NGP) operations. We achieved success in a number of areas, including further revenue and profit growth in tobacco and year-on-year NGP net revenue growth.

However, our overall Group results have fallen short of our expectations, impacted by two main factors: a challenging vapour market, particularly in the USA, and lower than anticipated profit delivery in our Africa, Asia and Australasia (AAA) division.

We are taking action to drive a better performance in 2020, which will strengthen our ability to create long-term value for our stakeholders.

RESILIENT TOBACCO RESULTS

We have a robust tobacco value creation model with a long track record of financial delivery, with pricing more than offsetting cigarette volume declines to deliver growing revenues. We expect this to continue in the years ahead and remain focused on maximising opportunities for our Asset Brands in our priority markets.

Our Market Repeatable Model provides a structured framework for driving quality tobacco growth and is consistently applied across our footprint.

The resilience of our tobacco business was demonstrated with the good performances we delivered in Europe and the Americas, which more than offset tough trading conditions in the AAA division.

We achieved share growth in six of our 10 priority markets, including in the USA where our focused portfolio strategy delivered gains in cigarette and mass market cigars and strong financial results.

In our Europe division we continue to balance market share progression with financial delivery, generating good financial contributions from a number of our priority markets including Germany, the UK and Italy.

Our share performance was good in the AAA division, with gains in our priority markets of Australia, Japan and Russia, although our revenue and profit were lower.

Asset Brands accounted for 65.9 per cent of our tobacco and NGP net revenue, up 120 basis points on last year.

NEXT GENERATION PRODUCTS

Our focus on transitioning adult smokers to potentially less harmful alternatives to cigarettes is aligned to our purpose: to create something better for the world's smokers.

We want to see more smokers choosing products with lower health risks and encourage them to make that change by providing a portfolio of high-quality vapour, heated tobacco and oral nicotine products, all underpinned by leading-edge science.

Overall net revenue of our NGP business grew by 48 per cent this year, led by the growth of our vapour brand blu in Europe, where we have established leading retail positions, and Japan. We also made good progress with the roll-out of other NGP, including a successful city pilot of our heated tobacco product Pulze in Japan and the launch of oral nicotine products in several European markets.

However, we did not make as much progress with blu in the USA and Europe as we anticipated. Our own performance fell below expectations and was also impacted by deteriorating trading conditions, increasing competitor activity and the slower than anticipated growth of the vapour category.

The situation was compounded in the USA, where an increasingly volatile regulatory environment coincided with a significant step-up in our retail engagement programmes, brand investment and consumer promotions. Although this activity delivered share gains, overall blu growth was below the level we had planned for.

The volatility in the USA and the broader learnings we have gained have led to a reprioritisation of our investment plans. In 2020, we are instilling a sharper focus on the category and market combinations that offer the greatest opportunities for sustainable, profitable growth. We have clear plans to deliver a more differentiated blu consumer experience in the coming year, coupled with a fresh brand approach that builds a stronger emotional connection with adult smokers.

We are also stepping up our regulatory engagement activities to encourage higher product and marketing standards, which are critical for creating a stable and orderly vapour market that we can invest behind.

PRIORITISING RESPONSIBILITIES

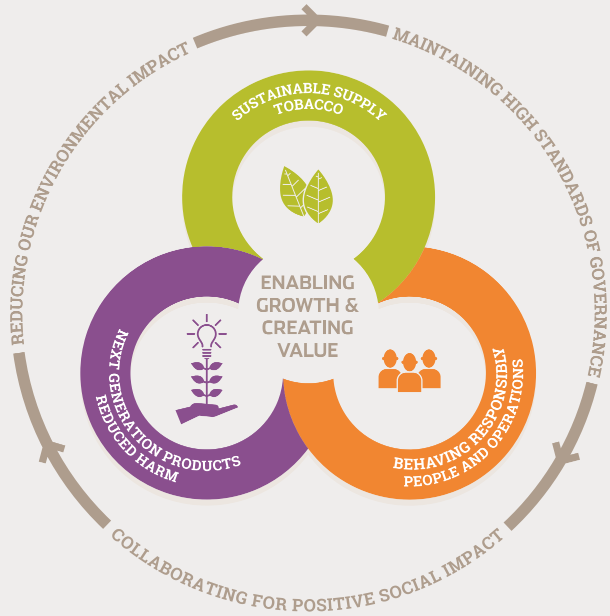
Our commitment to sustainability is central to the long-term development of the business, ensuring that we maintain a sustainable supply of tobacco, develop a pipeline of Next Generation Products and operate responsibly at all times. These three focus areas define the approach we take to addressing our environmental, social and governance (ESG) responsibilities.

During the year we convened an independently facilitated panel of stakeholders, including an investor, a consumer, an employee, suppliers and representatives from non-governmental organisations, to review these responsibilities and help shape the way we manage them.

We have prioritised our ESG issues to reflect the panel's feedback and going forward we will provide more information on how we are fulfilling our responsibilities in each of these five areas. We have also taken on board a number of other suggestions and have formally responded to the panel's key comments in a report, which has been published in full on our corporate website.

Overall, our stakeholders feel we are making good progress in delivering against our sustainability agenda and did not identify any additional ESG issues we should be addressing. The panel also approved of the way we have aligned our ESG responsibilities with the UN Sustainable Development Goals.

This was an extremely valuable engagement exercise for Imperial and we are grateful to everyone who took part.



Turn to page 14 for more on our stakeholders

Turn to page 18 for more on our sustainability strategy

The panel was invited to prioritise the most important ESG issues facing Imperial and ranked the top five as follows:

1

CONSUMER HEALTH

This was considered pivotal to the sustainability of Imperial as a successful commercial business. The panel felt every effort must be made to produce products that are potentially less harmful to health than tobacco.

2

CLIMATE AND ENERGY

Given the growing global concern for climate change and Imperial's global reach and influence, the panel felt that climate and energy impacted Imperial across its value chain, from crop production to manufacturing and distribution.

3

FARMER LIVELIHOODS AND WELFARE

The panel agreed that farmer livelihoods and welfare was of paramount importance to tobacco production and that the work being done to support farmer livelihoods was vital for providing farming communities with better incomes and higher standards of living, thereby reducing the risk of poverty and child labour.

4

HUMAN RIGHTS

Given the global scale of the business, it was recognised that Imperial has the potential to impact on the communities in which it operates. Tackling child labour in tobacco growing and addressing instances of modern slavery were seen as key priorities.

5

WASTE

This was considered to have a huge environmental impact and the panel challenged Imperial to explore how it can better support consumers to recycle by reducing packaging, particularly in relation to NGP. Imperial's ambition should be to produce NGP that consist entirely of recyclable components.

In addition, in the USA we are focused on finalising our premarket tobacco product application (PMTA) for blu, which will be submitted to the Food and Drug Administration before the May 2020 deadline.

We still view NGP as a significant additive growth opportunity for Imperial and the actions we are taking are strengthening the foundations of our NGP business, which in the coming year will see a brand refresh for blu and expanding availability of our heated tobacco and oral nicotine products.

AUXLY CANNABIS GROUP INC.

In July we announced we were diversifying our NGP portfolio through a research and development partnership with Auxly Cannabis Group Inc., a listed Canadian cannabis company. This provides further options for future growth and builds on the investment we made in Oxford Cannabinoid Technologies last year.

The transaction was completed in September, ahead of the further liberalisation of cannabis regulation in Canada in October 2019. At this time, the sale of derivative products, such as cannabis edibles, extracts and topicals, will be legally permitted.

As part of the deal we have granted Auxly global licences to our vaping technology and access to our innovation business, Nerudia.

COST AND CASH MANAGEMENT

Optimising cost and cash opportunities is a core element of our strategy, enabling us to improve efficiencies and release funds for investment.

Our commitment to capital discipline underpins our focus on cash generation and the effective management of our working capital.

We increased NGP investment considerably during the year but given the current state of the vapour market we are now refining our approach for 2020. We will invest selectively to support growth, prioritising blu sales in key markets and widening distribution of Pulze and our oral nicotine offerings.

We made good progress with our cost optimisation programme, realising £55 million of annualised savings in the year. The programme will deliver £300 million of savings a year from our 2020 financial year.

Cash conversion remained strong at 95 per cent and we grew the dividend per share by 10 per cent.

Following a revision of our dividend policy announced by the Board in July, dividend growth will be progressive, increasing annually from its current level, taking into account underlying business performance.

CREATING ADDITIONAL VALUE

In sharpening our focus on the brands, products and markets that are essential to our long-term success, we have identified assets that are less central to our growth ambitions.

We are exiting or divesting these assets, including our premium cigar business, to create further value for our shareholders and to simplify the structure of the business, creating a leaner, more agile organisation.

Over the past two years we have advanced other divestment opportunities but chose not to conclude them, largely due to a deterioration in tobacco valuations. These opportunities will be kept under review but further divestments will only be progressed if they will realise appropriate value.

OUTLOOK

Tobacco will continue to be resilient, delivering modest revenue growth, high margins and strong cash flows, while our NGP business provides opportunities for additional revenue growth, with its strong growth prospects contributing to margins and cash returns over the medium term.

We remain focused on managing the operational and regulatory challenges associated with a rapidly evolving NGP category, including active regulatory engagement for higher product and marketing standards for vapour.

Given the increased uncertainties in NGP, we have reduced and reprioritised our NGP investment behind the markets and categories with the best prospects for sustainable and scalable growth and will focus on delivering a stronger performance in the coming year.

We have taken a more cautious approach to our outlook for 2020, with low single digit revenue and earnings per share growth expected, excluding any impact from the divestment programme. Performance is expected to be weighted to the second half as the benefit of our NGP investment reset takes effect through the year.

Our revised capital allocation policy supports a progressive dividend, which will grow annually taking into account underlying business performance.

Towards the end of the year, it was announced that I and the Board had agreed that after nine years as Chief Executive, I would step down once a suitable successor is found.

It has been a privilege to be CEO of this business and to have worked with such great people. I remain committed to leading Imperial during the succession process and would like to thank employees around the world for all their hard work and support over the years.

ALISON COOPER
Chief Executive

COMPELLING PROPOSITION

We offer a compelling investment proposition. We are delivering quality growth from tobacco and additive growth from Next Generation Products (NGP). Our ways of working are efficient and cost effective and we take a rigorous approach to capital discipline and cash generation. Everything we do is underpinned by high standards of governance and a robust sustainability strategy.

QUALITY GROWTH FROM TOBACCO MAXIMISATION

INVESTING FOR QUALITY GROWTH

Imperial Brands has an attractive portfolio of brands and markets to deliver long-term profitable growth. The successful implementation of our strategy prioritises investment behind our Market Repeatable Model in those markets and products that offer the best returns.

Over many years we have developed a proven track record of achieving strong price/mix growth to offset industry volume declines and enhance profitability.

SIGNIFICANT ADDITIVE GROWTH OPPORTUNITY FROM NGP

CREATING SOMETHING BETTER

In creating something better for the world's smokers we are encouraging smokers to transition to potentially less harmful NGP. In doing so, we are considerably enhancing our revenue delivery and view NGP as a significant additive growth opportunity for Imperial Brands, given our low global cigarette market share. We have assembled a strong portfolio of vapour, heated tobacco and oral nicotine products and this, combined with our excellence in science and innovation, positions us well to deliver sustainable growth in the years ahead.

NEW WAYS OF WORKING DRIVING COST EFFICIENCIES

SIMPLIFICATION AND COST EFFICIENCIES CREATE VALUE

The changes we are making to our ways of working are creating a business that is better equipped to deliver quality growth in both tobacco and NGP. Our focus on business simplification and complexity reduction is enabling us to drive cost efficiencies and improve agility.

RESPONSIBLE BEHAVIOUR

STRONG GOVERNANCE AND SUSTAINABILITY AGENDA

We recognise some of our products are controversial but the way we operate is not.

High standards of governance are integral to our long-term success and we ensure the business is governed and managed in an open and transparent manner at all times. We have a sustainability strategy that is fully aligned with our commercial objectives and enables the business to grow and create value.

CAPITAL DISCIPLINE AND CASH GENERATION

ACTIVE CAPITAL ALLOCATION AND STRONG CASH GENERATION

Our business generates strong cash flows as a result of our intrinsically high operating profit margins, coupled with our ability to convert a substantial proportion of profits to cash. Although NGP may initially dilute margins we expect to see profitability improve over time. To sharpen our focus on the brands, products and markets that are core to our strategy, we are divesting assets that are less central to our strategic agenda.

SUSTAINABLE SHAREHOLDER RETURNS

PROGRESSIVE DIVIDEND GROWTH

In July 2019 we announced a change to our shareholder distributions policy as part of a wider review of our capital allocation priorities which support continued investment in business growth, funded by a strong but efficient balance sheet.

For the current financial year ending 30 September 2019 we reaffirmed that the dividend will grow by 10 per cent. Thereafter the dividend will be progressive, growing annually from the current level, taking into account underlying business performance.

The revised policy recognises the Company's continued strong cash generation and the importance of growing dividends for shareholders, while providing greater flexibility in capital allocation.

EVOLVING ENVIRONMENT

MATTHEW PHILLIPS
Chief Development Officer

"It's vital we have a legislative framework that raises standards and gives smokers the confidence to try Next Generation Products."

Our operating environment is evolving rapidly, with regulatory and social change influencing trends in nicotine consumption and an increasing number of smokers switching to potentially less harmful Next Generation Products (NGP) such as vapour, oral nicotine and heated tobacco products.

The value of the world tobacco market, however, remains significant at approximately US$785 billion (excluding China) with over 5,400 billion cigarettes consumed a year. Around a billion adults still choose to smoke and will continue to do so well into the future.

Here, Chief Development Officer Matthew Phillips answers key questions about some of the issues related to our evolving environment.

Q **How do you seek to influence regulation?**

A We seek to constructively engage with regulators and encourage them to draw on our substantial expertise when considering legislative measures.

Our engagement with regulators and other stakeholders is increasingly centred on education about the potential public health benefits of NGP and the importance of the science that underpins them.

These conversations are fundamental to getting future regulation right, particularly as the NGP landscape is developing so fast.

We recognise that regulators need the right information, from the right sources, to have the confidence to be able to make important decisions around these products and we're committed to supporting this process.

Q **What trends are you seeing in the development of NGP regulation?**

A Essentially, we're seeing two broad philosophies playing out. On the one hand, there's the approach of 'prove it before you sell it', where regulatory standards are put in place to ensure products do what they say before they are sold. This is epitomised by the approach taken by the Food and Drug Administration (FDA) in the USA.

In other countries, the harm reduction potential of NGP is accepted early and regulation enables these products to go on sale as soon as possible. In the UK, for example, adult smokers are being encouraged to make the transition through clear communication that focuses on the health risks of combustible cigarettes compared with the risks associated with NGP.

Q **Why are you promoting potentially less harmful NGP at the same time as continuing to sell cigarettes?**

A The continued growth of NGP depends on the profits generated by our tobacco business. We use the strong cash flows from tobacco to develop our NGP operations, investing in technology, innovation, science and brands to create a compelling portfolio of products with potentially lower health risks.

As much as we want to see increasing numbers of adult smokers transition to NGP, we have to recognise that a significant number still choose to smoke cigarettes or use other tobacco products, and it's important that they are supplied by responsible companies like Imperial.

Q **What exactly has been happening with vapour in the USA during the year?**

A The vapour environment has become extremely volatile and the growth of the category has significantly slowed due to health and youth access concerns.

It's distressing to see reports of death and ill-health being linked to vapour products. To our knowledge our blu brand has not been implicated and according to the Centers for Disease Control and Prevention, most cases are linked to the use of illicit vaping products.

In terms of youth access, federal legislators have put forward a number of proposals to stop vapour products getting into the hands of young people, including an increase in the purchase age from 18 to 21 and banning flavours. In parallel, many states have moved ahead with their own regulatory and excise agendas.

Q **What are you doing to make sure your NGP aren't getting into the hands of young people?**

A No one wants to see young people smoking, vaping or using any other NGP, we're very clear on that at Imperial: these products are for adult smokers only.

As a result of that firmly held belief, the issue of youth access prevention has always been a priority across our tobacco footprint and the robust approach we take is extended to the way we market and sell NGP.

Our prevention programme includes prohibiting underage online sales through age verification systems and monitoring transactions for fraudulent activity, unauthorised wholesaling and sales by proxy, where products are purchased on behalf of minors.

We also demand stringent commitments to prevent underage access from our retail partners and enforce these through random compliance checks.

The responsible way we conduct ourselves is enshrined in the marketing standards we have for tobacco and vapour and both documents are published in full on our website.

Q **What about the use of flavours? Doesn't that attract non-smokers, particularly children?**

A No, we don't believe they do. A growing body of research shows flavours play a critical role in attracting and retaining adult smokers into the vaping category, directly contributing to tobacco harm reduction and declining smoking rates.

Our own research among adult vapers in the USA, shows that the adult smoker journey to vaping often begins with familiar flavours like tobacco and menthol. However, the vast majority later progress to other flavours.

So, we cannot ignore the importance of flavours to the vapour category but we must ensure that they are not marketed in a way that appeals to young people.

Q **What do you see as the biggest risk, in regulatory terms, to effective NGP legislation?**

A The biggest risks are over-regulation and over-taxation of NGP before they have the chance to develop and be properly understood by consumers. We believe these heavy-handed responses stem from misunderstandings about the nature of NGP and their conflation with tobacco products.

NGP are an entirely different proposition to tobacco, given their potentially reduced risk profile and the technology they deploy, and we believe they have a significant role to play in tobacco harm reduction policies.

Q **How are tobacco control policies impacting your business and are you concerned about the continual decline in tobacco volumes?**

A Tobacco continues to be highly regulated and in a variety of different ways. This has been the case for many years and we're very experienced at managing the impact.

Moving forward, we believe tobacco control policies should evolve to fully recognise and leverage the public health potential NGP offers. As I said earlier, it's vital we have a legislative framework that raises standards and gives smokers the confidence to try NGP.

As for volume declines, this is something else we've been effectively managing for a long time. The scale of decline varies from market to market and is still more than offset by pricing.

Q **What are you doing to make sure your brands and products aren't being smuggled?**

A The smuggling and counterfeiting of tobacco remains a significant global problem and the consequences are considerable as children can more easily obtain cigarettes, smokers are deprived of the quality they expect and governments and legitimate retailers are deprived of revenues. Much of the problem is down to disproportionate regulation and excessive excise policies.

We're committed to tackling illicit trade and apply stringent controls to our distributors. We also employ a dedicated team of specialists to help disrupt the supply of illegal cigarettes and a lot of the work they do involves partnering with law enforcement agencies. In 2019 the intelligence we shared with these agencies resulted in 360 million illicit cigarettes being seized.

ENGAGING STAKEHOLDERS

Our business model creates value for a broad range of stakeholders.

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

Regular engagement with consumers, shareholders, suppliers, retailers, employees, governments and non-governmental organisations is not only the right thing to do, it also helps us make better business decisions.

CONSUMERS

MILLIONS OF ADULTS WORLDWIDE CHOOSE TO ENJOY OUR PRODUCTS

We want smokers to switch to potentially less harmful alternatives to cigarettes and welcome opportunities to highlight the leading-edge science that underpins our Next Generation Products.

SHAREHOLDERS

£12 billion

PAID TO OUR SHAREHOLDERS SINCE 2010

We seek to maximise sustainable returns for our shareholders and have a strong track record of creating wealth for the people directly and indirectly invested in our business.

SUPPLIERS

WE ARE COMMITTED TO PURCHASING TOBACCO FROM RESPONSIBLE SUPPLIERS

We engage with our tobacco leaf suppliers to ensure they work with farmers to maximise their yields and eliminate child labour.

RETAILERS

OUR PRODUCTS ARE SOLD IN A DIVERSE RANGE OF OUTLETS WORLDWIDE

We focus on developing strong partnerships that support the commercial goals of retailers, while working with them to ensure they only ever sell our products to adults.

EMPLOYEES

32,700

WE ARE PROUD OF THE DIVERSE NATURE OF OUR WORKFORCE

The dynamic combination of our international scale, clear purpose and entrepreneurial spirit offers our people exciting career development opportunities.

GOVERNMENTS

£17 billion

RETURNED TO GOVERNMENTS EACH YEAR

We comply with all national and international laws on corporate and tobacco taxation and engage constructively with authorities worldwide to help combat illicit trade.

NON-GOVERNMENTAL ORGANISATIONS

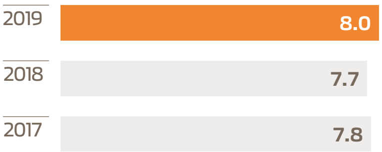
WORKING TOGETHER TO ADDRESS CHALLENGES AND REALISE OPPORTUNITIES

We are transparent about the way we run our business and welcome the opportunity to engage with a broad range of non-governmental organisations, no matter what their views on tobacco.

MEASURING PERFORMANCE

We use these key performance indicators and the metrics in the Operating Review to assess the progress we are making in delivering our strategy. As the business continues to grow, these measures are likely to change to reflect our evolving strategic priorities.

TOBACCO & NGP NET REVENUE[1] (£BN)



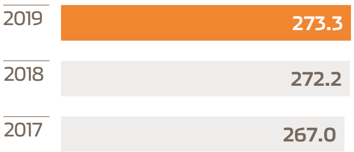
PERFORMANCE

Tobacco & NGP net revenue was up 2.2 per cent on a constant currency basis. Tobacco net revenue increased by 1.1 per cent and NGP revenue was up by 48.0 per cent.

DEFINITION

Tobacco & NGP net revenue comprises tobacco and NGP revenue less duty and similar items, excluding peripheral products.

ADJUSTED EARNINGS PER SHARE[1] (PENCE)



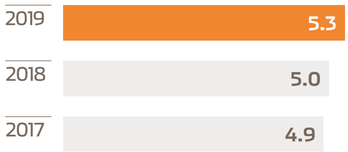
PERFORMANCE

Adjusted earnings per share was down 1.6 per cent on a constant currency basis. Reported earnings per share declined by 26.2 per cent. This is explained in the Financial Review.

DEFINITION

Adjusted earnings per share represents adjusted profit after tax attributable to the equity holders of the Company divided by the weighted average number of shares in issue during the period, excluding shares held to satisfy employee share plans and shares purchased by the Company and held as treasury shares.

ASSET BRANDS NET REVENUE (£BN)



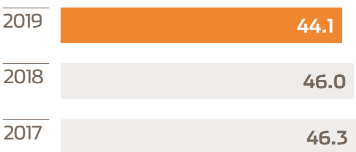
PERFORMANCE

Asset Brands net revenue increased by 4.4 per cent on a constant currency basis. Asset Brands account for 65.9 per cent of our total revenue, up 120 basis points on last year.

DEFINITION

Asset Brands net revenue is revenue from our most important tobacco brands and blu less duty and similar items, excluding peripheral products.

TOBACCO & NGP OPERATING MARGIN (%)



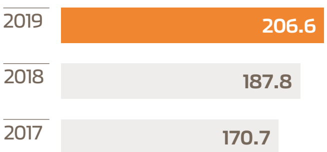
PERFORMANCE

We have delivered consistently high operating margins despite increasing investment in the business. Excluding our NGP operations, our tobacco operating margin increased by 60 basis points.

DEFINITION

Tobacco & NGP operating margin is adjusted operating profit divided by tobacco and NGP net revenue expressed as a percentage.

DIVIDEND PER SHARE (PENCE)



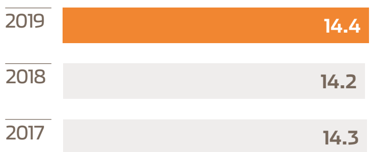
PERFORMANCE

Dividend per share grew by 10 per cent. From next year dividend growth will be progressive, increasing annually from its current level taking into account underlying business performance.

DEFINITION

Dividend per share represents the total annual dividends, being the sum of the paid interim dividend and the proposed final dividend for the financial year.

RETURN ON INVESTED CAPITAL (%)



PERFORMANCE

Return on invested capital remained strong, underlining our continued focus on capital discipline and our capital-light approach to NGP.

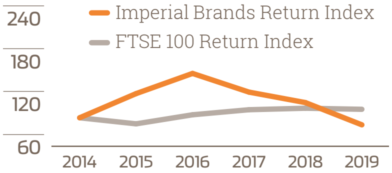
DEFINITION

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.

1. KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 66 for more information.

NON-FINANCIAL KPIs

TOTAL SHAREHOLDER RETURN[1]



PERFORMANCE

This was a challenging year for the Company in which we underperformed the FTSE 100 by 24 per cent.

DEFINITION

Total shareholder return is the total investment gain to shareholders resulting from the movement in the share price and assuming dividends are immediately reinvested in shares.

ENERGY CONSUMPTION (GWH)[1, 2]

2019	815
2018	842
2017	873

PERFORMANCE

Our absolute energy consumption reduced by 7 per cent compared to the 2017 base year. Our 2019 relative energy consumption is 101,913 kWh/£million.

DEFINITION

We measure relative indicators against '£million' tobacco and NGP net revenue. Energy consumption covers the energy used in our offices, manufacturing sites and by our sales fleet vehicles. The energy we use originates from a variety of sources including fossil fuels and renewable sources.

ABSOLUTE CO_2 EQUIVALENT EMISSIONS (TONNES)[1, 2]

	CO_2e Scope 1	CO_2e Scope 2	Total
2019	108,241	150,348	258,589
2018	110,899	154,737	265,636
2017	118,198	153,663	271,861

PERFORMANCE

During the year we set a new science-based target for carbon reduction. Our total Scope 1 and 2 emissions reduced by 5 per cent compared to the 2017 base year.

DEFINITION

We report on greenhouse gas emissions resulting from the operations that fall within our consolidated financial statements, using the operational control reporting approach. We report on the seven main greenhouse gases and report in terms of tonnes of CO_2 equivalent (CO_2e).

CASH CONVERSION RATE[1] (%)

2019	95
2018	97
2017	96

PERFORMANCE

Strong cash generation and effective working capital management delivered cash conversion of 95 per cent.

DEFINITION

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

WASTE (TONNES)[1, 2]

2019	41,089
2018	43,388
2017	49,141

PERFORMANCE

We have decreased waste by 16 per cent compared to the 2017 base year. We seek to minimise the waste and waste to landfill associated with our production processes through a combined approach of reduce, reuse and recycle.

DEFINITION

This includes waste from manufacturing sites and main offices, excluding Logista and Sales and Marketing entities. It does not include any material which is re-used.

LOST TIME ACCIDENT FREQUENCY RATE (PER 200,000 HOURS)[1, 3]

2019	0.40
2018	0.46
2017	0.36

PERFORMANCE

Initiatives aimed at reducing slips, trips and falls and improving standards in our sales operations delivered a lower Lost Time Accident frequency rate. This has resulted in a 13 per cent decrease in the LTA rate compared to last year.

DEFINITION

A Lost Time Accident is an 'on-the-job' accident that results in an employee being unable to return to work for a minimum of one full day.

1. 2019 data has been independently assured by PwC. Our Reporting Criteria document contains detail on definition and scope of all non-financial KPIs. See www.imperialbrandsplc.com/sustainability for more information.
2. Our 2019 environmental data follows the reporting period Q4 financial year 2018 to Q3 financial year 2019. This is to allow for data collection, validation and external assurance. 2019 fleet fuel data is for the full 2019 financial year.
3. Our health and safety data is for the full 2019 financial year.

ENABLING GROWTH

Our sustainability strategy creates shared value for our stakeholders and is integral to the long-term growth of the business, ensuring that we develop a pipeline of Next Generation Products, maintain a sustainable supply of tobacco and operate responsibly at all times. Our strategy is aligned with the UN Sustainable Development Goals (SDGs), which aim to have a transformational impact on the world by 2030 by addressing global challenges such as poverty, availability of clean water, inequality and climate change.

Our strategy focuses on the areas that have the greatest significance to us and our stakeholders:

REDUCED HARM NEXT GENERATION PRODUCTS (NGP)

developing alternative products that are potentially less harmful to health

A SUSTAINABLE TOBACCO SUPPLY

maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco

RESPONSIBLE OPERATIONS AND PEOPLE

behaving responsibly at all times and providing a safe and rewarding work environment for employees

These three pillars of our strategy are designed to enable growth and create value and define the approach we take to addressing our environmental, social and governance (ESG) responsibilities.

During the year we convened an independently facilitated panel of stakeholders to review these responsibilities and help shape the way we prioritise and manage ESG issues.

A summary of the panel's feedback is available on page nine. The full report is published on our website: www.imperialbrandsplc.com

Our sustainability performance is subject to independent assurance and verification. We measure our environmental performance by comparing our results with a 2017 baseline year, using independently assured data.

Each year we participate in the CDP (formerly the Carbon Disclosure Project) climate change and water programmes. Due to a change in CDP's reporting timeframes, CDP is unable to publish company ratings until early 2020. Once their report is published, details will be made available on our website.

The following pages provide an overview of our performance in 2019. More information is available on our website, where we also provide details of how our values shape the way we do business and publish our Code of Conduct and Supplier Code in full.

REDUCED HARM

Our focus on science and research and development underpins our commitment to create something better for the world's smokers. We want smokers to transition to potentially less harmful alternatives to cigarettes and have developed a portfolio of Next Generation Products (NGP) that have the potential to reduce smoking-related disease.

CONSUMER HEALTH

We encourage adult smokers to transition to NGP by providing them with high quality products, underpinned by leading-edge science.

Our NGP portfolio includes the pioneering blu vapour brand, oral nicotine and heated tobacco products.

The scientific research we undertake and monitor continually improves our knowledge of tobacco and the diseases associated with smoking. We use the findings to develop and assess NGP that have potentially lower health risks.

We conduct and publish peer reviewed research and commission independent research. All of our research continues to build scientific confidence in the potential for our NGP to substantially reduce the risks of smoking. Our latest published vaping study showed that in laboratory tests, blu vapour showed no evidence of damage to human lung cells, even after 400 continuous puffs.

This builds on our previous research which has shown that blu vapour is over 95 per cent less toxic than smoke from a cigarette, contains up to 99 per cent fewer toxicants and carcinogens and does not negatively impact indoor air quality.

We invest significantly in harm reduction initiatives and during the year we restructured our science team to further strengthen our capabilities and enhance our ability to drive commercial success in NGP.

We are proud of our science credentials and welcome opportunities to discuss our findings and provide insights into our research and development activities.

Our 2019 stakeholder engagement programme included presenting our work to a number of important industry conferences including the Society for Research on Nicotine and Tobacco, the Society of Toxicology and CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco).

More information is available at our science websites: www.imperialbrandsscience.com and www.fontemscience.com

STRONG INNOVATION CAPABILITIES

Innovation is key to ensuring we have a continually evolving portfolio of high quality NGP that appeal to adult smokers.

We offer smokers a variety of products designed to meet their differing needs and improve smoker conversion rates.

The capabilities of our innovation business Nerudia are extensive, spanning the three NGP categories that make up our portfolio: vapour, oral nicotine and heated tobacco.

The Nerudia team works cross-functionally throughout all stages of product development, from concept to launch and beyond, enabling fast and agile delivery from idea to shelf.

During the year we launched our first heated tobacco product, Pulze, in Japan. By taking the time to properly understand what smokers want from a heated tobacco product, we have been able to develop a high calibre device that delivers a consistent and uniquely personalised experience.

Our innovation pipeline continues to develop, ensuring we have a regular supply of new products designed to accelerate smoker conversion rates and stop smokers reverting to tobacco.

REDUCING WASTE

We also continue to look at how we can improve the sustainability of NGP materials and packaging. This includes looking at ways of increasing the amount of recycled and recyclable packaging used in our products.

As part of this work we have commissioned an independent lifecycle assessment of a blu device. This assessment examines all stages of the device's life from raw materials to production, distribution, use and disposal, and the results will enable us to better understand and manage the environmental impact of NGP.

SUSTAINABLE TOBACCO SUPPLY

We insist on high supply chain standards and are committed to purchasing tobacco from socially and environmentally responsible suppliers. We stop purchasing from any supplier who persistently fails to deliver our required performance standards.

TACKLING CHILD LABOUR AND IMPROVING FARMER LIVELIHOODS

Our Sustainable Tobacco Programme (STP) defines our standards for the purchase of tobacco leaf. All our tobacco suppliers are required to participate in STP, which enables continuous improvement through a measurement framework that involves a combination of self-assessment, third party review and our own supplier engagement.

According to the International Labour Organization 108 million children work in agricultural sectors, including tobacco growing. We continue to make every effort to stop child labour happening in our supply chain through the STP, our Leaf Partnership Programme and our support of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation.

The ECLT works with communities in tobacco producing regions to address the complex root causes of child labour such as poverty, lack of education and insufficient decent work opportunities.

Our Leaf Partnership Programme funds projects that enhance the livelihoods of farmers and the environmental sustainability of their activities, including reducing their overall labour requirements and improving their operational and resource-use efficiency.

We have a particular focus on supporting farmers in Africa, including working with suppliers and communities to reduce the reliance on wood, which may be used as either a fuel for curing tobacco or as construction material for barns.

We invest in projects that will increase the number of fuel-efficient curing barns and reduce the level of wood consumption and continue to work with suppliers to achieve wood sustainability for our African farmers by 2022. This involved planting around a million trees in 2019.

In Mozambique and Malawi, which are strategic tobacco leaf sourcing locations for Imperial, we continue to fund water conservation projects. These projects are designed to address water scarcity and include the provision of ponds, bore-holes, dams and weirs for clean water access for local communities, as well as crop irrigation.

Where we directly source leaf from farmers, our agronomists and field technicians provide on the ground support and training. In Madagascar and Laos this includes educating farming communities about soil and water conservation, irrigation techniques, crop rotation and energy efficient tobacco curing.

As well as mitigating the effect of climate change, these initiatives secure future tobacco supplies and are essential for providing farmers with a better income and higher standards of living, thereby reducing poverty and the reliance on child labour.

RESPECTING HUMAN RIGHTS

Our respect for human rights extends throughout our operations and is reflected in our Human Rights Policy, Code of Conduct, Modern Slavery Statement, Supplier Code and our supplier programmes STP and the Supplier Qualification Programme. All these materials are published on our website.

We remain committed to strengthening our processes in addressing modern slavery. Our Modern Slavery Act Statement details the steps we take to mitigate the risk of slavery and human trafficking occurring within our business and supply chain.

We are proud to be a founding member of the Slave Free Alliance (SFA). The SFA is part of the anti-slavery charity Hope for Justice and works with businesses to help them achieve slave-free supply chains.

Towards the end of the year we invited the SFA to review all of the policies that underpin our Modern Slavery Act Statement. The SFA identified some good practices within our supply chain and also highlighted opportunities for improvements, including ways of improving our training and our processes for identifying modern slavery risks. We will action these in 2020.

RESPONSIBLE OPERATIONS AND PEOPLE

We take pride in behaving responsibly and running our business the right way. It's not just the right thing to do, it underpins the ongoing growth and development of Imperial Brands.

YOUTH ACCESS PREVENTION

Tobacco and NGP are for adults only. We do not want minors to use any of our products and take youth access prevention very seriously.

Legislation governing the way tobacco should be marketed and sold exists in most countries. We also have our own stringent Imperial Brands International Marketing Standard (IMS), which is published in full on our corporate website.

All Imperial Brands companies and employees, and the agencies who work with us, must adhere to our IMS and local legislation at all times. To support IMS awareness and understanding we have developed an e-learning module that is available in 11 languages.

We have an equally stringent IMS for NGP and fully support, and advocate for, legislation prohibiting sales of NGP to minors. This IMS can also be viewed on our corporate website.

We voluntarily implement a number of youth access prevention initiatives, including online age-verification mechanisms and clear product labelling that states 'not for sale to minors'.

We also work with retailers to reinforce the message that tobacco and NGP are solely for adults and support initiatives aimed at preventing the sale of our products to minors, including schemes that highlight the minimum age at the point of sale.

RESPONSIBLE USE OF SOCIAL MEDIA

When used responsibly, we believe social media has an important role to play in ensuring greater awareness of the lower risk profile of NGP and agree with regulators that such communication should only ever be aimed at adult smokers.

Instances of our employees and agencies failing to follow our strict guidelines are rare. Whenever we have been made aware of inappropriate social media use, we have immediately removed any offending posts and taken appropriate action after conducting a thorough investigation.

LONG-TERM ENVIRONMENTAL TARGETS

We are focused on reducing our environmental impact by minimising waste, improving energy efficiency and reducing emissions. We have made good progress over the last decade and in 2019 we developed new long-term environmental targets for the next 10-30 years.

By 2030, from a 2017 base year, we will:

- reduce the amount of waste we generate by 20 per cent
- reduce the amount of waste to landfill by 50 per cent
- increase recycling by 75 per cent
- reduce water use by 15 per cent
- reduce energy consumption by 25 per cent

Our 2019 environmental performance data is reported in our Key Performance Indicators section on pages 16-17 and on our corporate website.

CLIMATE AND ENERGY

We have reported on our approach to managing and mitigating climate related risks and opportunities for a number of years, both within our sustainability reporting and CDP disclosures.

We are committed to increasing our disclosure and implementing the recommendations from the Taskforce on Climate-related Financial Disclosures and provide additional climate and energy information on our corporate website.

Our carbon reduction targets have been validated and approved by the Science Based Targets initiative. By 2030 we will reduce our Scope 1 and 2 emissions by 25 per cent and our Scope 3 emissions by 20 per cent.

We continue to participate in the CDP Supply Chain Programme to gather information about how our major tobacco and NGP suppliers are managing climate change and water matters.

In our manufacturing operations we use environmental management systems independently certified to the international standard ISO 14001 to drive environmental performance improvement. Eighty-six per cent of our factories were certified as of 30 September 2019.

Additional environmental performance data is available on our corporate website.

A DIVERSE GLOBAL WORKFORCE

We are proud of the diverse nature of our international workforce and recognise the benefits it brings to our business.

We employ around 32,700 people from different backgrounds and cultures, including 13,559 women, representing 42 per cent of our total workforce.

At a senior leadership level, 11 per cent of the Operating Executive and 40 per cent of the Board are female, as of 30 September 2019. The Board is committed to increasing the representation of females within senior management roles to 30 per cent by 2023.

The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct and underpinned by our values. We strive to create a safe work environment that allows equal opportunities for all and ensures employees are employed fairly, safely and in compliance with applicable employment laws and regulations.

We recognise there is more we can do to improve diversity in the business and during the year we brought more expertise in-house and developed a robust Diversity and Inclusion Strategy.

We also made a number of changes to our recruitment processes, resulting in Imperial gaining Disability Confident Committed status from the UK Government.

We are also undertaking an equality impact assessment of our suite of business policies to ensure they are not discriminatory and are appropriate for the modern workplace.

ENGAGING WITH OUR PEOPLE

Regular engagement helps motivate employees to work together to deliver our strategy.

Throughout the year we provided updates on our strategic priorities and performance through a broad range of communication channels including meetings, emails, videos, intranet, social media, webinars, conferences and employee magazines.

Our ongoing efforts to provide a safe and engaging workplace that provides our people with rewarding career opportunities continues to be recognised with a number of best employer awards, including in Taiwan, Spain, Poland, France, Germany and the UK.

WORKPLACE HEALTH AND SAFETY

The welfare of our people is of paramount importance to us and we are proud to have created a culture where health and safety really matters to our employees.

Eighty-three per cent of our manufacturing operations were independently certified to the international standard OHSAS 18001 as of 30 September 2019.

Our Group-wide health and safety policy sets out our commitment to provide a safe working environment in which everyone works together to prevent injury and ill health to employees and others who work with us.

Given this commitment we were disappointed to see an increase in our Lost Time Accident (LTA) frequency rate in 2018. In 2019 we made a concerted effort to strengthen health and safety across the business, with a particular focus on reducing slips, trips and falls and improving standards in our sales operations.

This resulted in a 13 per cent reduction in this year's LTA rate, reported in our Key Performance Indicators section on pages 16-17, and we will be seeking to build on this momentum in the coming year. We have a number of initiatives planned, including the launch of our Drive Safe Awards, which will further engage, encourage and empower our global sales force to become better and safer drivers.

Our employees and business partners work in some challenging regions. We were shocked and saddened to hear that a third-party sales representative working for Imperial was shot and killed during a robbery in Ivory Coast in September. We provided his family with comprehensive support and have reviewed and strengthened our local security procedures.

LOGISTA

		Scope 1	Scope 2	Scope 3
CO_2 equivalent emissions (Tonnes)	FY18	38,583	341	189,980
	FY17	38,027	527	193,611
	FY16	36,735	1,441	187,572

We report separately on Logista, our European logistics business. Logista is managed remotely due to commercial sensitivities and has provided independently assured data for absolute Scope 1, 2 and 3 emissions since 2014.

Logista's Scope 1 emissions comprise stationary and mobile fuel combustion from transport operations for which Logista has operational control, and from the leakage of refrigerant gases at those operations.

Scope 2 emissions comprise indirect emissions resulting from the use of purchased electricity at sites under Logista's operational control and are reported using market-based emission factors. Scope 3 emissions comprise transport activities for which Logista does not have operational control.

Logista's 2018 relative Scope 1 and 2 emissions comprise 39 tonnes (2017: 39) of CO_2 equivalents per £million of 2018 distribution fees (our non-GAAP revenue measure for Logista).

Further information on the scope of Logista's GHG reporting is available at www.grupologista.com

DELIVERING GROWTH

We continue to reshape our brand portfolio, prioritising our high-quality Asset Brands to drive growth. These brands consist of tobacco and Next Generation Products (NGP) and account for 65.9 per cent of our tobacco & NGP net revenue, up 120 basis points on last year.

ASSET BRANDS

- Gauloises
- L&B
- Fine
- News
- Bastos
- Kool
- Horizon
- Jade
- Montecristo
- Cohiba
- Romeo Y Julieta
- Backwoods
- Golden Virginia
- Rizla
- Knox
- Skruf

ASSET BRANDS

We continue to reshape our portfolio to meet evolving consumer preferences for a broader repertoire of nicotine products, prioritising our Asset Brands and focusing resources behind these brands to drive quality, profitable growth.

We have strong brand positions in cigarettes, fine cut tobacco, papers and cigars. Our NGP focus has been primarily on our blu vapour brand but has expanded in the year to include other nicotine assets in heated tobacco and oral nicotine.

Earlier in the year we launched our first heated tobacco product, Pulze. To date, the brand is only available in Japan and is not currently included in Asset Brands. We also rolled out trials of modern oral products in several European markets.

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Net revenue	£m	5,269	4,977	+5.9%	+4.4%
Percentage of tobacco & NGP net revenue	%	65.9	64.7	+120 bps	+ 140 bps

2018 net revenue restated for the adoption of IFRS 15 and brand reclassifications outlined below.

Our Asset Brands now represent two thirds of our revenues.

Net revenue from Asset Brands grew by 4.4 per cent at constant currency, supported primarily by strong growth in Davidoff, blu, Backwoods and Kool. Our Skruf, Rizla and Premium Cigar brands also performed well, contributing to revenue growth. Asset Brand performance was adversely impacted by the decision in Spain to reverse the migration of Ducados to JPS, following consumer feedback which continued to stress the equity value of the Ducados brand.

Tobacco Asset Brand investment was prioritised behind equity building campaigns and key consumer growth segments, such as queen size, low tar and crushball.

NGP Asset Brand investment was focused behind the *my*blu brand in both equity building campaigns and activations. This investment has supported the creation of the closed system pod category and secured market-leading retail positions in many markets.

TOBACCO BRANDS

JPS

JPS performance has benefited from the roll-out of the Blue Stream variant to meet consumer demand in the low tar range. However, price differentials between value and other segments in JPS's largest markets of the UK, Germany and Australia have negatively impacted results.

WEST

West's performance has been driven by growth in value formats, such as super king size, fine cut tobacco and big box, resulting in share growth in Spain, Germany, Russia and Japan. In addition to the strong performance of value formats across a number of markets, the introduction of a fresh seal variant in the Middle East has partly offset the impact of the decline in West's traditional range.

WINSTON

Winston's share performance has been relatively resilient, despite the premium segment in the USA remaining under pressure from the growth in deep discount. We are managing price promotions and targeted direct marketing activities to support the share performance.

DAVIDOFF

Two new Davidoff ranges are driving the overall positive performance of the brand, offsetting declines in the core premium line range. Davidoff Reach, a queen size variant, has been launched in 25 markets, achieving sizeable share gains in its main markets of Russia, Ukraine and Slovakia. The new king size range, Davidoff Evolve, has been launched in nine markets, achieving strong share gains in the Middle East.

PARKER & SIMPSON

The performance of Parker & Simpson has benefited from the growth of crush-ball and modern filter variants, which have partly offset declines in traditional formats. To address demand in other key segments, Parker & Simpson has been launched in Australia, where it has delivered significant share growth.

VAPOUR

Continued growth from our blu brand, driven by the *my*blu closed system pod format, has contributed to constant currency net revenue gains from NGP of 48 per cent this year to £285 million.

In the year we have been building out blu sales across our markets, within a challenging regulatory and competitive environment. We have created the pod category in several countries and achieved market-leading retail positions in many European markets and Japan. Investment levels were substantially increased to build brand equity and drive consumer off-take in a rapidly evolving vapour category.

We did not make as much progress with blu in the USA as we anticipated. Our performance was also impacted by increased competitor discounting and regulatory uncertainty, including individual state actions, leading to the market deteriorating considerably in the second half of the year. The uncertainty resulted in an increasing number of wholesalers and retailers not ordering or not allowing promotion of vaping products. We continue to actively engage with regulators for a clear regulatory framework in the USA that supports high product standards and responsible sales and marketing behaviours.

In Europe and Japan, we have delivered good year-on-year growth, consolidating strong vaping share positions, following the successful build out of *my*blu. The vaping category in Europe did not grow as fast as we originally anticipated, although we have established market leading retail positions in Germany, Spain and Italy. The UK and France are largely open system markets, providing an opportunity to promote closed systems and higher product standards. In Japan our zero-nicotine variant of *my*blu is now available nationally and has created the pod category.

Revenue delivery from the vapour category was below our expectations in 2019, while profitability was affected by increased investment, provisions for slow-moving inventory and supply chain termination costs.

Learnings from 2019 have enabled us to evaluate the success of different markets and channels in the context of a changing environment and to inform our future investment choices. We have reset our vapour investment plans for 2020, prioritising the markets with the highest potential for sustainable, profitable growth.

Investment will be focused around markets with the best closed system opportunities and towards activities that build the profitability of the category. Continuing to enhance our innovation and leading-edge science will enable us to further differentiate blu to meet consumer needs. Increased profitability of the category will also be driven by investment behind more consumer loyalty activities targeted at building consumer connections, supported by improving our online channel focus. Our regulatory engagement activities encourage the adoption of higher product and marketing standards to create the right operating environment.

We continue to view our blu brand and vapour as a significant opportunity to deliver additive growth and remain focused on managing the operational and regulatory challenges associated with a rapidly evolving category.

HEATED TOBACCO

In 2019 we launched our Pulze heated tobacco product and iD heat sticks in the Japanese city of Fukuoka. The product and brand received positive consumer feedback and we have started to roll-out Pulze nationally via convenience store key accounts. In addition to focusing on distribution, investment will be channelled towards new experience touch points, embedding learnings from other NGP categories and supporting adult smokers with using the Pulze product. In 2020 production capacity will be increased, with plans for further geographical expansion.

MODERN ORAL NICOTINE

Building on our traditional oral nicotine credentials in Scandinavia, in 2019 we launched modern formats in multiple markets, building our presence in Europe. Modern white formats were launched under the Skruf brand name in cities in Germany and Austria and under the brand name Zone X in the UK. Sales have grown strongly from a low base and we will continue to expand our national distribution in 2020.

PORTFOLIO BRANDS

The rest of our portfolio consists of Portfolio Brands; some of these are strong local brands that support our volume and revenue development, while others are delisted or migrated into Asset Brands.

Reflecting our focus on Asset Brands, Portfolio volumes were down 4.1 per cent. On a constant currency basis net revenue fell 1.9 per cent, with Portfolio Brands now representing only 34.1 per cent of our overall revenue at actual rates.

EUROPE DIVISION

“Our results reflect the resilience of our tobacco business and additive net revenue growth from Next Generation Products.”

JOERG BIEBERNICK
Division Director, Europe

EUROPE

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Tobacco volume	bn SE	**135.0**	141.3	-4.4%	
NGP net revenue	£m	**131**	32	>100%	>100%
Tobacco net revenue	£m	**3,505**	3,491	+0.4%	+0.8%
Total net revenue	£m	**3,636**	3,523	+3.2%	+3.6%
Adjusted operating profit	£m	**1,699**	1,701	-0.1%	-0.3%
Asset Brands % of net revenue	%	**74.7**	72.4	+230 bps	+210 bps

2018 revenue restated following adoption of IFRS 15.

Our performance demonstrates the resilience of our tobacco business across European markets, with financials driven by strong pricing and cost efficiency savings. In NGP, we have delivered good year-on-year growth, creating strong vaping retail share positions, following the successful build out of *my*blu.

We have continued to balance financial returns with optimising our share positions in our priority markets, ensuring that we continue to deliver quality growth in the right markets, with the right brands.

Overall volumes decreased by 4.4 per cent, reflecting tobacco market trends in Western Europe and volume pressure in the Ukraine. Ukraine volumes impacted the region by c150 bps, although this had a limited impact on profitability.

Net revenue was up 3.6 per cent, benefiting from strong pricing in our tobacco business particularly in Germany, the UK and Italy. In NGP we grew revenues to £131 million (FY18 £32 million), with higher growth in the first half as we built national distribution for *my*blu in the UK, Germany, France, Spain and Italy.

The European vapour category did not grow as fast as we originally anticipated in the year with a slowdown in the second half. In the UK and France, the evolution of the vapour category towards closed system devices has been slower than we initially expected, with open system devices and price promotions impacting the development of the category. We have factored this into our plans for 2020 and continue to engage with stakeholders to raise regulatory standards for vapour products.

In NGP we have also been active with our modern oral nicotine products, generating growth across the division including in Austria, Germany, the UK, Slovakia, Denmark and Switzerland.

Our focus on Asset Brands, supported by our Market Repeatable Model, continues to improve the quality of our revenue, with 74.7 per cent now coming from Asset Brands.

Adjusted operating profit was down 0.3 per cent at constant currency, with pricing in tobacco offset by the additional investment to support *my*blu market launches, as well as provisions for slow-moving inventory and the termination of an NGP supply contract in the second half.

While driving the performance of the business, we continue to focus on ensuring our products are only ever sold to adult smokers and vapers. Our retailer engagement programmes have a strong focus on responsible selling, including e-learning tools that reinforce the importance of prohibiting NGP and tobacco sales to minors. We have robust age-verification mechanisms for online sales and the stringent way we market our brands avoids any association with other products that are popular with youth.

We also continue to partner with governments, law enforcement agencies and customs and excise authorities to combat the smuggling and counterfeiting of tobacco products. Our security intelligence led to raids on significant production sites in Poland that were counterfeiting Imperial tobacco brands for the German, UK and Polish markets. In all, 120 million illegal cigarettes were seized and 81 arrests were made.

Priority Markets Tobacco Share	Performance
UK *40.6%* *(-140bps)*	Strong price/mix supported net revenue growth. Overall tobacco share was down following our price increase in February, which led to a period of price disadvantage against competitors. Share trajectory improved in the second half, supported by cigarette and fine cut tobacco growth in the sub-economy segment. Following its launch last year, *my*blu has continued to achieve good growth in the closed system category with 6.0 per cent share of traditional retail in September, although the category growth is slower than anticipated. A city trial launch of modern oral nicotine brand Zone X received positive reviews with plans to expand distribution further.
Germany *21.6% (-70bps)*	Financial delivery remained strong, with pricing and second half trade promotions driving growth. Share declines are being addressed through reshaping our brand portfolio, including migrating some Portfolio Brands, and larger format pricing strategies. *my*blu has strengthened its market leadership in retail, with advertising and promotional activities supporting category leading performance and high brand awareness. *my*blu spot share in September was 35.4 per cent of the traditional retail channel. We made good progress with the modern oral nicotine launch of Skruf, leading the establishment of the category.
Spain *28.9% (-10bps), with blonde share +10bps*	The successful launch of Horizon in the fine cut tobacco natural segment and investment in West and Fortuna cigarettes resulted in positive fine cut tobacco and blonde cigarette share delivery. *my*blu gained a market leading share of the tobacconist channel, following its national launch in January, holding a 75.0 per cent spot value share in September. Market leadership was supported by distribution expansion and retailer advocacy programmes.
France *18.1% (-160bps)*	We have continued to prioritise financial returns and quality share, following significant excise increases. The price repositioning of JPS and News has supported an improved share trajectory and fine cut tobacco share is growing. *my*blu sell out and market share are stable, but revenue performance has been impacted by slower category development and competitor price promotions. *my*blu in September was the number two vapour brand with 12.7 per cent value share of offtake data in tobacconists.
Italy *5.4% (+30bps)*	Continued market share growth has been driven by investment behind JPS, retailer advocacy and multi-channel consumer activations. *my*blu continues to maintain a market leading retail share with a September spot value share of 51.5 per cent, supported by increased distribution and a targeted city advertising campaign.

AMERICAS DIVISION

> "Our strong US tobacco performance was driven by share growth in cigarette and mass market cigars."

DOMINIC BRISBY
Division Director, Americas & Africa, Asia, Australasia

AMERICAS

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Tobacco volume	bn SE	**21.7**	22.1	-2.0%	
NGP net revenue	£m	**111**	151	-26.5%	-30.5%
Tobacco net revenue	£m	**2,361**	2,097	+12.6%	+6.8%
Total net revenue	£m	**2,472**	2,248	+10.0%	+4.3%
Adjusted operating profit	£m	**1,068**	1,036	+3.1%	-2.6%
Asset Brands % of net revenue	%	**54.1**	54.4	(30) bps	(20) bps

2018 revenue restated following adoption of IFRS 15.

We delivered a strong tobacco performance, with our overall USA cigarette share now in growth for the first time since the US asset acquisition in 2015. Cigarette share was 8.8 per cent, up 10 bps, benefiting from our portfolio strategy and share gains from our Sonoma brand as demand for brands in the deep discount segment grows. Demand in the deep discount segment marginally impacted Winston's share performance, which was down by 8 bps, with the share of Kool and Maverick stable.

We also delivered share growth in mass market cigars, with Backwoods up 81 basis points and our total share of the category now 15.1 per cent, 79 basis points higher than last year.

Volumes were down 2.0 per cent with a second half benefit from an increase in wholesaler inventory towards the end of the period as wholesalers bought ahead of an expected October price increase. Excluding the impact of shipment timings, volumes were down by 5.3 per cent, slightly better than the industry decline of 5.5 per cent.

On a constant currency basis, we grew tobacco net revenue by 6.8 per cent, reflecting strong pricing and a mix benefit from mass market cigars led by growth from Backwoods and Dutch Masters.

NGP revenues of £111 million were £46 million lower than last year at constant currencies (FY18: £151 million includes IP revenue of c. £51 million). We increased brand investment and enhanced consumer promotions in the second half to address the increasingly competitive environment and declining *my*blu share. This increase led to an improvement in value share trajectory to 6.2 per cent at the end of the year, although second half gains were less than expected, reflecting the recent slowdown in the US vapour category and increased competitor discounting. Rising regulatory uncertainty reduced consumer off-take and shipments to wholesalers and retailers.

We continue to monitor developments in the USA vapour market. We have factored flexibility into our future plans and investment levels and remain focused on building blu consumer loyalty and managing the operational and regulatory challenges associated with a rapidly evolving category. The environment is expected to improve following action by the Food and Drug Administration (FDA).

We are engaging with the FDA and other key stakeholders to create a regulatory framework that raises standards and supports the development of the legal vapour category. This is critically important given the growing number of US reports of ill-health being linked to the use of illicit vapour products.

We share the FDA's concerns about young people using vapour products and are committed to enforcing stringent youth access prevention measures. In September we reinforced this view in a keynote speech at the annual Global Tobacco & Nicotine Forum held in Washington.

Adjusted operating profit was 2.6 per cent lower, with strong growth in tobacco profit offset by losses in NGP, last year's IP profit apportioned to Americas of £50 million and the £40 million profit on the sale of our other tobacco products business. Excluding these gains, adjusted operating profit would have increased by 6.7 per cent at constant currency despite the step-up in NGP investment.

AFRICA, ASIA, AUSTRALASIA DIVISION

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Tobacco volume	bn SE	**87.5**	92.1	-5.0%	
NGP net revenue	£m	**43**	4	>100%	>100%
Tobacco net revenue	£m	**1,847**	1,922	-3.9%	-4.8%
Total net revenue	£m	**1,890**	1,926	-1.9%	-2.9%
Adjusted operating profit	£m	**764**	820	-6.8%	-8.1%
Asset Brands % of net revenue	%	**64.2**	62.5	+170 bps	+210 bps

2018 revenue restated following adoption of IFRS 15.

Full year tobacco volumes were 5.0 per cent lower, although ameliorating declines in the Middle East and South East Asia contributed to a stronger second half performance.

We grew our share position in Australia, Japan and Russia with a second half improvement in Saudi Arabia.

Tobacco net revenue was down 4.8 per cent at constant currency. This was largely driven by tobacco declines in Russia, Australia and the Middle East, which more than offset growth in Ivory Coast, Turkey and New Zealand.

Lower revenue in Russia was primarily due to channel mix with an increased proportion of market volumes discounted in key accounts, with lower price/mix in Australia driven by lower margin volumes in the growing fifth price tier.

In Saudi Arabia, performance was affected by an increase in lower priced cross border duty-free volumes. Despite this impact on the profitability of the market, the launch of Davidoff Evolve and the rejuvenation of West with a fresh seal pack supported share growth.

Total net revenue was supported by a continued strong NGP performance in Japan following a national roll-out of *my*blu zero nicotine, which led the creation of the closed system pod category. NGP revenues contributed an additional £39 million to £43 million.

We also launched our Pulze heated tobacco product and iD sticks in Japan with a national roll-out underway via convenience store key accounts following positive consumer feedback.

Our Asset Brands now make up 64.2 per cent of our total net revenue, up 210 bps at constant currency.

Adjusted operating profit at 8.1 per cent down was impacted by tobacco performance in Australia, Russia and Saudi Arabia. Reported operating profit was lower due to a provision for historic Russian excise liabilities and a goodwill impairment of the Premium Cigar Division.

Priority Markets Tobacco Share	Performance
Australia *32.6% (+70bps)*	Investment behind Parker & Simpson resulted in share gains in the growing economy segment. Revenue and profit were impacted by negative mix from growth in lower margin product. Profit was also affected by a lower FY19 benefit from duty paid inventory around the September excise increase.
Japan *1.3% (+30bps)*	West is continuing to grow, benefiting from continued downtrading following excise driven price increases. Expanded national distribution of *my*blu supported accelerated sales growth in H2. *my*blu held an 85.4 per cent spot share of convenience stores in September.
Russia *7.9% (+10bps)*	Market declines were driven by increases in illicit volumes. Positive share progression was supported by growth in Davidoff Evolve and Parker & Simpson crush-ball variant, which more than offset declines in Maxim. Financial performance was impacted by increased competitor discounting and ongoing volume shift into the key accounts channel.
Saudi Arabia *14.3% (+1bps)*	Share performance benefited from the launch of Davidoff Evolve in April which performed strongly in the second half. The introduction of West fresh seal, supported by optimisation of field coverage, also led to an improvement in second half volumes. Financial performance was impacted by increased cross border duty free flow.

"We will further optimise our cost base and capital discipline to prioritise investment more effectively and deliver growing returns."

OLIVER TANT
Chief Financial Officer

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide a better comparison of performance from one period to the next. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures, which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies accompanying our financial statements.

Reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements. Percentage growth figures for adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

We have committed to change our financial disclosure with a view to further simplifying the adjusted performance measures. Details of these plans are set out later in this statement.

PERFORMANCE OVERVIEW

Our tobacco business produced a resilient performance in the USA and Europe, offsetting difficult environments in our Africa, Asia and Australasia (AAA) division. We continue to prioritise Asset Brands performance in our priority markets, which has delivered further growth in tobacco net revenue and adjusted operating profit.

Our vapour brand blu has now been launched in 16 markets, establishing leading positions in some of the key European territories. We also successfully launched our first heated tobacco product Pulze in Japan and made good progress in expanding the availability of our oral nicotine offerings.

Increasing competition and regulatory uncertainty over vapour in the USA and a slowdown in Europe in the second half impacted on our overall Next Generation Products (NGP) delivery. We decided to step up investment to build blu brand awareness and address an increased level of consumer promotion in certain markets, which delivered improved share towards the end of the year but did not translate into the increased sales we had expected.

We diversified our NGP portfolio with an investment in Auxly Cannabis Group Inc. which will accelerate the delivery of Auxly's business plan and the launch of derivative products after regulatory change to the Canadian cannabis market in October 2019.

ACTIVE CAPITAL DISCIPLINE

Our focus on cost and capital discipline saw adjusted operating cash conversion at 95 per cent. In July we began a share buyback programme that will purchase £200 million shares by the end of the 2019 calendar year, of which £108 million had been completed in the financial year.

We continued to progress divestments of assets that are not central to our growth plans and announced that our premium cigar business would be sold as part of the programme.

2019 will be the eleventh year of 10 per cent dividend growth. Our revised capital allocation and shareholder distributions policy is effective from our 2020 financial year and will grow the dividend progressively, considering the underlying performance of the business to provide greater flexibility in our capital allocation.

RESILIENT TOBACCO AND ADDITIVE NGP GROWTH

Tobacco volumes fell 4.4 per cent, broadly in line with market dynamics and we delivered share growth in six of our 10 priority markets.

Tobacco price/mix was 5.5 per cent, with gains in several priority markets driving tobacco net revenue growth of 1.1 per cent at constant currency. NGP revenue grew 48 per cent at constant currency, supporting Group net revenue up 2.2 per cent at constant currency.

Group adjusted operating profit fell by 2.4 per cent at constant currency. This decline was driven primarily by increased NGP investment including higher advertising and promotion spend and overheads as well as the impact of provisions for slow-moving NGP inventory of £34 million and NGP supply chain contract termination costs of £20 million. This more than offset growth in tobacco adjusted operating profit. Other gains of £10 million from Auxly were also lower (2018: £80 million). Further inventory provisions may occur if regulatory changes, such as a potential US flavour ban were to come into force that limit the ability to sell product.

On a reported basis, Group operating profit declined 8.7 per cent driven by a goodwill impairment and associated costs of disposal of the Premium Cigar Division of £525 million, a provision for Russian excise taxes of £139 million, a fair value adjustment of acquisition consideration for Von Erl of £129 million, which has subsequently been settled in October, partly offset by reduced restructuring costs of £144 million (2018: £196 million) and the prior year impact from the administration of Palmer & Harvey of £110 million. For further details see notes 3, 8 and 11 to the financial statements.

GROUP RESULTS – CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Year ended 30 September 2018	Foreign exchange	Constant currency movement	Year ended 30 September 2019	Change	Constant currency change
Tobacco & NGP Net Revenue						
Europe	3,523	(15)	128	3,636	+3.2%	+3.6%
Americas	2,248	128	96	2,472	+10.0%	+4.3%
Africa, Asia and Australasia	1,926	19	(55)	1,890	-1.9%	-2.9%
Total Group	7,697	132	169	7,998	+3.9%	+2.2%
Tobacco & NGP Adjusted Operating Profit						
Europe	1,701	4	(6)	1,699	-0.1%	-0.3%
Americas	1,036	59	(27)	1,068	3.1%	-2.6%
Africa, Asia and Australasia	820	11	(67)	764	-6.8%	-8.1%
Total Group	3,557	74	(100)	3,531	-0.7%	-2.8%
Distribution						
Distribution fees	989	(1)	27	1,015	+2.6%	+2.7%
Adjusted operating profit	212	(1)	21	232	+9.4%	+9.9%
Group Adjusted Results						
Adjusted operating profit	3,766	73	(91)	3,749	-0.5%	-2.4%
Adjusted net finance costs	(487)	(8)	46	(450)	-7.8%	-9.4%
Adjusted EPS (pence)	272.2	5.5	(4.4)	273.3	+0.4%	-1.6%

2018 revenue restated following adoption of IFRS 15.

GROUP EARNINGS PERFORMANCE

	Adjusted		Reported	
£ million unless otherwise indicated	2019	2018	2019	2018
Operating profit				
Tobacco & NGP	3,531	3,557	2,074	2,282
Distribution	232	212	137	128
Eliminations	(14)	(3)	(14)	(3)
Group operating profit	3,749	3,766	2,197	2,407
Net finance costs	(450)	(487)	(562)	(626)
Share of profit of investments accounted for using the equity method	55	42	55	42
Profit before tax	3,354	3,321	1,690	1,823
Tax	(642)	(648)	(609)	(396)
Profit for the year	2,712	2,673	1,081	1,427
Earnings per ordinary share (pence)	273.3	272.2	106.0	143.6

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	2019	2018	2019	2018	2019	2018
Reported	2,197	2,407	(562)	(626)	106.0	143.6
Acquisition and disposal costs	22	–	–	–	2.3	–
Amortisation & impairment of acquired intangibles	1,118	1,053	–	–	116.4	90.0
Excise tax provision	139	–	–	–	13.0	–
Administration of UK distributor	–	110	–	–	–	9.3
Fair value adjustment of acquisition consideration	129	–	–	–	13.5	–
Fair value and exchange movements on derivative financial instruments	–	–	107	126	8.0	10.9
Post-employment benefits net financing costs	–	–	5	13	0.1	0.8
Restructuring costs	144	196	–	–	11.4	14.9
Tax on unrecognised losses	–	–	–	–	–	(3.0)
Deferred tax impact of US tax reforms	–	–	–	–	6.4	8.0
Items above attributable to non-controlling interests	–	–	–	–	(3.8)	(2.3)
Adjusted	3,749	3,766	(450)	(487)	273.3	272.2

The increase in the amortisation and impairment of acquired intangibles is driven primarily by a goodwill impairment and associated costs of disposal of £525 million relating to the Premium Cigar Division, which is now treated as an asset held for sale with net assets of £1.1 billion. It is expected that on completion of the divestment cumulative foreign exchange gains of approximately £300 million to £400 million that have been recognised in reserves will be recycled to the income statement.

The restructuring charge for the year of £144 million (2018: £196 million) relates mainly to our cost optimisation programmes announced in 2013 and 2016. The total restructuring cash flow in the year ended 30 September 2019 was £146 million (2018: £241 million).

Adjusted net finance costs were lower at £450 million (2018: £487 million). This is primarily due to our active management of the debt portfolio to align with our strategic disposal initiatives. Reported net finance costs were £562 million (2018: £626 million), incorporating the impact of the net fair value and exchange losses on financial instruments of £107 million (2018: losses of £126 million) and post-employment benefits net financing costs of £5 million (2018: £13 million).

Our all-in cost of debt decreased to 3.6 per cent (2018: 3.7 per cent) as we continue to optimise our debt portfolio. Our interest cover increased to 8.8 times (2018: 8.2 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Our effective adjusted tax rate was 19.1 per cent (2018: 19.5 per cent) and the effective reported tax rate is 36.1 per cent (2018: 21.7 per cent). The slight reduction in the effective adjusted tax rate was due to a more favourable profit mix. The adjusted tax rate is lower than the reported rate due to a number of adjusting items having no or limited associated tax, with a larger quantum of such items in the current year causing the increase in the reported tax rate compared with 2018.

We expect our effective adjusted tax rate for the year ended 30 September 2020 to be around 21 per cent. The increase in rate is due to legislative changes in several jurisdictions and the expiry of certain tax agreements.

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as the USA and lower rates in other markets such as the UK. The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the OECD's (Organisation for Economic Co-operation and Development) Base Erosion Profit Shifting (BEPS) work. Whilst we seek to mitigate the impact of these changes, we anticipate there will be further upward pressure on the adjusted and reported tax rate in the medium term. Our UK Tax Strategy is publicly available and can be found in the Governance section of our corporate website.

Adjusted earnings per share were 273.3 pence (2018: 272.2 pence), down 1.6 per cent at constant currency (up 0.4 per cent at actual rates), reflecting continued operating profit growth from tobacco, more than offset by increased investment in our NGP business, the impact of NGP inventory provisions of £34 million and NGP supply chain contract termination costs of £20 million, following the slowdown in sales growth in the second half and lower non-operating income compared to 2018.

Reported earnings per share was 106.0 pence (2018: 143.6 pence) down 26.2 per cent, mainly impacted by reported operating profit. The weakening of sterling versus the US dollar positively impacted our revenue and earnings by around 2 per cent.

COST OPTIMISATION

We optimise our cost base to realise operational efficiencies. Our first optimisation programme announced in January 2013 delivered savings of £305 million per annum from September 2018 at a cash restructuring cost of around £600 million. This first programme has now concluded although there remain some cash costs. The second cost programme, announced in November 2016, is expected to deliver a further £300 million of annual savings from September 2020, at a cash restructuring cost of c.£750 million.

A continued focus on reducing product cost and overheads realised cost savings of £55 million in 2019, all arising from the second programme. This brings the cumulative cost savings from both programmes to £545 million (£305 million from the first and £240 million from the second).

Cash restructuring costs in the year from the first programme were £24 million (2018: £43 million) and £108 million (2018: £173 million) for the second, bringing the cumulative net cash cost of the two programmes to £958 million (£545 million for the first and £413 million for the second).

CAPITAL ALLOCATION

Capital discipline is a key objective, with commercial analysis and hurdle rates underpinning returns. However, it is clear from these results that we did not deliver the expected returns from our significant step-up in NGP investment. As a result, we are now focusing investment more tightly around the brand and market combinations that will build a sustainable, profitable NGP business. We are also implementing a more dynamic investment model for NGP with clear finance guardrails that allows us to actively manage investment levels to support returns.

Potential acquisitions are judged on strict financial and commercial criteria including the ability to enhance the Group's return on invested capital (ROIC) over time. We may also make measured investments in growth adjacencies, such as cannabis, to support longer term growth and return opportunities, notwithstanding they may have lower return characteristics in the short term.

We typically seek an overall internal rate of return in excess of 13 per cent across the investments we make in order to support our investment choices and underpin returns for shareholders. Our ROIC measure is slightly ahead of last year at 14.4 per cent (2018: 14.2 per cent) despite our increased investments.

CASH FLOW AND NET DEBT

The conversion of adjusted operating profit to operating cash flow remained strong at 95 per cent (2018: 97 per cent). Movements in working capital were broadly flat compared to the prior year, supported by a c.£200 million working capital benefit (+5 per cent at constant currency) from a duty legislation change in Australia, which saw higher stocks more than offset by higher duty payable, a position that will unwind in 2020. This benefit was partly offset by higher working capital as a consequence of the step-up in NGP, the timing of tobacco stock builds across the Group and increasing debtors as global tobacco prices and duty rates increase. Capital expenditure increased as we stepped up investment in our NGP capabilities. Restructuring cash costs decreased due to the first cost optimisation programme ending in 2018.

Reported net debt increased by £0.1 billion to £12.0 billion and adjusted net debt decreased by £0.1 billion at actual rates, driven by a £0.2 billion movement in foreign exchange rates and the fair value of interest rate derivatives. The denomination of our closing adjusted net debt was split approximately 74 per cent euro and 26 per cent US dollar. As at 30 September 2019, the Group had committed financing in place of around £16.9 billion, which comprised 20 per cent bank facilities and 80 per cent raised from capital markets. Following the capital markets issuance during the year, approximately £780 million bilateral revolving credit facilities were no longer required and subsequently cancelled.

DIVIDEND GROWTH

The Group has paid two interim dividends totalling 62.56 pence per share in June 2019 and September 2019, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board approved a further interim dividend of 72.00 pence per share and will propose a final dividend of 72.01 pence per share, bringing the total dividend for the year to 206.57 pence per share. The third interim dividend will be paid on 31 December 2019 with an ex-dividend date of 21 November 2019. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2020, with an ex-dividend date of 20 February 2020.

BREXIT

The Group has looked into potential Brexit impacts under a number of different scenarios: soft, hard and no deal. The key risks that have been identified include potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling; inventory requirements to ensure supply; impact on consumer confidence; and implications on existing international tax treaties. In the event of a no deal Brexit, we estimate there could be additional costs of around £100 million relating to the restructuring of the Group for tax purposes.

NEW SEGMENTS AND ACCOUNTING STANDARDS

On 1 October 2018 we re-organised the tobacco and NGP business to manage our footprint based on geographic proximity changing from the previous approach to grouping markets based on their growth and returns profiles.

Our financial reporting was split into four areas: Europe, Americas and Africa, Asia & Australasia plus Distribution. Similarly, our tobacco business was re-named Tobacco & NGP.

We also adopted two new accounting standards, IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the same date. Implementation of IFRS 15 has resulted in changes to the treatment of customer discounts in revenue and to Master Settlement Agreement (MSA) payments, which were previously netted off against revenue. MSA payments are now taken to other cost of sales. On 1 October 2019 we will adopt the new accounting standard IFRS 16 "Leases". The impacts of adopting these standards are disclosed in Note 1 of the Accounting Policies.

ADJUSTED PERFORMANCE MEASURES

In managing the business, we focus on adjusted performance measures as we believe they provide a better comparison of performance from one period to the next.

Although we remain comfortable that our adjusted performance measures remain appropriate for the current year, we have decided to refine our approach by focusing more tightly on the performance drivers of our core activities of the manufacture, sales and marketing of tobacco and NGP. The changes will be implemented in 2020 to ensure the 2019 results are reported in line with previous external guidance. The key changes will be to exclude one-off gains from asset disposals and other non-recurring activities that do not relate directly to the core activities. In 2019, these gains related to our investment in Auxly and amounted to £10 million. We will continue to treat restructuring costs as an adjusting item through to the conclusion of the second cost optimisation programme in 2020. Thereafter we will review treatment in the light of any further restructuring requirement.

LIQUIDITY AND GOING CONCERN

The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. In reviewing the Group's committed funding and liquidity positions, the Board considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group in the context of the maturity profile of the Group's funding arrangements. The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available when required. Based on its review, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs for a period of at least 12 months from the date of this Report and concludes that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group's planned disposal of its premium cigar division not materialise during the next financial year, the Group would look to finance its medium-term working capital and investment requirements through new debt issuances in accordance with its usual practice of managing its medium and long-term financing requirements.

OLIVER TANT
Chief Financial Officer

MANAGING RISK

The identification, assessment and appropriate management of our enterprise risks facilitate the achievement of the Group's strategic aims.

Risks represent an articulation of the variability of outcomes that we manage in the achievement of the Group's strategy. We define a risk as anything that could disrupt the achievement of the Group's strategy and objectives.

RISK MANAGEMENT

The basis of our risk management framework relies upon the ability to identify, assess and act to mitigate material risks. Whilst it is accepted that no approach can guarantee the identification and mitigation of all risks, our framework aligns the management of risks and delegated authorities to the Board's defined risk appetite in achieving our strategic objectives.

RISKS, MITIGATIONS AND OPPORTUNITIES

The Board is responsible for setting the Group's risk appetite, and ultimately accountable for managing the Group's risks. The framework within which we operate ensures that the identification of risks, their effective mitigation, and assessment of opportunities that may arise, forms part of our routine operational processes, practices and responsibilities.

Risk identification, both operational and horizon scanning, is supported by our second line centres of expertise. These specialist teams are responsible for supporting the business with effective risk mitigation solutions. Additionally, our Group Risk team works with functions, strategic business units and key stakeholders across the business to ensure effective "bottom-up" identification and assessment of risks, and coordinate and facilitate the "top-down" inputs from our OPEX and Board.

ASSESSMENT AND EVALUATION OF RISKS

An area of key focus in our risk management approach is the assessment of both risks and the effectiveness of related mitigating actions. We work with the business to complete functional risk assessments which draw on a broad spectrum of inputs enabling cross-functional and second line views to be considered.

As part of the ongoing development of the risk management process we have further developed our multi-dimensional approach to the assessment of risks.

The risk tool uses multiple factors in the assessment of risk, as represented in the following diagram. The evaluation of the risks against risk assessment factors creates a balanced and informed perspective of the risk impact and facilitates prioritisation and best allocation of resources.

The assessment of risks is embedded within our business planning cycle and aligned to our strategic objectives. Risks are assigned to the relevant product category in order to provide context over the relative current and future impacts to Group strategy.

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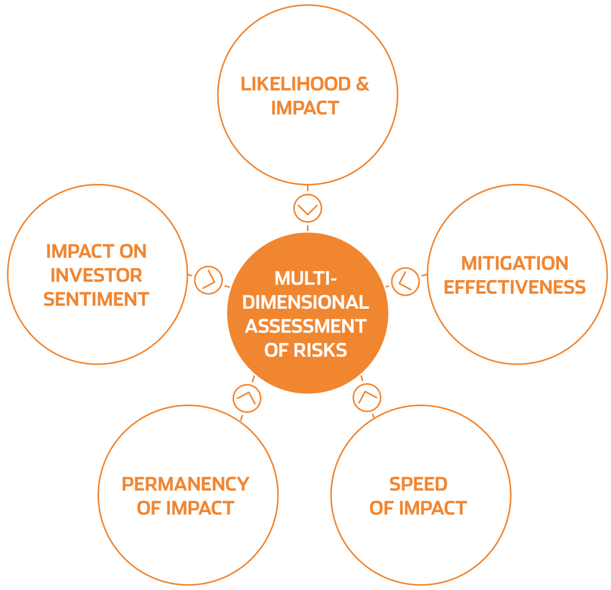


The assessment of risk is based on views from across the business, including operational "bottom-up" reviews. The results of these assessments are subsequently reviewed by senior management to ensure an effective "top-down" input from the OPEX and the Board, ensuring both operational and strategic perspectives are considered in establishing our assessment of the risks we face as a business.

In line with the viability statement and our business planning processes, we consider the impact of risks to achieving both the 12-month business plan, and the longer three-year viability horizon to ensure actions can be taken in the short-term to facilitate the appropriate mitigation of current and future risk impacts.

The mitigation and management of identified risks is vital to the success of the Group. The Group's risk management and internal control framework and related reporting are further discussed in the Audit Committee Report on page 50.

RISK LANDSCAPE

The Group operates in highly competitive (multi-national) markets and so faces general commercial risks associated with a large FMCG business (including the effect of movements in foreign exchange rates).

We constantly assess and evaluate the risks posed by the changing environments in which we operate, whether geo-political, socio-economic or technological. The consideration of the potential impacts and most likely causes ensures a timely, measured and appropriate response.

OVERVIEW
STRATEGY
PERFORMANCE
GOVERNANCE
FINANCIALS

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the crystallisation of such risks. Not all of these principal risks are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment. Additionally, there are risks such as cyber threats and those associated with Brexit (including potential taxation impacts) that we do not report as principal risks, rather, their implicit impacts are considered in the assessment of underlying risks across the business. This approach best ensures responsibility and accountability for appropriate mitigation on an enterprise basis.

PRINCIPAL RISK	IMPACT	
PRODUCT REGULATORY CHANGE Proposed product regulatory change can restrict the ability to communicate with or supply product to consumers, and can place restrictions on consumers' ability to enjoy the product.	• The highest potential impacts of proposed legislation is in the EVP category, notably in the US market • Size of legitimate EVP market for products may be reduced due to increased legislation • Restrictions may be placed on the locations in which consumers can purchase and enjoy the product • Ability to communicate with consumers may be impacted • Country specific packaging/labelling requirements could result in increased cost and complexity • Failure to achieve PMTA registration in the US could result in an inability to sell current products in the US • Restrictions on sale of flavoured tobacco products (e.g. menthol) potentially reduce market size	TM EVP
CHANGE IN CONSUMER TRENDS Failure to predict or respond to current and emerging trends. Emerging NGP categories are subject to increased likelihood of change in consumer trends.	• Failure to anticipate demand shifts could impact attractiveness of portfolio or products to consumers impacting volumes • Brand equity could be impacted by consumer perception of brand relevance, or attractiveness of products to consumers	TM EVP HT OND
INNOVATION Failure to realise new or improved product initiatives aligned to consumer/market trends and demands in a timely manner.	• Portfolio fails to meet consumer demands resulting in lower sales • Failure to act upon consumer insights prevents opportunities from being seized and impacts growth • Product development and/or launch impacted by IP constraints limiting the ability to respond to competitor offerings • Potential cost savings arising from innovations not realised	TM EVP HT OND
SIGNIFICANT CHANGE IN PRODUCT SALES TAXES OR CHARGES Increases in excise or other related taxes impacts consumer choices as governments use tobacco control as a means of raising public funds.	• Increased cost to consumer could result in changes in consumer choices and reduced tobacco purchases • Inability to pass on an increase in excise could result in lower product margin and negative mix impacts • Potential NGP strategy impact resulting from reduced ability to invest due to reduced cash flows • Potential pressure on ability to achieve planned price increases	TM EVP HT OND

TM Tobacco Maximisation related risks

EVP blu related risks

HT Heated Tobacco (Pulze) related risks

OND Oral Tobacco (Skruf and other brands) related risks

GRP Group-wide risks

MITIGATION	OPPORTUNITY
• The Group continues to act in accordance with both legal requirements and the principles of being a responsible manufacturer • Regulatory affairs teams, supported by scientific affairs, provide evidence to support the argument that EVP can enable potential harm reduction for tobacco smokers and therefore provide argument for rational regulation	• The lessons learned from tobacco legislation and the increase in illicit trade as an unintended consequence of regulatory change highlight the opportunity for rational discussion and appropriate sanctions to ensure potential harm reduction products remain an attractive alternative choice for the world's smokers • Periods of regulatory uncertainty, or change, offer opportunities for companies able to meet the evolving requirements • At times of rapid regulatory change regulators often look to responsible manufacturers for support in shaping new regulations and frameworks • The increase in regulatory requirements and lifting of EVP standards will create greater market stability. The increased compliance requirements could result in a reduced number of competitors in the market
• We continually monitor consumer activity at both a local and Group level. This enables an effective means of profiling and predicting changes to best adapt the Group's product portfolio • The Group continues to develop its portfolio of NGP products, along with strategic acquisitions in the sector, to provide consumers with appropriate choices in the dynamic market place	• The ability to meet consumer needs and to better inform product innovation is a key potential driver of commercial success • As the category matures the opportunity exists to drive loyalty and a long-term consumer relationship. This offers the Group the opportunity to align its portfolio to meet any changing needs of the evolving smoker journey
• Innovation processes are designed to develop consumer products based upon robust analysis and testing • Specialist in-house innovation function with expertise in product development – notably NGP • Alignment of Group Science and Innovation processes • IP risks are managed by subject matter experts within the Group, ensuring protection of our own innovations and best enabling the development process	• The development of innovative products that meet and drive consumer demands throughout their evolving journey • Speed and quality of innovation enable the drumbeat of consumer activations that ensure both brand relevance and continued brand loyalty
• We engage with authorities to provide informed input to the unintended consequences of disproportionate changes in excise • The Group employs subject matter experts to monitor and manage the potential impact of excise changes and align our product portfolio to a range of appropriate price points • We offer appropriate consumer focused choices at market level, across both our tobacco and NGP portfolio	• The development of the Group strategy includes analysis of planned and potential changes in product taxation in order to best identify and ensure investment opportunities across its range of products • Tailored product portfolio offerings at a local level, within and across categories, allow for any relative commercial advantage from excise mechanisms to be realised • As regulators acknowledge the potential for harm reduction of NGP, through an application of lower excise, consumers could switch to this more affordable, lower tax category

PRINCIPAL RISK	IMPACT	
COUNTERFEIT AND ILLICIT NON-DUTY PAID PRODUCT The consequence of excise increases is a widening gap in the price of illicit and legitimate product, increasing the attractiveness of non-duty paid tobacco to consumers.	• Counterfeit and illicit trade reduce the size of the legitimate tobacco market • Inferior, unregulated counterfeit product could result in damage to our brands • Reputation of legitimate producers impacted by illicit/illegal supply • Increased risk of public health and youth access issues due to unregulated product quality and distribution	TM EVP
PRODUCT SUPPLY A supply chain failure results in a delay or inability to supply product to market.	• Loss of short-term volume and potential loss of consumer loyalty • Product quality impacts customer satisfaction, potentially impacting loyalty • Product cost impacts profitability • Production capacity impacted by lack of availability of raw materials	TM EVP HT OND
CAPABILITIES Inability to attract, retain and develop required capabilities to achieve strategic objectives in a culture aligned to the changing multi-category business.	• Required skills and capabilities not aligned to achievement of objectives • Organisational culture and mindset fail to facilitate the requirements of a business operating in new and fast changing categories	TM EVP HT OND
HEALTH, SAFETY, AND WELLBEING Failure to ensure safe working practices, appropriate environment and culture, and the required personal support to ensure the safety and wellbeing of our people and others working with the Group.	• Loss of life, or serious injury/illness to employee or other individual working with/for IMB • Financial penalty, censure or prosecution for breach of regulations • Interruption of Group operations (notably manufacturing) as a result of incident • Employee engagement, retention, or reduced attractiveness to potential employees/partners	GRP
RESPONSIBLE BEHAVIOUR Failure to comply with local and international laws and regulations. The Group's policies and standards mandate that all employees must comply with legislation relevant to both a UK listed company and to the countries in which they operate.	• Investigations and the enforcement of financial or regulatory censure • Criminal investigation resulting from allegations of improper behaviour • The cost of defending any allegations can be significant • Reputational damage of perceived or actual breach of regulation	GRP

MITIGATION	OPPORTUNITY
• We have robust internal policies and procedures to best ensure compliance within our own supply chain. We maintain strong standards and controls for our business and first-line customers to prevent diversion of our products • Our operational sales teams are supported by specialist teams employed to support the business, governments and law enforcement agencies, with targeted solutions to illicit trade • We work alongside the European Commission's Anti-Fraud Office (OLAF) and partner with governments and law enforcement agencies around the world on anti-illicit trade initiatives	• Acting as a responsible manufacturer and distributor of tobacco products better enables the Group to engage with regulators and law enforcement agencies to prevent illicit trade and related illegal activities, and to inform effective and appropriate state actions
• Robust demand planning process, and supply chain management (materials and logistics) • Production capacity planning includes continuity measures in the event of machine failure or site issue • Robust leaf and raw material supply processes in place • Ongoing supplier reviews undertaken to best ensure continuity of supply • Supply strategy review completed for new categories	• Our lean manufacturing approach continues to supply quality compliant products, whilst improving agility and scalability to cater for demand shifts and opportunities to further contain underlying costs
• Specific capability gaps identified, and action taken to address short-term requirements • Changes in recruitment approach and tailored remuneration for specific capability requirements to align with external market • Cultural aspects are an element of Group change programmes to create a fit for the future environment	• Increased attractiveness of Imperial as an employer of choice for both current and potential employees through promotion of diverse culture, personal development, and wellbeing initiatives • Achievement of Group strategy and development of multi-category business enhanced by ability to attract and retain requisite capabilities and mindset
• Health and safety policies, procedures, training and monitoring in place • Safety focused initiatives implemented across the Group including 'Drive Safe' and manufacturing 'Safety Pin' encouraging cross-site engagement • Employee wellbeing support in place across the business	• Continued promotion of our safety culture facilitates the associated benefits of reduced lost working time and operational effectiveness • Supports attractiveness of Imperial as an employer of choice for both current and potential employees through promotion of a safe and enabling work environment and the provision of wellbeing initiatives
• The Group's Code of Conduct and values articulate the behaviours we expect from all our people, and compliance with this is certified by management across the business • Expertise at Group and local level for areas of legal compliance to provide advice and support in the development of policy, process, training and monitoring, including international sanctions • In the event of any investigation (which may or may not result in actions being brought against us), we cooperate fully with the relevant authority and will continue to do so. • The Group supports and promotes measures to ensure the prevention of youth access to its products	• The effective delivery and communication of our ESG strategy (including legal and regulatory compliance) creates an opportunity for external stakeholders and potential partners/employees to better understand the ethical approaches taken by the Group to ensure that it acts as, and is, a good corporate citizen

PRINCIPAL RISK	IMPACT	
LITIGATION Tobacco litigation and other claims are pending against the Group. Additionally, an increase in litigation activity in the US has emerged relating to the use of EVP. To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages. The Group also faces other non-product related future litigation risks such as claims regarding the Cuban joint venture arising from the reactivation of Title III of the Helms-Burton legislation in the US.	• If any claim against the Group was to be successful, it might result in a significant liability for damages and may lead to further claims against us • Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable • A successful claim against a competitor could result in an increased likelihood of similar claims against the Group	GRP
TAXATION DISPUTES The interpretation of tax law and the related judgements taken in relation to these laws can lead to dispute or investigation.	• Investigations take up management time and divert resources away from other business as usual activities • Cost of penalties and interest arising from any proven instance of non-compliance • Potential reputational damage in the case of an adverse finding	GRP
LIQUIDITY AND CAPITAL ADEQUACY Failure to maintain strong cash flows could reduce the Group's ability to deliver shareholder returns, invest behind the business, or to repay debt.	• Failure to maintain cash flows could impact the Group's ability to pay down debt, impacting covenants, credit ratings, bank bonds and investor confidence • Reduced ability to invest in initiatives • A fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt • Adverse movements in interest rates could result in higher funding costs and cash outflows • Failure of a financial counterparty (e.g. when holding cash deposits and/or derivatives) is likely to result in a financial and cash impact	GRP

VIABILITY STATEMENT

The Board has reviewed the long-term prospects of the Group in order to assess its viability. This review, which is based on the business plan which was completed in October 2019, incorporated the activities and key risks of the Group together with the factors likely to affect the Group's future development, performance, financial position, cash flows, liquidity position and borrowing facilities as described in the 'How we manage risk' section of this report on pages 33 to 40.

In addition, we describe in notes 19 to 20 on pages 125 to 126 the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to market, credit and liquidity risk.

MITIGATION	OPPORTUNITY
• We employ internal and external lawyers specialising in the defence of product liability and other litigation • Advice is provided to prevent causes of litigation, along with guidance on defence strategies to direct and manage litigation risk and monitor potential claims around the Group	
• Tax strategy and related policies govern the actions and delegated authorities taken across the Group in relation to all taxes • We employ internal and external tax specialists who support the business in achieving the Group strategy and compliance with agreed policies	• In line with the Board's risk appetite our intention is to ensure compliance with tax legislation. The implementation of effective and appropriate tax controls facilitates the benefits we achieve from being an ethical business
• We have a strong focus on cash generation supported by Group guidance and governance processes • Appropriate authority and accountability in place for investments and capital expenditure, including achievement of required return criteria • Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance and expectations to manage future financing needs and optimise cost and availability • The Treasury function operates in accordance with the terms of reference and delegated authorities set out by the Board, with independent oversight from the Treasury Committee • Given the Group's investment grade credit ratings, this supports depth and liquidity in the global debt capital markets	• Maintaining an efficient capital structure allows the Group to maintain an effective cost of capital to support and generate additional returns on investments and capital outlays/expenditure • The Group separates its financing decisions from its interest rate risk management decisions and therefore has flexibility to take advantage of advantageous interest rate movements should it wish to do so • Given the high cash conversion that the Group has delivered/delivers, this provides the Board/management with cash flexibility and optionality

ASSESSMENT

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

First, the Board considered the period over which they have a reasonable expectation that the Group will continue to operate and meet its liabilities, taking into account current debt facilities and debt headroom; and

Second, they considered the potential impact of severe but plausible scenarios over this period, including:

- Assessing scenarios for each individual principal risk, for example commercial issues and the impact of regulatory challenges; and
- Assessing scenarios that involve more than one principal risk including multi risk scenarios.

VIABILITY STATEMENT continued

FINDINGS

VIABILITY REVIEW PERIOD

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2022. This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out above, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

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

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

- The Group has mature business relationships and operates globally within well established markets;
- The Group's operations are highly cash generative and the Group has access to the external debt markets to raise further funding; and
- Flexibility of cash outflow with respect to promotional marketing programmes, capital expenditure projects planned to take place within the 3-year horizon, plus the ability to manage dividend returns to investors.

RISK IMPACT REVIEW

For each of our 12 principal risks, plausible risk impact scenarios have been assessed together with a multiple risk scenario. The following table summarises the key scenarios that were considered, both individually and in aggregate:

Risk scenarios modelled	Level of severity reviewed	Link to principal risk
The consequences of adverse commercial pressures, involving volume reduction and/or falls in margin, driven by unforeseen reductions in the size of the legitimate tobacco market or other changes in the level of consumer demand for our products.	The maximum quantifiable impact of all envisaged business risks, including the impact of a loss of market size and share.	• Change in consumer trends • Significant change in product sales taxes or charges • Counterfeit and illicit non-duty paid product in the market
The possible costs associated with legal and other regulatory challenges, including competition enquiries and tax audits.	Failure to successfully defend all existing and reasonably foreseeable future legal and regulatory challenges.	• Responsible behaviour • Litigation • Taxation disputes • Occupational health and safety and wellbeing
Failure to deliver on key strategic initiatives, including growth within our NGP business.	Significant competition, technological or regulatory challenge resulting in no future growth in the NGP business.	• Innovation • Product supply • Changes in consumer trends • Product regulatory change

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

CONCLUSION

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2022.

GOOD GOVERNANCE

"Maintaining high standards of governance underpins everything we do, ensuring our people and operations behave responsibly."

MARK WILLIAMSON
Chairman

DEAR SHAREHOLDER

This Corporate Governance Report details our approach to governance and the responsible way we run our business.

In what proved to be a difficult year for the Group, strong Board oversight was vitally important. A major focus of this was the discussions relating to the best allocation of resources to continue driving our strategy. These included approving our revised dividend policy, the commencement of a share buyback programme, our asset divestment programme and our investment in Auxly Cannabis Group Inc.

We have also been focusing on Board succession, welcoming Sue Clark and Jon Stanton to the Board and looking to appoint suitable successors for both myself and Alison Cooper, who we announced in October will step down after 20 years with the Company, the last nine of which have been as CEO. After eight years on the Board Malcolm Wyman retired in May 2019 with our thanks and best wishes for the future.

Whilst we have applied and were fully compliant with the requirements of the 2016 UK Corporate Governance Code throughout the year, we have adopted several provisions from the 2018 Code early, including my intention to step down from the Board and the appointment of Steven Stanbrook as our Workforce Engagement Director. We will report on our application of the 2018 Code in next year's Annual Report.

Details of the Company's governance framework and how it underpins the delivery of our sustainable growth agenda are set out in the following sections.

MARK WILLIAMSON
Chairman

ENSURING OUR ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

A number of long-established and embedded processes underpin the key compliance requirement for our Annual Report to be fair, balanced and understandable. These include:

- drafting of the Annual Report by appropriate senior management who monitor regulatory changes, are briefed regarding the fair, balanced and understandable regulations and ensure consistency throughout the report;
- extensive verification process undertaken to ensure factual accuracy and a fair presentation of our performance;
- reviewing the use of adjusted measures and their appropriateness in aiding users of our financial statements to better understand our performance year-on-year;
- consideration and review of an advanced draft by Internal Audit and the Disclosure Committee to ensure accurate and balanced disclosure;
- comprehensive reviews of drafts of the Annual Report undertaken by members of the OPEX and other senior management;
- the Audit Committee discussing the draft Annual Report with both management and our auditors PwC and, where appropriate, challenging the content and any judgements and assumptions used;
- all Board members receiving drafts of the Annual Report with sufficient time for review and comment prior to the year-end meetings in October 2019; and
- the Audit Committee reviewing the final draft at its meeting in October 2019 at which time it was required to express its opinion prior to consideration by the Board.

After consideration of the above processes and review of the Annual Report, the Directors confirm that they consider, taken as a whole, that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Mark Williamson D N Chairman

Alison Cooper E

Oliver Tant E

Matthew Phillips E

Sue Clark D N R Chairman

KEY

E	Executive Director
D	Non-Executive Director
S	Company Secretary
N	Succession and Nominations Committee
A	Audit Committee
R	Remuneration Committee

MARK WILLIAMSON, CA (SA)

Chairman of the Board

Skills and experience

Mark is a qualified accountant, who brings considerable financial and general managerial experience to our Board. Mark was Chief Financial Officer of International Power plc until 2012 and is experienced in managing relationships with the investor and financial communities. He is also a former Senior Independent Non-Executive Director and Chairman of the Audit Committee of Alent PLC.

Appointment

Mark joined the Board in July 2007 and was appointed Senior Independent Non-Executive Director in February 2012. He was subsequently appointed Deputy Chairman of the Board in January 2013 before being made Chairman in February 2014.

In anticipation of the requirements of the new UK Corporate Governance Code regarding a Chairman's tenure on a Board, the Company announced in February 2019 that it had initiated a process to search for a Non-Executive Chairman to succeed Mark.

External appointments

Chairman of Spectris plc[1] and Senior Independent Non-Executive Director and Chairman of the Audit Committee of National Grid plc[1].

ALISON COOPER, BSC, ACA

Chief Executive Officer

Skills and experience

Alison is leading the business through a transformative period in its history. Having successfully implemented our tobacco strategy, she is now also focused on accelerating our growth in Next Generation Products, which represents a substantial additive opportunity for Imperial. Alison joined the Company in 1999 and, through a number of senior roles prior to her appointment as Chief Executive, has made a substantial contribution to our international expansion.

Appointment

Appointed Director in July 2007. Appointed Chief Executive in May 2010.

External appointments

No external Director appointments.

OLIVER TANT, BSC, CA (SCOTLAND)

Chief Financial Officer

Skills and experience

Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director Financial Advisory and Private Equity Division and Head of UK Audit.

He was also a member of both the UK and German boards of KPMG. He brings to Imperial international experience in change management, organisational restructuring, corporate finance and mergers and acquisitions.

In his current role he is responsible for finance, treasury, investor relations, procurement and information technology.

Appointment

Appointed to the Board of Directors in October 2013 and became Chief Financial Officer in November 2013.

External appointments

No external Director appointments.

MATTHEW PHILLIPS, LLB

Chief Development Officer

Skills and experience

Matthew held a number of senior roles prior to his appointment to the Board as Corporate Affairs Director in June 2012 and has been integral to the development and implementation of the Group's strategy.

In his current role he is responsible for NGP innovation, product science, smokeless tobacco, corporate development and corporate and legal affairs.

Appointment

Appointed Director in June 2012. Appointed Chief Development Officer in June 2015.

External appointments

No external Director appointments.

SUE CLARK

Non-Executive Director

Skills and experience

Sue has strong international business credentials with over 20 years' Executive Committee and Board level experience in the FMCG, regulated transport and utility sectors. Sue held the role of Managing Director of SABMiller Europe and was an Executive Committee member of SABMiller plc. She joined SABMiller in 2003 as Corporate Affairs Director and was part of the executive team that built the business into a top five FTSE company.

Appointment

Appointed Non-Executive Director in December 2018 and Chair of the Remuneration Committee in February 2019.

External appointments

Non-Executive Director and Chairman of the Remuneration Committee of Britvic plc[1], Non-Executive Director and member of the Audit and Remuneration Committees of Bakkavor Group plc[1] and a member of the Supervisory Board and Remuneration Committee of AkzoNobel N.V[1]. Sue is also a Non-Executive Director of Tulchan Communications LLP[2].

1. Public listed company
2. Private organisation


Thérèse Esperdy D A N


Simon Langelier D A N


Steven Stanbrook D N R


Jon Stanton D A N


Karen Witts D A Chairman N R


John Downing S

THÉRÈSE ESPERDY

Senior Independent
Non-Executive Director

Skills and experience

Thérèse 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.

She also meets the recent and relevant financial experience requirements of the UK Corporate Governance Code.

Appointment

Appointed Senior Independent Non-Executive Director in May 2019 having joined the Board in July 2016.

External appointments

Non-Executive Director and Chairman of the Finance Committee of National Grid Plc[1]; Non-Executive Director of Moody's Corporation[1].

SIMON LANGELIER

Non-Executive Director

Skills and experience

Simon has significant international experience within the tobacco industry. He held a number of senior commercial positions during a 30-year career with Philip Morris International, including in Latin America, Asia, Western and Eastern Europe, Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses.

Appointment

Appointed Non-Executive Director in June 2017.

External appointments

Chairman of PharmaCielo Limited[2].

Patron and Honorary Professorial Fellow at Lancaster University, and a member of the Dean's Council of the university's Management School[2].

STEVEN STANBROOK

Non-Executive Director

Skills and experience

Steven brings considerable international executive experience to the Board, gained in a number of FMCG companies. This includes 19 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.

Appointment

Appointed Non-Executive Director in February 2016.

External appointments

Non-Executive Director of Cott Corporation[1] and Group 1 Automotive Inc[1]. Steven is also a Partner of Wind Point Partners[2] and a Director of The Vollrath Company LLC[2].

JON STANTON

Non-Executive Director

Skills and experience

Jon 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.

Appointment

Appointed Non-Executive Director in May 2019.

External appointments

Chief Executive of Weir Group PLC[1].

KAREN WITTS, FCA

Non-Executive Director

Skills and experience

Karen 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. Prior to that, Karen was Chief Financial Officer of the Africa, Middle East, Asia and Asia Pacific Region at Vodafone plc, and has also held a number of senior positions at BT.

She also meets the recent and relevant financial experience requirements of the UK Corporate Governance Code.

Appointment

Appointed Non-Executive Director in February 2014 and Chairman of the Audit Committee in February 2017.

External appointments

Currently Chief Financial Officer and Executive Director of Compass Group plc[1].

JOHN DOWNING, MA

Company Secretary

Skills and experience

John is a qualified solicitor. He joined Imperial in 2005 having previously worked for the law firm Linklaters.

He has had a number of senior legal roles in Imperial including playing a leading role in the Altadis acquisition and becoming Head of Group Legal in 2010. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters. In addition to his Group Company Secretary role, John also has responsibility for the Group's governance, Code of Conduct, security, anti-illicit trade initiatives and information security.

Appointment

Appointed Company Secretary in June 2012.

BOARD ENGAGEMENT

Our purpose of creating something better for the world's smokers is aligned with our aim to create value for all our stakeholders. During the year we engaged with a number of these stakeholders through a variety of forums and channels to both inform them of our activities and better understand their expectations.

CONSUMERS

HOW THE BOARD IS KEPT INFORMED

We engage with consumers via various mechanisms including focus groups and consumer research and Stakeholder Panels. During the year we received feedback on the issue of waste and consumer expectations on how we address the issue. Feedback was presented to the Board to help inform business decisions and priorities.

SHAREHOLDERS

HOW THE BOARD IS KEPT INFORMED

We undertake an annual investor perception audit, the outcome of which is presented to the Board. The Board also received updates following shareholder meetings with our Chairman and Senior Independent Director and detailed feedback in respect of AGM voting and views expressed by shareholders.

In January we held our first Stewardship Forum where our Chairman, Senior Independent Director and chairmen of the Remuneration and Audit Committees met with senior governance representatives from most of our institutional investors.

SUPPLIERS

HOW THE BOARD IS KEPT INFORMED

We engage with our strategic NTM/NGP and leaf suppliers to ensure we maintain high supply chain standards. Through local dialogue, suppliers provide us with information on both the progress they have made against our requirements as well as the challenges they face, which can include how they address broader environmental and human rights issues. We take a partnership approach to managing these issues and the feedback is captured within our sustainability priorities and is fed back to the Board annually.

CONSIDERING STAKEHOLDERS IN DECISION-MAKING

1 SALE OF THE PREMIUM CIGARS BUSINESS

The decision to pursue a divestment programme was a strategic decision made by the Board, which was welcomed by investors.

The Premium Cigar Division (PCD) was a non-core business for Imperial and introducing a new owner to increase focus on, and investment in, the business was seen as having a positive impact on the future of the business and therefore on our Cuban partner, as well as the employees of PCD and all related suppliers, distributors, retailers and consumers.

Having been closely involved in the decision to look for a buyer for PCD, the Board was kept fully appraised of all major developments during the transaction process, including the phase when the business was being prepared for sale, the tender process and up to final bids.

2 PARTNERSHIP WITH AUXLY CANNABIS GROUP INC.

Investing in cannabis required in-depth and careful analysis of both the sector and potential partners.

This involved getting the Board comfortable that investing in the sector was in the best long-term interests of the business as a whole, including its investors and employees. The Board was heavily involved in each step of this analysis, including the ability to participate legally in the sector, the science behind cannabis and equity, debt and financing stakeholder reaction to such a capital allocation decision.

The Board was also involved in the legal, governance and commercial due diligence to ensure that Imperial was partnering with a company that was able to meet the investment guardrails set by the Board.

EMPLOYEES

HOW THE BOARD IS KEPT INFORMED AND ENGAGES

Throughout the year employees are updated on strategy and performance through a range of communication channels, including conferences and town hall sessions. These allow Executive Directors to obtain feedback to share with the Board. During the year we appointed Steven Stanbrook as our Workforce Engagement Director.

GOVERNMENTS

HOW THE BOARD IS KEPT INFORMED

Our industry is one of the most highly regulated in the world. We support reasonable and evidence-based regulation, working with governments to ensure that the right regulatory and excise frameworks are implemented. Regulation is largely driven by three organisations: the World Health Organization (WHO, through the Framework Convention on Tobacco Control, the FCTC); the USA's Food and Drug Administration (FDA); and the European Commission (through the European Union Tobacco Products Directive, the EUTPD). As developments in the external legislative environment evolve, the Board is kept informed through monthly and quarterly reporting.

NON-GOVERNMENTAL ORGANISATIONS

HOW THE BOARD IS KEPT INFORMED

Throughout the year we maintain ongoing dialogue with various NGOs including smaller local entities as well as larger global NGOs, including Hope for Justice, the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and Human Rights Watch. Dialogue includes responding to allegations, including for example human rights allegations, where we conduct detailed investigation and take any appropriate action. This feedback and dialogue supports how we manage our priority sustainability issues (detailed on page 18) and is reported to the Board annually.

THE BOARD

"Adapting to our changing operating environment and taking advantage of these emerging opportunities are key to strengthening our long-term sustainability."

MARK WILLIAMSON
Chairman

MEMBERS

Mark Williamson
Chairman
Alison Cooper
Sue Clark
(from December 2018)
Thérèse Esperdy
Simon Langelier
Matthew Phillips
Steven Stanbrook
Jon Stanton
(from May 2019)
Oliver Tant
Karen Witts
Malcolm Wyman
(to May 2019)
John Downing
Company Secretary

FOCUS IN 2019

- Investing to accelerate NGP growth;
- Continued to focus on priority tobacco markets and asset brands;
- Capital allocation, including share buybacks, dividend policy and the sale of the Premium Cigar Division;
- Investment in Auxly Cannabis Group Inc.;
- Building capabilities in new skill areas to support our strategy; and
- Ensuring the maintenance of high levels of governance and stewardship.

LOOKING AHEAD TO 2020

Our focus in 2020 includes:
- Robust delivery from priority tobacco markets;
- Reprioritising NGP investment in markets with the best prospects for scalable growth;
- Board succession; and
- Delivery against our sustainability strategy through our enhanced environmental, social and governance framework.

OVERVIEW

The Board's role is to provide leadership and direction to the Group. Supported by its Committees, it has established a strong governance framework which, together with our values and high ethical standards, supports the long-term sustainable success of the Group.

The Directors have a key role in setting our strategy and ensuring it is implemented responsibly within this governance framework. They are mindful of their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, whilst having regard to the interests of other stakeholders.

As part of the governance framework the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group's strategy, business plans, dividends and major financial announcements. The Board is also responsible for approving the acquisition or disposal of assets exceeding defined thresholds.

The Board discharges its responsibilities through an annual programme of meetings. In addition to these formal scheduled meetings the Board convenes as required to consider matters of a time sensitive nature. The areas of focus for each meeting are outlined in the table opposite. It also delegates responsibility for developing and implementing strategy and for day-to-day management to our Chief Executive, Alison Cooper, who is supported by her fellow Executive Directors and by the Operating Executive (OPEX), which she chairs. The Board also delegates matters to Board Committees. Clearly defined terms of reference and written limits support these delegations and ensure that decisions are made with the appropriate authority.

The OPEX comprises senior executives from across the business. It oversees operational execution and delivery of our strategic and financial plans. The OPEX and Audit Committee also ensure that, within the risk appetite framework set by the Board, appropriate internal controls, which function effectively, are in place, and effective risk identification and management processes, including those discussed on pages 55 and 56, operate throughout the Group.

Key governance documents, including the terms of reference of each of our principal Committees, our Code of Conduct and our values, can be found at www.imperialbrandsplc.com.

BOARD PROGRAMME IN 2019

Six scheduled Board meetings were held during the year. The Board also convened between these meetings to discuss specific time sensitive matters, for example the research and development partnership with Auxly Cannabis Group Inc. and the sale of the Premium Cigar Division.

Safety, business performance, corporate development updates and general corporate housekeeping are standing items at each Board meeting. In addition to these, the following principal agenda items were covered in the financial year:

October/November (Bristol)

- Business plan finalisation
- Strategy update
- Sustainability strategy and ESG issues
- Divestment programme update
- Acquisition opportunities update
- Report and Accounts sign-off
- Dividend approval
- Board evaluation actions

February (Bristol)

- Strategic update including: NGP competitor update
- Financing
- Investor audit
- Audit tender
- Divestment programme update
- Acquisition opportunities update
- AGM – including investor feedback
- Consideration of Modern Slavery Act Statement
- Chairman succession

March (New York)

- Strategy in action: NGP and US updates
- Divestment programme update
- Acquisition opportunities update

May (Bristol)

- Strategy update: capital allocation and returns
- NGP innovation update
- Half-Year Report
- Dividend approval
- Divestment programme update
- Acquisition opportunities update

June (London)

- Strategic planning: NGP, tobacco and capital allocation
- Workforce engagement
- Divestment programme update
- Acquisition opportunities update

September (Bristol)

- Business planning review
- Directors' independence and conflicts review
- Sustainability strategy and ESG issues
- Divestment programme update
- Acquisition opportunities update
- Board evaluation
- Chairman and NED fee review
- Chairman succession

SUCCESSION AND NOMINATIONS COMMITTEE

"Succession planning and talent development is important in ensuring our continued ability to deliver something better for the world's smokers."

MARK WILLIAMSON
Chairman

MEMBERS

Mark Williamson
Chairman[1]

Sue Clark
(from December 2018)

Thérèse Esperdy

Simon Langelier

Steven Stanbrook

Jon Stanton
(from May 2019)

Karen Witts

Malcolm Wyman
(to May 2019)

John Downing
Company Secretary

1. Unless dealing with the succession of the Chairman.
2. Executive Directors are invited to attend when appropriate.

FOCUS IN 2019

- Chairman succession;
- Non-Executive Director succession; and
- Senior management succession and talent development.

LOOKING AHEAD TO 2020

- CEO succession;
- Ongoing Executive and senior management succession planning;
- Non-Executive Director succession;
- Talent development; and
- Further building organisational capability.

OVERVIEW

ROLE

The Succession and Nominations Committee reviews and evaluates the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence thereby enabling them to function effectively. Succession plans for the Chairman, Non-Executive Directors (NEDs), Executive Directors and the Group's senior management, in particular the OPEX, are kept under review. The Succession and Nominations Committee also nominates candidates for appointment to the Board.

The Succession and Nominations Committee retains oversight of the development plans for OPEX members together with the Company's wider organisational structure and talent management processes. This allows the Succession and Nominations Committee to ensure the Company is developing the right capabilities and has appropriate succession plans in place to sustainably deliver our strategy and continue to create something better for the world's smokers.

The Succession and Nominations Committee's terms of reference are available on our website.

BOARDROOM DIVERSITY

As a global business diversity is an integral part of how we do business. As set out in our Sustainability Review on page 18, the Board recognises the value of gender diversity to the Group and is committed to increasing the representation of females within senior management roles to 30 per cent by 2023. At Board level, women, including our Chief Executive, make up 40 per cent of our Directors. Notwithstanding this, however, any search for Board candidates and any subsequent appointments are made purely on merit regardless of ethnicity, gender, religion, age or disability. We look to ensure we have the appropriate balance of skills, diversity of knowledge and thinking, professional and geographic backgrounds and experience on our Board and recruit accordingly. We are committed to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group. As such, we do not think it is appropriate to set specific targets for Board appointments.

SUCCESSION AND NOMINATIONS COMMITTEE IN 2019

ELECTION AND RE-ELECTION OF DIRECTORS

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Succession and Nominations Committee.

The performance of each Director is considered as part of the annual Board evaluation process. Following the 2019 evaluation, a review of the independence of each NED (particularly in respect of those who have served six years or more) and consideration of attendance, the Board recommends the re-election of all Directors who are standing for re-election at our 2020 AGM.

REFRESHING THE BOARD AND ITS COMMITTEES

During the year, the Succession and Nominations Committee instructed both Russell Reynolds and Spencer Stuart to identify appropriate candidates based on a profile and skill set agreed by the Chairman and the Succession and Nominations Committee. The Succession and Nominations Committee also provided input into the shortlist of candidates with members meeting candidates prior to recommending their appointment to the Board.

However, prior to the start of the formal recruitment process, the Chairman of the Succession and Nominations Committee was approached regarding the availability of Sue Clark. Sue's experience, background and skill sets made her an exceptional candidate for consideration. Weighing up these considerations, the Committee decided not to openly advertise the role and put Spencer Stuart's mandate on hold. Following a robust interview process and in accordance with the Code's supporting principle that board appointments should be made "on merit, against objective criteria and with due regard for the benefits of diversity on the Board", the Succession and Nominations Committee recommended Sue's appointment to the Board. The Board shared the same views as the Succession and Nominations Committee and Sue was appointed in December 2018.

Malcolm Wyman, Senior Non-Executive Director and Chairman of the Remuneration Committee, retired from the Board in May 2019 and the Directors would like to thank him for his significant contribution to the Board and its Committees over the past eight years. Following recommendation by the Succession and Nominations Committee, Malcolm has been succeeded as Senior Independent Director by Thérèse Esperdy and as Chairman of the Remuneration Committee by Sue Clark.

After considering a number of candidates put forward by Russell Reynolds as meeting the required profile and skill set, we also welcomed Jon Stanton to the Board in May 2019.

Russell Reynolds was also appointed to assist the Succession and Nominations Committee in its search for a new Chairman and Egon Zehnder in respect of the Chief Executive Officer.

ATTENDANCE AT MEETINGS OF THE BOARD, BOARD COMMITTEES AND AGM

	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in financial year	9	5	4	4	1
Number of meetings attended in financial year					
Executive Directors					
Alison Cooper	9/9	–	–	–	1/1
Oliver Tant	9/9	–	–	–	1/1
Matthew Phillips	9/9	–	–	–	1/1
Non-Executive Directors					
Mark Williamson	9/9	5/5	–	–	1/1
Sue Clark[1]	8/8	4/4		3/3	–
Thérèse Esperdy	9/9	5/5	4/4	–	1/1
Simon Langelier[2]	7/7	5/5	4/4	–	1/1
Steven Stanbrook	9/9	5/5	–	4/4	1/1
Jon Stanton[3]	5/5	1/1	1/1	–	–
Karen Witts	9/9	5/5	4/4	4/4	1/1
Malcolm Wyman[4]	4/4	4/4	–	3/3	1/1

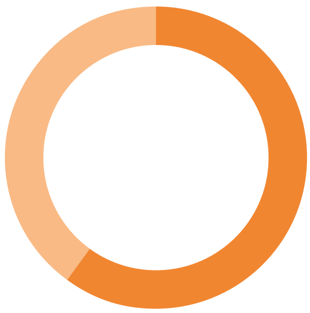
1. Sue Clark joined the Board on 1 December 2018.
2. Simon Langelier did not attend two single issue Board meetings due to a potential conflict of interest.
3. Jon Stanton joined the Board on 8 May 2019.
4. Malcolm Wyman stepped down from the Board on 8 May 2019.

The maximum number of meetings for each individual Director is the number which they were eligible to attend.

TENURE OF NON-EXECUTIVE DIRECTORS

8 years and over	14%
5-7 years	14%
3-5 years	43%
0-2 years	29%

BOARD GENDER BALANCE



Males	60%
Females	40%

PROTECTING OUR STAKEHOLDERS

> "We focus on assisting the Board in fulfilling its corporate governance responsibilities relating to financial and narrative reporting and controls."

KAREN WITTS
Chairman

MEMBERS[1]

Karen Witts[2]
Chairman

Thérèse Esperdy

Simon Langelier

Jon Stanton[2]
(from May 2019)

John Downing
Company Secretary

OTHER REGULAR ATTENDEES

- Board Chairman
- Chief Financial Officer
- Deputy Chief Financial Officer
- Group Financial Controller
- Director of Assurance and Risk[3]
- Deputy Company Secretary
- Representatives from PwC, our external auditors[3]

1. All members are independent Non-Executive Directors.
2. Karen Witts and Jon Stanton meet the Code's requirement of having recent and relevant financial experience. The Audit Committee and Board are satisfied that they, and the Audit Committee as a whole, have the appropriate competence relevant to the sector in which the Company operates.
3. At each meeting, both the Director of Assurance and Risk and PwC have the opportunity to meet with the Audit Committee without management present.
4. Other Directors are invited to attend each meeting.

DEAR SHAREHOLDER

The following pages provide an insight into the activities and deliberations of the Audit Committee during the 2019 financial year. In addition to its continued focus on the key areas of control and compliance, considerable time has been spent on overseeing the selection of a new external auditor.

The decision to tender the audit was made in November 2018 and key criteria established to ensure that the process was fair and transparent for those firms invited to tender. Due to the length of its tenure, our current auditor PwC was not invited to participate. In February 2019 the Audit Committee recommended to the Board that EY be appointed auditor, a recommendation that was accepted and upon which Shareholders will be asked to vote at our 2020 AGM.

We also focused on key areas relating to the Group's financial reporting, control and compliance frameworks. Of particular relevance in the year were the level of judgements management has made around the NGP business including impairments of goodwill, provisions for slow moving inventory and revenue recognition. The Audit Committee has performed extensive reviews of these matters and is satisfied that the judgements made help to present a fair and balanced view in the financial statements. Additionally the Audit Committee reviewed the methodology used for performing the reallocation of goodwill and intangible assets into the recently defined new segments. We have also kept the progress of the Russian and French excise tax audits and their accounting and disclosure under review. The Audit Committee is satisfied that the business is addressing and reporting these issues appropriately.

The Audit Committee also reviewed and monitored the treatment and presentation of adjusted performance measures to ensure they are used in accordance with our policy and clearly convey the underlying performance of the business. The Audit Committee also considered feedback from the investor community as to the application of adjusted performance measures and has reviewed management's response for timing of any change, consistency with current methodology and consistency with previous representations made to the Financial Reporting Council.

A fuller list of key matters discussed by the Audit Committee is set out on pages 52 to 54.

Consideration of risks facing the Company and the framework for managing those risks are key responsibilities of both the Audit Committee and the Board. During the year we reviewed key risks through presentations by Group management and reports from both internal and external audit. We are satisfied that management recognises and understands these risks and their potential impact on the Company and has, where possible, mitigation and action plans in place to address them. We have included further details on the Company's approach to governance, risk management and internal controls on page 55.

The Audit Committee regularly discusses the whistleblowing process and policy with the Company Secretary, who oversees it. The Audit Committee also reviews whistleblowing allegations to get comfortable that Management's investigation into them is proportionate and thorough. The results of these are fully considered to ensure that any matters arising are resolved and, where applicable, lessons are learned.

The external and internal auditors both present feedback on key financial controls and risks and provide objective and appropriate challenge to management in addressing these areas. They both took advantage of the opportunity for private meetings with me and the whole Audit Committee. These processes enable the Audit Committee to report to the Board on how it discharged its responsibilities and to make recommendations to the Board, all of which were accepted.

KAREN WITTS
Chairman of the Audit Committee

MAIN OBJECTIVE

The main objective of the Audit Committee is to assist the Board in fulfilling its corporate governance responsibilities relating to financial and narrative reporting and controls. This includes oversight of the Group's internal control systems, risk management process and framework, speaking up arrangements, and each of the internal and external audit processes. It also involves ensuring the integrity of the Group's financial statements and related announcements. During the year the Audit Committee achieved this by:

- maintaining appropriate oversight over the work and effectiveness of the Internal Audit department, including confirming it is appropriately resourced, reviewing its audit findings and monitoring management's responses;
- monitoring and evaluating the effectiveness of our risk management and internal control systems, including obtaining assurance that they are designed and continue to be implemented effectively;
- assessing the medium-term viability of the Group;
- assisting the Board in confirming that, taken as a whole, our Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy (see page 41);
- scrutinising the independence, approach, objectivity, effectiveness, compliance and remuneration of the external auditor; and
- considering the key matters detailed on pages 52 to 54, including taking account of the external auditor's views.

The Audit Committee's terms of reference are available on our website.

AUDIT COMMITTEE PROGRAMME IN RESPECT OF THE 2019 FINANCIAL YEAR

Four Audit Committee meetings were held in respect of the 2019 financial year at key points in our reporting and audit calendar and included the following matters on the agenda:

February

- External audit planning
- Internal audit review
- External auditor's effectiveness review
- Internal control and risk management update
- Audit tender and recommendation of new auditor
- Tax update
- Risk update including Track and Trace and Brexit

May

- Half-Year Report
- Goodwill and impairment review
- Goodwill reallocation
- Going concern and solvency risk review
- Von Erl contingent consideration
- External auditor's report
- External auditor's fees and independence
- Update on audit transition
- Internal audit and EVP risk updates
- Governance and internal control and risk management
- Brexit risk update
- Tax update
- Control environment for social media

September

- Finance update – including review of NGP revenue recognition
- Tax review
- External auditor's report and independence
- Audit transition
- Internal controls and risk management
- Adjusting items policy
- Credit risk framework
- SAP Segregation of Duties
- Whistleblowing update

October

- Critical judgements:
  - Tax
  - NGP slow moving stock provision
  - NGP revenue recognition, Logista
  - NGP supply chain impacts
  - Stock in trade monitoring
  - Assets held for sale
- Annual Report and Accounts
- Viability and going concern statements
- Goodwill and impairment review
- External auditor's report
- Internal audit update and financial year 2020 plan
- External auditor's fees, independence and transition
- Governance and internal control
- Use of adjusted measures including restructuring costs
- Tobacco related litigation
- Whistleblowing update

KEY MATTERS CONSIDERED

The Audit Committee considered the appropriateness of the following areas of significant judgement, complexity or estimation in connection with the financial statements, as set out below:

	Focus area	Why this area is significant	How we as an Audit Committee addressed this area
1	Goodwill reallocation	Goodwill and intangible assets form a major part of the Group's balance sheet. The decision to change the Group's segmental reporting in FY19 precipitated a change in how these assets are allocated to cash generating unit groupings (CGUGs).	The decision to change the segmental reporting view of the Group in FY19 required a change in the CGUG structure that then required a reallocation of the goodwill and intangible assets of the Group to the new CGUG structure. Prior to the reallocation of goodwill, the Group had run an impairment test on the previous CGUG basis and the Audit Committee was satisfied that there was no requirement for an impairment. The Audit Committee then reviewed the technical requirements associated with the exercise and considered a range of alternatives in determining the most appropriate basis for performing the reallocation. The Audit Committee reviewed the results of the reallocation exercise and is satisfied the result is reasonable. Additionally, the Audit Committee considered reports from, and held discussion with, PwC.
2	Goodwill and intangible asset impairment reviews See note 12 to the financial statements for further information.	As stated above, goodwill and intangible assets form a major part of the Group's balance sheet and their current valuations must be supported by future prospects.	Following on from the exercise to reallocate goodwill into the new CGUGs, as detailed above, the Audit Committee regularly reviewed cash forecasts for these CGUGs and recognised that there is significant headroom from the discounted cashflows for each CGUG above the valuation of the goodwill allocated to it. The Audit Committee also considered detailed reporting from, and held discussions with, PwC. Resulting from the above, the Audit Committee concluded that management's assertion that goodwill and intangible assets were not impaired, with the exception of the instances mentioned below, was reasonable and appropriate disclosure of sensitivities has been given and, therefore, approved the disclosures in our financial statements. In response to recent NGP performance, management has expressly reviewed the carrying value of NGP intangible assets for impairment. The Audit Committee has reviewed these impairments and concluded that management's position is reasonable. The potential disposal of the PCD business has created an Asset Held for Sale which in turn triggered an impairment review of the goodwill and intangible assets on a Fair Value less Cost to Sell basis. The Audit Committee has reviewed management's proposed impairments and concluded they are also reasonable.
3	Taxation See notes 8 and 22 to the financial statements for further information.	The Group is subject to taxation in a number of jurisdictions, and significant judgement is required in relation to taxation provisions which could materially affect the Group's reported results. There are uncertain tax positions covering: • Transfer pricing; • French tax audit; and • UK CFC state aid.	During the year the adverse Russian tax audit received in 2018 has been progressed. The Audit Committee has considered the timing and nature of progress and reviewed any changes in requirements to either disclose or provide for the issue as brought forward by management. The Audit Committee has reviewed with management the judgements made in creating any provision and is comfortable with the eventual estimate provided. Consideration has also been given as to whether or not the eventual provision should be treated as an adjusting item or not, and the Audit Committee is satisfied the item is adjusting on the basis of materiality and nature. The Committee reviewed the status of each material tax judgement including a range of possible outcomes, noted that third party support had been obtained for each judgement and agreed that the level of tax provisions and disclosures were appropriate.

	Focus area	Why this area is significant	How we as an Audit Committee addressed this area
4	Use of adjusted measures See note 1 to the financial statements for further information.	Non-GAAP or adjusted measures provide an appropriate and useful assessment of business performance and reflect the way in which the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors.	The Audit Committee considered whether adjusted performance measures had been prepared in accordance with our policy on the use of adjusted measures set out in note 1 to the Group financial statements and discussed this with PwC. The Audit Committee concluded that adjusted performance measures had been prepared in accordance with our policy. The Audit Committee also considered whether the Group's policy was compatible with the ESMA guidelines on alternative performance measures and can confirm compatibility. The items excluded from adjusted operating profit have been applied consistently for a number of years and are clearly disclosed. The Audit Committee concluded that this presentation is helpful in allowing users of the Group financial statements to understand the underlying business performance. Whilst the Audit Committee is satisfied that the current Adjusted Performance Measures (APM) framework is in line with ESMA guidance, consideration was given of the need to review the APM framework in financial year 2020 in the light of the evolution in business model and further communication with key stakeholders including investors. In addition the current treatment for Restructuring will be revisited once the COPII programme finishes in financial year 2020.
5	Going concern and viability statement See pages 38 to 40 for further information.	The Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period.	The Audit Committee examined the Group's committed funding, its ability to generate cash and its ability to raise further funding. The Audit Committee also challenged management's cash projections and sensitivity analysis including mitigating actions. In addition, in assessing the Group's longer-term viability the Audit Committee considered outputs of the annual corporate planning processes including the strategic review, the three-year business plan and a rolling re-forecast of current year business performance and prospects. The Audit Committee also considered the resilience of the Group to the potential impact of the Group's principal risks and mitigating actions. The Audit Committee concluded that the level of rigour brought by management in stress testing the viability of the Group was of a sufficiently high standard to give confidence as to the Group's ongoing viability and concluded that three years remains the most appropriate period, being that used by the Group for its business plan. The Audit Committee reviewed and approved the new Viability Statement in the Annual Report and Accounts and noted that it provided greater transparency to the reader of the financial statements. The Audit Committee concluded that it was appropriate to prepare the financial statements on a going concern basis and that the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of at least 12 months from the date of this Report.
6	Revenue recognition See note 1 to the financial statements for further information.	There is a risk that revenue could be overstated through the inclusion of sales which are not in compliance with the Group's Revenue Recognition Policy.	Discussions were held with management and PwC and the Audit Committee was satisfied that the Group's criteria for revenue recognition were appropriate. No breaches of the Group's Revenue Recognition Policy were brought to the Audit Committee's attention. The Audit Committee also reviewed the impact of adopting a new accounting standard for Revenue Recognition, IFRS 15, and is satisfied that the Company has undertaken a detailed assessment and has considered necessary changes in revenue recognition and classification, such that it has appropriately adopted this new standard. In recognition of the growing NGP category the Committee reviewed the appropriate disclosure for sales of NGP to Logista, a consolidated entity with arms length commercial arrangements, and is satisfied that Net Revenue disclosures made as adjusted performance measures reconcile back to IFRS accounting and give a fair and transparent view of the underlying performance of the Group. It is recognised that this reconciliation is not possible through a review of the Annual Report in isolation.

	Focus area	Why this area is significant	How we as an Audit Committee addressed this area
7	Tobacco & NGP-related litigation See pages 63 and 64 for further information.	The Group is exposed to litigation arising from claimants alleging smoking-related health effects.	The Audit Committee considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings and concluded that risks in respect of Tobacco & NGP-related litigation are appropriately disclosed in the Annual Report and Accounts.
8	SAP Segregation of Duties	There is a risk that an inadequate Segregation of Duties environment could allow fraud or errors in the creation of our financial statements.	Throughout the year the Group has been working on a project to reduce the level of gross conflicts in its SAP environment. This project has substantially reduced the number of gross conflicts and combined with a review of mitigating controls the Audit Committee is satisfied that the Segregation of Duties environment is more robust than the previous year. The Audit Committee has also reviewed and is satisfied with the ongoing governance arrangements for this area.
9	Provisions	There is a risk that the balance sheet is overstated by inadequate provisions being in place for working capital items.	The Audit Committee reviewed a number of items concerning working capital, in particular the Group's policy for providing for bad debt. An overdue debt was considered in depth and the Audit Committee is satisfied that the correct level of provisioning has been applied.
10	Acquisitions & Disposals	Given the advanced status of the disposal of the PCD thresholds requiring different disclosures for this business may be required.	The Audit Committee reviewed management's assessment that the PCD should be disclosed as an Asset Held for Sale on the balance sheet on the grounds of materiality and likelihood of sale within one year at the year-end. The Audit Committee also reviewed the basis for the disposal being held as a Discontinued Operation and agreed with the conclusion that as the disposal did not represent either 10% of net assets or profit of the Group, or an entire IFRS 8 operating segment, or an area of business significantly different from the rest of the Group then this was not an appropriate treatment for the disposal. In conjunction with the Asset Held for Sale, the Audit Committee reviewed and agreed with management's proposal to impair the goodwill and intangible assets of the PCD CGUG having reviewed post tax proposed bids for the business. In addition, the Audit Committee considered provisions required for Von Erl contingent consideration in the light of changing relationships with the former owners of the business and a recent assessment of future asset performance and agreed that the levels of provisions represented a fair and reasonable view of any liabilities due under the Sale and Purchase Agreement.
11	NGP inventory and supply chain	There is a risk that given the underperformance of EVP sales in the year that the carrying value of EVP inventory is too high and that any commitments under supply chain contracts may need to be resolved commercially.	Management presented the Audit Committee with a detailed assessment for providing for a significant portion of EVP pods on the basis that they were slow moving and at risk of obsolescence. The Audit Committee reviewed the basis for making the provision. The review included a detailed examination of the ageing profile of inventory and the impact of shelf life and sell out rate assumptions on any provision and concluded that on this basis the level of provisioning proposed by management was appropriate. In addition, the Audit Committee reviewed management's decision to exit an EVP supply contract with a guaranteed offtake clause and considered the associated provision as being appropriate at the year-end.

GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Assessing and managing risk is fundamental to achieving our strategic objectives, safeguarding our shareholders' interests and protecting the Group from reputational or legal challenges. This is reflected in our risk management framework, which ensures significant risks are identified, managed and monitored.

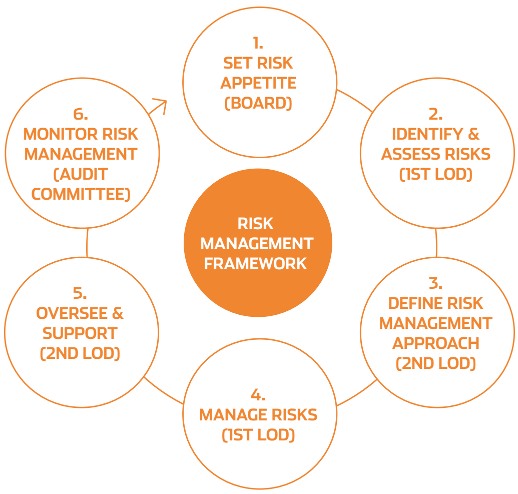
In accordance with the UK Corporate Governance Code, the Board has overall responsibility for setting the Group's risk appetite, with accountability for maintaining effective risk management and internal control systems then being delegated to the Audit Committee.

The system of risk management and internal control we have established is designed to manage, rather than eliminate, significant risks the Group may face. Consequently, our internal controls can only provide reasonable, and not absolute, assurance over our principal risks.

The Company's approach to governance, risk management and internal control is aligned to the "three lines of defence" model as follows:

1st Line of Defence	Local management owns the management of risks and it is their responsibility to identify and mitigate these risks.
2nd Line of Defence	Central functions and committees, employing technical experts, develop and provide appropriate policy, process, control structures and support to local management.
3rd Line of Defence	Our Internal Audit team independently reviews the effectiveness of our risk management and internal control system.

Below we show the key activities within our risk management framework, and the related roles and responsibilities, which ensure an effective and continuous risk management process:



RISK APPETITE

The amount of risk the Group is willing to take is articulated in our risk appetite statement, which is approved and reviewed by the Board on an annual basis (or more frequently where our risk environment requires us to do so) to ensure it remains consistent with the Group's strategy and the environment we operate in.

Our risk appetite considers a number of different dimensions, balancing commercial performance with managing our business in a sustainable and compliant manner.

During the year this risk appetite has been further embedded within our wider risk management framework through the refinement of leading and lagging risk indicators (KRIs) which measure our exposure to risk and support the ongoing alignment of our risk management and internal control systems to ensure compliance with the agreed risk appetite.

These leading and lagging indicators have been embedded within our regular reporting to the Audit Committee, together with explanations of variances against agreed thresholds and mitigating actions being undertaken to ensure risks remain within risk appetite.

RISK ASSESSMENT

The Group's operational management, led by our Operating Executive (OPEX), actively performs ongoing risk identification and evaluation processes of significant risks to the achievement of business objectives at both a Group and local level.

At regular intervals across the year, our management teams assess those risks relevant to them, including an assessment of how local mitigating actions reduce the risk exposure. This is described in more detail in the Principal Risks and Uncertainties section on pages 33 to 40.

RISK MANAGEMENT APPROACH

Each identified risk is assigned to a second line of defence centre of expertise (CoE) to ensure appropriate risk management approaches are defined, and to provide oversight and support to operational management in effectively implementing such approaches across our global footprint.

Our second line of defence plays an active role in the risk management process in a 'player/coach' relationship with the first line of defence. Depending on the nature and size of the risk in question, this relationship may take either a directive form, by setting policies and standards, or a more consultative form to provide guidance and subject matter expertise.

Our Finance function is a good example of a second line function which performs both roles. Finance has responsibility for the financial policies, standards and best practice to be followed by operational finance management across the Group, as documented in our Finance Manual. Additionally, Finance performs a subject matter expert role through Group wide initiatives (e.g. financial closing process improvements or implementation of standardised management reporting).

Compliance with Group and local reporting requirements is confirmed by finance management across the Group, providing a robust basis for the central Finance team to appropriately manage the Group financial reporting processes and enabling the Board to discharge its reporting responsibilities.

During this financial year we have performed an assessment of the effectiveness of our second line of defence as part of our ongoing evaluation of our risk management framework and to support continuous improvement of our effectiveness in managing risk. No material weaknesses were identified in the oversight provided by the second line of defence of key risks as the result of this exercise. However, it is acknowledged that improvements can always be made and so we will be looking to learn both from experiences over the year and from the assessment itself in order to strengthen both process and behaviour, so as to further underpin our governance, risk and compliance framework.

SAP SEGREGATION OF DUTIES

A recent example of the evolution of our risk management framework is the implementation of a new user access design within our core SAP platform to ensure alignment with segregation of duties (SoD) requirements to prevent fraud or errors in the creation of our financial statements.

This initiative involved the design and deployment of user access profiles free of SoD conflicts as well as establishing new provisioning processes which allow local management to better understand and be accountable for the user access granted to their respective business areas.

Suitable governance mechanisms were implemented and embedded within second LoD oversight functions to ensure the new design remains free of SoD conflicts.

Regular updates of the implementation progress were provided to the Audit Committee and senior finance management.

We are confident that the new design is working well and are continuing to review the project as the ongoing governance of the SoD environment evolves. This should allow the Company to remain compliant with our SoD requirements.

MANAGING RISKS

Operational management is held accountable for the management of those risks applicable to it and for ensuring compliance with our Group policies and standards. Our Group Control Matrix (GCM) brings together all the expected minimum controls from these policies and standards, to provide a single source of internal controls expected to be performed in order to mitigate the identified risk in line with the Board's risk appetite.

The operating effectiveness of these GCM controls is assessed on a regular basis by management, as well as through Internal Audit activities. Operational management, at Group and local level, is required to certify its compliance with the Code of Conduct and the Group's policies and standards at both the half-year and full-year.

RISK OVERSIGHT

Results of risk assessments and internal control operating effectiveness assessments are shared with relevant second line of defence CoEs for expert insights and to help enhance applicable internal control, as well as the guidance they provide to the business. Additionally, the information is provided to Internal Audit for reference during its audit testing.

MONITORING RISK MANAGEMENT

The Board and Audit Committee received regular updates during the year on the continued development of our risk management and internal control systems as well as on the results of risk assessments and internal control effectiveness assessments.

Throughout the course of the financial year, the Audit Committee has invited first and second line of defence functions to present on their respective risk management approaches to the risks overseen. This direct dialogue with the Audit Committee provides further assurance to the Audit Committee regarding the effective management of significant risks to the Group.

The above processes and related reporting, as well as those described in the Principal Risks and Uncertainties section on pages 33 to 40, enable the Audit Committee to review and monitor the effectiveness of our risk management and internal control systems. The Audit Committee has considered and confirmed to the Board that this is in accordance with the recommendations of the Financial Reporting Council's (FRC's) UK Corporate Governance Code.

INTERNAL AUDIT

Internal Audit (IA) has continued to evolve and develop its practices to further improve its independent challenge to the Group's activities, as required by the Audit Committee and management.

During the year IA performed a risk-based audit programme aligned to the Group's strategic priorities, resulting in relevant individual and theme-based recommendations and insights to further strengthen the Group's control framework.

The Audit Committee has reviewed the annual IA plan, including its scope and extent, and reviews reports from IA at each Audit Committee meeting to monitor the function's achievements against plan. The Audit Committee considered the effectiveness and results of the audits undertaken by IA and monitored management responses to the audit matters raised. IA post audit surveys are completed by relevant management, with feedback on IA's performance over the year being positive, reflecting the value-add delivered.

EXTERNAL AUDIT

At the Audit Committee's February 2019 meeting PwC set out its 2019 external audit plan including its risk assessment in scoping the audit approach. The overall scope and materiality thresholds for the half-year report and for the audit of the consolidated financial statements for the year ended 30 September 2019 were also presented.

The Audit Committee noted that PwC's audit plan identified areas of significant audit risk broadly consistent with the previous year. However, the risk associated with tax accounting and provisions had increased whilst the risk associated with the impairment of goodwill and intangibles at CGUG level had decreased, with more risk focus on the reallocation methodology. Focus remained on monitoring the progress of the project resolving segregation of duties conflicts in the Group's ERP systems.

Additionally, with the advent of NGP and the new types of accounting treatments and risks, especially regarding stock obsolescence and revenue recognition, the Group is exposed to, PwC outlined its approach to the types of testing it would apply to this area of the Group's business.

The Audit Engagement Letter detailing the provision of statutory audit and half-year review services was considered and approved.

There are no contractual or similar obligations restricting the Company's choice of external auditor.

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

INDEPENDENCE OF OUR EXTERNAL AUDITORS

In order to ensure the independence and objectivity of PwC, the Audit Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that our external auditors may and may not provide and can be found on our website. Following the FRC's publication of the Revised Ethical Standard in June 2016, the policy was updated to embed audit tendering and rotation requirements, further extend the list of prohibited services and prohibit gifts and hospitality by or to the auditors. The updated policy has been applied from 1 October 2016.

PwC, and its predecessor firms, have been the Company's auditors since 1996. In line with our Auditor Independence Policy, the Group Audit Partner is required to rotate after a maximum of five years (seven years for subsidiary companies). Richard French, our audit partner, is currently on his second year.

The policy states that PwC may only provide non-audit services where those services do not conflict with its independence. It also establishes a formal authorisation process, including the tendering for individual non-audit services expected to generate fees in excess of £250,000, and prior approval by the Audit Committee for allowable non-audit work that PwC may perform. Guidelines for the recruitment of employees or former employees of PwC, and for the recruitment of our employees by PwC, are contained in the policy.

During the year PwC undertook limited non-audit work. This non-audit work was awarded to PwC due to its knowledge of the Group and it being deemed best placed to provide effectively the services required. The vast majority of non-audit work relates to assurance related activity, including the reviews over interim announcements.

In the current year non-audit fees were 3 per cent (2018: 3 per cent) of total audit fees (see note 4 on page 113). Following the auditor independence reviews during the year, the Audit Committee concluded that the level of non-audit fees is appropriate in the light of the above activities and the Audit Committee does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

To ensure compliance with this policy, during the year the Audit Committee carried out two auditor independence reviews, including consideration of the remuneration received by PwC for audit services, audit-related services and non-audit work. The Audit Committee also considered reports by both management and PwC, which did not raise any concerns in respect of PwC's independence, and confirmed that PwC maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by PwC was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work. The Audit Committee therefore confirmed that the Company and Group continue to receive an independent audit service.

AUDIT QUALITY

We place great importance on ensuring that we receive a high-standard and effective external audit. To assist the Audit Committee in assessing the performance of our external auditors, during the year audit effectiveness questionnaires, covering the audit scope and planning, quality and delivery, challenge and communication, and independence, were completed by members of both the Audit Committee and Logista's Audit Committee as well as by senior managers and finance executives from across the Group. Responses indicated that, as with previous reviews, there was a perception of consistently high auditor effectiveness, with no pervasive Group-wide concerns identified.

Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of PwC's reports to the Audit Committee and its interaction with the Group Audit Partner, the Audit Committee remains satisfied with the efficiency and effectiveness of the audit.

AUDIT TENDER

In the October 2018 Audit Committee meeting consideration was given to the need to tender the audit in 2019 with the aim of having a new auditor in place for 2020. This consideration took into account a number of factors including the requirement for PwC to rotate off the audit in 2023 and a number of potential Board movements.

The decision to tender the audit was made in November 2018. Following FRC guidelines for tendering the audit, the Audit Committee tasked a selection committee chaired by the Audit Committee Chair and including the Group CFO to make a recommendation as to the new Auditor. To ensure a transparent and robust selection process, a Steering Committee chaired by the Company Secretary was established to oversee the process.

A mixture of big four and tier two firms were invited to tender to ensure a competitive tendering process.

The selection committee evaluated each firm tendering under the following selection criteria: Strength and Commitment of Team; Quality Assurance at Each Location; Added Value and Insights; Understanding of our Business and Industry; Innovation/Technology; Audit approach; Transition arrangements; and Corporate Governance.

Proposed audit fees were considered to ensure they provided value for money without compromising audit quality. However, fees were not a determining factor in the evaluation process.

The tender process concluded in February 2019 and the Audit Committee recommended to the Board that EY be appointed auditor from 1 October 2019, a recommendation that was duly followed by the Board.

STATEMENT OF AUDITORS' RESPONSIBILITIES

PwC is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Brands PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report as required by legislation or regulation and reports its opinion to members. Turn to pages 87-95 for further details on PwC's opinions.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Directors in office at the date of approval of this Annual Report confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by PwC in connection with preparing its report) of which PwC is unaware; and
- each has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish PwC is aware of that information.

The decision to tender the audit was made by the Board in November 2018 and due to the length of its tenure, our current auditor PricewaterhouseCoopers LLP was not invited to participate. In February 2019 the Committee recommended to the Board that Ernst & Young be appointed Auditor, a recommendation that was accepted. This decision will be put to the shareholders at the 2020 AGM following the resignation by PricewaterhouseCoopers LLP.

For the Board

KAREN WITTS
Chairman of the Audit Committee

APPLICATION OF THE UK CORPORATE GOVERNANCE CODE

The latest revision of the UK Corporate Governance Code (the Code) was published by the FRC in July 2018 and applies to the Company from its accounting period starting 1 October 2019. The Company's first Annual Report under the new Code will, therefore, be published in December 2020. We have, however, chosen to adopt a number of the provisions of the 2018 Code early.

We confirm that the Company has complied in full with the April 2016 Code throughout this financial year.

We detail below how (in practice) the Company has applied the 2016 Code's principles and complied with its detailed provisions.

THE BOARD AND ITS COMMITTEES

Each of our Board Committees has specific written terms of reference issued by the Board, adopted by the relevant Committee and published on our website. All Committee chairmen report on the proceedings of their Committee at the next meeting of the Board and, where appropriate, make recommendations to the Board. In addition, minutes of Committee meetings are ordinarily circulated to all Board members.

To ensure Directors are kept up to date on developing issues and to enhance the overall effectiveness of the Board and its Committees, our Chairman and Committee chairmen communicate regularly with the Chief Executive and other Executive Directors. Where appropriate the Board convenes, for example by telephone, outside of scheduled meetings to consider time sensitive matters.

The membership and remit of each Committee are considered on pages 48, 50 and 66. The Chairman and chairmen of our Committees facilitate open discussion, debate and challenge. This open atmosphere enables our NEDs to use their experience and independence to review critically and, where appropriate, challenge constructively strategies and judgements proposed by management. This ensures the further development of our business, effective use of our resources and maintenance of our high standards of conduct.

MATTERS RESERVED FOR THE BOARD

In order to retain control of key decisions the Board has adopted a schedule of matters on which it must make the final decision. During the year such decisions included approval of the Group's financial statements, the Group's business strategy, its three-year corporate plan, major capital expenditure, material investments or disposals, capital allocation and returns, and changes to the Group's principal policies (including treasury and tax).

DIVISION OF RESPONSIBILITIES OF OUR CHAIRMAN AND CHIEF EXECUTIVE

Our Chairman and Chief Executive maintain a close working relationship, whilst having clearly defined and separate responsibilities divided between running the Board and the business. Working together with the Board, they are responsible to our shareholders for the successful delivery of our strategy. They speak regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making.

Board composition and roles

Chairman	**Mark Williamson**	Leads the Board and creates an environment that ensures there are strong links between the Board, our stakeholders and management. Mark met the independence criteria of the Code on appointment and there have been no significant changes to his external commitments subsequent to his appointment.
Chief Executive	**Alison Cooper**	Supported by the Executive Directors and the OPEX, Alison has day-to-day management responsibility for the Group, for recommending the Group's strategy to the Board and, once agreed, its implementation. Alison and the Executive Directors actively promote the Group's values, culture and high standards of conduct and behaviour, which underpin our reputation and support our purpose of creating something better for the world's smokers.
Executive Directors	**Oliver Tant** **Matthew Phillips**	Support the Chief Executive in devising and implementing our strategy and overseeing the operations and development of the entire Group, in addition to specific responsibility for managing their own areas of the business.
Senior Independent Director	**Thérèse Esperdy**	Responsible for assisting the Chairman with effective shareholder communication and is available to shareholders should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. Thérèse is available to our NEDs should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman. She also acts as a sounding board for the Chairman and carries out the Chairman's performance evaluation.
Non-Executive Directors	**Sue Clark** **Simon Langelier** **Steven Stanbrook** **Jon Stanton** **Karen Witts**	Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse range of business and financial expertise which complements and supplements the experience of the Executive Directors.

CONFLICTS OF INTEREST AND INDEPENDENCE

Our Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. In accordance with the Companies Act 2006 (the Act), our Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit.

Directors are required to give notice of any potential situational and/or transactional conflicts, which are considered at the following Board meeting and, if appropriate, situational conflicts are authorised. We do not allow any Director to participate in such considerations or to vote regarding their own conflicts.

The Board has considered and authorised a number of situations, all of which relate to the holding of external directorships and have been entered in our Conflicts Register. No actual conflicts have been identified. However, to avoid any potential conflicts Simon Langelier did not participate in certain discussions and decisions in respect of the research and development partnership with Auxly Cannabis Group Inc. due to his directorship in PharmaCielo Limited. The Board considers that these procedures operate effectively.

As part of our annual review process, during the Board meeting in September 2019 we reviewed and reconsidered all situations entered in the Conflicts Register and the Board is satisfied that the independence of those Directors who have external board appointments has not been compromised. At this meeting, and taking into account the annual Board performance evaluation discussed below, the Board concluded that all our NEDs continue to contribute effectively and constructively to Board debate, demonstrate commitment to their role, challenge objectively and question management robustly and at all times have the best interests of our shareholders in mind. We confirm, therefore, that, with the exception of our Chairman, who met the independence criteria of the Code on appointment, our NEDs remained independent throughout the year as defined in the Code.

EXTERNAL APPOINTMENTS

NEDs, including the Chairman, may serve on a number of other boards provided they continue to demonstrate the requisite commitment to discharge their duties effectively. The Succession and Nominations Committee reviews the extent of the NEDs' other interests throughout the year. In accordance with the provisions of the 2018 Code, all NEDs are required to obtain approval of the Board prior to accepting any new office or employment. The Board is satisfied that each of the NEDs commits sufficient time to their duties in relation to the Company. The Chairman and each of the NEDs has confirmed they have sufficient time to fulfil their obligations to the Company.

The Board is supportive of Executive Directors and members of the OPEX accepting non-executive directorships of other companies to widen their experience and knowledge for the benefit of the Company. Accordingly, subject to the agreement of the Board, Executive Directors and members of the OPEX are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment.

INFORMATION AND TRAINING

Following their appointment to the Board, tailored induction programmes are arranged for new Directors which include, where needed, industry-specific training, visits to the Group's businesses and meetings with senior management. They are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance-related matters.

The Company is also committed to the continuing development of its NEDs in order that they may build on their expertise and develop their understanding of our business. In addition to ensuring Directors are kept up to date with the views of our stakeholders as discussed on pages 14, 15, 44 and 45, we provide regular briefings on matters such as legislation and regulation changes, and corporate governance developments.

Members of our Audit and Remuneration Committees also received briefings and market updates from their respective advisers.

By way of example, we held our March 2019 Board meeting in New York, with sessions focusing on our blu brand proposition, blu's performance, challenges and opportunities in the US and a deep dive into Fontem's US business. In addition, the June 2019 Board meeting was dedicated to Group strategy and planning, including optimising capital allocation to support the strategy, changes to consumer behaviour and delivering against the Group's NGP ambitions whilst continuing to maximise returns in tobacco.

The Company Secretary is responsible for advising the Board, through the Chairman, on matters of corporate governance. In addition, all Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters.

Independent professional advice is available to Directors, in appropriate circumstances, at the Company's expense.

BOARD EVALUATION

To enhance the effectiveness of the Board, during the year it undertook an in-house review of its performance.

This review considered Board composition, skills and expertise, the overall functioning of the Board, decision-making, risk, strategy, succession planning and talent. As part of the evaluation, the Chairman held meetings with the NEDs to consider, amongst other things, the performance of the Executive Directors. In addition, the Chairman held one-on-one meetings with each of the Board members to discuss their performance on the Board. The Senior Independent Director also held separate meetings with individual Board members and the Board as a whole, without the Chairman present, to consider the performance of the Chairman.

The evaluation showed that the Board continues to function and perform effectively. No significant areas for concern or any requirement to provide extra training for our Directors were identified. The evaluation confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees and that they remain appropriately constituted.

Areas identified for further consideration included frequency of Board meetings to reflect the dynamics of the NGP business; further enhancing risk management including in the context of the evolving NGP business; and continued focus on succession planning and talent development.

We addressed the areas raised for consideration in the 2018 evaluation as follows:

Area for consideration	How we addressed this area
Build on the engagement and trust of the Board as a whole	We have further enhanced the information the Board receives, including board papers, providing "deep dives" into the business, market visits and holding calls between meetings to provide updates on specific developments.
Ongoing regular reviews of the strategy	We have focused Board attention on key strategic issues by providing regular updates on delivery, organisational transformation and changing risks faced by the business.
Succession	We have ensured all Board appointments complemented/ enhanced the Board's skill set and provided ongoing opportunities for the Board to meet senior management and high potential employees.

INSURANCE AND INDEMNITIES

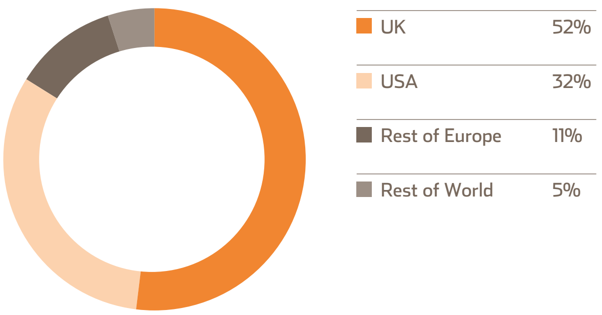
During the year the Company purchased and maintained appropriate insurance cover in respect of directors' and officers' liabilities. Qualifying third-party indemnity arrangements for the benefit of Directors, in a form and scope which comply with the requirements of the UK Companies Act 2006 (the Act), were in force throughout the year and up to the date of this Annual Report.

RELATIONS WITH STAKEHOLDERS

DIALOGUE WITH OUR INVESTORS

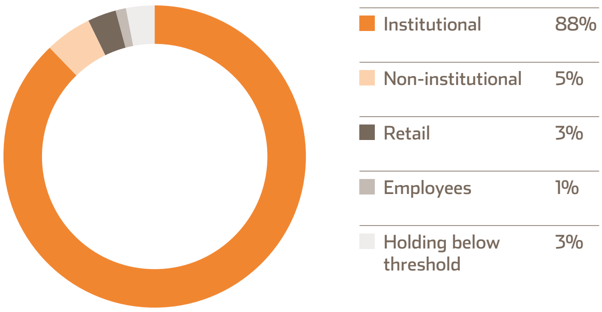
GEOGRAPHICAL ANALYSIS OF SHAREHOLDERS

(as at 30 September 2019)



SHAREHOLDER COMPOSITION

(as at 30 September 2019)



We aim to provide balanced, clear and transparent communications enabling shareholders to understand how we see our prospects and the market environments in which we operate.

We are committed to maintaining an active dialogue with our key financial stakeholders, including institutional shareholders, potential investors, holders of our bonds and sell-side research analysts. We encourage strong engagement with investors and other stakeholders through our planned programme of investor relations activities. Our Registrar, Equiniti, and Citi, as custodians of our American Depositary Receipts (ADR) programme, have teams equipped to deal with shareholder and ADR holder queries.

A full programme of engagement and communication, in the UK and overseas, is undertaken each year by our Investor Relations team, typically accompanied by one or more of the Executive Directors. Over the course of the year our teams held around 550 meetings with investors and sell-side research analysts.

As well as our interim and preliminary results presentations, senior management and our investor relations team present at various industry conferences organised by investment banks for their institutional clients. In addition to these, Alison Cooper (Chief Executive Officer) and Matthew Phillips (Chief Development Officer) presented at the CAGNY conference (Consumer Analyst Group of New York) in February 2019. CAGNY is one of the largest global consumer goods conferences, attended by around 800 institutional analysts and investors and 30 presenting companies. Richard Hill (Commercial Director Vapour) also presented at the Global Tobacco and Nicotine Forum (GTNF) in Washington. In January, we also held our inaugural Stewardship Forum to enhance our engagement with shareholders on a range of corporate governance topics. It was hosted by the Chairman, Senior Independent Director and Chairs of the Remuneration and Audit Committees. It comprised a series of short presentations on the Board's activities and how it manages governance, followed by smaller break-out groups to encourage an open discussion between shareholders and Board members. The event was well attended with representatives from many of our largest shareholders. Copies of these presentations are available on our website.

A formal external and independent review of investor perceptions is presented to the Board on an annual basis and both the Operating Executive and the Board receive regular updates on shareholder relations to ensure that the views and any concerns of major shareholders are understood and, where appropriate, addressed.

As part of her induction as Senior Independent Director, following her appointment in May 2019, Thérèse Esperdy held meetings with many of our key shareholders in the latter part of the year. Shareholders appreciated the opportunity to discuss their views on various topics, including the appointment of a new chairman, a process which she is leading on behalf of the Board.

Our next AGM will be held on 5 February 2020, full details of which are contained in the Notice of Meeting available on our website and, where applicable, posted with this Report. We ensure our Annual Report and Accounts and Notice of AGM are made available at least 20 working days prior to the meeting to allow shareholders time to consider them fully before submitting their proxy votes.

At the AGM our Chairman and Chief Executive give presentations on current business activities. Directors make themselves available to meet shareholders after the conclusion of the formal business of the meeting.

To ensure compliance with the Code, at all general meetings, separate resolutions are proposed on each subject and all resolutions are put to a poll. The number of proxy votes for, against and abstentions for each resolution received are provided at the meeting. Votes received at the meeting are added to the proxy votes and the final results published through a Regulatory Information Service, on our website and via OTCQX.

At our 2019 AGM we received votes representing approximately 78 per cent of our issued share capital (excluding shares held in treasury at the date of the meeting).

RESPONSIBILITIES TO A BROAD STAKEHOLDER GROUP

Our values and culture emphasise our focus on doing things in the right way. This includes considering the Group's responsibilities to a broad group of stakeholders. As a responsible and sustainable Company this has been part of our continued and embedded approach for a number of years. During the year we convened an independently facilitated panel of our key stakeholders to review our Sustainability Strategy and help shape how we prioritise and manage our environmental, social and governance (ESG) issues. The panel was attended by 14 well-informed representatives from the following stakeholder groups: retailers, banks, tobacco and vaping consumers, customers, employees, investors, media, a non-governmental organisation, a tobacco and NGP supplier, a non-tobacco material supplier and two experts representing the environment and age-gating certification schemes. The panel is one example of our ongoing programme of stakeholder engagement.

Further details can be found on page 9 and the full Stakeholder Panel Statement can be accessed from the 'Sustainability' section of our website http://www.imperialbrandsplc.com/sustainability

During the year we also appointed Steven Stanbrook to be our Workforce Engagement Director and are currently finalising the remit of this role.

CHARITABLE AND POLITICAL DONATIONS

As part of our responsible approach, we continued to support a number of communities in which we operate by allocating a central budget. This budget largely funds our support of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and our support of Hope for Justice. Further information can be found within the case studies on our website. In addition, a number of our subsidiaries donate to charitable and community endeavours from local budgets. In 2019 for example, this included initiatives such as the annual beach clean-up in Morocco, water and sanitation projects in the Philippines and creating a sensory garden for disabled people in the Netherlands. We further support community activities through in-kind activities including management time, volunteering and gifts in-kind.

All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to EU political parties, organisations or candidates (2018: Nil). This approach is aligned with our Group Policy and Code of Conduct.

OTHER INFORMATION – INTRODUCTION

One of the Board's primary responsibilities is to ensure the Company is run in the best long-term interests of its shareholders and wider stakeholders. We believe this can only be achieved if the activities of the Group are supported by appropriate environmental, sustainability and governance processes applied across the Group.

These processes are illustrated below and in the individual Committee reports.

In accordance with the Companies Act 2006 (the Act) the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Act, is included in the Strategy and Performance sections of the report. The information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the Chief Executive's Statement;
- information relating to our people is included in the Responsible Operations and People section on pages 21 and 22;
- our principal risks are detailed on pages 33 to 40;
- information relating to our Sustainability approach that supports our growth agenda is included on pages 18 to 22;
- governance is covered on page 41; and
- the Directors of the Company are listed on pages 42 and 43.

SHARE CAPITAL

Details of our share capital are shown in note 25 to the financial statements. All shares other than those held in treasury are freely transferable and rank pari passu for voting and dividend rights.

At our AGM on 6 February 2019 shareholder authority for the buyback of up to 95,370,000 shares was obtained.

As at 30 September 2019 we held 74,289,137 shares in treasury, which represented 7.24 per cent of issued share capital and had an aggregate nominal value of £7,428,914.

We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve and they represent a deduction from equity shareholders' funds.

At 30 September 2019 we had been notified of the following interests in 3 per cent or more of our shares and there have been no changes to this information up to the date of this Annual Report.

	Number of ordinary shares (millions)	Percentage of issued share capital
BlackRock Inc.	53	5.59[1]
Capital Group Companies Inc.	48	5.00[1]

1. Indirect holding.

We have not received notification that any other person holds 3 per cent or more of our shares.

The share interests of the Directors, their families and any connected persons are shown on page 82. Other than as disclosed on page 81, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

Information concerning employees and their remuneration is given in note 6 to the financial statements and in the Directors' Remuneration Report.

FINANCIAL RESULTS AND DIVIDENDS

We include a review of our operational and financial performance, current position and future developments in our Strategic Report.

The profit attributable to equity holders of the Company for the financial year was £1,010 million, as shown in our Consolidated Income Statement. Note 3 to the financial statements gives an analysis of revenue and operating profit.

An analysis of net assets is provided in the Consolidated Balance Sheet and the related notes to the financial statements.

We pay quarterly dividends. The first and second dividends for financial year 2019 were paid on 28 June 2018 and 30 September 2019 respectively. The third dividend will be paid on 31 December 2019 and, subject to AGM approval, the final dividend will be paid on 31 March 2020 to our shareholders on the Register of Members at the close of business on 21 February 2020. The associated ex-dividend date will be 20 February 2020.

The Directors have declared and proposed dividends as follows:

	2019 £ million	2018 £ million
Ordinary shares		
Interim paid – June 2019, 31.28p per share	**298**	271
Interim paid – September 2019, 31.28p per share	**298**	271
Proposed interim – December 2019, 72.00p per share	**683**	624
Proposed final – March 2020, 72.01p per share	**683**	624
Total ordinary dividends, 206.57p per share (2018: 187.79p)	**1,962**	1,790

PENSION FUND

The Group has three main pension arrangements, the largest being the Imperial Tobacco Pension Fund, which is not controlled by the Board but by a trustee company, the board of which consists of five directors nominated by the Company, one director nominated by employee members and two directors nominated by current and deferred pensioners. This trustee company is responsible for the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose. Turn to page 74 for further details contained in our Remuneration Report.

ARTICLES OF ASSOCIATION

The Company's Articles of Association do not contain any entrenchment provisions and, therefore, may be altered or added to, or completely new articles may be adopted, by special resolution, subject to the provisions of the Companies Act 2006.

SIGNIFICANT AGREEMENTS THAT TAKE EFFECT, ALTER OR TERMINATE ON CHANGE OF CONTROL

The agreements summarised below are those which we consider to be significant to the Group as a whole and which contain provisions giving the other party or parties a specific right to terminate them if we are subject to a change of control following a takeover bid.

The Group has two credit facility agreements that provide that, unless the lenders (as defined within each agreement) otherwise agree, if any person or group of associated persons and/or any connected persons acquires the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the respective borrowers (as defined within each agreement) must repay any outstanding utilisation owed by them under the respective facility agreement and the total commitments under that facility agreement will be cancelled.

The two credit agreements are:

- a credit facilities agreement dated July 2014 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited: (a) committed acquisition credit facilities originally across three tranches of $4,100 million, $1,500 million and $1,500 million, for a maximum period of up to three years, four years and six years respectively; (b) committed credit facilities originally of €1,000 million for a period of up to three years; and (c) committed credit facilities in two tranches of €2,835 million and £500 million for a period of up to five years. The Group has subsequently either repaid, cancelled or extended certain of these facilities, such that as at 30 September 2019 the following remained outstanding: committed credit facilities of €2,835 million until July 2021 and £500 million until July 2021; and
- a credit facility agreement dated April 2019 under which a certain bank makes available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited committed credit facilities of €300 million until June 2020.

In addition, seven deeds of counter-indemnity each dated July 2017 made on substantially the same terms under which certain insurance companies (the Sureties) have made available to the Company, Imperial Brands Finance PLC and Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £600 million, until January 2023.

If any person or group of associated persons (as defined within each agreement) acquire the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the Sureties may demand that Imperial Tobacco Limited, amongst other things, pays a sum to a cash collateral account equal to but not exceeding the aggregate amount outstanding under each guarantee.

Imperial Brands Finance PLC (the Issuer) has issued bonds under a Euro Medium Term Notes (EMTN) Debt Issuance Programme (as noted below). The Company acts as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at its nominal value if: (a) any person, or persons acting in concert or on behalf of any such person(s), becomes interested in: (i) more than 50 per cent of the issued or allotted ordinary share capital of the Company; or (ii) such number of shares in the capital of the Company carrying more than 50 per cent of the voting rights normally exercisable at a general meeting of the Company; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds issued in such manner are as follows:

- 15 September 2008 £600 million 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000 million 9 per cent guaranteed notes due 2022;
- 26 September 2011 £500 million 5.5 per cent guaranteed notes due 2026;
- 1 December 2011 €750 million 5 per cent guaranteed notes due 2019;
- 28 February 2014 €1,000 million 2.25 per cent guaranteed notes due 2021;
- 28 February 2014 €650 million 3.375 per cent guaranteed notes due 2026;
- 28 February 2014 £500 million 4.875 per cent guaranteed notes due 2032;
- 27 January 2017 €500 million 0.5 per cent guaranteed notes due 2021;
- 27 January 2017 €500 million 1.375 per cent guaranteed notes due 2025;
- 12 February 2019 €750 million 1.125 per cent guaranteed notes due 2023; and
- 12 February 2019 €750 million 2.125 per cent guaranteed notes due 2027.

Imperial Brands Finance PLC has also issued bonds in the USA under the provisions of Section 144a and Regulation S respectively of the US Securities Act (1933). The Company acts as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at 101 per cent of its nominal value if: (a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock; or (ii) there is a transfer (other than by merger, consolidation, amalgamation or other combination) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act); or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity; and (b) as a result of the change of control, there is a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms.

The bonds issued in such manner are as follows:

- 11 February 2013 $1,000 million 3.5 per cent guaranteed notes due 2023;
- 21 July 2015 $1,500 million 4.25 per cent guaranteed notes due 2025;
- 21 July 2015 $1,250 million 2.95 per cent guaranteed notes due 2020;
- 21 July 2015 $1,250 million 3.75 per cent guaranteed notes due 2022;
- 26 July 2019 $1,000 million 3.125 per cent guaranteed notes due 2024;
- 26 July 2019 $750 million 3.5 per cent guaranteed notes due 2026; and
- 26 July 2019 $1,000 million 3.875 per cent guaranteed notes due 2029.

UPDATE ON TOBACCO-RELATED LITIGATION

ITALY

A claim has been brought in the Court of Messina against Imperial Tobacco Italia S.r.l. and Reemtsma Cigarettenfabriken Gmbh by two individuals claiming €800,000 in total for alleged smoking related health effects. We have denied liability. The parties have filed their pleadings. The next step in the proceedings is a hearing at which the Judge will hear the parties' arguments regarding their requests for oral and expert evidence. This hearing is currently scheduled for February 2020.

POLAND

In October 2017, Imperial Tobacco Polska S.A. (Imperial Polska) received notice that a claim has been filed against it in the Regional Court in Poznań by an individual claiming PLN 1,000,000 by way of compensation for alleged smoking related health effects. Imperial Polska denied the claim in full. At a hearing in May 2018, the Court dismissed the claim in full. In July 2018, the claimant filed an appeal. The Court dismissed the appeal following a hearing in September 2019. A further appeal to the Supreme Court is unlikely.

ARGENTINA

Our subsidiary, Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA), has been notified of a claim filed in the Court of Buenos Aires against Nobleza Piccardo, a subsidiary of British American Tobacco (BAT) by an individual smoker. BAT has denied liability. Historically, BAT manufactured and distributed two brands of cigarettes owned by SEITA in Argentina under the terms of a Licence Agreement. BAT 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 AR$8,980,200. The evidence production period has concluded. The parties are now expected to file their final written statements and within 40 days thereof the Court should issue its final judgment.

THE NETHERLANDS

Since September 2016, various complaints have been lodged with the Public Prosecution Service in the Netherlands directed at the local entities of four major tobacco manufacturers, including Imperial Tobacco Benelux. On 22 February 2018, the Public Prosecution Service announced that it had decided not to prosecute the matter. Subsequently, a complaints procedure was lodged with the court of appeals in The Hague, requesting the court of appeals to order the Public Prosecution Service to prosecute the case. On 6 December 2018, the court of appeals in The Hague declared that the complaints of certain complainants were inadmissible and rejected the remainder of the complaints.

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 Brand Finance France (the Subsidiary), on grounds of 'reckless life endangerment'. Neither the Subsidiary nor any of its employees or managers have been charged or placed under formal investigation in any on-going proceedings, as a result of such a complaint. Imperial Brands strongly denies the allegations made by the CNCT and is monitoring the developments.

USA

A number of smoking and health-related claims have been brought against ITG Brands (ITGB) in the state courts of Massachusetts. ITGB has the benefit of an indemnity from another manufacturer in respect of each of these claims. As a result, ITGB either has been dismissed, or is expected to be dismissed, without prejudice from each of the claims.

To date, no action has been successful or settled in favour of any individual claimant in any tobacco-related litigation against Imperial Brands or any of its subsidiaries.

UPDATE ON USA STATE SETTLEMENT AGREEMENTS

Claims have been made against ITGB in connection with its acquisition of certain US cigarette brands in June 2015 and in respect of three of the four US states that are not parties to the Master Settlement Agreement, Florida, Minnesota and Texas. A motion was filed against ITGB claiming payments under the Florida settlement agreement, but in December 2017 the Florida court ruled that RJR Tobacco (Reynolds) and not ITGB was liable for the payments concerned. The decision is currently on appeal. A complaint was filed by Minnesota and in September 2019 the court ruled that Reynolds was liable for the payments at issue and that a question of fact remained as to whether ITGB was also liable. Texas also filed a motion seeking settlement payments. In October the Federal Court for the Eastern District of Texas held a hearing and the court is expected to rule by the end of 2019. In addition, ITGB and Reynolds are engaged in litigation in the Delaware court with respect to whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlements with Florida, Minnesota and Texas under the asset purchase agreement (APA), through which ITGB acquired the US brands. The Delaware court has held that the "reasonable best efforts" provision did not terminate because the deal closed, but has not addressed whether ITGB has complied with that obligation. It is currently considering a motion by Reynolds to hold ITGB liable under other indemnity provisions of the APA for Reynolds' liability under the Florida decision. The Group's legal advice is that it has a strong position on all pending claims and the Group therefore considers that no provision is required for these matters.

UPDATE ON E-VAPOUR-RELATED LITIGATION

We are defending a case in the USA filed in the California state court against Fontem U.S. (Fontem). The original complaint named 17 defendants in addition to Fontem. This case seeks the recovery of unquantified monetary damages, including punitive damages, against all defendants based on the claim that the principal plaintiff was injured as a result of the use of e-cigarettes and vaping devices, including e-cigarettes manufactured by Fontem. Fontem has successfully moved to dismiss three of the purported causes of action asserted against it. We intend to file Fontem's answer to the remainder of the second amended complaint. We intend to vigorously defend this case.

OTHER INFORMATION – LISTING RULES

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found on the pages set out below:

Section	Information	Page
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	69, 73, 75, 79 and 81
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	72, 75, 76, and 81
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Non pre-emptive issue by major subsidiary undertakings	Not applicable
(9)	Listed subsidiary	Not applicable
(10)	Contracts of significance	62 and 63
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	See below
(13)	Shareholder waivers of future dividends	See below
(14)	Agreements with controlling shareholders	Not applicable

In respect of LR 9.8.4R (12) and (13) the trustee of the Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust agrees to waive dividends payable on the Group's shares it holds for satisfying awards under various Imperial Brands PLC share plans. In accordance with Section 726 of the Act no dividends can be paid to the Company in respect of the shares it holds in treasury.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

DIRECTORS' CONFIRMATIONS

Each of the Directors, whose names and functions are listed on pages 42 and 43 confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

The Directors' responsibilities in relation to the disclosure of information to auditors is disclosed in the Audit Committee report on page 57.

The Strategic Report and the Directors' Report were approved and signed by order of the Board.

JOHN DOWNING
Company Secretary

5 November 2019

Imperial Brands PLC
Incorporated and domiciled in England and Wales No: 3236483

PROPORTIONATE REMUNERATION

"The Committee's key responsibility is to ensure remuneration fairly and proportionately rewards executives for the delivery of our strategy."

SUE CLARK
Chairman

DEAR SHAREHOLDER

A key objective of the Remuneration Committee is to ensure that our remuneration structures and arrangements encourage our Executive Directors and the broader management team to deliver our strategy in a sustainable way which creates value for our shareholders. We believe that executives should be fairly and proportionately rewarded for this and hence our policy is heavily weighted towards performance-related pay.

In a company of our size, and in the midst of the global changes in the world tobacco market, success needs to be considered against a number of different factors. This is why we assess our performance, and the performance of the Executive Directors and the senior management team, using a range of measures and targets set across overlapping performance periods covering both the short and longer-term. This approach, combined with a strong emphasis on share ownership supports our focus on long-term, sustainable performance which is so important to our stakeholders.

This alignment between our remuneration structures and our shareholders' interests is particularly crucial at a time when the Company is transitioning its business model to take advantage of the opportunities provided by NGP. It is critical that we continue to focus on what works best for the business as well as on any regulatory or market practice developments which may impact our approach to remuneration.

MEMBERS

Sue Clark[1]
Chairman
(from 6 February 2019)

Malcolm Wyman
Chairman
(to 6 February 2019)
(Member to 8 May 2019)

Steven Stanbrook
Karen Witts

Trevor Williams
Committee Secretary

OTHER REGULAR ATTENDEES

- Board Chairman[2]
- Chief Executive[2]
- Company Secretary
- Group Human Resources Director
- Group Reward Director
- FIT Remuneration Consultants LLP, the Committee's principal adviser[3]

1. Prior to appointment the Chairman of Britvic remuneration committee from 1 September 2017 and is a member of the Akzo Nobel N.V. and Bakkavor Group plc remuneration committees.
2. Specifically excluded when their own remuneration or conditions of service are under discussion.
3. Appointed by the Committee.

FOCUS IN 2019

- Reviewed the remit of the Remuneration Committee in response to changes in the UK Corporate Governance Code;
- Oversight of changes to senior management population reward packages and general alignment across incentive arrangements;
- Reviewed performance-related reward criteria and target ranges to provide alignment with our evolving NGP strategy and the current market environment; and
- Monitored remuneration regulations and market practice and reviewed the impact these may have on the future of the Directors' Remuneration Policy.

LOOKING AHEAD TO 2020

- Monitor and, where appropriate, implement remuneration developments;
- Review and implementation of changes to the UK Corporate Governance Code and reporting requirements;
- Continued review of alignment of remuneration to strategy and the appropriateness of reward outcomes;
- Early preparation for new Directors' Remuneration Policy which will require shareholder approval at our 2021 AGM; and
- Engagement with shareholders and other stakeholders.

THE UK CORPORATE GOVERNANCE CODE

The new Code, which came into effect for Imperial Brands from 1 October 2019, has precipitated several developments in remuneration practice, which the Remuneration Committee continues to monitor closely.

The Remuneration Committee has historically had oversight of reward policies across the Company and this will continue to develop. The Remuneration Committee continues to review changes to the senior management population's reward packages and general alignment across incentive arrangements. In addition, it is now provided with additional information to improve its understanding of the structure of remuneration throughout the Group. To enhance this oversight and our ability to engage with employees across the Company, the Board has designated Steven Stanbrook, a Non-Executive Director and member of the Remuneration Committee, as the Workforce Engagement Director. He will act as conduit between employees and the Board and specific matters on remuneration will be fed back to the Remuneration Committee as appropriate.

In light of the new Code, we have reviewed the pension arrangements of our Executive Directors with respect to those of employees generally. The alignment between Executive Directors' pension arrangements and those available to the wider employee base is an area where Imperial has been at the forefront of market practice. When the Directors' Remuneration Policy was last approved in 2018, we capped the Defined Contribution scheme's employer contributions (or allowances in lieu of pension) for new Executive Directors at 14 per cent of salary. This is the same as the maximum level of contribution for the majority of our UK-based employees, including new recruits, in the Defined Contribution scheme. In assessing pension arrangements for our current Directors against the rest of the existing workforce, the pension arrangements of the Chief Executive Officer and the Chief Development Officer (which comprise a capped Defined Benefit arrangement and a cash in lieu of pension payment of 14 per cent of the difference between their pensionable salary and their actual salary) reflect their joining date and length of service and are aligned to those of other employees with a similar service profile who joined the business around the same time. In the case of the Chief Financial Officer, he has opted out of the pension scheme and receives a cash allowance of 26 per cent of salary which was agreed with him when he joined the Company six years ago. The pension arrangements of our existing Executive Directors are contractual and form an integral part of their total remuneration package. For these reasons, we do not envisage renegotiating or imposing changes on the existing Executive Directors' pension arrangements at this time.

In looking at other changes to the Code and alignment of our current Directors' Remuneration Policy, we remain broadly aligned with respect to Directors' remuneration. For example, the continued application of the two-year holding period in respect of any vested LTIP awards (following the three-year performance period) serves as our current policy on post-cessation shareholding. In addition, the Remuneration Committee's use of discretion as well as malus and clawback clauses form part of our current policy.

However, a more formal review of these matters will be part of the Directors' Remuneration Policy which will be completed during 2020 as part of the normal triennial approval process. As part of this, we will consider regulatory and governance driven changes as well as those which may better support the business. This may include looking at how we measure performance in the LTIP and different design and structural approaches to LTIP and/or other share arrangements to ensure reward is properly balanced to drive the long-term interests of the Company and its shareholders.

During the review process, the Remuneration Committee plans to engage with major shareholders and other stakeholders to gather input to help shape the proposed policy, which will come into effect for the financial year immediately after the 2021 AGM subject to its approval by shareholders.

PAY FOR PERFORMANCE

As reported by Alison Cooper in her introduction to this year's Annual Report, we achieved success in a number of areas, including further revenue and profit growth in tobacco and good year-on-year NGP growth in Europe and Japan. However, our overall Group results have fallen short of our expectations.

This performance is reflected in the Annual Bonus payments received by the Executive Directors. The Remuneration Committee set tough targets at the start of the year. Following solid delivery across three out of the five metrics, the formulaic outcome would have resulted in a bonus of 51 per cent of maximum. However, the Remuneration Committee considered the wider performance of the Company, including the returns to shareholders through dividend, the share price and the overall experience of investors and exercised its discretion to reduce the bonus out-turn to 31 per cent of maximum.

The lapsing of the shares under the LTIP also reflects that the Company has not met the minimum performance levels set. The EPS and Net Revenue growth targets were set by the Remuneration Committee before additional brand and market investment behind NGP and Tobacco were agreed by the Board. Management took the decision to make these investments for future, sustainable growth as it was deemed to be in the best interests of the Company, its shareholders and other key stakeholders. Whilst the level of LTIP vesting has been negatively impacted by these investments, the view at the time the investments were made was that they would result in a positive impact in future years and therefore no adjustments have been made to the LTIP outcomes. The value of the LTIP awards is directly linked to the share price of the Company and thus Executive Directors' remuneration is well aligned to the shareholder experience and the Company's performance over the same time period. No discretion was considered necessary when determining the final vesting outcomes.

During the course of the year all three Executive Directors met the shareholding guideline (being 300 per cent of salary). However, following the recent share price decline, the year end shareholding for Oliver Tant was below the guideline, despite his making purchases from his own funds and retaining the post-tax shares vesting during the course of the year. As agreed with the Remuneration Committee at the end of financial year 2018, these actions by Oliver Tant were deemed as him having met his shareholding guideline. Notwithstanding this the Remuneration Committee will continue to actively monitor progress towards the guideline.

IMPLEMENTATION FOR FINANCIAL YEAR 2020

On 3 October 2019 we announced that Alison Cooper will be stepping down from the role of CEO and from the Board once a suitable successor is found. It is our intention that Alison will be treated in accordance with Imperial's Directors' Remuneration Policy and her service contract for the remainder of her term in office. Full details will be disclosed on the Company's website and within the relevant Directors' Remuneration Report in due course.

The Remuneration Committee decided in September 2019 to award salary increases of approximately 2 per cent to each of the Executive Directors. This increase is considered appropriate in relation to the Executive Directors' contribution and in the context of a 2.9 per cent increase awarded to UK employees generally.

The current implementation of the policy is considered to appropriately align with the business strategy so there are no material changes proposed for financial year 2020. However, the evolving business strategy and market practice may lead to changes in implementation for future years. This might, for example, include the use of a broader set of performance metrics (including the use of non-financial measures) to align remuneration with the Company's developing strategy.

In the meantime, the financial year 2020 Annual Bonus will continue to be measured against a combination of revenue, cash, market share, profitability and NGP strategic measures. However, following shareholder feedback and to improve simplicity, we will remove the additional modifier which was a feature of the financial year 2019 Annual Bonus plan.

The financial year 2020 LTIP award will as last year be assessed against EPS growth and relative TSR. The peer group used for the assessment of relative TSR has been revised to reflect a more relevant group of companies. The third measure is total net revenue growth. The performance ranges for EPS and net revenue have yet to be finalised and will be announced by way of an RNS.

These changes are considered appropriate ahead of a more comprehensive Directors' Remuneration Policy review in financial year 2020. The Policy will be put to shareholders at the 2021 AGM and if approved implemented in that financial year.

The Remuneration Committee is cognisant of the current share price and the impact this would have in terms of the number of LTIP awards which would be granted if normal award levels (as a percentage of salary) were maintained. In light of the current circumstances, the Remuneration Committee has decided to monitor share price levels between now and the normal award date (February 2020) and will make any reductions it feels are appropriate considering the share price nearer the time of granting. Any reduction would be announced by way of an RNS when the awards are made.

CONTINUED ENGAGEMENT

The feedback we receive from shareholders and other stakeholders is helpful input for developing our Directors' Remuneration Policy to support the business. We will be actively engaging with our major shareholders and relevant institutional investor bodies during financial year 2020, to fully understand their views, which will be key inputs into the next Directors' Remuneration Policy.

As part of our commitment to transparency we have endeavoured to enhance the level of disclosure contained within this report, whilst trying to maintain clarity with our presentation. I welcome any feedback or comments on the Directors' Remuneration Report or more generally.

Sue Clark

SUE CLARK
Chairman of the Remuneration Committee

KEY SECTIONS OF THIS REPORT ARE AS FOLLOWS:

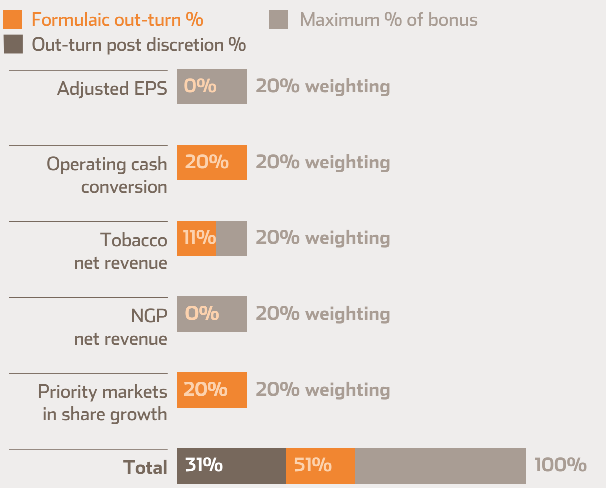
REMUNERATION AT A GLANCE

OUR DIRECTORS' REMUNERATION POLICY

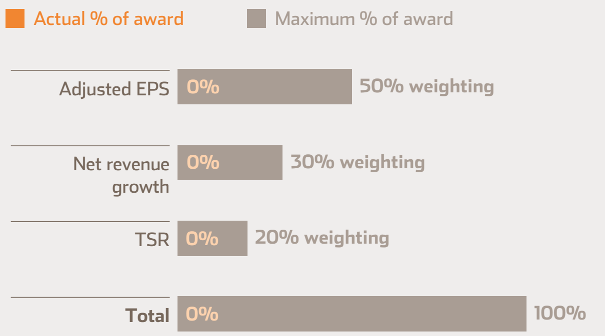
Remuneration outcomes for the financial year 2019, in line with the policy approved by shareholders at the AGM in February 2018, are set out below.

Remuneration element	Link to strategy	Application of Remuneration Policy
Fixed pay (salary, pension and benefits)	Recruit, retain and motivate high calibre executives.	• Salary reviews and increases consider market positioning against peer groups, performance, broader increases across the UK and global workforce. • Each Executive Director received approximately a 2% increase with an effective date of 1 October 2019.
Annual Bonus	Drives delivery of annual objectives. Deferred element incentivises sustained performance aligned to shareholder interests.	• The bonus plan currently uses five financial metrics, aligned to the Company's annual objectives, each equally weighted. • Each metric begins to pay-out once threshold performance has been delivered, rising to full pay-out if stretching maximum targets are met. The formulaic out-turn for the financial year 2019 Annual Bonus was 51% of maximum. The Remuneration Committee decided that bonuses for the Executive Directors will be reduced to 31% of maximum, of which 50% is paid in cash and 50% is deferred into shares for a period of three years.
Long-Term Incentive Plan	Aligns interests with stakeholders by incentivising delivery of long-term strategic objectives and retaining high calibre executives.	• The LTIP vesting shown in the single total figure table is based on performance between financial years 2017-19 which used three metrics with vesting opportunity at threshold beginning at 25% and running until 100% maximum. • Performance on all metrics was below threshold and therefore the award lapsed in its entirety. • The LTIP granted during the year is based on performance between financial year 2019-21 and will be assessed against four metrics covering financial and shareholder value measures.

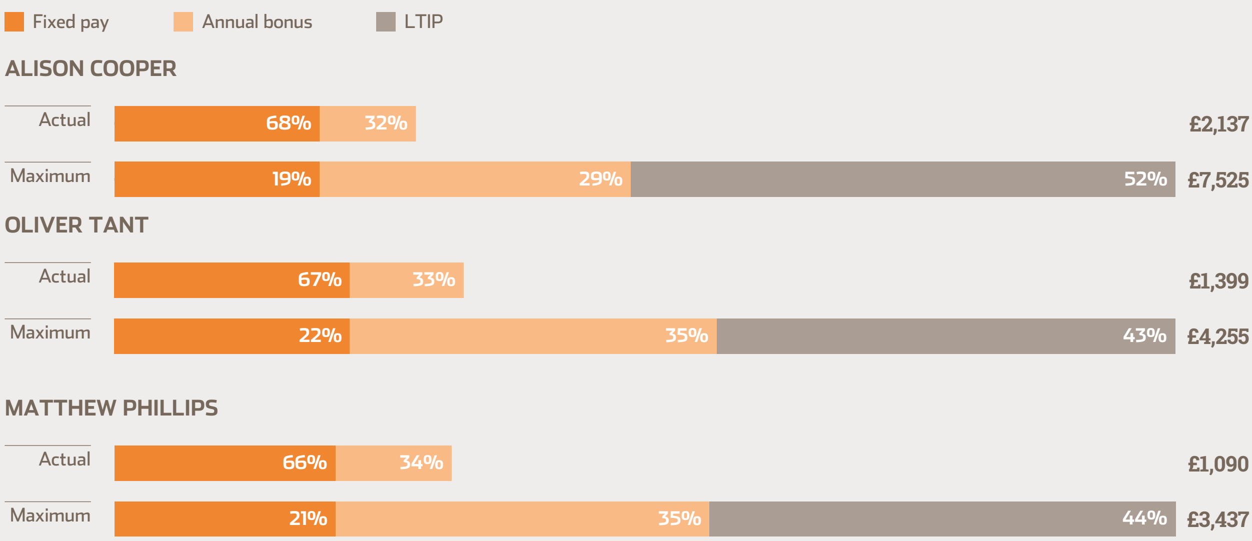
ANNUAL BONUS 2019



LONG-TERM INCENTIVE PLAN



REMUNERATION IN 2019



GOVERNANCE

THE ROLE OF THE REMUNERATION COMMITTEE

The Board is ultimately accountable for executive remuneration, but has delegated this responsibility to the Remuneration Committee, all members of which are independent Non-Executive Directors. We consider this independence fundamental in ensuring Executive Directors' and senior management's remuneration is set by people who have no personal financial interest, other than as shareholders, in the matters discussed.

To reinforce this independence, a standing item at each Remuneration Committee meeting allows the members to meet without any Executive Director or other manager being present.

The Remuneration Committee's key responsibility is to support the Company's strategy and performance by ensuring the Directors' Remuneration Policy attracts, retains and incentivises the high calibre executives required to ensure delivery. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior managers.

The Remuneration Committee's other responsibilities include:

- maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract and retain and motivate high calibre individuals;
- aligning Executive Directors' and senior management's remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive;
- consideration of the Chairman's fees;
- setting measures and targets for the performance-related elements of variable pay;
- oversight and approval of our overall policy for senior management remuneration and of our employee share plans;
- oversight of workforce pay and employment conditions; and
- ensuring appropriate independent advisers are appointed to provide advice and guidance to the Remuneration Committee.

The Remuneration Committee's full terms of reference provide further details of its role and responsibilities and are available on our website.

This Report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations).

It also meets the requirements of the UK Listing Authority's Listing Rules.

In this Report we describe how the principles of good governance relating to directors' remuneration, as set out in the UK Corporate Governance Code 2016 (the Code), are applied in practice. The Committee confirms that, throughout the financial year, the Company has complied with these governance rules and provisions. The Remuneration Committee is also mindful of the revised Code issued in July 2018 and updated reporting requirements which do not come into effect for the Company until the next financial year. However, the Company has adopted many of these provisions early. For example, we have shown the ratio of the CEO's pay to that of UK employees, and will report fully under those provisions in the 2020 report.

The Regulations require our auditor to report to shareholders on the audited information within this Report and to state whether, in its opinion, the relevant sections have been prepared in accordance with the Act. The auditor's opinion is set out on pages 87-95 and we have clearly marked the audited sections of the Report.

REMUNERATION COMMITTEE MEETINGS 2018/19

November

- Consideration of Executive Directors' Remuneration Policy and review process
- Finalise financial year 2018 Directors' Remuneration Report
- Approval of financial year 2019 executive salary increases
- Variable remuneration
  - Approval of financial year 2018 bonus and LTIP outcomes
- Consideration of financial year 2019 bonus targets
- LTIP 2019 grant and performance criteria
- Approval of 2019 Sharesave grant

February

- AGM voting and shareholder feedback
- Review of Directors' Remuneration Policy

May

- Ongoing review of Directors' Remuneration Policy
- Market practice update
- Consideration of gender pay gap report
- Update on remuneration package changes for middle management
- Amendments to share plans for wider workforce and approval of grants

September

- Market practice update
- Update on incentive plan performance
- Consideration of Directors' Remuneration Policy and regulatory requirements
- Approval of salary increases to become effective for financial year 2020
- Consideration of financial year 2020 incentive structures
- Review of Chairman's fee

ANNUAL REPORT ON REMUNERATION – HOW THE COMMITTEE IMPLEMENTED THE REMUNERATION POLICY FOR FINANCIAL YEAR ENDED 30 SEPTEMBER 2019

IMPLEMENTING EXECUTIVE POLICY AND PRACTICE

In implementing the Directors' Remuneration Policy (as approved by shareholders at the 2018 AGM and set out on pages 56 to 61 of the Company's Annual Report and Accounts 2017, available on our website and summarised on page 81), the Remuneration Committee recognises that setting a competitive level of total remuneration is a matter of judgement. In forming this judgement, the Remuneration Committee considered pay data at comparator companies of similar scale, primarily looking at a market capitalisation group made up of 10 companies above and 10 companies below Imperial and companies in the FTSE 30 and 50. All of these peer groups exclude financial services. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most, serve to define a 'playing field' against which an individual's reward can be positioned. In determining that positioning, the primary factors taken into account are the scale of the challenges intrinsic to that individual's role and ability, experience and performance.

We align the interests of long-term shareholders and employees at all levels by, wherever possible, giving our employees the annual opportunity to build a shareholding in the Company through our employee share plans, with around 30 per cent of eligible employees participating in one or more plans.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED)

	Salary and fees		Taxable benefits[1]		Pension benefits[2]		Total fixed		Annual bonus[3]		LTIP vesting[4]		Sharesave vesting[5]		Total variable		Total		Effect of share price on value of LTIP vesting[6]	
£'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive Directors																				
Alison Cooper	**1,104**	1,077	**17**	17	**332**	312	**1,453**	1,406	**684**	1,874	**–**	612	**–**	1	**684**	2,487	**2,137**	3,893	**–**	(214)
Oliver Tant	**736**	718	**16**	16	**191**	187	**943**	921	**456**	1,249	**–**	278	**–**	–	**456**	1,527	**1,399**	2,448	**–**	(97)
Matthew Phillips	**605**	571	**17**	17	**93**	67	**715**	655	**375**	994	**–**	232	**–**	1	**375**	1,227	**1,090**	1,882	**–**	(81)
	2,445	2,366	**50**	50	**616**	566	**3,111**	2,982	**1,515**	4,117	**–**	1,122	**–**	2	**1,541**	5,241	**4,626**	8,223	**–**	(392)
Non-Executive Directors																				
Mark Williamson	**550**	525	**8**	9	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**558**	534	**–**	–
Sue Clark[7,8]	**83**	–	**2**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**85**	–	**–**	–
Thérèse Esperdy[7,9,10]	**107**	92	**46**	19	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**153**	111	**–**	–
Simon Langelier[9]	**83**	80	**5**	6	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**88**	86	**–**	–
Jon Stanton[9,11]	**33**	–	**1**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**34**	–	**–**	–
Steven Stanbrook[9,10]	**95**	92	**3**	4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**98**	96	**–**	–
Karen Witts[7,9]	**109**	106	**3**	3	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**112**	109	**–**	–
Malcolm Wyman[7,12]	**77**	112	**6**	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**83**	122	**–**	–
	1,137	1,007	**74**	51	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,211**	1,058	**–**	–

1. Taxable benefits principally include an allowance of £15,000 in lieu of the provision of a company car, fuel and health insurance. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.
2. Further details are contained in the Executive Directors' pension section on page 74.
3. Annual bonus earned for performance over the financial year ending 30 September 2019. In line with policy half of the net value is deferred in shares for three years; no further performance conditions apply.
4. The 2018 estimated figure has been restated to reflect actual share price at the date of vesting and the actual dividend roll-up.
5. Gains made on exercise are calculated as the difference between the option price and the market price on the date of exercise. No Sharesave options were exercised in the year.
6. Reflects the difference between the LTIP value at vesting and the value of the number of shares vested at date of grant and is not included in the total columns.
7. Includes payment in respect of Senior Independent Director fees of £26,000 per annum and chairmanship of Remuneration and Audit Committees at an annual rate of £26,000.
8. Sue Clark was appointed to the Board on 1 December 2018 and as Chairman of the Remuneration Committee from 6 February 2019.
9. Includes payment in respect of Committee membership at an annual rate of £5,000.
10. Thérèse Esperdy and Steven Stanbrook receive a non-European allowance of £12,000.
11. Jon Stanton was appointed to the Board on 8 May 2019.
12. Malcolm Wyman retired from the Board on 8 May 2019.

All expense payments made to Directors were made on the basis of reimbursement of expenses incurred, grossed-up for tax where expenses represent a taxable benefit. No payments were made by way of taxable expenses allowances. No Directors waived their fees.

ADDITIONAL NOTES TO THE SINGLE TOTAL FIGURE OF REMUNERATION

This section sets out supporting information for the single total figure columns relating to Annual Bonus, share plans and pension benefits. It details the extent to which performance conditions have been satisfied for the Annual Bonus and the LTIP.

Determination of 2019 Annual Bonus (Audited)

The Remuneration Committee set tough targets at the start of the year. Following solid delivery across three out of the five metrics, the formulaic outcome would have resulted in a bonus of 51 per cent of maximum. The Remuneration Committee, however, considered the wider performance of the Company, including the returns to shareholders through dividend, the share price and the overall experience of investors and exercised its discretion to reduce the bonus out-turn to 31 per cent of maximum (2018: 87 per cent).

Performance below threshold results in zero payment. Payments rise from zero per cent at threshold to 100 per cent of opportunity at the maximum.

Performance against individual measures is set out below:

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency) KPI	Performance is measured based on EPS growth at constant currency. Lower than expected NGP Net Revenue growth, despite a high level of investment, had a negative impact on EPS resulting in -1.6% growth. This performance delivered a 0% achievement against a threshold of 2% and a maximum of 5%.	20	0
Operating cash conversion KPI	Performance is measured as cash flow as a percentage of adjusted operating profit. Minimising cost and maximising cash remains core to our strategy, enabling us to improve efficiencies and release funds to support continued investment for growth. Focus on efficiently managing our cost base and a commitment to capital discipline delivered cash conversion of 95% in the year. This delivered a 100% achievement against a threshold of 86% and a maximum of 90%.	20	20
Revenue growth Tobacco KPI	Performance is measured based on revenue growth from our core tobacco products. Despite a number of challenges addressed throughout financial year 2019, our Tobacco business continues to be resilient. Tobacco's revenue growth results have been achieved by focusing on our Asset Brands, which grew 3% and represent 65% of Total Tobacco Net Revenue. Total Tobacco Net Revenue grew 1.1% which delivered a payment of 55% of opportunity against a threshold of 0% and a maximum of 2.0%.	20	11
Revenue growth NGP KPI	Performance is measured based on revenue generated from our NGP. NGP net revenue grew by 48% delivering £285m in net revenue. The result was below the threshold, largely due to market and regulatory factors in some of our key investment markets. This performance delivered a payment of 0% of opportunity against a threshold target of £500m and a maximum of £750m.	20	0
Market share growth in priority markets	Non-financial measures consisted of a market share target reflecting how many of our priority markets are delivering share growth. Continued focus on and application of our MRM supported year-on-year growth in share in many of our ten priority markets, including Italy, Australia, Japan, Russia, Saudi Arabia and the USA. This performance delivered a 100% achievement against a threshold of 10% and a maximum of 60% of our priority markets in share growth.	20	20
Formulaic achievement of Annual Bonus for 2019		100	51
Actual Annual Bonus for 2019 following application of discretion		**100**	**31**

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 16 and 17.

The Remuneration Committee seeks the input of the Audit Committee on performance out-turns and focused on the cash conversion out-turn in particular. It was satisfied that the maximum of 90% would have been exceeded even without the benefit of the year on year increase in factoring as described in notes 1 and 20 of the financial statements.

Individual Annual Bonus Achievement

Executive Directors	Total achievement £'000 Maximum	Actual	Cash portion of actual	Deferred shares portion of actual
Alison Cooper	**2,208**	684	342	342
Oliver Tant	**1,472**	456	228	228
Matthew Phillips	**1,210**	375	187	188

No element of the Annual Bonus is guaranteed. Fifty per cent of earned bonus is paid in cash with the remaining 50 per cent paid in shares with a three-year retention period. Such deferred shares are not subject to any further performance or employment conditions. Annual Bonuses for Executive Directors and certain key executives are subject to malus provisions before payment and clawback during the three years following the end of the financial year in which they are earned. Clawback may be applied in the event of gross misconduct by the employee or misstatement of results where this had the effect of increasing the level of bonus that would otherwise have been paid.

Long-Term Incentive Plan (Audited)

LTIP awards made to Alison Cooper, Oliver Tant and Matthew Phillips in February 2017 will lapse in February 2020, based on performance conditions measured over the three-year period ended 31 September 2019, as set out below.

	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Percentage of award vesting
Adjusted EPS KPI	3%-8% average annual growth	0.41%	12.5%	50%	0%
Net revenue growth KPI	1%-4% average annual growth	0.53%	7.5%	30%	0%
TSR against comparator group[1]	Threshold at median of peer group Pro rata between median and upper quartile Maximum above upper quartile	35th out of 37 companies	5%	20%	0%
Achievement					0%

1. The companies comprising the comparator group are:

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithKline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc	Pernod Ricard SA
Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rolls-Royce PLC	J Sainsbury PLC	Smith & Nephew PLC
Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC
WM Morrison Supermarkets PLC				

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 16 and 17.

The Remuneration Committee reviewed the formulaic outcome of the LTIP taking into account a wider view of Company performance and in particular noting that the targets for both EPS growth and net revenue growth were set by the Committee in 2016 before the additional brand and market investments behind NGP and tobacco in 2017 and 2018 were agreed by the Board. The impact of the investments, taking into account both the level of investment and any in-year returns, has been a significant contributory factor in no LTIP vesting in 2020. The Remuneration Committee believes that the decision taken by management to invest for future, sustainable growth was in the best interests of the Company and its stakeholders, but nevertheless has resulted in no vesting this year. The Remuneration Committee will continue to monitor the overall impact of investment decisions on incentive results but in this case has not exercised any discretion to alter the vesting outcomes.

The TSR calculations, performed independently by Alithos Limited, use the share prices of each comparator group company, averaged over a period of three months, to determine the initial and closing prices. Dividend payments are recognised on the date shares are declared ex-dividend. The Remuneration Committee considers this method gives a fairer and less volatile result as improved performance has to be sustained for several weeks before it effectively impacts on the TSR calculations. PwC performs agreed upon procedures in respect of the EPS and net revenue growth performance conditions for the LTIP performance assessments.

LTIP awards for Executive Directors and certain key executives are subject to malus and clawback provisions. These provisions allow the Remuneration Committee to reduce the value of awards if the following circumstances apply: the Company materially misstated its financial results; an individual has contributed to reputational damage to the Group; fraud or misconduct; or an error in relation to the determination of the outcome of a performance condition. Malus provisions apply until the award vests and clawback applies until the fifth anniversary of the date of grant of the award.

Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our long-term shareholders. Annually we offer as many employees as practicable, including Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent of the closing mid-market price of our shares on the day prior to invitation. The Sharesave Plan allows participants to save up to £250 per month over a period of three years and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2019, none of the Executive Directors had Sharesave Plans vesting. Approximately 68 per cent of eligible UK employees and over 27 per cent of eligible overseas employees participate in the Sharesave Plan.

Total Pension Entitlements (Audited)

The Executive Directors who served during the financial year are all members of the Imperial Tobacco Pension Fund (the Fund), which is the principal retirement benefit scheme operated by the Group in the UK.

Members who joined before 1 October 2010 are included in the defined benefit section of the Fund. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. It applied to all UK employees who joined Imperial at that time. New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis, in the defined contribution section of the Fund.

Alison Cooper and Matthew Phillips are, like all other employees who joined at the same time, members of the pre-April 2002 section of the defined benefit section of the Fund. Prior to 6 April 2006 they accrued a non-contributory pension at the rate of 1/47th of their pensionable salary limited by the effect of HMRC's earnings cap. Although HMRC removed this cap from 6 April 2006, the Fund did not dis-apply it in respect of past pensionable service and maintained its own earnings cap going forward. For pensionable service from 6 April 2006 onwards Alison Cooper and Matthew Phillips accrue an additional pension at a rate of 1/60th of their pensionable salary in excess of the Fund's earnings cap. They pay member contributions at the rate of five per cent of their pensionable salary in excess of the Fund's earnings cap. Both Alison Cooper and Matthew Phillips receive a salary supplement of 12 per cent of their pensionable salary in excess of the Fund's earnings cap.

With effect from 1 September 2017, the Company introduced a cap on pensionable salary for active members such that pensionable pay will in future be limited to £75,000 or, if higher, the member's pensionable salary at 1 September 2017. Both Alison Cooper and Matthew Phillips now receive a salary supplement of 14 per cent on the difference between their capped pensionable salary and their actual salary. All UK employees whose salaries are in excess of the Fund's earnings cap receive a cash allowance of 14 per cent of the difference in the same way.

Oliver Tant opted-out of contributory membership of the defined contribution section of the Fund with effect from 1 April 2016. Instead the Company has paid him an additional salary supplement of 26 per cent of his salary from 1 April 2016. This is not aligned to the contributions paid to UK employees generally. It was agreed with him when he joined the Company six years ago and is part of his contractual entitlement.

The salary supplements have been calculated by the independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable. The Remuneration Committee intends to limit employer contributions for new Executive Directors to the same level (14 per cent) that is provided to the majority of other UK-based employees.

For Executive Directors who are members of the defined benefit section of the Fund, in accordance with the rules of the Fund and practice for all pre-2002 members, there would be no reduction to the accrued pension on early retirement if the reason for leaving the Company's employment is as a result of redundancy after the age of 50 or for the reason of business efficiency after the age of 55 or ill health at any age.

Executive Directors' Pension Disclosures (Audited)

					Single figure numbers			Extra information to be disclosed under 2013 Directors' Remuneration Regulations		
			Accrued annual pension							
£'000	Age at 30/09/2019	Pensionable service at 30/09/2019	01/10/2018	30/9/2019	Payment in lieu of retirement benefits (i.e. pension supplement) £'000	Value x 20 over year (net of Director's contributions) £'000	Total pension benefits £'000	Normal retirement age	Value x 20 at start of year £'000	Value x 20 at end of year £'000
Alison Cooper	53	20	263	282	108	224	332	60	5,260	5,640
Matthew Phillips[1]	48	19	134	141	48	45	93	60	2,680	2,820
Oliver Tant[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. Matthew Phillips elected to use the Fund's 'scheme pays' facility to settle his Annual Allowance charge and his accrued annual pension value has been reduced accordingly.
2. Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He registered for Fixed Protection 2016 and as a result opted-out of contributory membership of the Fund and ceased pension contributions with effect from 01/04/2016. Since this date a salary supplement equal to 26 per cent of Oliver Tant's basic salary has been paid to him and in the year to 30 September 2019 this amounted to £191,360.

Variable Award Grants Made During the Year (Audited)

In line with the Directors' Remuneration Policy in force from 2014 and re-approved by shareholders in February 2018, LTIP awards are made in February each year for any change in policy to be considered by shareholders immediately prior to grant.

The LTIP awards granted in February 2019 and the associated performance conditions are set out below.

	Number of nil-cost options	Face value[1]	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance criteria[2, 3]
Alison Cooper	146,724	£3,864,000	350%	30 September 2021	25%	40%	3-year adjusted EPS growth
					25%	20%	3-year Tobacco revenue growth
					25%	20%	3-year NGP revenue growth
					25%	20%	TSR relative to bespoke comparator group
Oliver Tant	69,868	£1,840,000	250%	30 September 2021	25%	40%	3-year adjusted EPS growth
					25%	20%	3-year Tobacco revenue growth
					25%	20%	3-year NGP revenue growth
					25%	20%	TSR relative to bespoke comparator group
Matthew Phillips	57,433	£1,512,500	250%	30 September 2021	25%	40%	3-year adjusted EPS growth
					25%	20%	3-year Tobacco revenue growth
					25%	20%	3-year NGP revenue growth
					25%	20%	TSR relative to bespoke comparator group

1. Valued using the closing share price at the date of grant (14 February 2019) being £26.335 per share.
2. Vesting occurs as per the vesting schedule below.
3. Key performance indicators used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 16 and 17.

EPS Element

This criterion is used for 40 per cent of the award with the following vesting schedule:

Compound annual adjusted EPS growth[1]	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 8% per annum	Between 25% and 100% (pro rata)
8% per annum or higher	100%

1. As per the Remuneration Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

Tobacco Revenue Growth Element

The net revenue growth criterion is used for 20 per cent of the award with the following vesting schedule:

Compound annual growth in tobacco revenue[1]	Shares vesting (as a percentage of element)
Less than 0% per annum	nil
0% per annum	25%
0% to 2% per annum	Between 25% and 100% (pro rata)
2% per annum or higher	100%

1. As per the Remuneration Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

NGP Revenue Growth Element

This criterion will be used for 20 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

Compound annual net revenue growth[1]	Shares vesting (as a percentage of element)
Less than 75% per annum	nil
75% per annum	25%
75% to 130% per annum	Between 25% and 100% (pro rata)
130% per annum or higher	100%

1. As per the Remuneration Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

The performance targets set for the EPS, tobacco revenue and NGP revenue were set taking into account a range of factors including internal business plan, external consensus and a wider view of market conditions at the time. The target ranges are considered to be realistic yet challenging and require significant outperformance to achieve maximum vesting.

TSR Element

The performance criterion for the TSR element is based on a single comparator group of companies across a broadly defined consumer goods sector and is applied to 20 per cent of the award.

The companies within the comparator group and the vesting schedule are detailed on page 73.

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Under the rules of the LTIP, should the Company be acquired, the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro-rata basis subject to the achievement of the applicable performance criteria.

Awards with No Performance Conditions Made During the Year (Audited)

The deferred shares, being the deferred element of financial year 2018 bonus, awarded during the year are set out below.

	Number of deferred shares	Face value[1]	Portion of net bonus	End of deferral period
Alison Cooper	20,596	£493,152	50%	30 September 2021
Oliver Tant	13,730	£328,768	50%	30 September 2021
Matthew Phillips	10,919	£261,457	50%	30 September 2021

1. Valued using the share price at the date of purchase (14 December 2018), being £23.94404 per share.

Sharesave options granted during the year are set out below.

	Number of shares	Face value[1]	Normal plan maturity
Oliver Tant	515	£9,000	1 August 2022

1. Valued using the option price of £17.45, being 80 per cent of the closing price on 8 May 2019.

HOW THE REMUNERATION COMMITTEE INTENDS TO IMPLEMENT THE REMUNERATION POLICY FOR THE FINANCIAL YEAR 2019/20

LINKING REMUNERATION WITH STRATEGY

Our strategy, as set out on page 3 of this Annual Report and Accounts, aims to maximise sustainable shareholder returns through the creation of long-term quality growth. We will achieve this by:

- Maximising our performance in priority tobacco markets, where our Asset Brands provide high quality tobacco products to those consumers who choose to continue to smoke;
- Reprioritising our NGP investment plans, instilling a sharper focus on the category and market combinations that offer the greatest opportunities for sustainable, profitable growth; and
- Continuing to optimise cost and cash, through our simplified operating model, controlled overheads and robust capital allocation, to enable our investment, reduce cost and support shareholder returns.

Our approach to remuneration is designed to incentivise delivery against the key elements of this strategy and to promote long-term sustainable success to the benefit of our shareholders and the wider stakeholders and communities we serve. In doing this, we place significant emphasis, both in the structure of remuneration and in the choice of metrics used, on ensuring that remuneration aligns the interests of management with those of shareholders and our other stakeholders.

Element	Purpose and link to strategy
Alignment with our strategy	Sustainable high-quality growth is at the heart of our strategy and this is reflected in our pay structures through the inclusion of top-line growth metrics in both the Annual Bonus and LTIP. This growth will be delivered by a combination of maximising revenue in tobacco and growth in NGP. To reflect this need for success in both parts of the business, we are combining the revenue targets into one target for total net revenue growth and introducing strategic metrics for NGP. This supports a balance in focus and in reward outcomes, ensuring that both elements of the growth strategy must be delivered in order for significant incentive pay-outs to be achieved. The continued inclusion in the Annual Bonus of market share metrics for our priority tobacco markets aligns with the strategic focus on those markets in which we see the best opportunity for sustainable and profitable growth. In order to release funds in support of our investment to grow in both tobacco and NGP, continuing to manage our costs and cash flows remains a key strategic focus. Profitability, mainly in the form of earnings per share, forms a major part of the measurement in both the Annual Bonus and LTIP, whilst cash conversion forms a measure for the Annual Bonus. Whilst not directly measured within our incentives, return on capital remains a strategic KPI for the Company and all investment decisions are evaluated against the necessary hurdle rate before being approved.
Alignment with our shareholders	We believe that the best way to align management and employees with the interests of shareholders is through direct shareholdings. At the executive and leadership level, this is achieved through a combination of share-based long-term incentives and a 50% deferral of bonus into shares. Further to this and in line with our remuneration policy, 20% of the vesting of the LTIP award is directly attributable to Total Shareholder Return delivered. More broadly, employees at all levels are encouraged to have an interest in the Company's shares through both direct shareholdings (supported by shareholding requirements for senior managers) and through our share plans, with the value of senior management's overall remuneration being influenced by the performance of our share price.
Attracting, retaining and motivating the right people	Our Remuneration Policy is designed to ensure a high-quality pool of talented employees at all levels who are engaged and incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks. We believe it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we neither pay more than necessary nor reward failure. Our policy is, therefore, significantly weighted towards performance-based elements.

SALARY

The Remuneration Committee sets base salaries having regard to individual performance, changes to the individual's role, awards to other employees and market data for each position which reflect the Company's size, sector and global reach. Consideration is given to the effect any amendment to an individual's base salary would have on their total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

The Remuneration Committee decided in September 2019 that an increase of approximately 2.0 per cent, below the increase to other UK employees, who on average received 2.9 per cent (3.0 per cent globally), would be awarded to Alison Cooper, Oliver Tant and Matthew Phillips.

	Salary 2019/20	Salary 2018/19	Percentage change (approximate)
Alison Cooper	**£1,126,000**	£1,104,000	**2.0**
Oliver Tant	**£750,000**	£736,000	**2.0**
Matthew Phillips	**£617,000**	£605,000	**2.0**

Given the pending retirement of the Chairman, the Remuneration Committee also agreed that the Chairman's fee should remain consistent at £550,000. The Board (excluding the Non-Executive Directors) determined that the base fee of the Non-Executive Directors should increase from £78,000 to £79,500. Going forward, and aligning with market trends, the intention is to award any increases (if applicable) on an annual basis. In addition to the basic fee increases, the additional fees for Committee Chairmanship of the Audit and Remuneration Committees, as well as the additional fee paid to the Senior Independent Director role, were increased from £26,000 to £26,500. Committee membership fees of £5,000 were also increased to £5,500. Finally, the newly introduced Workforce Engagement Director role was approved to start receiving a fee of £5,500 at the start of financial year 2020, although this will be kept under review as the role develops to ensure it reflects the actual time commitments required to fulfil the role.

ANNUAL BONUS

Our shareholders and other stakeholders place significant weight on our annual performance. We therefore think it is appropriate to have a major portion of Executive Directors' remuneration tied to and incentivising the delivery of the Company's annual objectives through performance against key financial targets. The maximum Annual Bonus opportunity for all Executive Directors remains unchanged at 200 per cent.

Performance metrics and weights for the Annual Bonus have been amended from those used in the financial year 2019 bonus to better reflect our short-term priorities. All five metrics remain, weighted at 20 per cent, with maximum performance of any one metric delivering no more than 20 per cent of the overall bonus. The revenue metrics have been combined into Total Net Revenue Growth and Strategic Metrics have been introduced for NGP. After taking shareholder feedback on board, the Remuneration Committee has removed the use of modifiers (previously used as a way to take potential weighting on the NGP Net Revenue metric from 20 per cent to 40 per cent) on any given metric.

Fifty per cent of net bonus earned will be in the form of the Company's shares deferred for a three-year period; the remaining 50 per cent will be paid in cash.

For the next financial year the performance measures have been set out in the table below:

	Performance target	Maximum of bonus
Adjusted EPS Growth	Commercially confidential	20%
Cash Conversion	Commercially confidential	20%
Total Net Revenue Growth[1]	Commercially confidential	20%
Core Market Share	Commercially confidential	20%
NGP Strategic Metrics[2]	Commercially confidential	20%

1. Underpinned by requirement that growth from Asset Brands in Tobmax is higher than growth of the overall Tobmax portfolio, in order for the metric to pay out.
2. Two equally-weighted measures based on externally verifiable market share growth in our top strategic markets and profitable growth in NGP globally.

At this point, the performance targets are considered commercially confidential, but to the extent that any bonuses are paid, further details will be provided retrospectively in the 2020 Annual Report.

At the time of setting the bonus targets, the full impact of the share buyback programme and the timing and proceeds generated by any divestments, discussed on page 2, and the use of those proceeds is not known. The measures and targets set for financial year 2020 assume the current business remains in place for the full financial year. In line with the Directors' Remuneration Policy, the Remuneration Committee retains the ability to make any necessary judgements on how best to assess the achievement of the Annual Bonus measures and targets if any significant divestment occurs during the performance period. When using its judgement, the Remuneration Committee will consider the particular circumstances of the event and prioritise an approach which promotes the principles of fairness and consistency in outcomes. The Remuneration Committee retains wider discretion to amend or adjust a bonus measure and/or target if an event occurs which means it no longer achieves its original purpose.

SHARE PLAN AWARDS

FEBRUARY 2020 LTIP GRANT

The financial year 2020 LTIP award will be based on three measures: EPS, total net revenue and relative TSR. The performance ranges for EPS and net revenue have yet to be finalised and will be announced by way of an RNS when the awards are made. The peer group used for the assessment of relative TSR now reflects a more relevant group of companies in the consumer goods sector and, in accordance with our Remuneration Policy, will be applied to 20 per cent of the LTIP.

The companies in the revised peer group are:

Altria Group	Anheuser-Busch InBev	Beiersdorf	British American Tobacco	Brown-Forman
Carlsberg	Clorox	Constellation Brands	Diageo	Heineken
Henkel	Japan Tobacco	Kimberly-Clark	Kirin Holdings	L'Oréal
Monster Beverage	Pernod Ricard	Pepsico	Philip Morris International	Procter & Gamble
Reckitt Benckiser Group	Swedish Match	Uni Charm	Unilever PLC	

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

We recognise that there is a level of overlap of the metrics used in the Annual Bonus and the LTIP. However, the Remuneration Committee believes that, currently, this is the most appropriate way to align metrics (and thereby pay) with the delivery of strategy. The Remuneration Committee believes that, within our policy of 20 per cent weighting of TSR and the balance in financial measures, metrics will need to continue to evolve as our NGP business grows and that this overlap will likely unwind in the medium term. During financial year 2020 we will be reviewing our current Directors' Remuneration Policy for implementation in financial year 2021 (pending approval at the 2021 AGM). The Remuneration Committee expects to consider the continuing appropriateness of these and other potential measures as part of the policy review.

The Remuneration Committee retains the ability to make any necessary judgements on how best to assess the achievement of the LTIP measures and targets if any significant divestment occurs during the performance period. When using its judgement, the Remuneration Committee will consider the particular circumstances of the event and prioritise an approach which promotes the principles of fairness and consistency in outcomes. The Remuneration Committee retains wider discretion to amend or adjust an LTIP measure and/or target if an event occurs which means it no longer achieves its original purpose.

The Remuneration Committee is cognisant of the current share price and the impact this would have in terms of the number of LTIP awards which would be granted if normal award levels (as a percentage of salary) were maintained. In light of the current circumstances, the Remuneration Committee has decided to monitor share price levels between now and the normal award date (February 2020) and will make any reductions it feels appropriate considering the share price nearer the time. Any reduction would be announced by way of an RNS when the awards are made.

STATUTORY AND REGULATORY REPORTING REQUIREMENTS

PAYMENTS TO FORMER DIRECTORS (AUDITED)

No payments were made to former Directors during the year.

PAYMENTS FOR LOSS OF OFFICE (AUDITED)

No payments were made for loss of office during the year. On 3 October 2019 we announced that Alison Cooper would step down as Chief Executive Officer and from the Board once a suitable successor is found. It is our intention that Alison will be treated in accordance with Imperial's Directors' Remuneration Policy and her service contract for the remainder of her term in office. Full details will be disclosed on the Company's website and within the relevant Directors' Remuneration Report in due course.

VOTING ON THE REMUNERATION REPORT AT THE 2019 AGM

At the 2019 AGM we received a vote in favour of our Remuneration Report, with over 89 per cent of votes in favour. A few shareholders expressed concern in respect of the ability to flex the weighting for the NGP revenue growth metric for the financial year 2019 Annual Bonus. Following shareholder feedback, the use of this type of modifier has been removed and no other forms of modifiers are used within the financial year 2020 Annual Bonus (or LTIP). We received a strong vote in favour of our Directors' Remuneration Policy at our 2018 AGM.

Votes cast by proxy and at the meeting in respect of the Directors' annual remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast including votes withheld
Directors' Remuneration Report (2019 AGM)	663,281,220	89.75	75,728,142	10.25	739,009,362	7,222,879	746,232,241
Directors' Remuneration Policy (2018 AGM)	728,923,965	95.66	33,080,528	4.34	762,004,493	570,488	762,574,981

1. Votes withheld are not included in the final figures as they are not recognised as a vote in law.

ADVICE PROVIDED TO THE REMUNERATION COMMITTEE

Following a regular periodic review and tender, the Remuneration Committee appointed FIT Remuneration Consultants LLP (FIT) as principal adviser with effect from 1 November 2017. FIT advised on all aspects of our Remuneration Policy and practice and reviewed our structures against corporate governance best practice. FIT also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Remuneration Committee members up-to-date with new developments and evolving best practice.

FIT is a member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. FIT carries out no other work for Imperial Brands or its subsidiaries.

During the year FIT was paid time-based fees of £143,194.

Other companies which provided advice to the Remuneration Committee are as follows:

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR related matters. During the year it was paid a fixed fee of £19,500. Alithos Limited provided no other services to the Company;
- Allen & Overy LLP is available to provide legal advice to the Remuneration Committee as and when required. It was not asked for remuneration-related advice during the financial year. Allen & Overy LLP provided other legal services to the Company;
- Pinsent Masons LLP provided legal advice in respect of the operation of the Company's employee share plans;
- PricewaterhouseCoopers LLP (PwC), our auditors, perform agreed upon procedures on earnings per share (EPS) and net revenue calculations used in relation to our employee share plans' performance criteria. During the financial year PwC was paid a fee of £2,000 in respect of services to the Remuneration Committee; and
- Willis Towers Watson provided market pay data to ensure the consistent application of our Remuneration Policy for Executives. During the year it was paid time-based fees of £45,000 for these services. Willis Towers Watson also provided actuarial services to the Company.

All of these advisers were appointed by the Remuneration Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee.

The Group Human Resources Director and the Group Reward Director also attended meetings and provided internal support and advice on market and regulatory developments in remuneration practice and on our employee share plans. Their attendance ensured the Remuneration Committee was kept fully abreast of pay policies throughout the Company, which it then takes into account when determining the remuneration of the Executive Directors and our senior managers.

SUMMARY REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Our Directors' Remuneration Policy is designed to offer competitive, but not excessive, base salary, with significant weighting towards performance-based elements, the measures of which incentivise and support the delivery of our strategy, both on an annual and longer-term basis, whilst also reflecting individual, functional and corporate performance. We aim to set and rigorously apply targets that are stretching but achievable.

There are no changes proposed to the Policy approved by shareholders at our 2018 AGM, a summary of which is set out below. It does not replace or override the full approved policy, which is available on our website within the 2017 Annual Report and Accounts.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Salary	Attract, retain and motivate high-performing individuals, reflecting market value of role and the Executive Director's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Remuneration Committee taking into account each Executive Director's performance together with changes in role and responsibility, general increases for the UK wider management population and with reference to external market comparators. Salary increases, if any, are generally effective from 1 October.	No prescribed maximum annual increase.
Benefits	Competitive benefits taking into account market value of role and benefits offered to the wider UK management population.	Benefits include provision of company car, health insurance, life insurance and permanent health insurance which are provided directly or through the Company pension scheme. Opportunity to join the Sharesave Plan. Provision of relocation assistance upon appointment if/when applicable.	The level of benefit provision is fixed.
Annual Bonus Plan	Incentivise delivery of strategic objectives and enhance performance.	At least 60% of the Annual Bonus is linked to key financial metrics and no more than 15% will be linked to individual measures. Performance below the threshold results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any Annual Bonus is paid in deferred shares which must be held for a minimum of three-years with no further performance conditions. The balance is paid in cash. Malus provisions apply before payment and claw-back provisions are in place for the three-years following payment of annual bonus.	200% of base salary or such lower sum as determined by the Remuneration Committee.
Long-Term Incentive Plan	Incentivise long-term financial performance in line with our strategy and long-term shareholder returns. Align Executive Directors' interests with those of long-term shareholders.	Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 20% on relative total shareholder return (TSR) vs a peer group and 80% on financial measures. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Claw-back and malus provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. Any awards which vest will be subject to a further two-year holding requirement.	Chief Executive Officer: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Remuneration Committee. Plus shares equivalent to the value of the dividend roll-up.
Pensions	Attract and retain high-performing Executive Directors.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors who joined the Fund prior to 1 October 2010 are members of the defined benefit section whereas Executive Directors joining the Fund on or after this date are offered membership of the defined contribution section. Members of the defined benefit section of the fund accrue pension at a rate between 1/47th and 1/60th of pensionable salary. Further detail is provided on page 74. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.	Current policy is for a defined contribution and cash supplement limit of 26% of salary. Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Alison Cooper	1 July 2007	Terminable on 12 months' notice	No provisions
Oliver Tant	1 October 2013	Terminable on 12 months' notice	No provisions
Matthew Phillips	31 May 2012	Terminable on 12 months' notice	No provisions

POLICY IN RESPECT OF EXTERNAL BOARD APPOINTMENTS

We recognise that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship and may not serve as the chairman of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship. None of the Executive Directors currently holds an external non-executive directorship.

SHARE INTERESTS AND INCENTIVES (AUDITED)

Directors' current shareholdings are summarised in the following table:

	Shares held		Conditional awards and options held		
	Owned outright	Subject to a holding period	Awards unvested and subject to performance conditions	Options unvested and subject to continued employment	Vested but not exercised
Executive Directors					
Alison Cooper	264,548	42,107	389,275	404	–
Oliver Tant	55,727	27,729	185,324	515	–
Matthew Phillips	77,706	22,322	149,271	404	–
Non-Executive Directors					
Mark Williamson	25,639	–	–	–	–
Sue Clark	217	–	–	–	–
Thérèse Esperdy[1]	8,207	–	–	–	–
Simon Langelier	24,661	–	–	–	–
Steven Stanbrook[1]	18,736	–	–	–	–
Jon Stanton	75	–	–	–	–
Karen Witts	1,284	–	–	–	–

1. Thérèse Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.

There have been no changes to the above holdings since the year-end.

Our middle market share price at the close of business on 30 September 2019, being the last trading day of the financial year, was £18.282 and the range of the middle market price during the year was £17.746 to £27.50.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

ALIGNMENT OF REMUNERATION AND EQUITY HOLDING WITH SHAREHOLDER INTERESTS (AUDITED)

Our Remuneration Policy requires Directors to build a holding in our shares to align their interests with shareholders. The wealth of our Executive Directors can, therefore, be materially impacted by share price movements; we believe this encourages them to take a long-term view of the sustainable performance of the Company.

The table below sets out the number and value of shares owned outright and vested shares subject to a holding period.

	Shares held at start of year	Shares held at end of year	Increase in shares held during year	Value of shares held at start of year[1] £'000	Value of shares held at end of year[2] £'000	Difference in value £'000	Shareholding required (% salary)	Current shareholding (% salary/fees)[2]	Requirement met[2]
Executive Directors									
Alison Cooper	262,804	306,655	43,851	7,020	5,606	(1,414)	300	507	Yes
Oliver Tant[3]	57,486	83,456	25,970	1,535	1,525	(10)	300	207	No[3]
Matthew Phillips	78,944	100,028	21,084	2,108	1,828	(280)	300	302	Yes
Non-Executive Directors									
Mark Williamson[4]	20,676	25,639	4,963	552	469	(83)	–	–	N/A
Sue Clark[4]	–	217	217	–	4	4	–	–	N/A
Thérèse Esperdy[4]	7,926	8,207	281	212	150	(62)	–	–	N/A
Simon Langelier[4]	24,358	24,661	303	651	451	(200)	–	–	N/A
Steven Stanbrook[4]	18,463	18,736	273	493	343	(150)	–	–	N/A
Jon Stanton[4]	–	75	75	–	1	1	–	–	N/A
Karen Witts[4]	930	1,284	354	25	23	(2)	–	–	N/A

1. Based on a share price of £26.71, being the closing price on 30 September 2018, and includes the value of shares owned outright and those vested but subject to a holding period, being the deferred element of the bonus.
2. Based on a share price of £18.282, being the closing price on 30 September 2019.
3. Oliver Tant reached his five-year anniversary on the Board on 1 October 2018. At its meeting in September 2018, the Remuneration Committee discussed and agreed with him an approach to meet the 300 per cent guideline. This included the purchase of £213,000 worth of shares prior to the financial year 2018 year-end and the purchase of a further £130,000 worth of shares from the cash element of his financial year 2018 bonus. The Remuneration Committee agreed that once these additional purchases were made and taking into account the deferred element of his financial year 2018 annual bonus and the vesting of his financial year 16-18 LTIP, his shareholding guideline would be deemed to have been met.

   Following the vesting of the LTIP in February 2019, the value of Oliver Tant's shareholding exceeded the guideline. However, notwithstanding the purchase of a further £25,000 worth of shares during the year, the fall in the Company's share price resulted in a shortfall at the year-end. The Remuneration Committee will continue to actively monitor progress towards the guideline.
4. Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in the Company's shares which they are required to retain for the duration of their appointment.

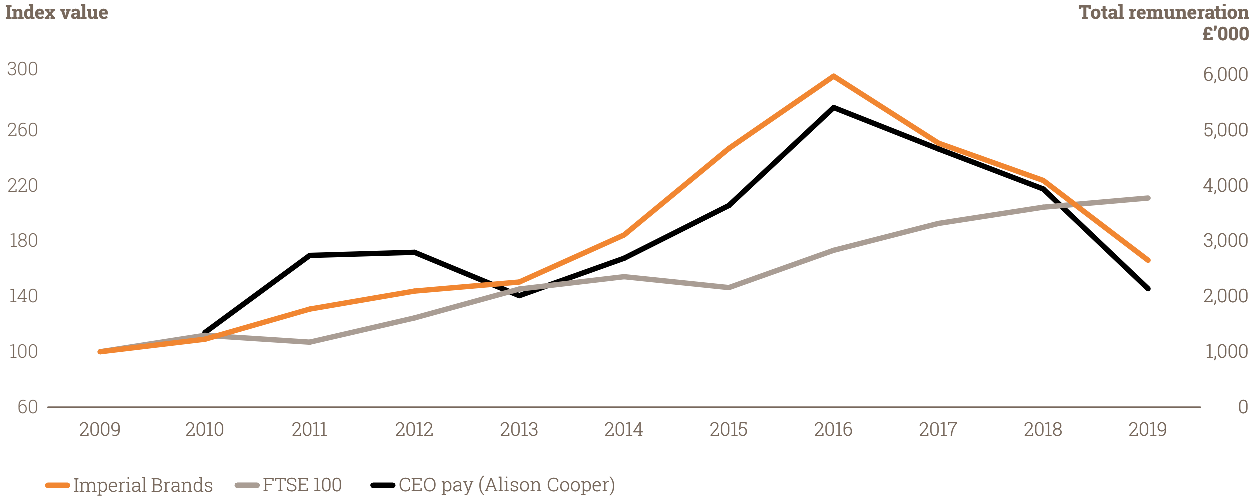
AWARD DATES

Our policy is to grant awards under all our employee share plans on predetermined dates based on an annual cycle.

REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2009 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year-ends to 30 September 2019. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a ten-year period.

TOTAL RETURN INDICES – IMPERIAL BRANDS AND FTSE 100



CHANGE IN CHIEF EXECUTIVE REMUNERATION

	2019 Alison Cooper	2018 Alison Cooper	2017 Alison Cooper	2016 Alison Cooper	2015 Alison Cooper	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper[1]	2011 Alison Cooper[1]	2010 Alison Cooper[1]	2010 Gareth Davis[2,3]
Total remuneration £'000	**2,137**	3,935	4,657	5,404	3,637	2,686	2,011	2,793	2,737	1,347	5,453
Annual bonus as a percentage of maximum	**31**[4]	87	60	72	80	69	34	51.2	33.1	84.7	84.7
Shares vesting as a percentage of maximum	**nil**	20	44.4	45.7	15.8	5.8	nil	58.0	71.6	80.8	46.93

1. Total remuneration includes value of share plans vesting that were granted prior to appointment as Chief Executive.
2. Total remuneration includes value of share plans vesting on retirement.
3. Based on performance conditions applicable on date of retirement.
4. 51 per cent was the formulaic out-turn; however, the Remuneration Committee used its discretion and reduced this to 31 per cent.

STATEMENT OF CHANGE IN PAY OF CHIEF EXECUTIVE COMPARED WITH OTHER EMPLOYEES

	Chief Executive		**All employees[1]**
	To 30 September 2019	Percentage change (2019 vs 2018)	Percentage change (2019 vs 2018)
Salary	**£1,104,000**	2.5	4.7
Benefits	**£16,910**	0	4.2
Bonus	**£684,480**	(63.5)	(42.6)

1. Based on members of our Corporate Management Group. This group has been chosen as it represents a good proxy for employees across the Group but is not overly influenced by local custom, hyperinflation in some jurisdictions etc.

CHIEF EXECUTIVE OFFICER TOTAL REMUNERATION AND SALARY ONLY PAY RATIOS

The Company has decided voluntarily to publish the CEO pay ratio in advance of the requirements using the prescribed Option A methodology.

Pay ratios are considered to be an additional reference point to inform the Remuneration Committee when setting and implementing the executive pay policy but cannot be considered in isolation. The potential volatility in the CEO single total figure means that year-on-year movements may not be reflective of underlying remuneration levels. Therefore, the Remuneration Committee will continue to consider pay in a broader context and monitor the progress in longer-term trends.

	Percentile		
Financial year 2019	25th	50th	75th
Total remuneration	53:1	36.5:1	22:1
Full-time equivalent salary	29:1	23:1	16:1

NOTES TO THE TABLE

The total remuneration pay ratios have been calculated as closely as possible in line with Option A and using the most recently available information on benefits and estimated bonus outcomes for UK employees. The full-time equivalent salary ratio represents the same population as assessed for the total remuneration ratio.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividends.

£ million unless otherwise stated	2019	2018	Percentage change
Executive Directors' total remuneration[1,2]	**5**	8	(41.8)
Overall expenditure on pay[1]	**826**	836	(1.2)
Dividend paid in the year	**1,844**	1,676	10.0

1. Excludes employer's social security costs.
2. Executive Directors' total remuneration is based on the total single figure for all Executive Directors and is included to provide a comparison between Executive Director and overall employee pay.

OPERATING EXECUTIVE (EXCLUDING EXECUTIVE DIRECTORS)

£'000	2019	2018
Base salary	**2,840**	2,624
Benefits	**222**	122
Pension salary supplement	**375**	326
Bonus	**1,822**	3,453
Termination payments	**1,422**	–
LTIP annual vesting[1]	**–**	189
SMS annual vesting[1]	**531**	720
	7,212	7,434

1. Share plans vesting represent the value of SMS and LTIP awards where the performance period ends in the year. The SMS has no performance conditions and is valued at the time of vesting being 15 February 2019 at a share price of £26.4722.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges, was £14,573,806 (2018: £18,443,119).

KEY MANAGEMENT[1] COMPENSATION FOR THE YEAR ENDED 30 SEPTEMBER 2019 (AUDITED)

£'000	2019	2018
Short-term employee benefits	**10,617**	14,373
Post-employment benefits	**1,536**	1,537
Other long-term benefits	**–**	–
Termination benefits	**–**	–
Share-based payments (in accordance with IAS 24)	**2,409**	1,903
	14,562	17,813

1. Key management includes Directors, members of the OPEX and the Company Secretary.

EMPLOYEE BENEFIT TRUSTS

Our policy remains to satisfy options and awards under our employee share plans either from market purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: the Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2019, we held 74,289,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

	Balance at 01/10/2018	Acquired during year	Distributed during year	Balance at 30/09/2019	Ordinary shares under award at 30/09/2019	Surplus/ (shortfall)
Executive Trust	342,906	300,000	(47,352)	595,554	1,330,403	(734,849)
2001 Trust	367,235	2,700,000	(846,096)	2,221,139	5,275,861	(3,054,722)

SHARE PLAN FLOW RATES

The Trust Deeds of the Employee Benefit Trusts and the rules of each of our employee share plans contain provisions limiting options and awards to five per cent of issued share capital in five years and 10 per cent in 10 years for all employee share plans, with an additional restriction to five per cent in 10 years for executive share plans. Currently, an aggregate total of 0.5 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under our executive and all employee share plans.

SUMMARY OF OPTIONS AND AWARDS GRANTED

Limit on awards	Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury)	Options and awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	1.9	0.3
5% in 5 years	1.0	0.3
5% in 10 years (executive plans)	1.4	0.2

For the Board

Sue Clark

SUE CLARK
Chairman of the Remuneration Committee

5 November 2019

GROUP FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Imperial Brands PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Imperial Brands PLC balance sheets as at 30 September 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Imperial Brands PLC statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 October 2018 to 30 September 2019.

OUR AUDIT APPROACH

OVERVIEW

- Overall Group materiality: £130 million (2018: £130 million), based on approximately 4 per cent of adjusted profit before tax.
- Overall Company materiality: £10 million (2018: £10 million), based on the lower of 1 per cent of total assets and an allocation of overall Group materiality.

- Following our assessment of the risk of material misstatement we selected 20 reporting entities for full scope audits which represent the principal business units. We conducted full scope audit work in the UK, USA, Germany and Logista in addition to a further eight locations in which the Group has significant operations. Our work also covered the Group shared service centre, central treasury function and the Parent Company.
- In addition, we performed specified procedures over certain balances and transactions in Russia, and given the increasing market focus on next generation products (NGP) we performed specified procedures on certain NGP balances and transactions, particularly revenue and inventory.
- During the year, the Group engagement team visited eight locations outside of the UK where full scope audits were performed and a number of locations specific to NGP.

All key audit matters relate to the Group:

- Uncertain tax positions in respect of direct and indirect taxes.
- Reallocation of goodwill and indefinite lived intangible assets.
- Presentation of Adjusted Performance Measures (APMs).
- Asset held for sale impairment assessment.
- Fair value of acquisition consideration – Von Erl.
- Additional focus on NGP.
- Tobacco / NGP related litigation.

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

CAPABILITY OF THE AUDIT IN DETECTING IRREGULARITIES, INCLUDING FRAUD

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tobacco legislation, UK tax legislation and equivalent local laws and regulations applicable to significant component teams, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase net revenue, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Consideration of system based segregation of duties;
- Assessment of matters reported on the Group's whistleblowing process and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit. All key audit matters relate to the Group.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
UNCERTAIN TAX POSITIONS IN RESPECT OF DIRECT AND INDIRECT TAXES **Refer to the Report of the Audit Committee and note 8 – Tax** The Group operates across a large number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business, including transfer pricing, direct and indirect taxes and transaction related tax matters. Where the amount of tax payable is uncertain, the Group establishes provisions based on management's judgement of the likelihood of settlement being required.	We used our UK and overseas tax specialists to gain an understanding of the current status of tax assessments and investigations and to monitor legislative developments. Our focus was on uncertain tax positions in relation to the challenge from the French Tax Authority in respect of the disposal of the Altadis Distribution France business, the EU Commission's challenge of the UK Controlled Foreign Company regime, and a number of other State Aid and transfer pricing risks. We used State Aid and transfer pricing specialists to read recent rulings and correspondence with local tax authorities, to challenge and test validity of key assumptions and inspect external advice provided by the Group's tax experts and legal advisers where relevant, to satisfy ourselves that the provisions had been appropriately recorded or adjusted to reflect any latest developments.

KEY AUDIT MATTER

UNCERTAIN TAX POSITIONS IN RESPECT OF DIRECT AND INDIRECT TAXES CONTINUED

We focused on the judgements made by management in assessing the likelihood of potentially material exposures and the estimates used to determine such provisions where required. In particular we focused on the impact of changes in local tax regulations and ongoing inspections by local tax authorities and international bodies, which could materially impact the amounts recorded in the Group financial statements.

Given the nature of judgements involved, the complexities of dealing with tax rules and regulations in numerous jurisdictions, accounting for this risk is primarily managed by the Imperial Brands head office tax team in Bristol. As such, this was a key area of focus for the Group engagement team.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We determined that the positions adopted in the Group financial statements for the above matters were reasonable based on our consideration of the risks.

We also considered the Russian Tax Authority's audit finding seeking additional excise taxes, as disclosed in note 8 to the Group financial statements. We engaged our Russian audit team and tax specialists to perform specified procedures in relation to assessing the level of provisioning and discussed this with management's external tax and legal experts, and performed testing over the basis of the £139 million provision recognised.

We challenged the overall sufficiency and clarity of disclosures in relation to uncertain tax provisions and tax related contingent liabilities. We highlighted where further disclosure was considered appropriate and ensured that management included this in the Annual Report.

KEY AUDIT MATTER

REALLOCATION OF GOODWILL AND INDEFINITE LIVED INTANGIBLE ASSETS

Refer to the Report of the Audit Committee and note 12 – Intangible Assets

As at 1 October 2018, the Group reorganised its operational reporting and management lines to the Board into the following four areas:

- Europe
- Americas
- AAA (Africa, Asia and Australia)
- Distribution

As this is deemed to be the level of information presented to the 'Chief Operating Decision Maker', IFRS 8 'Segmental Reporting' deems that these are now the Group's reportable segments and this led to the Group being required to reallocate its goodwill and intangible assets.

We focused on this area because the determination of how to reallocate the existing goodwill and intangible assets is complex and judgemental, with the assets split in proportion to their expected value in use cash flows at 1 October 2018 in a manner similar to that of a disposal.

The value in use cash flows involve complex and subjective judgements by the Directors about the future results of the relevant parts of the business, in addition to other sensitive judgements such as discount rates and long-term growth rates.

The Group also considered whether any impairment was necessary at the time of the reallocation.

This reallocation was also disclosed in the half-year announcement and the reorganisation was included as a post balance sheet event in the FY18 Annual Report and Accounts along with the details of the commercial rationalisation for the change.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We assessed the Group's reorganisation, by reviewing Board level reporting, the information flows in the business and the management structure and assessed whether reallocating goodwill and indefinite lived intangibles assets was appropriate and in accordance with IFRS.

We considered management's value in use cash flows underpinning the reallocation, ensuring that key assumptions of discount rates and cash flows were consistent with the impairment assessment management performed at 30 September 2018.

We performed testing on a sample basis to ensure further work was performed on key assumptions in the reallocation model (e.g. discount rates and tying through cash flows to business plans) given that the modelling for this was more detailed for some markets than the impairment model.

We provided challenge on the methodology used within the model, considered the mathematical accuracy and analysed its sensitivity to key assumptions.

We finally considered additional methods of reallocation and sense checked that the final reallocations and headroom appeared appropriate given management's and our understanding of the business.

We also considered the disclosure of this allocation in the Annual Report.

Separately, we tested management's FY19 year end impairment assessment of goodwill and indefinite lived assets, with no issues being found. Consistent with our audit plan reported to the Audit Committee in February 2019, we did not consider this impairment risk a significant audit risk or key audit matter given the level of headroom.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
PRESENTATION OF ADJUSTED PERFORMANCE MEASURES (APMS) **Refer to the Report of the Audit Committee** Like other large complex groups, Imperial Brands provides a number of alternative performance measures as part of its presentation and assessment of results at a Group and segmental level. The principal adjustments to reported numbers include: • Removal of amortisation and impairment on acquired intangibles. • Removal of restructuring costs for multi-year transformational change projects. • Removal of gains/losses and FX on financial instruments. • Removal of significant one-off events, for example in FY19 the fair value adjustment to acquisition consideration and the excise tax provision. • Significant one-off tax charges or credits. In making its assessment over APMs, Group Finance and the Audit Committee compared the Group's policy and reporting to other large UK listed groups, and other listed tobacco groups. They also analysed the ESMA guidance over use of APMs and the UK Corporate Governance Code. They also reflected on any third-party comments made regarding Imperial Brand's use of APMs. Their conclusion was that the APM policy approved by the Audit Committee in FY19 remained appropriate for FY19 reporting. As disclosed in the Annual Report, management is considering making a change for the FY20 Annual Report to record certain one-off items within adjusted results rather than treating them as an adjusting item. There will also be a consideration over whether adjusting out restructuring costs is relevant once the current restructuring programmes are completed by the end of FY20.	During our FY19 audit we: • Compared the Group's policy and disclosures to ensure they were consistent with ESMA guidance and Fair, Balanced and Understandable requirements. • Sample tested the restructuring costs adjustment to ensure costs related to COP1/COP2 only and not other, lower level or more frequently occurring reorganisation or redundancy costs. • Reconciled the APMs to underlying financial information in the financial statements to check accuracy and completeness. • Ensured APMs were properly defined in the financial statements. • Ensured reported IFRS results had sufficient prominence in the Annual Report, particularly the Financial Overview. At the October Audit Committee meeting, discussion was held over quality of earnings, with management noting the only large one-off FY19 gains included in adjusted results, amounted to around £10 million, relating to the revaluation of its exposure to investments taken in Auxly Cannabis Group Inc. We also got satisfied that removing disposal costs of £20 million in deriving adjusted operating profit is appropriate given its similarity to acquisition costs which have historically been excluded. Similar to FY18, we ensured the adjusted measures accounting policy in note 1 was clear, and updated where necessary. At the October Audit Committee meeting, we again reflected on the overall difference between reported versus adjusted operating profit for FY19, and FY18 comparatives. (A reconciliation is provided below the consolidated statement of comprehensive income in the financial statements). Ignoring the impact of removing restructuring and amortisation & impairment, (which is a framework used by many other listed groups), the differences are 12 per cent and 4 per cent respectively. The differences principally represent the fair value adjustment to acquisition consideration (£129 million) (see note 12) and excise tax provision (£139 million) (see note 8) in FY19, and administration of UK distributor (£110 million) in FY18, which are all large and one-off items. Overall we remain satisfied with the FY19 treatment of APMs and that management and the Audit Committee suitably considered ESMA and other associated guidance.
ASSET HELD FOR SALE IMPAIRMENT ASSESSMENT **Refer to the Report of the Audit Committee and note 11 – Assets Held for Sale** In the half-year announcement the Group announced its plans to dispose of the Premium Cigar business. In the second half year the disposal plans advanced sufficiently that an asset held for sale has been recognised. The recognition of the asset held for sale has created the need for an impairment assessment on the basis of fair value less costs to sell. The resulting assessment has significantly contributed to the Group's total impairment charge and associated costs in the year of £525 million. We focused on this area due to the complexity and estimation in the impairment charge.	We performed the following procedures: • We performed testing over the asset base to ensure the appropriate amount of assets have been allocated to the held for sale asset. • We assessed the potential sales price of the disposal, by analysing recent offers and terms. • We tested management's modelling of the impairment calculation, analysed the mathematical accuracy and understood the other inputs (testing where material). Overall we are comfortable that the impairment is appropriate based on the best available information at the date of signing. We also agree that the recycling of historical exchange gains and losses should be recognised at the point of disposal but the estimate, at the balance sheet date, has been appropriately disclosed in note 11.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
FAIR VALUE OF ACQUISITION CONSIDERATION – VON ERL **Refer to the Report of the Audit Committee and note 12 Intangible Assets** On 14 June 2017, the Group completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million. There was also agreement to purchase a further 50 per cent of the share capital of the company, payable as contingent consideration, based on the level of future product sales, with a cap of overall consideration. Post year end, management has reached agreement with the seller on the final consideration to be paid. An overall liability of £124 million and a charge of £129 million has been recognised in the year in respect of this. We focused on this area as consideration of the fair value has required judgement throughout the year.	We have assessed the sales and purchase agreement in respect of this acquisition and considered the terms of the contingent consideration and subsequent share purchase. The sales of related NGP products since the acquisition and future forecasts were key to arriving at the liability recognised in the first half of FY19. At half year, our independent analysis indicated that sufficient evidence had become available subsequent to the prior year end such that a significant step up in the calculation of the contingent consideration needed to be recognised, up to the capped level. Management performed its own assessment of forecasts and inputs and booked a £119 million increase to the liability up to the capped level, recognised as an adjusting item in the income statement. In the second half year, the liability has been updated to reflect the Group's renegotiated position with the third-party vendor. This led to a small increase in the liability, largely due to the unwinding of discounting. In respect of this we have: • Analysed the revised agreement, inspecting key terms and tying through final consideration to the year-end liability. • Tested the cash payment post year end to bank statements. Following these audit procedures we were able to obtain comfort over the liability recognised. We also considered the appropriateness of the charge of £129 million being excluded from adjusted profit, which given the one-off nature of this business acquisition related charge we deemed appropriate.
ADDITIONAL FOCUS ON NGP **Refer to the Report of the Audit Committee** The growth in NGP is a key internal and external metric for the Group and whilst its results currently make up a small proportion of the Group (4 per cent of Tobacco and NGP net revenue), we are aware of the shareholders' interest in this area, particularly in light of current year trading, and therefore increased our focus in two main areas. Slow-moving inventory – as a result of *my*blu sales not being at the internally forecast levels, the volume of *my*blu pods in the Group's own warehouses, and at Distributors and Retailers, had reached higher levels than management had forecast. The Group has therefore recognised in cost of sales in the year, a slow-moving inventory provision of £34 million against finished goods inventory. Key assumptions include forecast pod sales out of the retail channel and the shelf life of *my*blu pods. Revenue Recognition – Management has spent time in FY19 assessing its accounting policies over NGP revenue recognition. This included presentation of discounts/rebates net against revenue in line with IFRS 15, and recording the cost of free or heavily discounted samples in A&P rather than grossing up revenue. Reflecting on this, alongside the growth achieved versus forecast, we increased our focus on this area.	We have performed the following testing over the inventory provision: • Agreeing *my*blu pod inventory levels on a sample basis to underlying records and the results of inventory counts we attended. • Assessing sales forecasts, including understanding how they compared to Board approved forecasts. • Challenging management over the shelf life of e-vaping liquids, speaking with the Group's science experts and comparing the life to other competitor products and announcements where available. • Testing the mathematical accuracy of the model used by management to determine the inventory provision. • Considering sensitivities of estimates to variation in key assumptions. We performed the following testing over revenue: • Sample tested NGP revenue in key markets back to third-party supporting documentation. • Inspected on a sample basis third-party contracts to check there are no contractual rights of return. • Inspected credit notes issued post 30 September 2019 to check there was no evidence of FY19 sales being reversed. • Performed risk analytics and sample testing of gross and net revenue across key markets looking for any incidence of misstatements to presentation under IFRS 15. • Checked that the basis of preparation of the NGP net revenue disclosed in the Other Information in the Annual Report was appropriate. Based on this work we are satisfied that the level of NGP inventory slow-moving provision, and the basis of NGP revenue recognition, are appropriate.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
TOBACCO / NGP RELATED LITIGATION **Refer to the Report of the Audit Committee and note 29 Contingent Liabilities** The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking, vaping and health-related effects. The Group's view is that it has meritorious defences to all these cases and therefore no provisions have been made. In the US, tobacco-related litigation is managed separately by the Master Settlement Agreement ("MSA"). Four states are not parties to this agreement and claims have been raised by these states (Previously Settled States) against the Group's US business, ITG Brands, in respect of whether annual payments are required following the acquisition of certain US brands in June 2015. The Group continues to receive legal advice in relation to these claims that supports management's assessment that at present it is remote that the Group will incur any outflow of resources and therefore no provision is necessary. Separately, the Group, and other companies in the tobacco sector, are under investigation by the competition authorities in a number of markets. Two markets, Spain (including Logista) and the Ukraine, have issued public findings and fines against the Group. The Group is receiving legal advice in relation to these fines and believes that it is not probable that any outflow will occur and therefore no provision is necessary.	In respect of these matters, we held meetings with the Group legal team and reviewed Board meeting minutes to understand the matters and current progress. We also assessed available historic precedent. We wrote to and received responses from the Group's external lawyers in all these cases and validated responses to management's position. In respect of the Previously Settled States case, we held a meeting with the Group's external legal counsel. Through this we challenged management on elements of the case and the appropriateness of the accounting. Following this and as a result of our work we consider management's position, that no provision is required under IAS 37, to be reasonable. We also discussed the level of disclosure in relation to these matters and highlighted where further disclosure was required, particularly in relation to the possible exposure of the Previously Settled States and competition commission cases, and ensured this has been included in the Group financial statements or Other Information.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along two business lines being 'Tobacco & NGP' and 'Distribution'. The Tobacco & NGP business operates across 160 markets, with 23 key markets, which are then managed through segments: AAA; Americas; and Europe. A number of these markets are supported by the Group's shared service centres in Poland and the Philippines. The output of these shared service centres is included in the financial information of the reporting components they service and they are therefore not separate reporting components. The Group's accounting process is structured around a local or regional finance function for each of the markets in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol through an integrated consolidation system.

In establishing the overall approach to the Group audit we determined the type of work that needed to be performed at reporting components, by either the Group engagement team or through directing component auditors from PwC network firms. This included consideration of the work required to be performed by our audit teams at shared service centres to support component auditors.

We identified 20 reporting entities (including the Distribution sub group), which due to their significance and/or risk characteristics required an audit of their complete financial information. We also conducted specified procedures in Russia based on our assessment of the risk of misstatement and the scale of operations at this market, and given the increasing market focus on next generation products (NGP) we performed specified procedures on certain NGP balances and transactions, which is spread throughout the Group's markets with particular focus on revenue and inventory.

Certain specific audit procedures over central corporate functions and areas of significant judgement, including goodwill and intangible assets, taxation, material provisions and contingent liabilities, were performed at the Group's head office. We also performed work centrally on systems and IT general controls, consolidation journals and the one-off transactions undertaken by the Group during the year.

Taken together, the reporting entities and Group functions where we performed audit work accounted for approximately 79 per cent of Group revenues and in excess of 80 per cent of both Group profit before tax and Group adjusted profit before tax. At the Group level, we also carried out analytical and other procedures on the reporting components not covered by the procedures above.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included attending component clearance meetings and holding regular conference calls, as well as reviewing and assessing matters reported.

Senior members of the Group engagement team visit the component teams on a rotational basis. In the current year the Group team visited the USA, Morocco, Germany, Spain, Logista, Netherlands, France, UAE and a number of NGP locations, as well as in-scope UK reporting locations. These visits included meetings with local management and with the component auditors, as well as certain operating site tours. The Group engagement partner also took part in the year-end clearance meetings for the UK, USA, Germany and Logista businesses, and the Group engagement team reviewed the audit working papers for these components and certain other components.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£130 million (2018: £130 million).	£10 million (2018: £10 million).
How we determined it	Approximately 4 per cent of adjusted profit before tax.	Lower of 1 per cent of total assets and an allocation of overall Group materiality.
Rationale for benchmark applied	We believe that adjusted profit before tax is the primary measure used by shareholders and other users in assessing the performance of the Group, and that by excluding adjusting items it provides a clearer view on the performance of the underlying business.	The Company is principally an investment holding company and therefore it is not appropriate to use profit before tax or revenues to determine materiality, rather materiality is considered with reference to total assets. Overall materiality applied is limited to £10 million, being the lower of 1 per cent of total assets and an allocation of overall materiality for the purposes of the audit of the Group financial statements.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £10 million and £40 million for the trading entities and £80 million for the financing and treasury entity. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5 million (Group audit) (2018: £10 million) and £5 million (Company audit) (2018: £10 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on pages 38-40 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on pages 38-40 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit (Listing Rules).

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

The statement given by the Directors, on page 41, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.

The section of the Annual Report on pages 50-57 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 (CA06).

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

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.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 6 August 1996 to audit the financial statements for the year ended 27 September 1997 and subsequent financial periods. The period of total uninterrupted engagement is 23 years, covering the years ended 27 September 1997 to 30 September 2019.

RICHARD FRENCH (SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
5 November 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

£ million unless otherwise indicated	Notes	2019	Restated 2018
Revenue	3	**31,594**	30,066
Duty and similar items		**(15,394)**	(14,700)
Other cost of sales		**(9,960)**	(9,356)
Cost of sales		**(25,354)**	(24,056)
Gross profit		**6,240**	6,010
Distribution, advertising and selling costs		**(2,295)**	(2,001)
Acquisition and disposal costs	11	**(22)**	–
Amortisation and impairment of acquired intangibles	11 / 12 / 14	**(1,118)**	(1,053)
Excise tax provision	8	**(139)**	–
Administration of UK distributor		**–**	(110)
Fair value adjustment of acquisition consideration	12	**(129)**	–
Restructuring costs	5	**(144)**	(196)
Other expenses		**(196)**	(243)
Administrative and other expenses		**(1,748)**	(1,602)
Operating profit	3	**2,197**	2,407
Investment income		**890**	631
Finance costs		**(1,452)**	(1,257)
Net finance costs	7	**(562)**	(626)
Share of profit of investments accounted for using the equity method	14	**55**	42
Profit before tax	4	**1,690**	1,823
Tax	8	**(609)**	(396)
Profit for the year		**1,081**	1,427
Attributable to:			
Owners of the parent		**1,010**	1,368
Non-controlling interests		**71**	59
Earnings per ordinary share (pence)			
• Basic	10	**106.0**	143.6
• Diluted	10	**105.8**	143.2

See note 1 Accounting Policies for details of the restatement in respect of the year ending 30 September 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Notes	2019	2018
Profit for the year		**1,081**	1,427
Other comprehensive income			
Exchange movements		**270**	176
Items that may be reclassified to profit and loss		**270**	176
Net actuarial (losses)/gains on retirement benefits	23	**(248)**	196
Deferred tax relating to net actuarial (losses)/gains on retirement benefits	22	**52**	(54)
Items that will not be reclassified to profit and loss		**(196)**	142
Other comprehensive income for the year, net of tax		**74**	318
Total comprehensive income for the year		**1,155**	1,745
Attributable to:			
Owners of the parent		**1,086**	1,683
Non-controlling interests		**69**	62
Total comprehensive income for the year		**1,155**	1,745

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2019	2018
Operating profit		**2,197**	2,407
Acquisition and disposal costs	11	**22**	–
Amortisation and impairment of acquired intangibles	11 / 12 / 14	**1,118**	1,053
Excise tax provision	8	**139**	–
Administration of UK distributor		**–**	110
Fair value adjustment of acquisition consideration	12	**129**	–
Restructuring costs	5	**144**	196
Adjusted operating profit		**3,749**	3,766

Following greater definition around the enforceability of the Von Erl contract and greater confidence in the sales forecast for *my*blu products an agreement has been made with the previous owners to settle at €140 million for the remaining equity. As a result an incremental provision of £129 million has been recognised during the year. See note 12 for further details.

A provision has been raised in respect of excise tax. See note 8 for further details.

On 28 November 2017 Palmer & Harvey (P&H) announced that they had entered administration. As a result of P&H entering administration, a provision was made of £160 million in the period ending 31 March 2018 in respect of monies considered irrecoverable. This was revised to £110 million at 30 September 2018 following receipt of monies in respect of a loan issued to P&H.

Amortisation and impairment of acquired intangibles, acquisition and disposal costs and restructuring costs are discussed in further detail in the above referenced notes.

RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	2019	2018
Net finance costs		**(562)**	(626)
Net fair value and exchange losses on financial instruments	7	**107**	126
Post-employment benefits net financing cost	7	**5**	13
Adjusted net finance costs		**(450)**	(487)

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2019	2018
Non-current assets			
Intangible assets	12	**18,596**	19,117
Property, plant and equipment	13	**1,979**	1,891
Investments accounted for using the equity method	14	**81**	845
Retirement benefit assets	23	**595**	598
Trade and other receivables	16	**119**	82
Derivative financial instruments	21	**677**	462
Deferred tax assets	22	**595**	600
		22,642	23,595
Current assets			
Inventories	15	**4,082**	3,692
Trade and other receivables	16	**2,993**	2,585
Current tax assets	8	**303**	164
Cash and cash equivalents	17	**2,286**	775
Derivative financial instruments	21	**137**	37
Current assets held for disposal	11	**1,287**	–
		11,088	7,253
Total assets		**33,730**	30,848
Current liabilities			
Borrowings	19	**(1,937)**	(2,397)
Derivative financial instruments	21	**(28)**	(105)
Trade and other payables	18	**(9,536)**	(8,270)
Current tax liabilities	8	**(421)**	(286)
Provisions	24	**(284)**	(179)
Current liabilities held for disposal	11	**(176)**	–
		(12,382)	(11,237)
Non-current liabilities			
Borrowings	19	**(11,697)**	(9,598)
Derivative financial instruments	21	**(1,408)**	(1,073)
Trade and other payables	18	**(7)**	(47)
Deferred tax liabilities	22	**(1,156)**	(1,113)
Retirement benefit liabilities	23	**(1,249)**	(1,061)
Provisions	24	**(247)**	(274)
		(15,764)	(13,166)
Total liabilities		**(28,146)**	(24,403)
Net assets		**5,584**	6,445
Equity			
Share capital	25	**103**	103
Share premium and capital redemption		**5,837**	5,837
Retained earnings		**(2,255)**	(1,150)
Exchange translation reserve		**1,252**	980
Equity attributable to owners of the parent		**4,937**	5,770
Non-controlling interests		**647**	675
Total equity		**5,584**	6,445

The financial statements on pages 96 to 145 were approved by the Board of Directors on 5 November 2019 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 30 September 2018	**103**	**5,837**	**(1,150)**	**980**	**5,770**	**675**	**6,445**
IFRS 9 Transition	–	–	(5)	–	(5)	–	(5)
At 1 October 2018	**103**	**5,837**	**(1,155)**	**980**	**5,765**	**675**	**6,440**
Profit for the year	–	–	1,010	–	1,010	71	1,081
Exchange movements on overseas net assets	–	–	–	232	232	(2)	230
Exchange movements on net investment hedges	–	–	–	(228)	(228)	–	(228)
Exchange movements on quasi-equity loans	–	–	–	268	268	–	268
Net actuarial losses on retirement benefits	–	–	(248)	–	(248)	–	(248)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	52	–	52	–	52
Other comprehensive income	–	–	(196)	272	76	(2)	74
Total comprehensive income	–	–	814	272	1,086	69	1,155
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	1	–	1	–	1
Costs of employees' services compensated by share schemes	–	–	23	–	23	–	23
Current tax on share-based payments	–	–	1	–	1	–	1
Cancellation of share capital	–	–	(108)	–	(108)	–	(108)
Changes in non-controlling interests	–	–	13	–	13	(13)	–
Dividends paid	–	–	(1,844)	–	(1,844)	(84)	(1,928)
At 30 September 2019	**103**	**5,837**	**(2,255)**	**1,252**	**4,937**	**647**	**5,584**
At 1 October 2017	103	5,837	(1,084)	828	5,684	542	6,226
Profit for the year	–	–	1,368	–	1,368	59	1,427
Exchange movements on overseas net assets	–	–	–	326	326	3	329
Exchange movements on net investment hedges	–	–	–	115	115	–	115
Exchange movements on quasi-equity loans	–	–	–	(268)	(268)	–	(268)
Net actuarial gains on retirement benefits	–	–	196	–	196	–	196
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(54)	–	(54)	–	(54)
Other comprehensive income	–	–	142	173	315	3	318
Total comprehensive income	–	–	1,510	173	1,683	62	1,745
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	2	–	2	–	2
Costs of employees' services compensated by share schemes	–	–	25	–	25	–	25
Current tax on share-based payments	–	–	1	–	1	–	1
Cancellation of share capital	–	–	(41)	–	(41)	–	(41)
Changes in non-controlling interests	–	–	(121)	(21)	(142)	142	–
Proceeds, net of fees from disposal of Logista shares (note 32)	–	–	234	–	234	–	234
Dividends paid	–	–	(1,676)	–	(1,676)	(71)	(1,747)
At 30 September 2018	103	5,837	(1,150)	980	5,770	675	6,445

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	2019	2018
Cash flows from operating activities		
Operating profit	**2,197**	2,407
Dividends received from investments accounted for under the equity method	**54**	25
Depreciation, amortisation and impairment	**1,316**	1,266
Profit on disposal of non-current assets	**(19)**	(76)
Post-employment benefits	**(72)**	(60)
Costs of employees' services compensated by share schemes	**23**	26
Provision in respect of loan to third parties	**–**	4
Fair value adjustment of acquisition consideration (note 12)	**129**	–
Movement in provisions	**80**	(87)
Operating cash flows before movement in working capital	**3,708**	3,505
Increase in inventories	**(560)**	(112)
Increase in trade and other receivables	**(267)**	(35)
Increase in trade and other payables	**877**	136
Movement in working capital	**50**	(11)
Tax paid	**(522)**	(407)
Net cash generated from operating activities	**3,236**	3,087
Cash flows from investing activities		
Interest received	**15**	10
Loan to joint ventures	**4**	–
Loan to third parties (note 20)	**(75)**	28
Proceeds from the sale of non-current assets	**57**	134
Purchase of non-current assets	**(409)**	(327)
Purchase of businesses (net of cash acquired)	**–**	(8)
Purchase of brands and operations (note 12)	**(17)**	(67)
Net cash used in investing activities	**(425)**	(230)
Cash flows from financing activities		
Interest paid	**(488)**	(501)
Cash from employees on maturity/exercise of share schemes	**1**	2
Increase in borrowings	**3,699**	1,619
Repayment of borrowings	**(2,330)**	(2,261)
Cash flows relating to derivative financial instruments	**(117)**	41
Repurchase of shares	**(108)**	(41)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 32)	**–**	234
Dividends paid to non-controlling interests	**(84)**	(71)
Dividends paid to owners of the parent	**(1,844)**	(1,676)
Net cash used in financing activities	**(1,271)**	(2,654)
Net increase in cash and cash equivalents	**1,540**	203
Cash and cash equivalents at start of year	**775**	624
Effect of foreign exchange rates on cash and cash equivalents	**(15)**	(52)
Transferred to held for disposal (note 11)	**(14)**	–
Cash and cash equivalents at end of year	**2,286**	775

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as published by the International Accounting Standards Board and adopted by the EU. In addition, the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis as detailed on page 32.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and judgements. This could affect future financial statements as the original estimates and judgements are modified, as appropriate, in the year in which the circumstances change.

The Company provides guarantees to the following subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2019:

- Imperial Tobacco Holdings (2007) Limited
- Sinclair Collis Limited
- Imperial Tobacco Ventures Limited
- Rizla UK Limited
- Imperial Tobacco Overseas (Polska) Limited
- La Flor de Copan UK Limited
- Tabacalera de Garcia UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited
- Nerudia Compliance Limited

The principal accounting policies, which have been applied consistently other than where new policies have been adopted, are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the results of Imperial Brands PLC (the Company), a public company listed by shares, incorporated in the United Kingdom, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

JOINT VENTURES

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of profit of investments accounted for using the equity method'.

FOREIGN CURRENCY

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intragroup loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

	2019		2018	
Foreign exchange rate versus GBP	**Closing rate**	**Average rate**	Closing rate	Average rate
Euro	**1.1291**	**1.1315**	1.1270	1.1304
US Dollar	**1.2294**	**1.2766**	1.3046	1.3460

REVENUE RECOGNITION

For the Tobacco & Next Generation Products (Tobacco & NGP) business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue is based on the completion of performance obligations that constitute the delivery of goods and completion of services. The performance obligation is recognised as complete at the point in time when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Performance obligations associated with services, which include fees for distributing certain third-party products, are linked to the delivery of those services. Income arising from the licensing or sale of intellectual property, occurring in the ordinary course of business, is treated as revenue. Licensing revenue will be recognised over the period of the licence while revenue is recognised immediately on the sale of intellectual property where that represents a long-term right to use the asset.

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 Distribution business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Payments are made to both direct and indirect customers for rebates, discounts and other promotional activities. Direct customers are those to which the Group supplies goods or services. Indirect customers are other entities within the supply chain to the end consumer. Rebates and discounts are deducted from revenue. Payments for promotional activities will also be deducted from revenue where the payments relate to goods or services that are closely related to or indistinct from associated sales of goods or services to that customer. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

DUTY AND SIMILAR ITEMS

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Payments due in the USA under the Master Settlement Agreement are no longer deducted from net revenue, instead these payments are now being recognised in other cost of sales.

TAXES

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Provisions for uncertain tax positions are recognised when the Group has a present obligation as a result of a past event and management judge that it is probable that there will be a future outflow of economic benefits from the Group to settle the obligation. Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions that we operate using management's estimate of the most likely outcome. The Group recognises interest on late paid taxes as part of financing costs. The Group recognises penalties, if applicable, as part of administrative and other expenses.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

INTANGIBLE ASSETS – GOODWILL

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. If any negative goodwill arises this is recognised immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

INTANGIBLE ASSETS – OTHER

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

These assets consist mainly of acquired trademarks, intellectual property, product development, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment.

Intellectual property (including trademarks), product development, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5-30 years	straight line
Supply agreements	3-15 years	straight line
Software	3-10 years	straight line
Product development	3-10 years	straight line

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2-20 years	straight line/ reducing balance
Fixtures and motor vehicles	2-15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

FINANCIAL INSTRUMENTS AND HEDGING

Following the adoption of IFRS 9, the Group's accounting policies for financial instruments and hedging remain the same as disclosed in the 30 September 2018 Annual Report and Accounts, except for changes to the classification and measurement of certain non-derivative financial assets and the calculation of expected credit losses, as detailed below.

At 30 September 2018 all non-derivative financial assets were classified as loans and receivables. Receivables were all initially recognised at fair value and subsequently stated at amortised cost using the effective interest method. From 1 October 2018, receivables held under a hold to collect business model continue to be stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement, are now separately classified as fair value through profit or loss, within trade and other receivables.

At 30 September 2018, provisions for impairment of receivables were established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of those receivables. Provisions were only recognised when an impairment had crystallised. From 1 October 2018 the calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IFRS 9) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

All hedge accounting relationships are considered to be continuing hedge relationships upon the adoption of IFRS 9.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are netted off the carrying value of those derivatives in the consolidated balance sheet.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory is considered for obsolescence or other impairment issues and an associated provision is booked where necessary.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

PROVISIONS

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

ASSETS HELD FOR SALE

Assets held for sale arise once a disposal process has advanced sufficiently to meet the requirements of IFRS 5. Assets identified as held for sale are considered for impairment of their carrying value against expected proceeds. The assets and liabilities are presented separately on the balance sheet as assets held for sale and liabilities held for sale.

CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group. In the event that the outflow of resources associated with a contingent liability is assessed as probable, and if the size of the outflow can be reliably estimated, a provision is recognised in the financial statements.

RETIREMENT BENEFIT SCHEMES

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

SHARE-BASED PAYMENTS

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

USE OF ADJUSTED MEASURES

Management believes that non-GAAP or adjusted measures provide an important comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, tax, attributable earnings and earnings per share exclude, where applicable, acquisition and disposal costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and tax matters. Reconciliations between adjusted and reported operating profit are included within note 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported tax in note 8, and adjusted and reported earnings per share in note 10.

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

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

The principal adjustments made to reported profits are as follows:

ACQUISITION AND DISPOSAL COSTS

Adjusted measures exclude costs associated with major acquisitions and disposals as they do not relate to the day to day operational performance of the Group. Where applicable and not reported separately, this includes changes in contingent or deferred consideration.

AMORTISATION AND IMPAIRMENT OF ACQUIRED INTANGIBLES

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. Any negative goodwill arising is recognised immediately in the income statement. We exclude from our adjusted measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

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

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

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

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as they will reverse over time or are matched in future periods by interest charges. Fair value gains and losses on the currency element of derivative financial instruments and ex change gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the commercially hedged item are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

RESTRUCTURING COSTS

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs are all Board approved, and include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

POST-EMPLOYMENT BENEFITS NET FINANCING COST

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

TAX MATTERS

Tax matters are significant one-off tax charges or credits arising from:

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

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

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

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

The Group recognises revenue on sales to Logista, a Group company, within its reported Tobacco & NGP revenue figure. As the revenue calculation includes sales made to Logista from other Group companies but excludes Logista's external sales, this metric differs from revenue calculated under IFRS accounting standards. For the purposes of Adjusted Performance Measures on net revenue we treat Logista as an arms' length distributor on the basis that contractual rights are in line with other third party suppliers to Logista. Variations in the amount of inventory held by Logista results in a different level of revenue compared to that which is included within the income statement. For tobacco product sales, inventory level variations are normally not significant. However, during the current year there has been a significant increase in the level of sales of NGP products into Logista. This has resulted in significant increases in the level of associated inventory as a proportion of sales. In order to avoid a distortion in the reported Tobacco & NGP revenue figure the calculation has been adjusted to reflect a normalised level of inventory.

DISTRIBUTION FEES

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

ADJUSTED NET DEBT

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and the fair value of derivative financial instruments providing commercial hedges of interest rate risk.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 October 2018. The detail of adoption is provided below. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

On 1 October 2018 the Group adopted IFRS 9 'Financial Instruments', with no revision of prior periods as permitted by the standard. IFRS 9 has replaced IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets are now classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables and derivative financial instruments, the Group does not currently hold any significant financial assets.

The Group has revised the classification of certain trade receivables which are subject to a non-recourse factoring arrangement. This arrangement covers various markets and customer accounts. Prior to the adoption of IFRS 9 all trade receivables were recognised at amortised cost. Where trade receivables may be sold in the future under a factoring arrangement that involves realising cash flows through the sale of assets in order to manage customer credit risk, they are now classified as fair value through other comprehensive income (OCI). Under this classification, valuation changes are recognised in the OCI. The level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £724 million at 1 October 2018 and £827 million at 30 September 2019. The total value of trade receivables reclassified as fair value through OCI was £37 million at 1 October 2018 and £23 million at 30 September 2019. On adoption of the standard there was no valuation difference and therefore the OCI has not been impacted. Trade receivables managed under a hold to collect business model continue to be measured at amortised cost.

The Group does not undertake any supply chain financing activity.

Impairment of financial assets: Impairment provisions are calculated using a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. The expected credit loss model requires the recognition of a provision which reflects future impairment risk. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group.

Under the revised trade receivables provisioning policy, expected future credit loss provisions are now recognised in addition to doubtful debt provisions on receivables which have already become overdue. With the exception of the Palmer & Harvey debt write-off in 2018, the Group has historically experienced low levels of credit default. On adoption of the standard the Group has recognised an additional expected credit loss provision of £5 million, with the costs being recognised directly in equity within the retained earnings reserve at 1 October 2018.

Hedge Accounting: IFRS 9 aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group has adopted the hedge accounting aspects of IFRS 9 prospectively from 1 October 2018. The Group continues to apply net investment hedging as part of its risk management approach. All hedging relationships that existed at 30 September 2018 continue to apply under IFRS 9. The adoption of this area of IFRS 9 has not had any significant impact on the financial statements.

On 1 October 2018 the Group adopted IFRS 15 'Revenue from Contracts with Customers', the Group has restated prior periods as permitted by the standard. IFRS 15 has introduced an amended framework for revenue recognition and has replaced the prior guidance in IAS 18 'Revenue'. The accounting policies have been revised and applied to both the current and prior period. The standard 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 different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

Following the adoption of the standard, revenue continues to be recognised in line with the completion of performance obligations constituting the delivery of goods or services to customers. The performance obligation is met when the customer has accepted products and the collectability of the related receivables is reasonably assured. We have reclassified certain distribution, advertising and selling costs arising from payments to customers, from overheads / other costs of sales to discounts from revenue. These costs are judged as not distinct from the related sales to the customer. This has reduced revenue, but has had no net impact on gross profit. This has reduced the level of revenue recorded in the year ended 30 September 2018 by £458 million.

Following a review of the presentation of duties, levies and similar payments against the guidance given by IFRS 15, levy payments made in the United States under the Master Settlement Agreement (MSA) are now being recognised in other cost of sales. This has increased the level of net revenue recorded in the year ended 30 September 2018 by £425 million. The Group has taken the option to restate the comparative figures on adoption of the standard. The adoption of the standard has not had any other impact on the Group's results.

IFRS 16 'Leases' will be effective for the period beginning 1 October 2019. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs. The Group will take advantage of the practical expedients under the standard by not applying IFRS 16 to short-term leases (leases of less than 12 months maximum term) and to leases of low-value assets.

As permitted by the standard, the Group will apply the modified retrospective approach with no restatement of prior year. On adoption of IFRS 16 the expected impact is approximately £333 million increase in non-current assets and £333 million increase in liabilities.

IFRIC 23 'Uncertainty over income tax treatments' will be effective, subject to EU endorsement, for the period beginning 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation is not expected to have a material effect on the Group's net assets or results.

PRIOR PERIOD RE-STATEMENTS REQUIRED FOLLOWING ACCOUNTING STANDARD ADOPTION

	Year ended 30 September 2018		
£ million unless otherwise indicated	Previously reported	IFRS 15 adjustment	Restated
Revenue	30,524	(458)	30,066
Duty and similar items	(15,125)	425	(14,700)
Net revenue	15,399	(33)	15,366
Europe	3,812	(289)	3,523
Americas	1,823	425	2,248
Africa, Asia & Australasia	2,095	(169)	1,926
Distribution	8,383	–	8,383
Eliminations	(714)	–	(714)
Other cost of sales	(8,949)	(407)	(9,356)
Gross profit	6,450	(440)	6,010
Distribution, advertising and selling costs	(2,441)	440	(2,001)
Administrative and other expenses	(1,602)	–	(1,602)
Operating profit	2,407	–	2,407

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

INTANGIBLE ASSETS

Judgements typically include determining both the existence and valuation of these type of assets when they are acquired, particularly where they arise as part of a business acquisition. Assets are only recognised when it is judged that the Group has beneficial right to the use of the assets as guided by applicable Accounting Standards. The valuation of these assets requires estimates of initial current and future carrying values. Estimation is also required in the assessment of the future life of these assets.

INITIAL CARRYING VALUE

The Group allocates the purchase price of acquired businesses to their identifiable tangible and intangible assets, including goodwill. For major acquisitions the Group engages external consultants to assist in the valuation of identifiable intangible assets. On acquisition intangible assets are valued at fair value using the income method. The valuation process is based on associated future cash flows and is also dependent on assumptions about economic factors and business strategy. Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

DETERMINATION OF USEFUL ECONOMIC LIFE

For non-goodwill intangible assets, there are critical judgements required in determining whether the asset has an indefinite useful economic life, or not. The Davidoff cigarette trademark and some premium cigar trademarks are currently considered to have indefinite lives, based on the fact that they are established international brands with global potential.

AMORTISATION AND IMPAIRMENT

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the amount and time period during which an intangible asset will support future cashflows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, impairment in the carrying value of the asset may be required.

Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the calculation of accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are uncertainties associated with estimating the valuation of the recoverable amount.

Details of goodwill and intangible asset impairment assessments are included in note 12.

INCOME TAXES

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. Where liabilities exist estimation is often required to determine the potential future tax payments.

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the judgements surrounding certain tax positions are applicable to the Group and consideration of the valuation estimates related to tax provisions are given in note 8 to these financial statements.

LEGAL PROCEEDINGS AND DISPUTES

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Judgement is required as to whether a liability exists. Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of judgement include consideration as to whether certain claims associated with the acquisition of certain brands specifically in respect of three of the four US states that are not parties to the Master Settlement Agreement (MSA) are likely to succeed, and the likely outcome of a number of product liability claims. More detail as to the considered position on these claims is given in both note 29 of the financial statements and within the Directors' Report – update on Tobacco and e-vapour related litigation.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

RETIREMENT BENEFITS

Accounting for retirement benefits uses a number of accounting estimates. The Group holds a number of defined benefit retirement schemes across various jurisdictions. The valuation of these schemes requires estimates of various market, demographic and mortality assumptions, which are fully reviewed by external actuaries. Full disclosure of the estimates used in retirement benefit accounting is included within note 23.

PROVISIONS

Provision accounting involves judgement as to whether a liability should be recognised and requires estimates of the quantum of any such liability. The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity and excise tax, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate.

The main area of estimation risk relates to the estimation of restructuring provisions associated with various plans to transform the business. These include the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 24.

INVENTORY PROVISIONS

Provisions for excess or slow-moving inventory are calculated with reference to the levels of inventory carried, the expected useful life of the product and forecast future product sales. In the year, a slow-moving inventory provision of £34 million was created for NGP products using expected product ageing and future sell-out rates as the key assumptions for this judgement. Sell-out rates, which are judgemental, take into account the impact of planned trade promotions and pricing decisions which in turn influence the level of inventory usage. Ageing takes into account expected product shelf life and any other factors which may result in the product not being sold, such as packaging or regulatory changes. The current estimate has not anticipated any change to the US regulatory environment. The provision would increase to £57 million if no growth was applied to future sell-out rates for this category.

ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. Judgement has been required as to whether the disposal process has advanced sufficiently to meet the requirements of IFRS 5 and therefore the assets presented as assets held for sale. As at 30 September 2019 these assets have been judged to meet this criteria, and have been presented accordingly. Additionally, the carrying value of these assets has been considered for impairment prior to reclassification. See note 11 for further details.

CONTROL OF LOGISTA

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01 per cent of the voting shares. The Group has reviewed its control of Logista. The Group continues to have Director presence on the Board of Logista, representing 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

3. SEGMENT INFORMATION

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

On 1 October 2018 we reorganised the Tobacco & NGP business to manage our 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 business have been revised to reflect the new structure. Following the introduction of these changes we have revised our segmental reporting as required under IFRS 8.

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive.

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

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

Americas – United States and Canada.

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

TOBACCO & NGP

£ million unless otherwise indicated	2019	Restated 2018
Revenue	**23,418**	22,427
Net revenue	**7,998**	7,697
Operating profit	**2,074**	2,282
Adjusted operating profit	**3,531**	3,557
Adjusted operating margin %	**44.1**	46.2

DISTRIBUTION

£ million unless otherwise indicated	2019	2018
Revenue	**8,969**	8,383
Distribution fees	**1,015**	989
Operating profit	**137**	128
Adjusted operating profit	**232**	212
Adjusted operating margin %	**22.9**	21.4

REVENUE

	2019		Restated 2018	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco & NGP				
Europe	**14,152**	**13,359**	14,183	13,439
Americas	**3,358**	**3,358**	3,123	3,123
Africa, Asia & Australasia	**5,908**	**5,908**	5,121	5,121
Total Tobacco & NGP	**23,418**	**22,625**	22,427	21,683
Distribution	**8,969**	**8,969**	8,383	8,383
Eliminations	**(793)**	**–**	(744)	–
Total Group	**31,594**	**31,594**	30,066	30,066

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

£ million	2019	Restated 2018
Revenue	**23,418**	22,427
Duty and similar items	**(15,394)**	(14,700)
Sale of peripheral products	**(26)**	(30)
Net Revenue	**7,998**	7,697

TOBACCO & NGP NET REVENUE

£ million	2019	Restated 2018
Europe	**3,636**	3,523
Americas	**2,472**	2,248
Africa, Asia & Australasia	**1,890**	1,926
Total Tobacco & NGP	**7,998**	7,697

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	2019	2018
Tobacco & NGP		
Europe	**1,699**	1,701
Americas	**1,068**	1,036
Africa, Asia & Australasia	**764**	820
Total Tobacco & NGP	**3,531**	3,557
Distribution	**232**	212
Eliminations	**(14)**	(3)
Adjusted operating profit	**3,749**	3,766
Acquisition and disposal costs – Tobacco & NGP	**(22)**	–
Amortisation and impairment of acquired intangibles – Tobacco & NGP	**(1,033)**	(970)
Amortisation of acquired intangibles – Distribution	**(85)**	(83)
Excise tax provision – Tobacco & NGP	**(139)**	–
Administration of UK distributor – Tobacco & NGP	**–**	(110)
Fair value adjustment of acquisition consideration – Tobacco & NGP	**(129)**	–
Restructuring costs	**(144)**	(196)
Operating profit	**2,197**	2,407
Net finance costs	**(562)**	(626)
Share of profit of investments accounted for using the equity method	**55**	42
Profit before tax	**1,690**	1,823

See statement of other comprehensive income for details of excise tax provision, fair value adjustment of acquisition consideration and administration of UK distributor. See notes 11 and 12 for details on amortisation and impairment, note 11 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

OTHER INFORMATION

	2019		2018	
£ million	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco & NGP				
Europe	**156**	**93**	109	103
Americas	**48**	**33**	53	33
Africa, Asia & Australasia	**60**	**39**	53	42
Total Tobacco & NGP	**264**	**165**	215	178
Distribution	**36**	**35**	39	34
Total Group	**300**	**200**	254	212

ADDITIONAL GEOGRAPHIC ANALYSIS

External revenue and non-current assets are presented for the UK and for individually significant countries. The Group's products are sold in over 160 countries.

	2019		2018	
£ million	External revenue	Non-current assets	External revenue	Non-current assets
UK	**3,939**	**110**	4,153	109
Germany	**3,675**	**3,383**	3,772	3,351
France	**3,599**	**2,532**	3,575	2,597
USA	**3,427**	**7,061**	3,154	7,037
Other	**16,954**	**7,570**	15,412	8,759
Total Group	**31,594**	**20,656**	30,066	21,853

Non-current assets comprise intangible assets, property, plant and equipment, and investments accounted for using the equity method.

4. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

£ million	2019	2018
Raw materials and consumables used	**964**	927
Changes in inventories of finished goods – Tobacco & NGP	**2,679**	2,410
Changes in inventories of finished goods – Distribution	**6,180**	5,520
Depreciation and impairment of fixed assets	**183**	176
Amortisation and impairment of intangible assets	**1,162**	1,090
Acquisition and disposal costs	**22**	–
Operating lease charges	**53**	57
Net foreign exchange (gains)/losses	**(68)**	52
Write down of inventories	**52**	28
Profit on disposal of non-current assets	**(19)**	(76)
Impairment of trade receivables	**9**	9

ANALYSIS OF FEES PAYABLES TO PRICEWATERHOUSECOOPERS LLP AND ITS ASSOCIATES

£ million	2019	2018
Audit of Parent Company and consolidated financial statements	**2.0**	1.2
Audit of the Company's subsidiaries	**4.4**	4.2
Audit of joint venture entities	**0.4**	0.4
Audit related assurance services	**0.8**	0.3
	7.6	6.1
Other services	**0.2**	0.2
	7.8	6.3

In addition to the above, PricewaterhouseCoopers LLP audit the individual pension schemes in the UK and Ireland. Fees for these audits total £55.8 thousand (2018: £53.2 thousand).

5. RESTRUCTURING COSTS

£ million	2019	2018
Employment related	**96**	170
Asset impairments	**29**	3
Other charges	**19**	23
	144	196

Restructuring costs analysed by workstream:

£ million	2019	2018
Cost optimisation programme	**144**	181
Acquisition integration costs	**–**	15
	144	196

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

Costs of implementing cost savings that do not arise from the change in strategic direction are excluded from restructuring costs.

The charge for the year of £144 million (2018: £181 million) relates to our two cost optimisation programmes announced in 2013 and 2016.

In 2019 the cash cost of Phase I of the programme was £24 million (2018: £43 million) and £108 million (2018: £173 million) for Phase II, bringing the cumulative net cash cost of the programme to £958 million (Phase I £545 million, Phase II £413 million).

Cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million in respect of the savings of £300 million per annum that the programme has generated by 2018 (the last year of the programme), and Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million per annum by 2020.

The total restructuring cash spend in the year was £146 million (2018: £241 million).

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

6. DIRECTORS AND EMPLOYEES

EMPLOYMENT COSTS

£ million	2019	2018
Wages and salaries	**826**	836
Social security costs	**178**	173
Other pension costs (note 23)	**81**	90
Share-based payments (note 26)	**23**	26
	1,108	1,125

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors' Remuneration Report, on pages 66-85, includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NUMBER OF PEOPLE EMPLOYED BY THE GROUP DURING THE YEAR

	2019		2018	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	**26,400**	**26,000**	27,100	27,200
Distribution	**6,300**	**6,300**	6,200	6,100
	32,700	**32,300**	33,300	33,300

NUMBER OF PEOPLE EMPLOYED BY THE GROUP BY LOCATION DURING THE YEAR

	2019		2018	
	At 30 September	Average	At 30 September	Average
European Union	**15,600**	**15,500**	15,700	15,400
Americas	**8,400**	**8,200**	8,600	8,500
Rest of the World	**8,700**	**8,600**	9,000	9,400
	32,700	**32,300**	33,300	33,300

7. NET FINANCE COSTS

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	2019	2018
Reported net finance costs	**562**	626
Fair value gains on derivative financial instruments	**665**	492
Fair value losses on derivative financial instruments	**(839)**	(567)
Exchange gains/(losses) on financing activities	**67**	(51)
Net fair value and exchange losses on financial instruments	**(107)**	(126)
Interest income on net defined benefit assets (note 23)	**142**	129
Interest cost on net defined benefit liabilities (note 23)	**(147)**	(142)
Post-employment benefits net financing cost	**(5)**	(13)
Adjusted net finance costs	**450**	487
Comprising		
Interest on bank deposits	**(16)**	(10)
Interest on bank and other loans	**466**	497
Adjusted net finance costs	**450**	487

8. TAX

ANALYSIS OF CHARGE IN THE YEAR

£ million	2019	2018
Current tax		
UK corporation tax	**101**	55
Overseas tax	**420**	367
Total current tax	**521**	422
Deferred tax movement	**88**	(26)
Total tax charged to the consolidated income statement	**609**	396

RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2019	2018
Reported tax	**609**	396
Deferred tax on amortisation and impairment of acquired intangibles	**9**	196
Excise tax provision	**15**	–
Administration of UK distributor	**–**	21
Tax on net fair value and exchange movements on financial instruments	**31**	22
Tax on post-employment benefits net financing cost	**4**	5
Tax on restructuring costs	**35**	55
Deferred tax impact of US tax reforms	**–**	29
Tax on unrecognised losses	**(61)**	(76)
Adjusted tax charge	**642**	648

The use of adjusted measures is explained in note 1, Accounting Policies (Use of Adjusted Measures).

FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 19.0 per cent (2018: 19.0 per cent) as follows:

£ million	2019	2018
Profit before tax	**1,690**	1,823
Tax at the UK corporation tax rate	**321**	346
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(66)**	(44)
Movement in provision for uncertain tax positions	**16**	10
Remeasurement of deferred tax balances	**87**	51
Remeasurement of deferred tax balances arising from changes in tax rates	**–**	(68)
Deferred tax on unremitted earnings	**15**	26
Permanent differences	**243**	66
Adjustments in respect of prior years	**(7)**	9
Total tax charged to the consolidated income statement	**609**	396

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties.

Remeasurement of deferred tax balances includes £35 million (2018: £35 million) in relation to the de-recognition of deferred tax assets for tax losses in the Group's Dutch business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is nil (2018: £68 million). In respect of the previous year this included £29 million in relation to the remeasurement of deferred tax assets and liabilities on US liabilities and assets following the enactment of tax rate reductions and £39 million in relation to the remeasurement of deferred tax liabilities on French assets following the enactment of future tax rate reductions which were effective for the Group from 1 October 2019.

During the year the Group has provided for deferred tax on unremitted earnings of £15 million (2018: £26 million). The tax will arise on the distribution of profits through the group and on planned group simplification.

Permanent differences include £4 million (2018: £5 million) in respect of non-deductible exchange losses and £21 million (2018: £26 million) in respect of non-deductible interest expense, £32 million (2018: nil) in respect of non-deductible contingent consideration and £147 million (2018: nil) in respect of an impairment of goodwill and equity investments in the Premium Cigar Division.

MOVEMENT ON THE CURRENT TAX ACCOUNT

£ million	2019	2018
At 1 October	**(122)**	(123)
Charged to the consolidated income statement	**(521)**	(422)
Credited to equity	**1**	1
Cash paid	**522**	407
Exchange movements	**3**	3
Other movements	**(1)**	12
At 30 September	**(118)**	(122)

The cash tax paid in the year is £1 million higher than the current tax charge (2018: £15 million lower). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

£ million	2019	2018
Assets	**303**	164
Liabilities	**(421)**	(286)
	(118)	(122)

UNCERTAIN TAX POSITIONS

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2019 the total value of these provisions, including foreign exchange movements, was £204 million (2018: £202 million). It is possible that amounts paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the French matter referred to below, the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact to the results of the Group.

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £240 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In September 2018 the dispute was heard before the Commission Nationale, an independent adjudication body, whose decision is advisory only. In October 2018 the Commission issued its report which was favourable to the Group's position. In November 2018 a meeting was held with the French tax authorities to discuss the Commission's decision. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed (£240 million). In January 2019 the Group appealed against the assessment. The Group awaits the response of the French tax authorities. At this time it is appropriate to maintain the £42 million (2018: £42 million) held in the provision for uncertain tax positions in respect of this matter.

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, in line with a number of UK corporates, is making a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process. The Group has not received any indication from the UK Government as to the quantum of State Aid that it believes the Group has received, if any. The Group considers that the potential amount of additional tax payable remains between nil and £300 million depending on the basis of calculation. This does not include interest which would be chargeable on any recovery sought. Based upon current advice the Group does not 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 judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

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 2014-2016 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 filed objections 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. A final report was received on 26 August 2019, which assessed £119 million for the audit period, and an implied liability for 2017 estimated at £74 million. We appealed against the final report and are currently in discussion with the tax authorities on our appeal.

The Group has complied with the Russian legislation since it became effective.

Based on the current state of discussions with the Russian tax authorities a provision of £139 million has been made. Tax relief associated with this provision is estimated at £15 million resulting in a net of tax provision of £124 million.

9. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2019	2018	2017
Paid interim of 62.56 pence per share (2018: 122.33 pence, 2017: 111.21 pence)			
• Paid June 2017	–	–	247
• Paid September 2017	–	–	247
• Paid December 2017	–	–	567
• Paid June 2018	–	271	–
• Paid September 2018	–	271	–
• Paid December 2018	–	624	–
• Paid June 2019	**298**	–	–
• Paid September 2019	**298**	–	–
Interim dividend paid	**596**	1,166	1,061
Proposed interim of 72.00 pence per share (2018: nil, 2017: nil)			
• To be paid December 2019	**683**	–	–
Interim dividend proposed	**683**	–	–
Proposed final of 72.01 pence per share (2018: 65.46 pence, 2017: 59.51 pence)			
• Paid March 2018	–	–	567
• Paid March 2019	–	624	–
• To be paid March 2020	**683**	–	–
Final dividend	**683**	624	567
Total ordinary share dividends of 206.57 pence per share (2018: 187.79 pence, 2017: 170.72 pence)	**1,962**	1,790	1,628

The third interim dividend for the year ended 30 September 2019 of 72.00 pence per share amounts to a proposed dividend of £683 million, which will be paid in December 2019.

The proposed final dividend for the year ended 30 September 2019 of 72.01 pence per share amounts to a proposed dividend payment of £683 million in March 2020 based on the number of shares ranking for dividend at 30 September 2019, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2019 will be £1,962 million (2018: £1,790 million). The dividend paid during 2019 is £1,844 million (2018: £1,676 million).

10. EARNINGS PER ORDINARY SHARE

Basic earnings per share is based on the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the year excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2019	2018
Earnings: basic and diluted – attributable to owners of the Parent Company	1,010	1,368

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	953.0	952.4
Potentially dilutive share options	1.9	3.0
Shares for diluted earnings per share	954.9	955.4

Pence		
Basic earnings per share	106.0	143.6
Diluted earnings per share	105.8	143.2

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

	2019		2018	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	106.0	1,010	143.6	1,368
Acquisition and disposal costs	2.3	22	–	–
Amortisation and impairment of acquired intangibles	116.4	1,109	90.0	857
Excise tax provision	13.0	124	–	–
Administration of UK distributor	–	–	9.3	89
Fair value adjustment of acquisition consideration	13.5	129	–	–
Net fair value and exchange movements on financial instruments	8.0	76	10.9	104
Post-employment benefits net financing cost	0.1	1	0.8	8
Restructuring costs	11.4	109	14.9	141
Deferred tax impact of US tax reforms	–	–	(3.0)	(29)
Tax on unrecognised losses	6.4	61	8.0	76
Adjustments above attributable to non-controlling interests	(3.8)	(36)	(2.3)	(22)
Adjusted	273.3	2,605	272.2	2,592
Adjusted diluted	272.8	2,605	271.3	2,592

11. ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. At 30 September 2019, the Group has assessed the IFRS 5 criteria for presentation of the business as held for disposal. Given the Group's stated commitment to complete the disposal, the significant work performed to separate the business, and significant progress made on delivery of a new, alternative ownership, the Group has reconfirmed that the IFRS 5 criteria have been met and therefore it is highly probable that a disposal transaction will be completed. The Group has therefore presented the net assets of the Premium Cigar Division business as current assets and liabilities held for disposal.

When the sale of the Premium Cigar Division completes a gain or loss will arise. There are currently cumulative foreign exchange gains recognised in the foreign exchange translation reserve relating to prior retranslations of non-sterling assets held by the Division. On completion, these gains will be recycled from the foreign exchange translation reserve to the income statement and included in the profit or loss on disposal.

The amount of the gains that will be recycled is uncertain as that amount will be affected by movements in foreign exchange rates up to the date of completion. We currently estimate the associated cumulate foreign exchange gains at 30 September 2019 to be in the region of £300 million-£400 million.

IMPAIRMENT TESTING

The Premium Cigar Division has been presented as held for disposal at 30 September 2019 and as a consequence of this an impairment test has been undertaken to assess the carrying value of the associated assets on a fair value less cost of sale basis. This test involves an assessment of the level of proceeds expected to be achieved on completion of the disposal, less transaction tax and costs with a comparison of this figure to the carrying value of the net assets. Since bid offers are an observable input not based on a quoted price the fair value is based on a level 2 valuation under IFRS 13.

The negotiations for the sale of the business are ongoing and although a range of bids have been received, there is uncertainty as to the level of disposal proceeds that will actually be achieved. A range of the current bids has been assessed in order to determine an expected level for the disposal proceeds. We do not expect that the actual proceeds will vary significantly to the amount used to determine the fair value and therefore no further disclosure of sensitivities has been given. However, given that disposal price is an estimate it is possible that a gain or loss will still arise on completion.

The test indicated an impairment and associated cost of disposal charge of £525 million. This has been primarily adjusted against the carrying value of goodwill and equity investments held by the Premium Cigar Division. The impairment amount is sensitive to the level of the estimated disposal proceeds, any reduction in the expected amount of these proceeds would result in a higher impairment and vice-versa. The goodwill and equity investment values included in the current assets held for disposal have been adjusted accordingly.

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

£ million	2019
Non-current assets	
Intangible assets	138
Property, plant and equipment	26
Investments accounted for using the equity method	574
Trade and other receivables	52
Deferred tax assets	11
	801
Current assets	
Inventories	228
Trade and other receivables	244
Cash and cash equivalents	14
	486
Total assets	1,287
Current liabilities	
Trade and other payables	(172)
Provisions	(4)
	(176)
Total liabilities	(176)
Net assets	1,111

12. INTANGIBLE ASSETS

	2019				
£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
Cost					
At 1 October 2018	14,040	12,701	1,421	378	28,540
Additions	31	66	2	52	151
Acquisitions	–	–	–	–	–
Disposals	–	(1)	–	(15)	(16)
Reclassifications	–	–	(2)	4	2
Transferred to held for disposal (note 11)	–	(136)	(2)	–	(138)
Exchange movements	161	391	4	2	558
At 30 September 2019	14,232	13,021	1,423	421	29,097
Amortisation and impairment					
At 1 October 2018	1,577	6,472	1,131	243	9,423
Amortisation charge for the year[1]	–	515	85	34	634
Impairment	273	18	–	–	291
Disposals	–	(1)	–	(13)	(14)
Reclassifications	–	–	–	–	–
Exchange movements	(3)	165	4	1	167
Accumulated amortisation	–	6,777	1,220	265	8,262
Accumulated impairment	1,847	392	–	–	2,239
At 30 September 2019	1,847	7,169	1,220	265	10,501
Net book value					
At 30 September 2019	12,385	5,852	203	156	18,596

1. Amortisation of acquired intangibles excluded from adjusted operating profit comprises amortisation on intellectual property of £515 million (2018: £941 million), impairment on intellectual property of £8 million (2018: nil) and amortisation on supply agreements of £85 million (2018: £112 million). An adjustment is made for impairment on internally generated intellectual property of £10 million (2018: £1 million).

£ million	Goodwill	Intellectual property	Supply agreements	Software	2018 Total
Cost					
At 1 October 2017	13,833	12,430	1,401	343	28,007
Additions	3	8	–	47	58
Acquisitions	63	68	–	–	131
Disposals	–	(7)	–	(13)	(20)
Reclassifications	(6)	–	6	–	–
Exchange movements	147	202	14	1	364
At 30 September 2018	14,040	12,701	1,421	378	28,540
Amortisation and impairment					
At 1 October 2017	1,568	5,452	1,008	216	8,244
Amortisation charge for the year[1]	–	942	112	36	1,090
Disposals	–	(4)	–	(10)	(14)
Reclassifications	–	–	–	–	–
Exchange movements	9	82	11	1	103
Accumulated amortisation	–	6,098	1,131	243	7,472
Accumulated impairment	1,577	374	–	–	1,951
At 30 September 2018	1,577	6,472	1,131	243	9,423
Net book value					
At 30 September 2018	12,463	6,229	290	135	19,117

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships. All were acquired as part of the Altadis purchase.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit.

ACQUISITIONS

For each acquisition, an exercise to value the net assets and apportion the consideration has taken place and the values have been recognised in the year end accounts. We engaged external consultants to assist in the valuation of the intangible assets, which make up the most significant element of the assets acquired and have been valued using the income method.

Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions to contingent consideration or asset values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

VON ERL

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million plus an estimated contingent consideration of £15 million payable on performance measures being achieved. In August 2018 and August 2019 total payments of £20 million were made to purchase an additional share capital, taking the total shareholding to 70 per cent. On 2 October 2019 a final agreement to pay €140 million was made to purchase the remaining equity in Von Erl, making it a fully owned subsidiary.

NERUDIA

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for an estimated total cash consideration of £86 million, comprised of an initial consideration of £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.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT REVIEW

Goodwill is allocated to groups of cash-generating units (CGUGs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business CGUGs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2019		2018	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Europe	4,602	342	4,522	345
Americas	4,225	–	4,153	136
Africa, Asia & Australasia	1,819	136	1,787	–
Premium Cigar Division	–	–	258	126
Tobacco & NGP	10,646	478	10,720	607
Distribution	1,739	–	1,743	–
	12,385	478	12,463	607

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGUGs), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGUGs) and ITG Brands in 2015 (USA).

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGUG is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

GROWTH RATES AND DISCOUNT RATES USED

The compound annual growth rates implicit in these value-in-use calculations are shown below.

	2019		
%	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Europe	9.6	1.1	0.2
Americas	8.9	3.9	2.5
Africa, Asia & Australasia	10.3	1.6	0.1
Distribution	9.3	2.5	1.6

Cash flows from the business plan period are extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. Estimated long-term weighted average compound growth rates of between 0.1 per cent and 2.5 per cent are used beyond year five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the tobacco industry.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Our impairment testing confirms there are sufficient cashflows to support the current carrying values of the goodwill held at 30 September 2019. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

PREMIUM CIGAR DIVISION

As at 30 September 2019, all assets and liabilities within the Premium Cigar Division have been reclassified as 'Assets held for sale' in line with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Management are committed to a plan to sell and the Division is being actively marketed for sale.

A separate impairment review has been performed on these 'Assets held for sale', the review has compared the carrying amounts of the Premium Cigar Division and the fair value (represented by the indicative sales price) less costs to sell. The test indicated an impairment and associated cost of disposal charge of £525 million.

OTHER INTANGIBLE ASSETS

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cashflows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cashflows. No impairments were recognised in the period (2018: nil).

13. PROPERTY, PLANT AND EQUIPMENT

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total 2019
Cost				
At 1 October 2018	**909**	**2,013**	**432**	**3,354**
Additions	**10**	**226**	**64**	**300**
Disposals	**(7)**	**(80)**	**(36)**	**(123)**
Reclassifications	**4**	**15**	**(21)**	**(2)**
Transferred to held for disposal (note 11)	**(22)**	**(14)**	**(4)**	**(40)**
Exchange movements	**15**	**33**	**5**	**53**
At 30 September 2019	**909**	**2,193**	**440**	**3,542**
Depreciation and impairment				
At 1 October 2018	**169**	**1,016**	**278**	**1,463**
Depreciation charge for the year	**20**	**113**	**33**	**166**
(Impairment write back)/impairment	**(6)**	**23**	**–**	**17**
Disposals	**(2)**	**(52)**	**(33)**	**(87)**
Reclassifications	**2**	**(1)**	**(1)**	**–**
Transferred to held for disposal (note 11)	**(4)**	**(8)**	**(2)**	**(14)**
Exchange movements	**2**	**13**	**3**	**18**
At 30 September 2019	**181**	**1,104**	**278**	**1,563**
Net book value				
At 30 September 2019	**728**	**1,089**	**162**	**1,979**

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total 2018
Cost				
At 1 October 2017	960	1,989	408	3,357
Additions	10	183	58	251
Acquisitions	1	2	–	3
Disposals	(63)	(153)	(31)	(247)
Reclassifications	(2)	4	(2)	–
Exchange movements	3	(12)	(1)	(10)
At 30 September 2018	909	2,013	432	3,354
Depreciation and impairment				
At 1 October 2017	164	1,051	277	1,492
Depreciation charge for the year	19	127	30	176
Impairment	–	–	–	–
Disposals	(14)	(153)	(28)	(195)
Reclassifications	–	–	–	–
Exchange movements	–	(9)	(1)	(10)
At 30 September 2018	169	1,016	278	1,463
Net book value				
At 30 September 2018	740	997	154	1,891

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the joint venture entities, which are accounted for by the Group under the equity method, is shown below:

£ million	Corporación Habanos 2019	Altabana 2019	Global Horizon Ventures 2019	Others 2019	Total 2019
Revenue	**208**	**329**	**16**	**69**	**622**
Profit after tax	**44**	**60**	**10**	**11**	**125**
Non-current assets	**482**	**27**	**24**	**13**	**546**
Current assets	**95**	**219**	**47**	**65**	**426**
Total assets	**577**	**246**	**71**	**78**	**972**
Current liabilities	**(132)**	**(60)**	**(3)**	**(42)**	**(237)**
Non-current liabilities	**(26)**	**(5)**	**–**	**(6)**	**(37)**
Total liabilities	**(158)**	**(65)**	**(3)**	**(48)**	**(274)**
Net assets	**419**	**181**	**68**	**30**	**698**

£ million	Corporación Habanos 2018	Altabana 2018	Global Horizon Ventures 2018	Others 2018	Total 2018
Revenue	196	325	8	65	594
Profit after tax	39	48	4	9	100
Non-current assets	468	18	24	14	524
Current assets	89	225	33	64	411
Total assets	557	243	57	78	935
Current liabilities	(107)	(60)	(3)	(38)	(208)
Non-current liabilities	(22)	(5)	–	(7)	(34)
Total liabilities	(129)	(65)	(3)	(45)	(242)
Net assets	428	178	54	33	693

TRANSACTIONS AND BALANCES WITH JOINT VENTURES

£ million	2019	2018
Sales to	**99**	90
Purchases from	**115**	107
Accounts receivable from	**54**	13
Accounts payable to	**(26)**	(18)

MOVEMENT ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

£ million	2019	2018
At 1 October	**845**	785
Profit for the year from joint ventures and associates	**55**	42
Increase in investment in associates	**11**	10
Impairment of investment in joint ventures	**(232)**	–
Impairment of investment in associates	**(5)**	–
Dividends	**(45)**	(17)
Transferred to held for disposal (note 11)	**(574)**	–
Foreign exchange	**26**	25
At 30 September	**81**	845

IFRS 11 Joint Arrangements came into effect for the Group from 1 October 2014. As a result of this standard the profit and loss items from joint ventures are shown in the consolidated income statement below net finance costs as "Share of investments accounted for using the equity method". Similarly, the asset and liability amounts are classified as "Investments accounted for using the equity method".

15. INVENTORIES

£ million	2019	2018
Raw materials	**1,012**	908
Work in progress	**67**	78
Finished inventories	**2,829**	2,520
Other inventories	**174**	186
	4,082	3,692

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,829 million (2018: £2,520 million) there is excise duty of £1,406 million (2018: £1,200 million).

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £156 million (2018: £139 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

16. TRADE AND OTHER RECEIVABLES

	2019		2018	
£ million	Current	Non-current	Current	Non-current
Trade receivables	**2,599**	**5**	2,370	5
Less: loss allowance	**(72)**	**(5)**	(61)	(5)
Net trade receivables	**2,527**	**–**	2,309	–
Other receivables	**176**	**108**	119	74
Prepayments	**151**	**11**	157	8
Amounts owed from group undertakings (assets held for disposal)	**139**	**–**	–	–
	2,993	**119**	2,585	82

Trade receivables may be analysed as follows:

	2019		2018	
£ million	Current	Non-current	Current	Non-current
Within credit terms	**2,363**	**–**	2,119	–
Past due by less than 3 months	**100**	**–**	107	–
Past due by more than 3 months	**64**	**–**	83	–
Amounts that are impaired	**72**	**5**	61	5
	2,599	**5**	2,370	5

The movements in the total loss allowance for receivables can analysed as follows:

£ million	2019	2018
At 1 October previously stated	**66**	58
IFRS 9 Transition (note 1)	**5**	–
At 1 October restated	**71**	58
Net increase in provision	**6**	8
At 30 September	**77**	66

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. 12 month expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach.

17. CASH AND CASH EQUIVALENTS

£ million	2019	2018
Cash at bank and in hand	**835**	771
Short-term deposits and other liquid assets	**1,451**	4
	2,286	775

£176 million (2018: £221 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

18. TRADE AND OTHER PAYABLES

£ million	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Trade payables	**1,775**	**–**	1,198	–
Duties payable	**4,919**	**–**	4,808	–
Other taxes and social security contributions	**1,358**	**–**	1,436	–
Other payables	**400**	**–**	174	–
Accruals	**900**	**7**	654	47
Amounts owed to group undertakings (assets held for disposal)	**184**	**–**	–	–
	9,536	**7**	8,270	47

Included within accruals is deferred consideration payable in respect of the Von Erl and Nerudia acquisitions.

19. BORROWINGS

The Group's borrowings, held at amortised cost, are as follows.

£ million	2019	2018
Current borrowings		
Bank loans and overdrafts	**46**	147
Capital market issuance:		
European commercial paper (ECP)	**177**	1,530
£200m 6.25% notes due December 2018	**–**	210
£500m 7.75% notes due June 2019	**–**	510
€750m 5.0% notes due December 2019	**692**	–
$1,250m 2.95% notes due July 2020	**1,022**	–
Total current borrowings	**1,937**	2,397
Non-current borrowings		
Bank loans	**–**	–
Capital market issuance:		
€750m 5.0% notes due December 2019	**–**	693
$1,250m 2.95% notes due July 2020	**–**	963
€1,000m 2.25% notes due February 2021	**897**	898
€500m 0.5% notes due July 2021	**443**	443
£1,000m 9.0% notes due February 2022	**1,055**	1,055
$1,250m 3.75% notes due July 2022	**1,023**	963
$1,000m 3.5% notes due February 2023	**815**	768
€750m 1.25% notes due August 2023	**664**	–
£600m 8.125% notes due March 2024	**626**	626
$1,000m 3.125% notes due July 2024	**816**	–
€500m 1.375% notes due January 2025	**446**	447
$1,500m 4.25% notes due July 2025	**1,222**	1,151
€650m 3.375% notes due February 2026	**587**	588
$750m 3.5% notes due July 2026	**612**	–
£500m 5.5% notes due September 2026	**500**	499
€750m 2.125% notes due February 2027	**671**	–
$1,000m 3.875% notes due July 2029	**816**	–
£500m 4.875% notes due June 2032	**504**	504
Total non-current borrowings	**11,697**	9,598
Total borrowings	**13,634**	11,995
Analysed as:		
Capital market issuance	**13,588**	11,848
Bank loans and overdrafts	**46**	147

Current and non-current borrowings include interest payable of £33 million (2018: £22 million) and £164 million (2018: £172 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 4 December 2018, £200 million 6.25 per cent notes were repaid.

On 24 June 2019, £500 million 7.75 per cent notes were repaid.

On 12 February 2019 €750 million 1.125 per cent notes due August 2023 and €750 million 2.15% notes due February 2027 were issued.

On 26 July 2019 $1,000 million 3.125 per cent notes due July 2024, $750 million 3.5 per cent notes due July 2026 and $1,000 million 3.875 per cent notes due July 2029 were issued.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2018: no defaults).

NON-CURRENT FINANCIAL LIABILITIES

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2019 (including net derivative financial instruments detailed in note 21) is as follows:

£ million	2019 Borrowings	2019 Net derivative financial liabilities/ (assets)	2019 Total	2018 Borrowings	2018 Net derivative financial liabilities/ (assets)	2018 Total
Amounts maturing:						
Between one and two years	**1,340**	**(16)**	**1,324**	1,656	4	1,660
Between two and five years	**4,999**	**14**	**5,013**	4,128	123	4,251
In five years or more	**5,358**	**733**	**6,091**	3,814	484	4,298
	11,697	**731**	**12,428**	9,598	611	10,209

FAIR VALUE OF BORROWINGS

The fair value of borrowings as at 30 September 2019 is estimated to be £14,320 million (2018: £12,484 million). £14,274 million (2018: £12,337 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

£ million	2019 Balance sheet amount	2019 Fair value	2018 Balance sheet amount	2018 Fair value
GBP	**2,685**	**3,168**	3,405	3,861
EUR	**4,577**	**4,681**	4,598	4,681
USD	**6,326**	**6,425**	3,845	3,795
Total capital market issuance	**13,588**	**14,274**	11,848	12,337

UNDRAWN BORROWING FACILITIES

At 30 September the Group had the following undrawn committed facilities:

£ million	2019	2018
Amounts maturing:		
In less than one year	**266**	–
Between one and two years	**3,011**	1,040
Between two and five years	**–**	3,016
	3,277	4,056

During the year four new bilateral facilities for a total €573 million were cancelled.

20. FINANCIAL RISK FACTORS

FINANCIAL RISK MANAGEMENT

OVERVIEW

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group-wide insurance programmes. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets when required and comprises the Chief Financial Officer, the Company Secretary and the Director of Treasury. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

(A) MARKET RISK

PRICE RISK

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 23 and the investment in convertible debentures issued by Auxly Cannabis Group Inc. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

FOREIGN EXCHANGE RISK

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

TRANSACTION RISK

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

TRANSLATION RISK

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2019. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

£ million	**2019** **Increase in income**	2018 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2018: 10%)	**184**	127
10% appreciation of US dollar (2018: 10%)	**43**	83

An equivalent depreciation in the above currencies would cause a decrease in income of £225 million and £53 million for euro and US dollar exchange rates respectively (2018: £155 million and £102 million).

Movements in equity in the table below relate to intercompany loans treated as quasi-equity under IAS 21 and hedging instruments designated as net investment hedges and of the Group's euro and US dollar denominated assets.

£ million	**2019** **Change in equity**	2018 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2018: 10%)	**453**	408
10% appreciation of US dollar (2018: 10%)	**(47)**	(44)

An equivalent depreciation in the above currencies would result in a change in equity of (£554) million and £57 million for euro and US dollar exchange rates respectively (2018: (£499) million and £54 million).

At 30 September 2019, after the effect of derivative financial instruments, approximately 74 per cent of the Group's net debt was denominated in euro and non US dollar currencies (2018: 68 per cent), 26 per cent in US dollars (2018: 32 per cent).

INTEREST RATE RISK

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2019, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 63 per cent (2018: 72 per cent) of net debt was at fixed rates of interest and 37 per cent (2018: 28 per cent) was at floating rates of interest.

INTEREST RATE SENSITIVITY ANALYSIS

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's income statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2019, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2018: nil).

£ million	2019 Change in income	2018 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2018: 1%)	**31**	20
+/- 1% increase in US dollar interest rates (2018: 1%)	**14**	14

(B) CREDIT RISK

The implementation of IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, cash deposits, derivatives and other amounts due from external financial counterparties arising on other financial instruments. The maximum aggregate credit risk to these sources was £5,624 million at 30 September 2019 (2018: £3,644 million).

TRADE AND OTHER RECEIVABLES

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers, and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2019 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £827 million (2018: £724 million). Analysis of trade and other receivables is provided in note 16.

FINANCIAL INSTRUMENTS

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with two ISDA Credit Support Annexes the Group had placed £38 million as at 30 September 2019 (2018: £82 million) as collateral with third parties in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2019. The increase in the credit exposure is due to falling long-term interest rates increasing the value of interest rate swaps converting fixed rate debt to floating rates and a weakening of sterling against the US dollar affecting the buy US Dollar leg of foreign exchange forward contracts. At the balance sheet date management does not expect these counterparties to default on their current obligations. The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

Counterparty exposure	2019 S&P credit rating	2019 Maximum exposure to credit risk £ million	2018 S&P credit rating	2018 Maximum exposure to credit risk £ million
Highest	**A+**	**20**	A+	6
2nd highest	**AA–**	**19**	BBB+	5
3rd highest	**A**	**12**	A	3
4th highest	**A**	**8**	A	3
5th highest	**A**	**8**	–	–

(C) LIQUIDITY RISK

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

There are no financial covenants on the Group's material short and long-term borrowings. Certain of these borrowings contain cross default provisions and negative pledges. The core committed bank facilities are subject to two financial covenants, these being minimum interest cover ratio of four times (defined as the ratio of consolidated EBITDA to consolidated net interest payable for each measurement period) and maximum gearing of four times (defined as consolidated total net borrowings at the end of each measurement period to consolidated EBITDA for that measurement period). They are also subject to pari passu ranking and negative pledge covenants. Any non-compliance with covenants underlying Imperial Brands' financing arrangements could, if not waived, constitute an Event of Default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities.

We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short-term liquidity requirements in line with short-term cash flow forecasts. As at 30 September 2019, the Group held liquid assets of £2,286 million (2018: £775 million). The significant increase in liquid assets results from the USD bonds issued in July 2019, the proceeds of which have largely been placed on deposit and will be used to replace existing funding as it matures.

The table below summarises the Group's non-derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2019. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 21.

						2019
£ million	**Balance sheet amount**	**Contractual cash flows total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
Non-derivative financial liabilities:						
Bank loans	**46**	**56**	**56**	**–**	**–**	**–**
Capital market issuance	**13,588**	**15,787**	**2,345**	**1,773**	**5,806**	**5,863**
Trade payables	**1,775**	**1,775**	**1,775**	**–**	**–**	**–**
Total non-derivative financial liabilities	**15,409**	**17,618**	**4,176**	**1,773**	**5,806**	**5,863**

						2018
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	147	152	152	–	–	–
Capital market issuance	11,848	13,745	2,670	2,002	4,843	4,230
Trade payables	1,198	1,198	1,198	–	–	–
Total non-derivative financial liabilities	13,193	15,095	4,020	2,002	4,843	4,230

CAPITAL MANAGEMENT

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only external imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group continues to manage its capital structure to maintain its investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in ongoing discussions with the relevant rating agencies.

As at 30 September 2019 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	**2019**	2018
Adjusted net debt (note 30)	**11,376**	11,474
Equity attributable to the owners of the parent	**4,937**	5,770
Total capital	**16,313**	17,244

HEDGE ACCOUNTING

The Group has investments in foreign operations which are consolidated in its financial statements and whose functional currencies are Euros or US Dollars. Where it is practicable and cost effective to do so, the foreign exchange rate exposures arising from these investments are hedged through the use of cross-currency swaps and foreign currency denominated debt.

The Group only designates the undiscounted spot element of the cross-currency swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross-currency swaps attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line. These amounts are, therefore, not included in the hedge effectiveness assessment.

Net investment gains and losses are reported in exchange movements within other comprehensive income and the hedging instrument foreign currency gains deferred to the foreign currency revaluation reserve are detailed in the statement of changes in equity.

The Group establishes the hedging ratio by matching the notional balance of the hedging instruments with an equal notional balance of the net assets of the foreign operation. Given that only the undiscounted spot element of hedging instruments is designated in the hedging relationship, no ineffectiveness is expected unless the notional balance of the designated hedging instruments exceeds the total balance of the foreign operation's net assets during the reporting period. The foreign currency risk component is determined as the change in the carrying amount of designated net assets of the foreign operation arising solely from changes in spot foreign currency exchange rates.

All net investment hedges were fully effective at 30 September 2019.

The following table sets out the maturity profile of the hedging instruments used in the Group's net investment hedging strategies.

					2019
		Maturity			
£ million	Total notional balance	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(8,407)	(1,681)	(1,328)	(2,494)	(2,904)
Cross-currency swaps	(2,863)	–	–	(1,739)	(1,124)
	(11,270)	(1,681)	(1,328)	(4,233)	(4,028)

The following table contains details of the hedging instruments and hedged items used in the Group's net investment hedging strategies.

					2019
		Carrying amount			
£ million	Notional balance	Assets	Liabilities	Balance sheet line item	Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	8,407		8,482	Borrowings	(228)
Cross-currency swaps	2,863		341	Derivative financial instruments	5
Hedged item:					
Investment in a foreign operation	n/a	11,270			223

The Group also treats certain permanent intra-group loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intra-group loans with a notional value of €2,506 million (2018: €2,506 million) and US dollar loans with a notional value of $5,636 million (2018: $5,636 million) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

FAIR VALUE ESTIMATION AND HIERARCHY

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 21. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 19.

AUXLY CANNABIS GROUP INC.

On 25 July the Company announced that it would invest CAD 123 million by way of a debenture convertible into 19.9 per cent ownership of Auxly at a conversion price of $0.81 per share. The transaction was completed on 25 September 2019.

This investment has been classified as a financial asset at fair value through profit and loss and sits in Level 3 on the fair value hierarchy using inputs not based upon observable market data. As at 30 September 2019 the fair value of the investment was £82 million and a fair value gain of £3 million was recognised in the year. One-off IP income of £7 million was also recognised as part of the transaction.

Credit risk of Auxly is managed through a contractual obligation which gives the Company the right to inspect Auxly and its subsidiaries and where necessary to perform audits of their books and records. Auxly is also required to provide the Company with all relevant internal financial reports, audit and compliance reports, as well as information relating to material transactions and expenditure.

NETTING ARRANGEMENTS OF FINANCIAL INSTRUMENTS

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments under ISDA Credit Support Annexes. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

					2019
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	852	(38)	814	(740)	74
Cash and cash equivalents	2,286	–	2,286	–	2,286
	3,138	(38)	3,100	(740)	2,360
Liabilities					
Derivative financial instruments	(1,474)	38	(1,436)	740	(696)
Bank loans and overdrafts	(46)	–	(46)	–	(46)
	(1,520)	38	(1,482)	740	(742)

					2018
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	581	(82)	499	(481)	18
Cash and cash equivalents	775	–	775	–	775
	1,356	(82)	1,274	(481)	793
Liabilities					
Derivative financial instruments	(1,260)	82	(1,178)	481	(697)
Bank loans and overdrafts	(147)	–	(147)	–	(147)
	(1,407)	82	(1,325)	481	(844)

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2019			2018		
£ million	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments						
Interest rate swaps	24	(26)	(2)	28	(24)	4
Foreign exchange contracts	104	(2)	102	6	(7)	(1)
Cross-currency swaps	9	–	9	3	(127)	(124)
Total current derivatives	137	(28)	109	37	(158)	(121)
Collateral[1]	–	–	–	–	53	53
	137	(28)	109	37	(105)	(68)
Non-current derivative financial instruments						
Interest rate swaps	645	(1,079)	(434)	462	(700)	(238)
Cross-currency swaps	32	(367)	(335)	–	(402)	(402)
Total non-current derivatives	677	(1,446)	(769)	462	(1,102)	(640)
Collateral[1]	–	38	38	–	29	29
	677	(1,408)	(731)	462	(1,073)	(611)
Total carrying value of derivative financial instruments	814	(1,436)	(622)	499	(1,178)	(679)
Analysed as:						
Interest rate swaps	669	(1,105)	(436)	490	(724)	(234)
Foreign exchange contracts	104	(2)	102	6	(7)	(1)
Cross-currency swaps	41	(367)	(326)	3	(529)	(526)
Collateral[1]	–	38	38	–	82	82
Total carrying value of derivative financial instruments	814	(1,436)	(622)	499	(1,178)	(679)

1. Collateral deposited against derivative financial liabilities under the terms and conditions of ISDA Credit Support Annexes.

Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 20.

MATURITY OF OBLIGATIONS UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Group's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2019. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2019. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non-derivative financial instruments are detailed in note 20.

						2019
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(398)	(616)	(30)	(37)	(210)	(339)
Gross settled derivatives	(224)					
• receipts		6,852	2,151	165	2,738	1,798
• payments		(6,833)	(2,199)	(100)	(2,701)	(1,833)
	(622)	(597)	(78)	28	(173)	(374)

						2018
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(205)	(508)	(13)	(38)	(183)	(274)
Gross settled derivatives	(474)					
• receipts		5,364	2,249	102	1,228	1,785
• payments		(5,610)	(2,349)	(79)	(1,234)	(1,948)
	(679)	(754)	(113)	(15)	(189)	(437)

DERIVATIVES AS HEDGING INSTRUMENTS

As outlined in note 20, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross-currency swaps. Foreign exchange contracts are used to manage the Group's short-term liquidity requirements in line with short-term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IFRS 9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

INTEREST RATE SWAPS

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination and/or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2019, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £13,448 million equivalent (2018: £10,353 million equivalent) with a fair value of £657 million asset (2018: £240 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2018: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR.

As at 30 September 2019, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £10,024 million equivalent (2018: £10,285 million equivalent) with a fair value of £1,055 million liability (2018: £445 million liability). The fixed interest rates vary from 0.5 per cent to 4.4 per cent (2018: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,412 million equivalent (2018: £1,476 million equivalent) of which there are £1,522 million equivalent with tenors extending for five years, starting between October 2020 and May 2022, £443 million equivalent with 10 year tenors starting in October 2019 and £447 million equivalent with 13 year tenors starting in October and November 2019.

CROSS-CURRENCY SWAPS

The Group enters into cross-currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

As at 30 September 2019, the notional amount of cross-currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,600 million (2018: £3,300 million) and the fair value of these swaps was £364 million net liability (2018: £473 million net liability). During the financial year foreign currency forward and cross-currency swaps were transacted to convert $3 billion of US Dollar denominated debt to €2.8 billion Euros with a fair value of £134 million net asset.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

As at 30 September 2019, cross-currency swaps with a notional amount of €3,233 million (2018: €4,164 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £0.2 million (2018: £23 million losses) were recognised in other comprehensive income in respect of cross currency swaps that had been designated as hedges of a net investment in foreign operations.

FOREIGN EXCHANGE CONTRACTS

The Group enters into foreign exchange contracts to manage short-term liquidity requirements in line with cash flow forecasts. As at 30 September 2019, the notional amount of these contracts was £1,087 million equivalent (2018: £1,430 million equivalent) and the fair value of these contracts was a net asset of £6 million (2018: £1 million net liability).

22. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

DEFERRED TAX ASSETS

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total 2019
At 1 October 2018	**231**	**133**	**236**	**600**
Credited/(charged) to consolidated income statement	**26**	**(2)**	**(60)**	**(36)**
Credited to other comprehensive income	**–**	**46**	**–**	**46**
Transfers	**7**	**(3)**	**(13)**	**(9)**
Transferred to held for disposal (note 11)	**(8)**	**–**	**(3)**	**(11)**
Exchange movements	**1**	**12**	**(8)**	**5**
At 30 September 2019	**257**	**186**	**152**	**595**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total 2018
At 1 October 2017	181	129	307	617
Credited/(charged) to consolidated income statement	57	1	(68)	(10)
Credited to other comprehensive income	–	2	–	2
Transfers	(3)	1	(1)	(3)
Exchange movements	(4)	–	(2)	(6)
At 30 September 2018	231	133	236	600

DEFERRED TAX LIABILITIES

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total 2019
At 1 October 2018	**(1,193)**	**(27)**	**107**	**(1,113)**
Charged to consolidated income statement	**(35)**	**(17)**	**–**	**(52)**
Credited to other comprehensive income	**–**	**6**	**–**	**6**
Transfers	**(7)**	**3**	**13**	**9**
Exchange movements	**(17)**	**3**	**8**	**(6)**
At 30 September 2019	**(1,252)**	**(32)**	**128**	**(1,156)**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total 2018
At 1 October 2017	(1,403)	37	275	(1,091)
Credited/(charged) to consolidated income statement	219	(12)	(171)	36
Charged to other comprehensive income	–	(56)	–	(56)
Transfers	3	(1)	1	3
Other movements	(7)	–	2	(5)
Exchange movements	(5)	5	–	–
At 30 September 2018	(1,193)	(27)	107	(1,113)

DEFERRED TAX EXPECTED TO BE RECOVERED WITHIN 12 MONTHS

£ million	2019	2018
Deferred tax assets	**114**	252
Deferred tax liabilities	**(72)**	(50)
	42	202

DEFERRED TAX EXPECTED TO BE RECOVERED IN MORE THAN 12 MONTHS

£ million	2019	2018
Deferred tax assets	**481**	348
Deferred tax liabilities	**(1,084)**	(1,063)
	(603)	(715)

Within other temporary differences, deferred tax assets of £129 million (2018: £173 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at the balance sheet date, deferred tax assets of £205 million (2018: £133 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets £31 million (2018: £6 million) are expected to expire in 2020 and £46 million (2018: £37 million) are expected to expire within 5 years. The remaining £128 million (2018: £90 million) has no time expiry.

Also within other temporary differences, deferred tax assets of £17 million (2018: £21 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £145 million (2018: £146 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £51 million (2018: £48 million) are expected to expire between 2021 and 2027.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2019 we derecognised deferred tax assets of £87 million (2018: £51 million) that were previously recognised on the basis that it is more likely than not that these are irrecoverable.

A deferred tax liability of £130 million (2018: £115 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £6 billion (2018: £9 billion).

23. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 64 per cent, 12 per cent and 7 per cent of the Group's total defined benefit obligations and 37 per cent, 28 per cent and 7 per cent of the current service cost respectively.

IMPERIAL TOBACCO PENSION FUND

The UK scheme, the Imperial Tobacco Pension Fund or ITPF, is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF was offered to employees who joined the Company before 1 October 2010 and has a weighted average maturity of 18 years. Effective from 1 September 2017, members' pensionable pay was capped at the higher of £75,000 or their pensionable pay at 1 September 2017. The population as at the most recent funding valuation comprises 72 per cent in respect of pensioners, 26 per cent in respect of deferred members and 2 per cent in respect of current employees. New employees in the UK are now offered a defined contribution scheme. As the ITPF is in surplus funds in the defined benefit section, these funds may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases and any salary increases above inflation) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the fund were to be wound up.

The latest 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 Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly. The ITPF is currently undergoing a valuation as at 31 March 2019, the outcomes of which will be available later in the year.

Following the valuation, the level of employer's contributions to the scheme was increased from £65 million per year. ITL paid £85 million in the year to 31 March 2019 and agreed to pay £85 million each year for the subsequent 12 years. Further contributions were agreed to be paid by the ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees with a total value of £600 million and a parental guarantee with Imperial Brands PLC have been put in place.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be influenced by the factors noted above). The investment portfolio is subject to a range of risks typical of the asset classes held, in particular credit risk on bonds, exposure to equity markets, and exposure to the property market.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a proportion of the assets invested in equities and other return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

THE REEMTSMA CIGARETTENFABRIKEN PENSION PLAN

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 20 years. The scheme population comprises 52 per cent in respect of pensioners, 19 per cent in respect of deferred members and 29 per cent in respect of current employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £24 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the DBO and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

LORILLARD HOURLY PENSION PLAN

The main USA pension scheme, held by ITG Brands is the Lorillard Hourly Pension Plan (ITGBH), is a defined benefit pension plan that is open to new entrants. It has a weighted average maturity of 11 years. The population comprises 75 per cent in respect of pensioners, 11 per cent in respect of deferred members and 14 per cent in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

OTHER PLANS

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2019 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

DEFINED BENEFIT PLANS

£ million	DBO	Assets	Total	DBO	Assets	Total
			2019			2018
At 1 October	**(5,311)**	**4,848**	**(463)**	(5,448)	4,732	(716)
Consolidated income statement expense						
Current service cost	**(44)**	**–**	**(44)**	(52)	–	(52)
Settlements gains/(losses)	**3**	**(3)**	**–**	12	(7)	5
Past service (losses)/gains	**(1)**	**–**	**(1)**	12	–	12
Cost of termination benefits	**(19)**	**–**	**(19)**	(38)	–	(38)
Net interest (expense)/income on net defined benefit (liability)/asset	**(147)**	**142**	**(5)**	(142)	129	(13)
Administration costs paid from plan assets	**–**	**(6)**	**(6)**	–	(5)	(5)
Cost recognised in the income statement			**(75)**			(91)
Remeasurements						
Actuarial gain/(loss) due to liability experience	**73**	**–**	**73**	(20)	–	(20)
Actuarial (loss)/gain due to financial assumption changes	**(845)**	**–**	**(845)**	105	–	105
Actuarial loss due to demographic assumption changes	**(14)**	**–**	**(14)**	–	–	–
Return on plan assets excluding amounts included in net interest (expense)/income above	**–**	**538**	**538**	–	111	111
Remeasurement effects recognised in other comprehensive income			**(248)**			196
Cash						
Employer contributions	**–**	**142**	**142**	–	158	158
Employee contributions	**(1)**	**1**	**–**	(1)	1	–
Benefits paid directly by the company	**218**	**(218)**	**–**	66	(66)	–
Benefits paid from plan assets	**48**	**(48)**	**–**	215	(215)	–
Net cash			**142**			158
Other						
Exchange movements	**(36)**	**26**	**(10)**	(20)	10	(10)
Total other			**(10)**			(10)
At 30 September	**(6,076)**	**5,422**	**(654)**	(5,311)	4,848	(463)

The cost of termination benefits in the year ended 30 September 2019 and 30 September 2018 mainly relate to restructuring activity in Germany.

RETIREMENT BENEFIT SCHEME COSTS CHARGED TO OPERATING PROFIT

£ million	2019	2018
Defined benefit expense in operating profit	**70**	78
Defined contribution expense in operating profit	**17**	17
Total retirement benefit scheme cost in operating profit	**87**	95

Split as follows in the consolidated income statement:

£ million	2019	2018
Cost of sales	**27**	29
Distribution, advertising and selling costs	**37**	40
Administrative and other expenses	**23**	26
Total retirement benefit scheme costs in operating profit	**87**	95

ASSETS AND LIABILITIES RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

£ million	2019	2018
Retirement benefit assets	**595**	598
Retirement benefit liabilities	**(1,249)**	(1,061)
Net retirement benefit liability	**(654)**	(463)

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

			2019			2018
£ million unless otherwise indicated	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Defined benefit obligation (DBO)	3,880	758	453	3,380	600	394
Fair value of scheme assets	(4,416)	–	(418)	(3,902)	–	(388)
Net defined benefit (asset)/liability	(536)	758	35	(522)	600	6
Current service cost	16	12	3	21	13	5
Employer contributions	85	–	–	80	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	1.8	0.9	3.2	2.9	1.9	4.3
Future salary increases	3.1	2.6	n/a	3.7	2.9	n/a
Future pension increases	3.1	1.5	n/a	3.2	1.8	n/a
Inflation	3.1	1.5	2.5	3.2	1.8	2.5

						2019
		ITPF		RCPP		ITGBH
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	22.1	23.7	20.2	23.7	19.6	22.1
Member currently aged 50	23.3	25.5	22.3	25.4	20.9	23.3

						2018
		ITPF		RCPP		ITGBH
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	22.0	23.6	19.4	23.4	19.7	22.2
Member currently aged 50	23.4	25.5	21.4	25.3	20.9	23.3

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S2 tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S2 All Pensioner Male Amounts table with a 97.7 per cent multiplier. An allowance for improvements in longevity is made using the 2015 CMI improvement rates with a long-term trend of 1.25 per cent per annum.

SENSITIVITY ANALYSIS FOR KEY ASSUMPTIONS AT THE END OF THE YEAR

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

			2019			2018
% increase in DBO	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Discount rate: 0.5% decrease	9.3	10.4	5.7	8.7	9.9	5.2
Rate of inflation: 0.5% decrease	7.7	6.8	n/a	7.1	6.5	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	4.9	4.9	4.5	3.5	4.5	4.0

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5 per cent decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £15 million.

An approximate split of the major categories of ITPF scheme assets is as follows:

£ million unless otherwise indicated	2019 Fair value	2019 Percentage of ITPF scheme assets	2018 Fair value	2018 Percentage of ITPF scheme assets
Equities	**497**	**11**	564	15
Bonds – index linked government	**1,912**	**43**	1,403	36
Bonds – corporate and other	**666**	**15**	361	9
Property	**563**	**13**	542	14
Absolute return	**732**	**17**	477	12
Other – including derivatives, commodities and cash	**46**	**1**	555	14
	4,416	**100**	3,902	100

The primary investment objective is to invest the ITPF's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as they fall due. Specifically the ITPF targets an expected return in excess of the growth in the liabilities, which in conjunction with the contributions paid is consistent to achieve and maintain an ongoing funding level of at least 100 per cent on a buy-out basis by 2028.

The majority of the assets are quoted. The ITPF holds £0.3 million of self-invested assets. As in previous years, the value of ground leases have been allocated to the property asset class.

An approximate split of the major categories of ITGBH scheme assets is as follows:

£ million unless otherwise indicated	2019 Fair value	2019 Percentage of ITGBH scheme assets	2018 Fair value	2018 Percentage of ITGBH scheme assets
Investment funds	**279**	**67**	252	65
Bonds – fixed government	**47**	**11**	54	14
Bonds – corporate and other	**71**	**17**	66	17
Other – including derivatives, commodities and cash	**21**	**5**	16	4
	418	**100**	388	100

The majority of the assets are non-quoted.

24. PROVISIONS

£ million	2019 Restructuring	2019 Other	2019 Total
At 1 October 2018	**297**	**156**	**453**
Additional provisions charged to the consolidated income statement	**46**	**191**	**237**
Amounts used	**(95)**	**(37)**	**(132)**
Unused amounts reversed	**(4)**	**(22)**	**(26)**
Transferred to held for disposal (note 11)	**–**	**(4)**	**(4)**
Exchange movements	**1**	**2**	**3**
At 30 September 2019	**245**	**286**	**531**

Analysed as:

£ million	2019	2018
Current	**284**	179
Non-current	**247**	274
	531	453

Restructuring provisions relate mainly to our cost optimisation programme (see note 5), and other provisions principally relates to excise tax of £139 million with the remainder comprised of holiday pay, local tax and Logista provisions. See note 8 for further details on the excise tax provision. It is expected that the majority of provisions will be utilised within a period of 10 years.

25. SHARE CAPITAL

£ million	2019	2018
Authorised, issued and fully paid		
1,025,795,746 ordinary shares of 10p each (2018: 1,031,026,084)	**103**	103

During the year 5,230,338 shares (2018: 1,313,916 shares) were repurchased and immediately cancelled, increasing the capital redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the capital redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

26. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

SHARE MATCHING SCHEME

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

LONG TERM INCENTIVE PLAN (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.

SHARESAVE PLAN

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

DISCRETIONARY SHARE AWARDS PLAN (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25 per cent of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

ANALYSIS OF CHARGE TO THE CONSOLIDATED INCOME STATEMENT

£ million	**2019**	2018
Share Matching Scheme	**9**	14
Long Term Incentive Plan	**12**	9
Sharesave Plan	**1**	2
Discretionary Share Awards Plan	**1**	1
	23	26

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2019 was £0.9 million (2018: £0.9 million).

RECONCILIATION OF MOVEMENTS IN AWARDS/OPTIONS

					2019
Thousands of shares unless otherwise indicated	**Share matching scheme awards**	**LTIP awards**	**Sharesave options**	**DSAP awards**	**Sharesave weighted average exercise price £**
Outstanding at 1 October 2018	**1,307**	**3,014**	**1,324**	**71**	**25.03**
Granted	**243**	**2,132**	**883**	**45**	**17.45**
Lapsed/cancelled	**(66)**	**(677)**	**(633)**	**(5)**	**24.02**
Exercised	**(701)**	**(156)**	**(15)**	**(17)**	**25.05**
Outstanding at 30 September 2019	**783**	**4,313**	**1,559**	**94**	**21.21**
Exercisable at 30 September 2019	**–**	**–**	**168**	**–**	**29.68**

					2018
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2017	1,907	1,190	997	45	27.73
Granted	175	2,002	972	26	22.24
Lapsed/cancelled	(78)	(25)	(302)	–	29.12
Exercised	(697)	(153)	(343)	–	23.87
Outstanding at 30 September 2018	1,307	3,014	1,324	71	25.03
Exercisable at 30 September 2018	–	–	98	–	25.22

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £26.06 (2018: £26.80). The weighted average fair value of sharesave options granted during the year was £3.32 (2018: £4.00).

SUMMARY OF AWARDS/OPTIONS OUTSTANDING AT 30 SEPTEMBER 2019

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2017	**487**	**5**	**n/a**
2018	**147**	**17**	**n/a**
2019	**149**	**29**	**n/a**
Total awards outstanding	**783**		
Long Term Incentive Plan			
2015	**12**	**–**	**n/a**
2016	**5**	**–**	**n/a**
2017	**395**	**5**	**n/a**
2018	**1,821**	**17**	**n/a**
2019	**2,080**	**29**	**n/a**
Total awards outstanding	**4,313**		
Sharesave Plan			
2016	**168**	**–**	**29.68**
2017	**180**	**10**	**29.62**
2018	**337**	**22**	**22.24**
2019	**874**	**34**	**17.45**
Total options outstanding	**1,559**		
Discretionary Share Awards Plan			
2017	**21**	**8**	**n/a**
2017	**2**	**11**	**n/a**
2018	**27**	**23**	**n/a**
2019	**41**	**29**	**n/a**
2019	**2**	**29**	**n/a**
2019	**1**	**29**	**n/a**
Total options outstanding	**94**		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

PRICING

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan, Discretionary Shares Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2019 and 2018 is as follows.

		2019	
	Share Matching	**Sharesave**	**DSAP**
Risk-free interest rate %	**1.1**	**-1.4**	**0.7-1.1**
Volatility (based on 3 or 5 year history) %	**25**	**24.5-26.1**	**24.7-26.3**
Expected lives of options granted years	**3.00**	**3**	**2.58-3**
Dividend yield %	**6.65**	**6.65**	**6.65**
Fair value £	**21.72**	**2.37-3.54**	**15.65-21.72**
Share price used to determine exercise price £	**26.52**	**19.77-21.81**	**18.69-26.52**
Exercise price £	**n/a**	**17.45**	**n/a**

			2018	
	LTIP	Share Matching	Sharesave	DSAP
Risk-free interest rate %	1.2-1.3	1.2	0.0-2.9	1.2
Volatility (based on 3 or 5 year history) %	23.9-24.5	24.1	24.0-24.1	24.2
Expected lives of options granted years	3-5	3	3	3
Dividend yield %	4.8	4.8	4.8	4.8
Fair value £	22.05-24.24	22.84	3.88-4.76	24.24
Share price used to determine exercise price £	27.96	26.34	26.08-26.32	27.96
Exercise price £	n/a	n/a	22.24	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2019 and 2018 are given in the following table.

%	2019	2018
Future Imperial Brands share price volatility	**20.0**	18.7–19.2
Future Imperial Brands dividend yield	**–**	–
Share price volatility of the tobacco and alcohol comparator group	**14.9-65.6**	17.0-38.0
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**27.0**	32.0

EMPLOYEE SHARE OWNERSHIP TRUSTS

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2019. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

SHARES HELD BY EMPLOYEE SHARE OWNERSHIP TRUSTS

Millions of shares	2019	2018
At 1 October	**0.7**	1.9
Gift of shares from Treasury	**3.0**	–
Distribution of shares held by Employee Share Ownership Trusts	**(0.9)**	(1.2)
At 30 September	**2.8**	0.7

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2018: nil) and 2.8 million (2018: 0.7 million) treasury shares gifted to the Trusts by the Group. There were 3 million (2018: nil) shares gifted in the financial year 2019.

27. TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 5,230,338 shares at a cost of £108 million (2018: 1,313,916 shares at a cost of £41 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

		2019		2018
£ million unless otherwise indicated	**Millions of shares (number)**	**Value**	Millions of shares (number)	Value
At 1 October	**77.3**	**2,183**	77.3	2,183
Purchase of shares	**5.2**	**108**	1.3	41
Cancellation of shares	**(5.2)**	**(108)**	(1.3)	(41)
Gifted to Employee Share Ownership Trusts	**(3.0)**	**–**	–	–
At 30 September	**74.3**	**2,183**	77.3	2,183
Percentage of issued share capital	**7.2**	**n/a**	7.5	n/a

28. COMMITMENTS

CAPITAL COMMITMENTS

£ million	2019	2018
Contracted but not provided for:		
Property, plant and equipment and software	**179**	208

OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

			2019			2018
£ million	**Property**	**Other**	**Total**	Property	Other	Total
Within one year	**54**	**26**	**80**	47	19	66
Between one and five years	**146**	**36**	**182**	107	29	136
Beyond five years	**88**	**1**	**89**	52	–	52
	288	**63**	**351**	206	48	254

A review of operating leases has identified four leases with a total commitment greater than £10 million. A summary of these commitments are detailed on page 143.

Following the sale of the Head Office buildings in the UK in the prior year, two new leases have commenced in respect of these, one of which represents a total commitment greater than £10 million as at 30 September 2019. The lease in respect of 121 Winterstoke Road commenced on 23 August 2018 for a term of 20 years, due to terminate on 22 August 2038 and currently has an annual rental commitment of £2.5 million; the lease has a review of the rental obligation five years after the lease commencement date.

The German head office lease commenced on 1 January 2014 for a term of 10 years, due to terminate on 31 December 2024. Currently there is an annual commitment of €3.2 million which is price index graduated on an annual basis. There is the option to terminate up to 30 per cent of the remaining lease space from 31 December 2019 to 31 December 2023, subject to notice of 14 months and a pro-rata payment penalty.

Within Logista two leases exist with total commitments in excess of £10 million as of 30 September 2019. The Coslada III lease commenced on 4 June 2018 for a term of 15 years and extensions of three years more with a maximum of five extensions. For the moment it is considered that one extension exists with a termination date of 31 March 2036. Currently there is an annual commitment of €1.0 million and its price index is reviewed on an annual basis. The Getafe lease commenced on 31 March 2008 and its term was renegotiated in the year until 31 December 2025. Currently there is an annual commitment of €2.1 million per annum which is price index reviewed on an annual basis.

29. CONTINGENT LIABILITIES

LEGAL PROCEEDINGS

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements.

For further details see page 63-64 of the Directors' Report.

COMPETITION AUTHORITY INVESTIGATIONS

The Group is currently co-operating with relevant national competition authorities in relation to a number of ongoing competition law investigations, none of which have resulted in findings of infringement.

SPAIN

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

BELGIUM

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

UKRAINE

In February 2017, the Anti-Monopoly Committee in Ukraine (AMCU) initiated an investigation considering alleged concerted actions between manufacturers, including Imperial Tobacco Ukraine (ITU), and the distributor TEDIS.
On 10 October the AMCU announced its Decision to make a finding of anti-competitive conduct against the industry (Imperial, JTI, BAT, PM – both factories and trading companies – and the distributor TEDIS). ITU has been fined approximately £8.4 million and Imperial Tobacco Production Ukraine (ITPU) has been fined approximately £4.8 million, totalling £13.2 million. The Decision was given orally; the fact of the Decision was subsequently made public by the AMCU, and we await a copy of the Decision in writing. ITU and ITPU have announced in a press release that they believe they have meritorious defence arguments and intend to appeal the Decision and fines. Payment of the fines would be suspended pending resolution of the appeal. Therefore, provision for these amounts is not considered appropriate.

30. NET DEBT

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2018	775	(2,397)	(9,598)	(679)	(11,899)
Reallocation of current borrowings from non-current borrowings	–	(1,656)	1,656	–	–
Cash flow	1,540	2,159	(3,528)	117	288
Accretion of interest	–	20	(26)	39	33
Change in fair values	–	–	–	(174)	(174)
Transferred to held for disposal (note 11)	(14)	–	–	–	(14)
Exchange movements	(15)	(63)	(201)	75	(204)
At 30 September 2019	2,286	(1,937)	(11,697)	(622)	(11,970)

ANALYSIS BY DENOMINATION CURRENCY

£ million	GBP	EUR	USD	Other	2019 Total
Cash and cash equivalents	235	659	932	460	2,286
Total borrowings	(2,687)	(4,588)	(6,326)	(33)	(13,634)
	(2,452)	(3,929)	(5,394)	427	(11,348)
Effect of cross-currency swaps	2,510	(4,268)	1,432	–	(326)
	58	(8,197)	(3,962)	427	(11,674)
Derivative financial instruments					(296)
Net debt					(11,970)

£ million	GBP	EUR	USD	Other	2018 Total
Cash and cash equivalents	47	225	39	464	775
Total borrowings	(3,419)	(4,700)	(3,844)	(32)	(11,995)
	(3,372)	(4,475)	(3,805)	432	(11,220)
Effect of cross-currency swaps	3,180	(3,706)	–	–	(526)
	(192)	(8,181)	(3,805)	432	(11,746)
Derivative financial instruments					(153)
Net debt					(11,899)

ADJUSTED NET DEBT

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and the fair value of derivative financial instruments providing commercial hedges of interest rate risk.

£ million	2019	2018
Reported net debt	(11,970)	(11,899)
Accrued interest	162	197
Fair value of derivatives providing commercial hedges	432	228
Adjusted net debt	(11,376)	(11,474)

31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2019	2018
Increase in cash and cash equivalents	1,540	203
Cash flows relating to derivative financial instruments	117	(41)
Increase in borrowings	(3,699)	(1,619)
Repayment of borrowings	2,330	2,261
Change in net debt resulting from cash flows	288	804
Other non-cash movements including revaluation of derivative financial instruments	(141)	(61)
Transferred to held for disposal (note 11)	(14)	–
Exchange movements	(204)	(152)
Movement in net debt during the year	(71)	591
Opening net debt	(11,899)	(12,490)
Closing net debt	(11,970)	(11,899)

32. NON-CONTROLLING INTERESTS

CHANGES IN NON-CONTROLLING INTERESTS

In August 2018 the Group reduced its holding in its Distribution business, Compañía de Distribución Integral Logista Holdings SA (Logista) to a holding of 50.01 per cent. This increased non-controlling interests by £142 million. Sales proceeds were €264 million. Net proceeds after fees and costs were £234 million. A net gain of £92 million was recognised in equity attributable to owners of the parent. There have been no changes to the shareholding of Logista during 2019.

MATERIAL NON-CONTROLLING INTERESTS

Detailed below is the summarised financial information of Logista, being a subsidiary where the non-controlling interest of 49.99 per cent is considered material to the Group.

SUMMARISED BALANCE SHEET

at 30 September

Euro million	2019	2018
Current assets	5,440	5,192
Current liabilities	(6,254)	(6,031)
Current net assets	(814)	(839)
Non-current assets	1,644	1,673
Non-current liabilities	(309)	(323)
Non-current net assets	1,335	1,350
Net assets	521	511

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

Euro million	2019	2018
Revenue	10,148	9,476
Profit for the year	165	156
Other comprehensive income	(3)	–
Total comprehensive income	162	156

SUMMARISED CASHFLOW STATEMENT

for the year ended 30 September

Euro million	2019	2018
Cashflows from operating activities	347	348
Cashflows from investing activities	(190)	(146)
Cashflows from financing activities	(150)	(150)
Net increase in cash and cash equivalents	7	52

33. POST BALANCE SHEET EVENTS

SHARE BUY-BACKS

Since 30 September 2019 the Group has repurchased and immediately cancelled 2,734,638 shares at a total cost of £50 million, increasing the capital redemption reserve. At 5 November 2019, 1,023,061,108 ordinary shares of 10 pence each were authorised, issued and fully paid up.

34. BREXIT

The Group has looked into the potential Brexit impacts under a number of different scenarios: soft, hard and no deal. The key risks that have been identified include potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling, inventory requirements to ensure supply; impact on consumer confidence, and implications on existing international tax treaties. In the event of a no deal Brexit, we estimate there could be additional costs of around £100 million relating to the restructuring of the Group for tax purposes.

35. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2019, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

IMPERIAL BRANDS PLC BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2019	2018
Fixed assets			
Investments	iii	**7,968**	7,968
Current assets			
Debtors	iv	**6,174**	8,017
Creditors: amounts falling due within one year	v	**(44)**	(2)
Net current assets		**6,130**	8,015
Total assets less current assets		**14,098**	15,983
Net assets		**14,098**	15,983
Capital and reserves			
Called up share capital	vi	**103**	103
Capital redemption reserve		**4**	4
Share premium account		**5,833**	5,833
Profit and loss account – brought forward		**10,043**	10,222
Profit and loss account – loss for the year		**(1,885)**	(179)
Total shareholders' funds		**14,098**	15,983

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented.

The financial statements on pages 146-150 were approved by the Board of Directors on 5 November 2019 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Share capital	Share premium and capital redemption	Retained earnings	Total equity
At 1 October 2018	**103**	**5,837**	**10,043**	**15,983**
Profit for the year	**–**	**–**	**67**	**67**
Total comprehensive income	**–**	**–**	**67**	**67**
Transactions with owners				
Cancellation of share capital	**–**	**–**	**(108)**	**(108)**
Dividends paid	**–**	**–**	**(1,844)**	**(1,844)**
At 30 September 2019	**103**	**5,837**	**8,158**	**14,098**
At 1 October 2017	103	5,837	10,222	16,162
Profit for the year	–	–	38	38
Dividends received	–	–	1,500	1,500
Total comprehensive income	–	–	1,538	1,538
Transactions with owners				
Cancellation of share capital	–	–	(41)	(41)
Dividends paid	–	–	(1,676)	(1,676)
At 30 September 2018	103	5,837	10,043	15,983

I. ACCOUNTING POLICIES

BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH FRS 101

Imperial Brands PLC (the Company) is the ultimate parent company within the Imperial Brands group (the Group). The Company is a public company listed by shares, incorporated in the United Kingdom, and its principal activity continued to be that of holding investments. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level.

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), FRS 101 and applicable accounting standards.

The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 118(e) of IAS 38 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period;
- The following paragraphs of IAS 1 'Presentation of financial statements':
  - (i) 10(d) – statement of cash flows;
  - (ii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
  - (iii) 16 – statement of compliance with all IFRS;
  - (iv) 38A – requirement for minimum of two primary statements, including cash flow statements;
  - (v) 38B-D – additional comparative information;
  - (vi) 40A-D – requirements for a third statement of financial position;
  - (vii) 111 – cash flow information; and
  - (viii) 134-136 – capital management disclosures;
- IAS 7 'Statement of cash flows';
- Paragraphs 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- IFRS 7 'Financial Instruments: Disclosures'; and
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently, are set out below. The Directors do not consider there to be any critical accounting estimates or judgements in respect of the Company, see note 2 Critical Accounting Estimates and Judgements of the consolidated financial statements for further details.

INVESTMENTS

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. Investments are tested for impairment annually to ensure that the carrying value of the investment is supported by their recoverable amount.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

FINANCIAL INSTRUMENTS

Following the adoption of IFRS 9, the Company's accounting policies for financial instruments and hedging remain the same as disclosed in the 30 September 2018 annual report and accounts, except for changes to the classification and measurement of certain non-derivative financial assets and the calculation of expected credit losses.

At 30 September 2018 all non-derivative financial assets were classified as loans and receivables. Receivables were all initially recognised at fair value and subsequently stated at amortised cost using the effective interest method. From 1 October 2018, receivables held under a hold to collect business model continue to be stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are now separately classified as fair value through profit or loss, within trade and other receivables.

At 30 September 2018, provisions for impairment of receivables were established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of those receivables. Provisions were only recognised when an impairment had crystallised. From 1 October 2018 the calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds. When such shares are cancelled they are transferred to the capital redemption reserve.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Company has adopted IFRS 9 'Financial Instruments' with effect from 1 October 2018. See note 1 Accounting Policies of the consolidated financial statements for further details of adoption. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Company.

II. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	**2019**	2018	2017
Paid interim of 62.56 pence per share (2018: 122.33 pence, 2017: 111.21 pence)			
• Paid June 2017	**–**	–	247
• Paid September 2017	**–**	–	247
• Paid December 2017	**–**	–	567
• Paid June 2018	**–**	271	–
• Paid September 2018	**–**	271	–
• Paid December 2018	**–**	624	–
• Paid June 2019	**298**	–	–
• Paid September 2019	**298**	–	–
Interim dividend paid	**596**	1,166	1,061
Proposed interim of 72.00 pence per share (2018: nil, 2017: nil)			
• To be paid December 2019	**683**	–	–
Interim dividend proposed	**683**	–	–
Proposed final of 72.01 pence per share (2018: 65.46 pence, 2017: 59.51 pence)			
• Paid March 2018	**–**	–	567
• Paid March 2019	**–**	624	–
• To be paid March 2020	**683**	–	–
Final dividend	**683**	624	567
Total ordinary share dividends of 206.57 pence per share (2018: 187.79 pence, 2017: 170.72 pence)	**1,962**	1,790	1,628

The third interim dividend for the year ended 30 September 2019 of 72.00 pence per share amounts to a proposed dividend of £683 million, which will be paid in December 2019.

The proposed final dividend for the year ended 30 September 2019 of 72.01 pence per share amounts to a proposed dividend payment of £683 million in March 2020 based on the number of shares ranking for dividend at 30 September 2019, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2019 will be £1,962 million (2018: £1,790 million). The dividend paid during 2019 is £1,844 million (2018: £1,676 million).

III. INVESTMENTS

COST OF SHARES IN IMPERIAL TOBACCO HOLDINGS (2007) LIMITED

£ million	2019	2018
At 1 October	**7,968**	7,968
At 30 September	**7,968**	7,968

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 151-167.

IV. DEBTORS

£ million	2019	2018
Amounts owed from Group undertakings	**6,174**	8,017

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2019	2018
Amounts owed by Group undertakings	**35**	–
Cash at bank and in hand	**2**	2
Other creditors	**7**	–
	44	2

Amounts owed by Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

VI. CALLED UP SHARE CAPITAL

£ million	2019	2018
Authorised, issued and fully paid		
1,025,795,746 ordinary shares of 10p each (2018: 1,031,026,084)	**103**	103

During the year 5,230,338 shares (2018: 1,313,916 shares) were repurchased and immediately cancelled, increasing the capital redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the capital redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

VII. RESERVES

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £67 million (2018: £1,538 million).

TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 5,230,338 shares at a cost of £108 million (2018: 1,313,916 shares at a cost of £41 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2019		2018	
£ million unless otherwise indicated	**Millions of shares (number)**	**Value**	Millions of shares (number)	Value
At 1 October	**77.3**	**2,183**	77.3	2,183
Purchase of shares	**5.2**	**108**	1.3	41
Cancellation of shares	**(5.2)**	**(108)**	(1.3)	(41)
Gifted to Employee Share Ownership Trusts	**(3.0)**	**–**	–	–
At 30 September	**74.3**	**2,183**	77.3	2,183
Percentage of issued share capital	**7.2**	**n/a**	7.5	n/a

VIII. GUARANTEES

The Company provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2019. See note 1 Accounting Policies of the consolidated financial statements for further details.

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2019, the amount guaranteed is £19,272 million (2018: £18,374 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2019 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, the Company has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

Many of the committed borrowing facilities remain undrawn as at 30 September 2019 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2019. The Irish companies, namely John Player & Sons Limited, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

The Company has also provided a parent guarantee to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

IX. RELATED PARTY DISCLOSURES

Details of Directors’ emoluments and interests are provided within the Directors’ Remuneration Report. The Directors Remuneration Report, on pages 66-85, includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2019 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

Name	Principal activity and registered address
Attendfriend Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
British Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Congar International UK Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Hypofill Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Imperial Brands Enterprise Finance Limited	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Finance PLC	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Investments Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Altadis Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (1)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (2)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (3)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (4)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Group Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (1) Limited (iv)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (2007) Limited (iv)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Initiatives	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco International Limited	Export and marketing of tobacco products 121 Winterstoke Road, Bristol BS3 2LL England
Imperial Tobacco Lacroix Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Limited	Manufacture, marketing and sale of tobacco products in the UK 121 Winterstoke Road, Bristol BS3 2LL England
Imperial Tobacco Overseas (Polska) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (1) Limited (viii)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (2) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (3) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (4) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

Name	Principal activity and registered address
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Limited (x)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees Limited (iv)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
ITG Brands Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Joseph & Henry Wilson Limited	Licencing rights for the manufacture and sale of tobacco products 121 Winterstoke Road, Bristol BS3 2LL England
Nerudia Limited	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Trading Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Consulting Limited	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Compliance Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
La Flor de Copan UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Park Lane Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Rizla UK Limited	Entity ceased trading 121 Winterstoke Road, Bristol, BS3 2LL, England
Sensus Investments Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Sinclair Collis Limited (iv)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Tabacalera de Garcia UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity and registered address
1213509 B.C. Limited	Canada	Holding investments in subsidiary companies Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC. V6C 2X8, Canada
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Altadis Canarias SAU (ii)	Spain	Marketing and sale of tobacco products in the Canary Islands C/Comandante Azcarraga 5, Madrid, 28016, Spain
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Altadis Management Services Corporation	United States of America	Trademark service company 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Altadis Mayotte SAS	France, Mayotte Island	Sales and distribution of tobacco products in Mayotte Island C/o SOMACO, BP 15 – Mamoudzou, 97600, Mayotte
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates
Altadis Ocean Indien SAS	France (La Reunion Island)	Sales and distribution of tobacco products in la Reunion Island ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion
Altadis Retail Corporation	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain C/Comandaute Azcarraga 5, Madrid 28016, Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the USA 217 Shaker Road, Somers, CT, 06071, USA
Altadis USA Inc	United States of America	Manufacture and sale of cigars in the USA 2601 Tampa East Blvd, Tampa Florida FL33619-8306, USA
Athena IP Vermogensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Cacique, SA – Comércio, Importaçao e Exportaçao	Brazil	Dormant Rua Marechal Deodoro, 690 – Centro Arapiraca, Alagoas, Brazil
Casa Blanca Inc	United States of America	Restaurant 301 Route 10 East, Whippany, New Jersey, 07981, USA
Casa de Montecristo Inc	United States of America	Retail Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Casa de Montecristo FL LLC	United States of America	Retail C/o ~Corporation Service Company, 1201 Hayes Street, Tallahassee Florida 32301, USA
Casa de Montecristo TN LLC	United States of America	Retail CSC, 2908 Poston Avenue, Nashville, TN 37203, USA
Casa de Montecristo TX LLC	United States of America	Retail Corporate Service Company, 211 E. 7th Floor, Suite 260, Austin, Texas, TX 78701, USA
CBHC Inc	United States of America	Dormant 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Cigar Savor Enterprises LLC	United States of America	Manufacture of tobacco products 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the USA 301 N. Scales Street, Reidsville, North Carolina, NC27320 USA

Name	Country of incorporation	Principal activity and registered address
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the USA 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Consolidated Cigar Holdings Inc (vii)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Coralma International SAS	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Cuban Cigar Brands BV (v)	Netherlands Antilles	Trademark owner N.V. Fides, 15 Pietermaai, Curaçao, Netherlands Antilles
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Dunkerquoise des Blends SAS	France	Tobacco processing 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
East Side Cigar, Inc	United States of America	Production and distribution of cigars Corporate Service Company, 80 State St, Albany, NY12207-2543, USA
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium Sint-Bavostraat 66, 2610 Wilrijk, Belgium
Fontem (Beijing) Technology Solutions Limited (i)	People's Republic of China	Research and development Room 201, Floor 2, Building 6, Yuan Dong science and technology park, 6 Hepingli North Street, Dong Cheng District, Beijing, 100013, China
Fontem Canada Limited (vii)	Canada	Import and distribution of tobacco and tobacco related products in Canada Suite 200, 389 Connell Street, Woodstock, NB, E7M 5G5, Canada
Fontem Holdings 1 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 2 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 3 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 4 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem International GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Fontem US, Inc.	United States of America	Sales and marketing of tobacco products in the US Suite 350, 1100 South Tryon Road, Charlotte, NC28203, USA
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Ventures France S.A.S.	France	Marketing and sale of e-vapour products in France 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Huotraco International Limited	Cambodia	Production and marketing of tobacco products No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia
Imperial Brands Columbia SAS	Columbia	Import and distribution of tobacco and tobacco related products in Columbia TV21 No.98 05, Bogota D.C. Columbia
Imperial Brands Finance France SAS	France	Provision of finance to other Group companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Imperial Brands Finland Oy	Finland	Sales and marketing of tobacco products in Finland Poikluomantie 1-3, Piispanristi, 20760, Finland

Name	Country of incorporation	Principal activity and registered address
Imperial Brands Global Duty Free & Export S.L.	Spain	Sale and export of duty-free tobacco products C/Comandaute Azcarraga 5, Madrid 28016, Spain
Imperial Brands Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Finance Ireland Limited	Ireland	Provision of finance to other Group companies 21 Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Nominees Limited (ii)	New Zealand	Trustee Company 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco (Asia) Pte. Ltd.,	Singapore	Trading of tobacco related products 80 Robinson Road, #02-00, 068898, Singapore
Imperial Tobacco (Beijing) Limited (i)	People's Republic of China	Holding investments in subsidiary companies Rm. 305 D-3F, Vantone Center, Jia No. 6 Chaowai Street, Chaoyang District, Beijing, PRC 100020, China
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia John Player Special House, Level 4, 4-8 Inglewood Place, Norwest, NSW 2153, Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria Zieglergasse 6, A-1070 Vienna, Austria
Imperial Tobacco BH doo (i)	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia Adema Buce, Sarajevo, 71000, Bosnia & Herzegovina
Imperial Tobacco Brasil Comércio de Produtos de Tabaco Ltda.	Brazil	Co-ordinating and monitoring of WEST license productions and distribution of tobacco products 5th andar (floor), Av. Brig. Faria Lima 3.729, itaim Bib, Sao Paolo, 04538-905, Brazil
Imperial Tobacco Bulgaria EOOD (i)	Bulgaria	Manufacture and sale of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco China Limited (i)	People's Republic of China	In liquidation Colombo 1 & Colombo 2, No 233 Tai Cang Road, Platinum Tower, Shanghai, 200020, China
Imperial Tobacco CR s.r.o.	Czech Republic	Sales and marketing of tobacco products in the Czech Republic Radlicka 14, Prague 5, 150 00, Czech Republic
Imperial Tobacco Denmark ApS	Denmark	In liquidation Lyskaer 3 CD, 2730 Herlev, Denmark
Imperial Tobacco Distribution EOOD (i)	Bulgaria	Marketing and distribution of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco Distribution Romania srl	Romania	Marketing and distribution of tobacco products in Romania Nicolae Canea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Imperial Tobacco Estonia OÜ	Estonia	Sales of tobacco products Valge 13, 11145, Tallinn, Estonia
Imperial Tobacco Germany Finance GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece 300 Klisthenous Str, 15344 Gerakas, Attikis, Athens, Greece
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Intellectual Property Limited	Ireland	Ownership of trademarks 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Tobacco International GmbH	Germany	Export and marketing of tobacco products Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Ireland Unlimited Company (v)	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy Via Luca Passi 22, Roma, 00166, Italy

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco Italy S.r.l.,	Italy	Holding investments in subsidiary companies Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Japan Kabushiki Kaisha	Japan	Sales and marketing of tobacco products in Japan 5-12-7 Shirokane dai, M6 Shirokane dai Building, Minato-ku, Tokyo, Japan
Imperial Tobacco Korea Limited	Korea	Sales and marketing of tobacco products in South Korea 612 ho 6F ChosunNaewha BD, 577 Seolleung-ro, Gangnam-gu, 06143, Republic of Korea
Imperial Tobacco Kyrgyzstan LLC (i)	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan 115, Ibraimov Street, 10th Floor, Business Center 'Asyl-Tash', Bishkek, 720021, Kyrgyzstan
Imperial Tobacco Magyarország Dohányforgalmázo Kft (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary Váci út 141, 1138, Budapest, Hungary
Imperial Tobacco Management Luxembourg sarl	Luxembourg	Holding investments in subsidiary companies 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products Symphony Corporatehouse SdnBhd, Level 8 Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco Norway AS	Norway	Sales and marketing of tobacco products in Norway Ryensvingen 2-4, 0680, Oslo, Norway
Imperial Tobacco Polska Manufacturing SA	Poland	Manufacture of tobacco products in Poland Ul. Tytoniowa 2/6, Radom, 26-600, Poland
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland Jankowice, ul. Przemyslowa 1, Pl-62-080, Tarnowo-Podgome, Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management 144, 7 DT, Avenida da Liberdade, Lisbon, Portugal
Imperial Tobacco Production Ukraine (i)	Ukraine	Manufacture of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco Sales & Marketing LLC	Russia	Sales and marketing of tobacco products in Russia Degtjarnyi pereulok 4-1, 125009 Moskau, Russian Federation
Imperial Tobacco SCG doo Beograd (i)	Serbia	Marketing and distribution of tobacco products in Serbia Milutina Milankovica 11a, Novi Beograd, Serbia
Imperial Tobacco Sigara ve Tutunculuck Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic 7A Galvaniho, 824 53 Bratislava, Slovakia
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan 6F1-2 No.2 Sec. 3, Minsheng E road, Zhongshen District, Taipei, Taiwan, Province of China
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan No 8 Cyunyi Road, Jhunan, MiaoLi County 350, Taiwan Province of China
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Ukraine (i)	Ukraine	Sales and marketing of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Volga LLC (i)	Russia	Manufacture of tobacco products in Russia ul.Tomskaja 7, 400048 Volgograd, Russian Federation

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco West Africa SAS (i)	Cote D'Ivoire	Holding investments in subsidiary companies Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan
Imperial Tobacco Yaroslavl CJSC (i)	Russia	Manufacture of tobacco products in Russia 22, Pobedy St., 150040 Yaroslavl, 150040, Russian Federation
Imperial Tobacco Zagreb doo (i)	Croatia	Marketing and distribution of tobacco related products in Croatia Gradičanska 30, Zagreb, HR-10000, Croatia
IMPTOB South Africa (Pty) Limited	South Africa	Provision of services to other Group companies Suite 107, Beacon Rock, 21 Lighthouse Road, Umhlanga 4319, South Africa
International Marketing Promotional Services Limited	Nigeria	Sales and marketing and of tobacco products in Nigeria 13 A, Dapo Solanke Close – Lekki Phase 1, Lagos, Nigeria
ITB Corporation Limited	Bahamas	Trademark owner Building of the Canadian Imperial Bank of Commerce, Shirley Street, Nassau, Bahamas
ITB Corporation y Cia. S.R.C	Spain	Trademark owner Calle Antonio Maura numero 9, Madrid, 28014, Spain
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the USA 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Holdings USA Inc (ix)	United States of America	Holding investments in subsidiary companies C/o The Corporation Trust Co, 1209 Orange Street, City of Wilmington, County of Newcastle, DE 19801, USA
ITI Cigars SL	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco related products Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong
J & R Tobacco (New Jersey) Corp	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JAW-Invest Oy	Finland	Trademark owner Poikluomantie 1-3, Piispanristi, 20760, Finland
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
JR Cigar (DC) Inc	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JR Cigars.com, Inc.	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Mooresville, Inc	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco NC, Inc	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco of America Inc	United States of America	Sales of tobacco and tobacco related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Burlington Inc	United States of America	Sales of tobacco and tobacco related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Michigan Inc	United States of America	Sales of tobacco and tobacco related products 601, Abbott Road, East Lansing, Ingham, MI, 48823, USA
JR Tobacco Outlet Inc	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA

Name	Country of incorporation	Principal activity and registered address
JSNM SARL	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
La Flor de Copan Honduras SA	Honduras (CA)	Manufacture of handmade premium cigars Zona Libre, Colonia MeJia Garcia, Frente Boulavard, Jorge Bueso Arias, Santa Rosa de Copan, Honduras
MYBLU Spain S.L.	Spain	Marketing and sale of e-vaopur products in Spain CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Los Olvidados SRL	Dominican Republic	Manufacture and distribution of cigars 129, Independencia Street, Santiago, 51000, Dominican Republic
Max Rohr, Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE, 19801, USA
MC Management, Inc.	United States of America	Provision of services to other Group companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Meccarillos France, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos International, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos Suisse, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Millennium Tobacco Unlimited Company	Ireland	Provision of finance to other Group companies 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Newglade International Unlimited Company	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Philippine Bobbin Corporation	Philippines	Manufacture of tobacco related products Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines
Real Club de Golf la Herrería S.A.	Spain	Management of golf course CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
REEMARK Gesellschaft für Markenkooperation mbH	Germany	Dormant Max-Born-Straße 4, Hamburg, 22761, Germany
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Robert Burton Associates Limited	United States of America	Marketing of papers in the US 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, Florida, FL 33309, USA
Santa Clara Inc	United States of America	Distribution of cigars 327, Hillsborough Street, Raleigh, NC, 27603, USA
Skruf Snus AB	Sweden	Manufacture, marketing, sales of tobacco products in Sweden Kungsgatan 12-14, Floor 7, Stockholm, SE-111 35, Sweden
Société Centrafricaine de Cigarettes SA (i)	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic Rue David Dacko, BP 1446, Bangui, Central African Republic
Société Centrafricaine de Distribution Sarl (i)	Central African Republic	Dormant Avenue Boganda Pk4, Bangui, Central African Republic
Société du Mont Nimba Sarl (i)	Guinee Conakry	Dormant BP 3391, Conakry, Guinea
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Société pour le Développement du Tabac en Afrique SAS	France	Purchasing company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
System Designed to Africa Sarl	Morocco	Distribution of tobacco products Km 17, Route national de Rabat, Ain Harrouda, Morocco
Tabacalera Brands Inc	United States of America	Trademark owner 103 Foulk Road, Suite 253, Wilmington, Delaware, 19803, USA

Name	Country of incorporation	Principal activity and registered address
Tabacalera Brands SLU	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Tabacalera de Garcia Limited	Bermuda	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Tabacalera de Garcia SAS	France	Manufacture of cigars in the Dominican Republic 320, Rue Saint-Honore, Paris, 75001, France
Tabacalera de Garcia SAS	Dominican Republic	Manufacture of cigars in the Dominican Republic Industrial Free Zone #1, La Romana, Domincan Republic
Tabacalera SLU	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Tabacalera USA Inc	United States of America	Holding investments in subsidiary companies Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Tahiti Tabacs SASU	France, Papeete (Tahiti)	Distribution of tobacco products in Denmark and Greenland PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobacco Products Fulfillments, Inc.	United States of America	Fulfilment services PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobaccor SAS (v)	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Tobačna 3DVA, trgovsko podjetje, d.o.o.	Slovenia	Retail of products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Grosist d.o.o.	Slovenia	Marketing and distribution in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Ljubljana d.o.o. (v)	Slovenia	Sales and marketing tobacco products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobamark International SAS	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Urex Inversiones SA	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Universal Brands S.A.	Spain	Trademark Owner C/Comandaute Azcarraga 5, Madrid, 28016, Spain
Van Nelle Tabak Nederland B.V. (x)	The Netherlands	Manufacture and sale of tobacco products in the Netherlands Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco related products Slachtedijk 28a, 8501 ZA, Joure, Netherlands
West Park Tobacco Inc.	United States of America	In Dissolution c/o CT Corporation System, 4701 Cox Road, Ste 301, Glen Allen/Richmond, VA 23060-6802, USA

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Be To Be Pharma, S.L.U	Spain	Distribution of pharmaceuticals Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	60.0
CdM Hallandale, LLC	United States of America	Management company c/o Corporation Service Company, 1201 Hays Street, Tallahassee, Florida, 32301, United States	50.0
Compagnie Agricole et Industrielle des Tabacs Africains SAS	France	Management company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France	99.9
Compagnie Agricole et Industrielle des Tabacs de Cote D'Ivoire SA, IL (i)	Cote D'Ivoire	In liquidation BP 418 – Bouake, Cote d'lvoire, Cote d'Ivoire	74.6
Compagnie Réunionnaise des Tabacs SAS	France, St Pierre (La Reunion Island)	Manufacture of cigarettes ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion	98.6
Compañía de Distribución Integral de Publicaciones Logista SLU (iv)	Spain	Distribution of published materials and other products Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Compañía de Distribución Integral Logista Holdings, S.A. (iii)	Spain	Holding investments in subsidiary companies C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL)	Poland	Distribution of tobacco products in Poland Avenida Jerozolimskie 133/131, 02-304 Varsaw, Poland	50.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Cyberpoint, S.L.U.	Spain	Distribution of POS software Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Distribuidora de Ediciones SADE, SAU	Spain	Distribution of published materials and other products in Spain Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain	50.0
Distribuidora de las Rias SA	Spain	Distribution of published materials and other products in Spain Avda. Cerezos, Parcela D-28, Polígono Industrial PO.CO.MA.CO, 15190 Mesoiro, La Coruña, Spain	50.0
Distribuidora del Este S.A.U.	Spain	Distribution of published materials and other products in Spain Felix Rodriguez de la Fuente, 11, Parque Epresarial de Elche, Alicante, Elche, 03203, Spain	50.0
Distribuidora del Noroeste SL	Spain	Distribution of published materials and other products in Spain C/ Gandarón, 34, interior, Vigo, Pontevedra, 36214, Spain	50.0
Dronas 2002, SLU	Spain	Industrial parcel and express delivery service Energía, 25-29; Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain	50.0
Imperial Tobacco TKS a.d. (i)	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia	99.1

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Imperial Tobacco TKS a.d. – Dege Kosove	Kosovo	Manufacture, marketing and distribution of tobacco products in Kosovo Ahmet Krasniqi, Obj.Redoni C1 B Nr 23, Prishtina, Republic of Kosovo	99.1
Imprimerie Industrielle Ivoirienne SA (i)	Cote D'Ivoire	Printing company Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abdjan, Cote d'Ivoire	72.1
La Mancha 2000, S.A., Sociedad Unipersonal	Spain	Distribution services Av. de la Veguilla, 12-Nave A – Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain	50.0
Lao Tobacco Limited (i)	Laos	Manufacture and distribution of cigarettes in Laos KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic	53.0
Logesta Deutschland Gmbh, Sociedad Unipersonal	Germany	Long haul transportation in Germany Pilotystrasse, 4, 80538 München, Germany	50.0
Logesta France SARL	France	Long haul transportation in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logesta Gestión de Transporte SAU	Spain	Long haul transportation services in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logesta Italia, S.R.L., Sociedad Unipersonal	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logesta Lusa LDA	Portugal	Long haul transportation in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logesta Polska Sp Zoo	Poland	Long haul transportation in Poland Aleje Jerozolimskie 133/32, 02/304 Varsovia, Poland	50.0
Logista France Holding SA	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista France SAS	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista Italia Spa	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logista Pharma SA	Spain	Distribution of pharmaceuticals Felix Rodriguez de la Fuente, 11, Parque Epresarial de Elche, Alicante, Elche, 03203, Spain	50.0
Logista Pharma Canarias, SA	Spain	Pharmaceutical products logistics in Canary Islands C/ Entreríos Nave 3; Las Palmas de Gran Canaria, 35600, Spain	50.0
Logista Promotion et Transport SAS	France	Marketing and distribution of tobacco products in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical distribution in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logista-Dis SAU	Spain	Sale of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
MABUCIG (Manufacture Burkinabe de Cigarette)	Burkina Faso	Manufacture of cigarettes in Burkina Faso Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 – Bobo Dioulasso, Burkina Faso	72.7
Macotab SAS (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes Route Nationale 193, Furiani, 20600, France	99.9
Manufacture de Cigarettes du Tchad SA	Tchad	Manufacture and distribution of cigarettes in Chad 0502 rue 1039, Arrondissement 1, N'DJamena, Chad	95.0
Midsid – Sociedade Portuguesa de Distribução, S.A., Sociedad Unipersonal	Portugal	Wholesale of tobacco and other products Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
MTOA SA (i)	Senegal	Manufacture and sales of cigarettes in Senegal Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal	97.3
NITAF Limited, IL (i)	Nigeria	In liquidation 28, Ground Floor, Ajasa Street, Off King George V Road, Onikan, Lagos, Nigeria	50.0
Promotora Vascongada de Distribuciones SA	Spain	Distribution of published materials and other products in Biscay and Santander C/ Guipúzcoa, 5, Polígono Industrial Lezama Leguizamón, 48450 Echevarri, Vizcaya, Spain	50.0
Publicaciones y Libros SA	Spain	Publishing company Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Reemtsma Kyrgyzstan OJSC (i)	Kyrgyzstan	In liquidation 249 Ibraimov Street, Bishkek, Kyrghyz Republic, 720011, Kyrgyzstan	99.7
S3T Pte Ltd (i)	Singapore	Holding investments in subsidiary companies 80 Robinson Road, #02-00, 068898, Singapore	51.0
SACIMEM SA (i)	Madagascar	Manufacture of cigarettes in Madagascar 110 Antsirabe – Madagascar, Route d'Ambositra, BP 128, Madagascar	65.4
SITAB Industries SA (i)	Cote D'Ivoire	Manufacture of cigarettes in Cote D'Ivoire Rue de l'Industrie – Lot No 19, 01 – BP 607, Bouake, Cote d'Ivoire	80.5
SITAR Holding SAS	France (La Reunion Island)	Holding investments in subsidiary companies Z.I n2, B.P. 256, 97457 Saint Pierre, Ile de la Reunion, France	99.0
Société Africaine d'Impression Industrielle SA (i)	Senegal	Manufacture and distribution of cigarettes in Senegal route de Bel Air – Km 2200, Dakar, Senegal	99.8
Société Allumettiere Française SAS	France	Manufacture and distribution of cigarettes Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Société des Cigarettes Gabonaises SA (i)	Gabon	In liquidation 2381 bld Léon MBA, BP 2175, Libreville, Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical SA (i)	Congo	Manufacture and distribution of cigarettes in Congo Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo	89.7
Société Ivoirienne des Tabacs SA (i) (iii)	Cote D'Ivoire	Manufacture and distribution of cigarettes in Ivory Coast Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan	74.1

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Société Marocaine des Tabacs SA	Morocco	Manufacture and distribution of cigarettes in Morocco Boulevard La Corniche, Anfa Place, Immeublep Bureaux Batiments Ousst, Casablanca, 20180, Morocco	99.9
SOCTAM SA (i)	Madagascar	Manufacture and distribution of cigarettes in Mali 15 Rue Geoges V, Mahajanga, Madagascar	50.5
SOTCHADIS SAS	Chad	Non-trading 502 Rue 1039, BP 852, N'Djamena, Chad	95.0
Supergroup SAS	France	Wholesale of tobacco products Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Von Erl. Gmbh (i)	Austria	Sale of e-vapour products in the US and Europe Alte Landstrasse 27, 6060 Hall in Tirol, Austria	60.0

ASSOCIATES: REGISTERED IN ENGLAND AND WALES

Name	Principal activity and registered address	Percentage owned
C H (Downton) Limited (ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
F J (Downton) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Hunters & Frankau Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Incentive Marketing Services (UK) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Jacon Financial Services Limited (ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Joseph Samuel & Son Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Knight Brothers Cigar Shippers Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Lancha House Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart & Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart Holdings Limited (ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Morris & Morris Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tabaco Torcido Traders Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
The English Import Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tropic Tobacco Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0

ASSOCIATES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
5th Avenue Products Trading GmbH (i) (iv)	Germany	Distribution of Cuban cigars in Germany Schwarzenbergstr. 3-7; Waldshut-Tiengen, 79761, Germany	27.5
Azur Finances SA	Cameroon	Holding investments in subsidiary companies B.P 1105, Douala, Cameroon	20.0
Caribbean Cigars Corporation NV (i)	Curacao	Distribution of Cuban cigars in the Caribbean Hato Economic Zone, Office D-28, Curacao, N.A.	25.0
Compañia Española de Tabaco en Rama SA (Cetarsa) (i)	Spain	Production and sale of raw tobacco Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain	20.8
Cosmic Fog Vapours Company LLC	United States of America	Trademark owner, and sale of – vapour products in USA and Europe C/O The Corporation Trust Co, 1209 Orange Street, City of Wilmington, County of Newcastle, DE19801 USA	40.0
Diadema Spa (i)	Italy	Distribution of Cuban cigars in Italy Via delle Terme Deciane, 10, Partita IVA 01213650995, Codice Fiscale 01374280509, 00153 Rome, Italy	30.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products Carretera de la Esclusa, S/N – Pariela 2, Modulo 4, Sevilla, 41011, Spain	25.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain	40.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	25.0
DTPU Kaliman Caribe Dooel Scopje	Macedonia	Distribution of Cuban cigars in Macedonia 5 Luj Pater Str., 1000 Scopje Center, Macedonia	25.0
Entreprises des Tabacs en Guinée (i)	Guinée Conakry	Dormant B.P 3391, Conakry, Guinea	34.0
Havana House Cuban Products Specialist Limited (i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
Havana House Limited (i)	Canada	Distribution of Cuban cigars in Canada 9 Davies Avenue, Suite 112, Toronto ON, M4M 2A6, Canada	25.0
Importadora y Exportadora de Puros y Tabacos SA DE CV (IEPT) (i)	Mexico	Marketing and distribution of Cuban cigars in Mexico Presidente Mazaryk numero 393 local 28, colonia Polanco, C.P. 11560 Delegación Miguel Hidalgo México D.F., Mexico	25.0
Intertabak AG (i)	Switzerland	Distribution of Cuban cigars in Switzerland and Liechtenstein Intertabak AG, Salinenstrasse 61, CH-4133 Pratteln, Entrepots: Salinenstrasse, 63, Switzerland	25.0
Kaliman Caribe doo Beograd	Serbia	Distribution of Cuban cigars in Serbia 5 Igmanska Str., Beograd, Serbia	25.5
Kaliman Caribe ood	Bulgaria	Distribution of Cuban cigars in Bulgaria 118 Bulgaria Blvd., Abacus Business Center, fl. 2, 1618 Sofia, Bulgaria	25.5
Kaliman Caribe Tirana Sh. p.k.	Albania	Distribution of Cuban cigars in Albania Sheraton Tirano Hotel and Tower, Italia Sq., fl. 1, Tirana, Albania	25.5
Kaliman Caribe yer LLC	Armenia	Distribution of Cuban cigars in Armenia V. Papazyan / 16a/ 17; Yerevan, 0012, Armenia	25.5

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Lippoel Tobacco Corporation International NV	Netherlands Antilles	Distributor of Cuban leaf Pietermaai 123, P.O. BOX 897. Willemstad, Curacao, Netherlands Antilles	27.5
Logista Libros SL	Spain	Distribution of books Avda. Castilla La Mancha, 2 – Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain	25.0
Manufacture Mauritanienne des Tabacs	Mauritanie	Manufacture and import of tobacco products Nouakchott, Mauitanie	34.6
Maori Tabacs, S.A. (i)	Andorra	Distribution of Cuban cigars in Andorra Av. Pont De La Tosca, 13, Andorra	25.0
New Mentality Limited (i)	British Virgin Islands	In liquidation Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Pacific Holding (Thailand) Company Limited (i) (vi)	Thailand	Holding investments in subsidiary companies 39/7 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330 Thailand	25.0
Phoenicia Beirut SAL (i)	Lebanon	Retail in Lebanon New Starco Center, Sixth Floor, Beirut Central District, Lebanon	25.0
Phoenicia TAA Cyprus Ltd (i)	Cyprus	Distribution of Cuban cigars in the Middle East and Africa 249, 28 Oct Street, Lophitis Business Center, Limassol, 3035, Cyprus	25.0
Pit Stop Limited (i)	British Virgin Islands	In liquidation Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Promotion et Distribution a Madagascar (i)	Madagascar	Distribution of cigarettes in Madagascar Tour ZITAL Ankorondrano, Antananarivo, Madagascar	33.4
SITABAC S. A,	Cameroon	Manufacture and distribution of tobacco products in Cameroon 113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon	34.5
Société Internationale des Tabacs Malgaches (i)	Madagascar	Leaf processing BP 270, 401 Mahajanga, Madagascar	47.9
Société Nationale des Tabacs et Allumettes du Mali SA (i)	Mali	Manufacture and distribution of cigarettes in Mali Route Sotuba – Z.I., BP 59, Bamako, Mali	28.0
Terzia SPA	Italy	Wholesale to tobacconists in Italy Via Valadier, 37 – 00193 Roma, Italy	34.0
The Pacific Cigar (Thailand) Co Limited (i) (vii)	Thailand	Distribution of Cuban cigars in Thailand 25 Alma Link Building, 2nd Floor, Soi Chidlom, Ploenchit Road, Kwaeng Lumpinee, Khet Patumwan, Bangkok Metropolis, Bangkok, Thailand	25.0
The Pacific Cigar Co. (Singapore) Pte Limited (i)	Singapore	Distribution of Cuban cigars in Singapore 150 Cecil Street, #15-01, 069543, Singapore	25.0
The Pacific Cigar Company (Australia) Pty Limited (i)	Australia	Distribution of Cuban cigars in Australia 17/23, Bowden Street Australia, Alexandria, NSW 2015, Australia	25.0
The Pacific Cigar Company (Macau) Limited (i)	Macau	Distribution of Cuban cigars in Macau Avenida Praia Grande No. 369-371, Edif. Keng Ou 8 Andar, A, Macau	25.0
The Pacific Cigar Company (Malaysia) SDN BHD (i)	Malaysia	Dormant 83A, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul, Ehsan, 47500, Malaysia	25.0
The Pacific Cigar Company (New Zealand) Limited (i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
The Pacific Cigar Company Limited (i)	China	Distribution of Cuban cigars in Asia 21/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	25.0
The Pacific Cigar International Co Limited (i)	British Virgin Islands	Distribution of Cuban cigars in Asia Akara Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	25.0

JOINT VENTURES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Altabana SL (i)	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Comercial Iberoamericana SA (i)	Spain	Wholesale and distribution of tobacco products Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Compañía de Distribución Integral Logista S.A.U. y GTECH Global Lottery, S.L.U., U.T.E.	Spain	Services and distribution C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	25.0
Corporación Habanos SA (i)	Cuba	Export of cigars manufactured in Cuba Centro de Negocios Miramar, Edificio Habana, 3ra. Planta, Avenida 3ra. e/ 78 y 80, C.P.: 11300, Cuba	50.0
Coprova SAS (i)	France	Distribution of Cuban cigars in the Caribbean 171 Avenue Jean Jaures – Paris CEDEX 19, 75927, France	50.0
Cuba Cigar, S.L. (i)	Spain	Distribution of Cuban cigars in the Canary Islands Avenida Andrés Perdomo S/N, Edificio de Zona Franca, Planta Baja, Puerto de la Luz (Las Palmas de Gran Canaria), 35008, Spain	50.0
Cubacigar (Benelux) N.V. (i)	Belgium	Distribution of cigars in Belgium Reutenbeek, 5 – 3090 Overijse, Belgium	50.0
Dalso, S.R.L. (i)	Dominican Republic	Distribution of Cuban cigars in Dominican Republic Avenida Gustavo Mejía Ricart esquina Avenida Abraham Lincoln, Torre Piantini, sexto piso, Ensanche Piantini, Santo Domingo, Distrito Nacional, Dominican Republic	50.0
Empor – Importação e exportação, SA (i)	Portugal	Distribution of tobacco products in Portugal Rua João Santos, Lote 2, Lisboa, 1300-325, Portugal	50.0
Global Horizon Ventures Limited	Hong Kong	Sales and marketing of cigarettes in Asia Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong	50.0
Habanos Nordic AB (i)	Sweden	Distribution of Cuban cigars in Scandinavia August Barks gata 30B SE-42132 Västra Frölunda – Sweden	50.0
Infifon APS (i)	Denmark	Holding investments in subsidiary companies 21, INFIFON ApS, Harbour House, Sundkrogsgade, 2100 Copenhagen , Denmark	50.0
Infifon Hong Kong Limited (i)	China	Distribution of Cuban cigars in China 21/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	50.0
Infifon I, BV (i)	The Netherlands	Holding investments in subsidiary companies Parklaan 34, Rotterdam, 3016 BC, Netherlands	50.0
Infifon II NV (i)	Netherlands Antilles	Distribution of Cuban cigars in Russia Van Engelenweg 23, Curaçao, Netherlands Antilles	50.0
International Cubana de Tabaco SA (i)	Cuba	Manufacture of cigarillos in Cuba Ave. Independencia #34501 entre Ave. 345 y 1ºde Mayo, Municipio Boyeros, Ciudad de La Habana, Cuba	50.0
Intertab SA (i)	Switzerland	Holding investments in subsidiary companies Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland	50.0
Promotora de Cigarros SL (i)	Spain	Sales and marketing of cigars manufactured in Cuba Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain	50.0
Puro Tabaco SA (i)	Argentina	Distribution of Cuban cigars in Argentina and Chile Lavalle 445, Piso 1, Buenos Aires, Argentina	50.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Top Cigars Corporation LLC (i)	Russia	Distributor of Habanos in Russia Dimitrovskoe shosse 167, 127204 Moscow, Russian Federation	50.0
West Tobacco Pte Ltd (i)	Singapore	Dormant 50 Raffles Place #32-01, Singapore Land Tower, 048623, Singapore	50.0
Xinet SA (i)	Uruguay	Dormant Ciudadela 1373, Montevideo, Uruguay	50.0

PARTNERSHIPS

The Group also owns the following partnerships:

Name	Country	Principal activity, registered address and principal place of business
Fabrica de Tabacos La Flor de Copan S de R.L. de CV	Honduras	Holding investments in subsidiary companies Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras
Imperial Tobacco (Efka) GmbH & Co. KG	Germany	Manufacture of tubs in Germany Registered address: Postfach 1257, Industriestrasse 6, Trossingen, 78636, Germany Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany
Imperial Tobacco Kazakhstan LLP (i)	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Registered address and principal place of business: 3rd Floor, Prime Business Park, 100/2 Nursultan Nazarbayev Avenue, Medeuskiy District, Almaty, 050000, Kazakhstan
ITG Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27 408 United States of America

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified. All dormant UK entities have taken the exemption available to not have an audit of their financial statements.

Unless otherwise stated the entities are unlisted, have one type of ordinary share capital and a reporting period ending on 30 September each year.

(i) December year end

(ii) March year end

(iii) Listed entity

(iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue). Only applicable to partly owned entities – percentage ownership is shown in the tables above.

(v) Holding of two types of ordinary share (where more than one type of ordinary share is authorised / in issue). Only applicable to 100% owned subsidiaries.

(vi) Holding of preference shares only

(vii) Holding of ordinary and preference shares

(viii) Holding of ordinary and redeemable shares

(ix) Holding of ordinary and deferred shares

(x) Holding of two types of ordinary share and redeemable shares

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, are held by a number of Group companies, and Compañía de Distribución Integral Logista SAU, Logista France SAS, and Logista Italia SpA are 100 per cent owned subsidiaries of Compañía de Distribución Integral Logista Holdings SA, which is itself 50.01 per cent owned by Altadis SAU.

FINANCIAL CALENDAR AND DIVIDENDS

Half-year results are expected to be announced in May 2020 and the full-year's results in November 2020.

The Annual General Meeting of the Company will be held on Wednesday 5 February 2020 at the Bristol Marriott Hotel City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2019 final dividend, if approved, will be on 31 March 2020 to shareholders on the Register of Members at the close of business on 21 February 2020. The associated ex-dividend date will be 20 February 2020.

Shareholders who do not currently mandate their dividends and who wish to do so should complete a mandate instruction form obtainable from our Registrars, Equiniti Limited, on their website www.shareview.co.uk or by contacting them at the address shown opposite.

SHARE DEALING SERVICE

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number, which you can find on your share certificate.

INDIVIDUAL SAVINGS ACCOUNT

Investors in Imperial Brands PLC ordinary shares may take advantage of a low-cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £12.50 and £1.75 respectively for the sale and purchase of shares.

For a brochure or to apply for an ISA or Investment Account go online to www.shareview.co.uk/dealing or call Equiniti on 0345 300 0430.

DIVIDEND REINVESTMENT PLAN

Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2268 (+44 (0)121 415 7173) or online at www.shareview.co.uk

AMERICAN DEPOSITARY RECEIPT FACILITY

Imperial Brands PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'IMBBY'. The ADS facility is administered by Citibank, N.A. and enquiries should be directed to them at the address shown opposite.

WEBSITE

Information on Imperial Brands PLC is available on our website: www.imperialbrandsplc.com

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk

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