

**Opinion**

In our opinion:

- Imperial Brands PLC’s (“Imperial Brands”) consolidated financial statements and parent company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the parent company’s affairs as at 30 September 2023 and of the group’s profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Imperial Brands PLC (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 30 September 2023 which comprise:

<b>Group</b>	<b>Parent company</b>
Consolidated balance sheet at 30 September 2023	Balance sheet at 30 September 2023
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes I to IX to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies and the supplementary information on pages 235 to 246	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards, The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group and parent company’s ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the directors’ going concern assessment process, including the controls over the review and approval of the business plan and cash flow forecasts covering the period through to 30 November 2024;
- assessing the appropriateness of the duration of the going concern assessment period to 30 November 2024 and considering the existence of any significant events or conditions beyond this period based on our procedures on the group’s business plan, cash flow forecasts and from knowledge arising from other areas of the audit;
- verifying inputs against the board-approved business plan, cash flow forecasts and debt facility terms, and reconciling the opening liquidity position to the year end position as at 30 September 2023;
- reviewing borrowing facilities to confirm both their availability to the group and the forecast debt repayments through the going concern assessment period and to validate that there are only two financial covenants in relation to the revolving credit facility;
- evaluating management’s historical forecasting accuracy and the consistency of the going concern assessment with information obtained from other areas of the audit, such as our audit procedures on the business plan and cash flow forecasts which underpin management’s goodwill impairment assessments;
- testing the assessment, including forecast liquidity under base and downside scenarios, for clerical accuracy;
- assessing whether assumptions made, including those relating to current economic challenges, were reasonable and in the case of downside scenarios, appropriately severe, in light of the group’s relevant principal risks and uncertainties and our own independent assessment of those risks;
- assessing management’s considerations related to material climate change impacts in the going concern period;

- evaluating the amount and timing of identified mitigating actions available to respond to a severe but plausible downside scenario, and whether those actions are feasible and within the group's control;
- performing independent stress testing on management's assumptions including applying incremental adverse cash flow sensitivities. Our sensitivities included the impact of certain severe but plausible scenarios identified in other areas of our audit, including litigation and tax, materialising within the going concern period; and,
- performing reverse stress testing on management's base case scenario to understand how severe conditions would have to be to breach liquidity or financial covenants and whether the reduction in EBITDA that result in breaches to liquidity or financial covenants has no more than a remote possibility of occurring;
- assessing the appropriateness of the going concern disclosure on page 182.

#### Our key observations

- The directors' assessment forecasts that the group will maintain sufficient liquidity throughout the going concern assessment period in the base case scenario and will not breach banking covenants. Management considered a severe but plausible downside scenario corresponding to a 15% permanent reduction in EBITDA, which would result in a minimum level of headroom of £0.5bn in April 2024. Under the reverse stress test scenario, which includes a permanent reduction in EBITDA of 38%, liquidity is eroded in April 2024. This scenario is not considered plausible. We have not identified any climate-related risks that would materially impact the group's forecasts to 30 November 2024.
- Controllable mitigating actions available to management over the going concern assessment period, including reductions to non-declared dividend payments and uncommitted share buybacks, are sufficient to ensure liquidity in both management's plausible downside scenario and the audit team's additional downside sensitivities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 30 November 2024.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

#### Overview of our audit approach

<b>Audit scope</b>	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 13 components.</li> <li>• The components where we performed full or specific audit procedures accounted for 84% of Profit before tax on an absolute basis, 81% of Revenue and 93% of Total assets.</li> </ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>• Revenue recognition, including management override of controls</li> <li>• Management override of controls or errors related to KPIs impacting executive remuneration</li> <li>• Uncertain tax positions</li> <li>• Litigation</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>• Overall group materiality of £156m which represents 5% of profit before tax.</li> </ul>

#### An overview of the scope of the parent company and group audits

##### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of revenue, assets and profit before tax, risk profile (including country risk, management's assessment of control effectiveness, internal audit findings and the extent of changes in the business environment) and other known factors when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 394 reporting components of the group, we selected 18 (2022: 19) components covering entities within Australia, the Dominican Republic, Germany, Morocco, Poland, Spain, the UK and the USA., which represent the principal business units within the group.

Of the 18 components selected, we performed an audit of the complete financial information of 5 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 13 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the group financial statements either because of the size of these accounts or their risk profile.

The audit scope of specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group. We increased our coverage of the total group cash balance as at 30 September 2023 by performing specified procedures over cash balances by obtaining bank confirmation letters for 22 additional business units in order to reduce the unaudited cash balance below our performance materiality. Of the remaining components that together represent 16% of the group's Profit before tax on an absolute basis, none are individually greater than 2% of the group's Profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

Reporting components	2023				2022			
	Number	% of group PBT (on absolute basis) <sup>1</sup>	% of group Revenue	% of group Assets	Number	% of group PBT (on absolute basis) <sup>1</sup>	% of group Revenue	% of group Assets
Full scope	5	70%	63%	79%	5	73%	60%	70%
Specific scope	13	14%	18%	13%	14	18%	23%	19%
Specified procedures	22	0%	0%	1%	18	0%	0%	1%
Full, specific, and specified procedures coverage	40	84%	81%	93%	37	91%	83%	90%
Remaining components	354	16%	19%	7%	357	9%	17%	10%
Total reporting components	394	100%	100%	100%	394	100%	100%	100%

1. Coverage of profit before tax measured on an absolute basis for each component (components with a loss would be added to both the numerator and denominator).

### Changes from the prior year

The approach to audit scoping is similar to the prior year audit. Our scoping changes from the prior year arise due to a change in either the risk assigned to the components or the contribution by the component. As a result, certain components in France and Belgium have moved from specific scope to review scope, considering within remaining components above, reflecting lowered audit risk and reduced contribution in comparison to the prior year.

### Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 5 full scope components, audit procedures were performed on one of these directly by the primary audit team and four by component audit teams. For the 13 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

Imperial Brands has centralised processes and controls in relation to certain accounts managed by its Finance Shared Services ("FSS") centres in Manila and Krakow. Members of the group engagement team provided direct oversight, review, and coordination of the EY FSS audit teams. The EY FSS audit teams performed centralised testing for certain accounts covered at the Imperial Brands' FSS locations, including revenue and receivables and purchases and payables. In establishing our overall approach to the group audit, we determined the work that needed to be undertaken at each of the locations by the group engagement team or by auditors from local EY teams.

The group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, and other group Partners, visit all full scope and other key locations. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Germany, Morocco, Spain and the USA. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing relevant audit working papers on risk areas. The primary team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. At critical periods of the audit, we increased the use of online collaboration tools to facilitate team meetings, information sharing and the evaluation, review and oversight of component teams. We requested more detailed deliverables from component teams, and we utilised fully the interactive capability of EY Canvas, our global audit workflow tool, to review remotely the relevant underlying work performed. For the UK components, communication has been maintained throughout the audit with the Senior Statutory Auditor covering the same areas described above applicable to all non-UK component teams. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

**Climate change**

There has been increasing interest from stakeholders as to how climate change will impact Imperial Brands. The group has determined that the most significant future impacts from climate change on their operations will be from:

- an increase in material costs due to increases in operating costs of suppliers and raw materials;
- increased costs from emerging regulation such as carbon taxation;
- changes in the tobacco crop yield that may lead to agricultural supply chain disruption; and,
- other impacts that may cause supply chain disruption or affect production capacity, namely:
  - increased frequency and severity of extreme weather events
  - physical hazards such as flooding
  - chronic drought risk; and
  - more severe hurricane risk.

These are explained on pages 70 to 81 in the required Task Force for Climate related Financial Disclosures, which form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the group's business and any consequential material impact on its financial statements.

As explained in note 2, Accounting estimates and judgements, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of physical and transition climate risk, and ensuring that the effects of material climate risks disclosed on page 75 have been appropriately reflected in asset values and associated disclosures where values are determined through modelling future cash flows, being goodwill and intangible assets impairment assessment (note 11) and the recoverability of deferred tax assets (note 22). We also challenged the Directors' considerations of climate change in their assessment and disclosure of going concern (note 1) and viability.

Whilst the group have stated their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2040, the group are currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
<p><b>Revenue recognition, including management override of controls (2023: £32,475m, 2022: £32,551m)</b></p> <p>Tobacco revenue is an area of focus for stakeholders interested in the performance of the company against an industry backdrop of declining global sales volumes.</p> <p>Most of the group's sales arrangements require little judgement to be exercised, with revenue being recognised on the delivery of goods. However, there is a risk that management may override controls to intentionally misstate revenue transactions by recording fictitious manual journals to revenue (e.g. by inappropriate rebate accounting).</p>	<p>We have reviewed Imperial's Code of Conduct, Speaking-up, and Fraud risk management policies in order to evaluate the 'tone at the top'.</p> <p>We obtained an understanding of the revenue process and understood how Imperial's revenue recognition policies are applied. We also assessed the processes and key controls over rebate accounting, by walking through the process from identification to recording.</p> <p>We reviewed the group revenue recognition policies, as documented in the group Accounting Manual, for compliance with IFRS 15 'Revenue from contracts with customers'.</p> <p>We discussed and reviewed key contractual arrangements with management and obtained relevant documentation, including those in respect of rebate arrangements.</p> <p>As part of our overall revenue recognition testing, for Tobacco &amp; NGP components with revenue in scope, we used data analytics techniques. This included testing the occurrence of revenue by analysing the correlation of journal entries posted to revenue with journals posted to accounts receivables and then subsequently as cash receipts. We validated cash receipt postings by tracing to bank statements on a sample basis.</p>

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**Risk**

There is also a risk of error relating to the accounting for non-routine transactions. Due to the size of the revenue balance, even errors representing a relatively small proportion could lead to material misstatement of profit.

In addition, the impact of promotional activity around period ends leading to trade loading can have a material impact on performance in the following period. This anticipated impact, if material, should be described in the front half of the annual report to provide investors with a fair and balanced understanding of the drivers of business performance.

Refer to the audit committee report (page 139); accounting policies (note 1); accounting estimates and judgements (note 2); and segmental information (note 3) of the consolidated financial statements.

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**Our response to the risk**

This provided us with a high level of assurance over £15.9 billion (71%) of Tobacco & NGP revenue recognised by the group.

For the Distribution component, we performed a combination of tests of controls and substantive tests of detail to obtain assurance over £9.0 billion (83%) of Distribution revenue recognised by the group.

We performed detailed, disaggregated, analytical review to identify unusual trends and inventory positions at all full and specific scope locations. Our procedures focused on variances in receivable days and customers rebates/discounts at period ends, which could represent inventory being 'pushed' into the channel.

We reviewed external factors for indicators of trade pull factors with a focus on full scope and high-risk markets.

We made inquiries outside of finance to identify instances of late or unusual requests for shipments or extensions of credit terms.

On a sample basis, we obtained third party confirmations of trade terms from customers to assess for indicators of trade loading, where relevant, such as unusual sales patterns, rebates/discounts or increased receivable days at period-ends. We performed appropriate alternative procedures where confirmations were requested and not received, including reviewing contracts and recalculating rebates, validating the inputs of management's calculations, and tracing rebate provision amounts to post year end settlements.

Our remaining procedures, applicable to all full and specific scope components included the following:

- Cut-off testing for a sample of revenue transactions near the period end to check that they were recognised in the appropriate period;
- Targeted manual journal entry testing in response to the risk of fraud; and,
- Review of disclosures against the requirements of IFRS 15

The audit procedures performed to address this risk were performed by component and shared service centre teams and reviewed by the group team.

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**Key observations communicated to the Audit Committee**

Based on the procedures performed, including those in respect of manual adjustments to revenue, we did not identify any evidence of material misstatement in the revenue recognised during the year.

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**Management override of controls or errors related to KPIs impacting executive remuneration**

Manipulation of KPIs impacting remuneration – there is a risk that management could override controls in order to manipulate KPIs which have a bearing on remuneration. In the current year we have identified the following items as areas of focus:

- Manipulation of reported margins to overstate operating profits;
- Incorrect classification of items as adjusting costs in order to manipulate the adjusted operating profit metric;
- Errors relating to working capital metrics, particularly focused on inappropriate cash cut-off to manipulate working capital and therefore the adjusted operating cash conversion metric;
- Incorrect reporting of ESG metrics on which aspects of executive remuneration are based.

In respect of our focus on reported margins, we have:

- Inquired of divisional finance leadership to identify any unusual and/or new arrangements/projects entered into during the current financial year that would be expected to have an impact upon operating profit margins.
- Used data analytical techniques to identify and investigate unusual trends in margins in order to identify any unusual movements throughout the year and in comparison to prior year.

In respect of our focus on the classification of adjusting items, we have:

- Challenged the timing of recognition of one-off costs and whether the classification of any costs as adjusting is in line with group policy and disclosed appropriately.
- Evaluated the classification of one-off adjustments for indicators of management bias, in particular whether both income and expense items are treated consistently.

In respect of our focus on working capital metrics, we have:

- Performed cut-off testing at year end on working capital balances to a lower testing threshold. Namely, on trade receivables, inventory and trade payables to ensure that working capital metrics are not recorded pre year end and then reversed post year end to manipulate the adjusted operating cash conversion metric.
  - Performed detailed, disaggregated analytical review to identify unusual trends and positions in key significant accounts such as cash, trade receivables, trade payables and inventory to identify potential manipulation of these balances that would influence working capital balances.
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Risk	Our response to the risk
<p>Refer to the audit committee report (page 137); accounting policies (note 1); accounting estimates and judgements (note 2) of the consolidated financial statements; and the supplementary information.</p>	<ul style="list-style-type: none"> <li>• Made inquiries outside of finance, for example with Sales, to identify any unusual and new arrangements entered into during the last quarter of Imperial's financial year to assess if these are being manipulated to flatter working capital.</li> </ul> <p>In respect of our focus on ESG metrics linked to executive remuneration, we have:</p> <ul style="list-style-type: none"> <li>• Conducted in-person and remote site visits to understand local level ESG performance and data collection processes;</li> <li>• Obtained an understanding of the process for collecting, collating and reporting the ESG metrics during the reporting period;</li> <li>• Performed analytical review procedures to understand the appropriateness of the data.</li> <li>• Performed testing, on a sample basis, against underlying source information to check the accuracy and completeness of the data and the appropriate application of the ESG criteria.</li> </ul> <p>We reviewed the annual report disclosures, including Imperial's management rationale for treating as adjusting, whether equal prominence had been given with statutory measures and the transparency of the reconciliation of statutory measures to APM's.</p>

**Key observations communicated to the Audit Committee**

We did not identify any unusual trends in reported margin that would indicate manipulation.

We consider that items identified as being adjusted are appropriate and in line with the revised group accounting policy.

Following our procedures performed over working capital metrics, we consider these balances are materially correct.

We did not identify any issues with regards the completeness, accuracy or appropriateness of data used in the application of ESG criteria related to executive remuneration.

**Uncertain tax positions (Provision for uncertain tax positions – 2023: £189m, 2022: £148m)**

The global nature of the group's operations results in complexities in the payment of, and accounting for, tax.

Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.

Given this judgement, there is a risk that tax provisions are misstated.

Refer to the audit committee report (page 138); accounting policies (note 1); accounting estimates and judgements (note 2); and tax disclosure (note 7) of the consolidated financial statements.

We challenged management's judgements using tax specialists, both domestic and overseas, to provide technical support regarding developments in the period and to consider whether the amounts provided reflected an appropriate best estimate of the expected economic outflow.

The group audit team, including tax specialists, evaluated the tax consequences of the transactions undertaken in the period. We confirmed that the tax figures appropriately reflect the transactions and there are no additional material risks for which an uncertain tax position (UTP) should be recorded.

We challenged whether the tax exposures identified were complete. Our work included inquiring with management regarding the current status of discussions with tax authorities, the impact of legislative developments and the review of transfer pricing policies.

We assessed whether the group's disclosures, detailing the year end status of material open tax inquiries, adequately disclose relevant facts and circumstances and potential liabilities of the group.

The audit procedures were designed and led by the group audit team, with support from component teams whose work was reviewed by the group audit team.

**Key observations communicated to the Audit Committee**

Based on our assessment of tax risks and the latest status of tax audits, we conclude that the group's approach to judgements for uncertain tax positions is balanced and that the amounts provided are reasonable. We consider the group's tax disclosures are also appropriate.

**Litigation**

There are a number of ongoing legal cases in different jurisdictions relating to competition, product liability, intellectual property and commercial litigation. Significant judgements are involved in determining the likelihood of a probable outflow occurring from legal cases, together with the estimate of the likely financial cost. The group's assessment includes evaluating

We evaluated the processes and controls over litigation operated by management at group, by walking through the process from identification of potential litigation to the evaluation of probability of outcome and the quantification and recording of a provision or disclosure of a contingent liability.

We inspected Imperial's litigation log and communications to the Executive Leadership Team and met with group Finance and group General Legal Counsel to discuss the developments in significant cases.



Risk	Our response to the risk
<p>the relevant law, historical and pending court rulings with the support of legal counsel.</p> <p>Given the judgements and the significance of the amounts involved, there is a risk that legal provisions are misstated or that contingent liabilities are inadequately disclosed.</p> <p>Specifically, our audit risk relates to legal cases for which the financial cost to the business could be material if the potential exposures were to be realised, and any cases which could indicate non-compliance with the legal and regulatory frameworks with which the group is required to comply.</p> <p>Refer to the audit committee report (page 138); accounting policies (note 1); accounting estimates and judgements (note 2), and contingent liabilities (note 29) of the consolidated financial statements.</p>	<p>We requested, received and read letters received directly from management's external legal counsel that evaluated the current status of legal proceedings and independently quantified the estimate of any economic outflow arising from settlement of the litigation.</p> <p>We evaluated whether any of the fines levied, ongoing litigation cases, whistleblower reports or reported frauds in the year gave rise to evidence that there had been instances of non-compliance with the relevant laws and regulations.</p> <p>We assessed whether the group's disclosures detailing contingent liabilities and financial commitments adequately disclose relevant facts and circumstances and potential liabilities of the group.</p> <p>The audit procedures were designed and led by the group audit team, with support from component teams whose work was reviewed by the group audit team.</p>

### Key observations communicated to the Audit Committee

Having met with internal Legal Counsel and received responses from external lawyers, we consider that where an economic outflow is probable management have appropriately recorded a provision. For those cases which we consider meet the criteria of a contingent liability we concluded that sufficient disclosure exists in the annual report to allow users to understand the range of exposures facing the company, where that is possible.

In the prior year, our auditor's report included a key audit matter in relation to the measurement and classification of adjusting items. This year, the key audit matter has been expanded to focus on management override of controls or errors related to KPIs impacting executive remuneration. We remain focussed on the manipulation of adjusted measures, working capital balances that impact the adjusted operating cash conversion metric, and the appropriateness of the classification of items as adjusting. In the current year we added focus on reported margins and specific ESG metrics which are also linked to executive remuneration.

Both in the current year and prior year, our auditor's report includes key audit matters in relation to revenue recognition including management override, uncertain tax positions and litigation. The risk associated with these matters remained consistent with the prior year.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £156 million (2022: £126 million), which is 5% of Profit before tax (2022: 5% of Profit before tax). We believe that Profit before tax provides the most relevant performance measure to the stakeholders of the group.

We determined materiality for the parent company to be £210 million (2022: £309 million), which is 2% (2022: 2%) of net assets. In performing our procedures, materiality was capped at the group allocated materiality of £35 million (2022: £30 million).

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £117 million (2022: £95 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £23 million to £35 million (2022: £19 million to £30 million).

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £8 million (2022: £6 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report set out on pages 1 to 168, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

### Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 128;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 110 to 111;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 111;
- Directors' statement on fair, balanced and understandable set out on page 128;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 128;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 100 to 101; and;
- The section describing the work of the audit committee set out on page 135 to 136.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 168, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements and are those that relate to the reporting framework (UK adopted international accounting standards, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax laws and regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters and country-specific regulations on tobacco control.
- We understood how the group is complying with those frameworks by making inquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes, papers provided to the Audit Committee and attendance at meetings of the Audit Committee, as well as consideration of the results of our audit procedures across the group.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and assessing whistleblowing incidences for those with a potential financial reporting impact. Where necessary, our procedures included our forensic investigation specialists. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of group management, those charged with governance and legal counsel, as well as journal entry testing, with a focus on manual consolidation journals and journals indicating significant or unusual transactions based on our understanding of the business. Through our testing we

challenged the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates as referred to in the key audit matters section above. At a component level, our full and specific scope component audit team's procedures included inquiries of component management; journal entry testing; and focused testing, including in respect of the key audit matter of revenue recognition. We also leveraged our data analytics platform in performing our work on the order to cash and purchase to pay and inventory processes to assist in identifying higher risk transactions for testing.

- Where we identified potential non-compliance with laws and regulations, we developed an appropriate audit response and communicated directly with components impacted. Our procedures involved: understanding the process and controls to identify non-compliance, inquiring of internal and external legal counsel, performing an analysis of press reporting on these matters, understanding the fact patterns in each case and documenting the positions taken by management, and using specialists to support us in concluding on the matters identified.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Other matters we are required to address**

- Following the recommendation from the audit committee, we signed an engagement letter on 15 January 2020 which was subsequently replaced on 23 August 2022. We were appointed by the shareholders at the AGM on 5 February 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 2020 to 2023.

- The audit opinion is consistent with the additional report to the audit committee.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Marcus Butler (Senior statutory auditor)**  
For and on behalf of Ernst & Young LLP, Statutory Auditor

London  
13 November 2023

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2023

£ million unless otherwise indicated	Notes	2023	2022
<b>Revenue</b>	3	<b>32,475</b>	32,551
Duty and similar items		(14,398)	(15,644)
Other cost of sales		(11,397)	(10,869)
Cost of sales		(25,795)	(26,513)
<b>Gross profit</b>		<b>6,680</b>	6,038
Distribution, advertising and selling costs		(2,338)	(2,021)
Administrative and other expenses		(940)	(1,334)
<b>Operating profit</b>		<b>3,402</b>	2,683
Investment income		907	1,600
Finance costs		(1,205)	(1,717)
Net finance costs		(298)	(117)
Share of profit/(loss) of investments accounted for using the equity method	14	7	(15)
<b>Profit before tax</b>	4	<b>3,111</b>	2,551
Tax	7	(655)	(886)
<b>Profit for the year</b>		<b>2,456</b>	1,665
Attributable to:			
Owners of the parent		2,328	1,570
Non-controlling interests		128	95
<b>Earnings per ordinary share (pence)</b>			
• Basic	9	252.4	165.9
• Diluted	9	250.8	164.7

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2023

£ million	Notes	2023	2022
<b>Profit for the year</b>		<b>2,456</b>	1,665
<b>Other comprehensive income</b>			
Exchange movements		(508)	841
Exchange movements recycled to profit and loss upon disposal of subsidiaries		-	190
Hyperinflation adjustment in the year	1	5	11
Current tax on hedge of net investments and quasi-equity loans		(115)	148
Items that may be reclassified to profit and loss		(618)	1,190
Net actuarial (losses)/gains on retirement benefits	23	(376)	76
Current tax relating to net actuarial losses on retirement benefits		-	10
Deferred tax relating to net actuarial losses/(gains) on retirement benefits		135	(52)
Items that will not be reclassified to profit and loss		(241)	34
<b>Other comprehensive (expense)/income for the year, net of tax</b>		<b>(859)</b>	1,224
<b>Total comprehensive income for the year</b>		<b>1,597</b>	2,889
Attributable to:			
Owners of the parent		1,484	2,778
Non-controlling interests		113	111
<b>Total comprehensive income for the year</b>		<b>1,597</b>	2,889

# CONSOLIDATED BALANCE SHEET

at 30 September 2023

£ million	Notes	2023	2022
<b>Non-current assets</b>			
Intangible assets	11	16,944	17,777
Property, plant and equipment	12	1,617	1,659
Right of use assets	13	326	228
Investments accounted for using the equity method	14	55	56
Retirement benefit assets	23	414	826
Trade and other receivables	16	63	67
Derivative financial instruments	20/21	824	985
Deferred tax assets	22	653	439
		<b>20,896</b>	<b>22,037</b>
<b>Current assets</b>			
Inventories	15	4,522	4,140
Trade and other receivables	16	2,490	2,543
Current tax assets	7	112	334
Cash and cash equivalents	17	1,345	1,850
Derivative financial instruments	20/21	126	54
		<b>8,595</b>	<b>8,921</b>
<b>Total assets</b>		<b>29,491</b>	<b>30,958</b>
<b>Current liabilities</b>			
Borrowings	19	(1,499)	(1,011)
Derivative financial instruments	20/21	(174)	(54)
Lease liabilities	13	(81)	(58)
Trade and other payables	18	(9,579)	(9,506)
Current tax liabilities	7	(418)	(307)
Provisions	24	(148)	(203)
		<b>(11,899)</b>	<b>(11,139)</b>
<b>Non-current liabilities</b>			
Borrowings	19	(7,882)	(8,996)
Derivative financial instruments	20/21	(829)	(1,072)
Lease liabilities	13	(268)	(190)
Trade and other payables	18	(27)	(10)
Deferred tax liabilities	22	(871)	(961)
Retirement benefit liabilities	23	(807)	(894)
Provisions	24	(266)	(223)
		<b>(10,950)</b>	<b>(12,346)</b>
<b>Total liabilities</b>		<b>(22,849)</b>	<b>(23,485)</b>
<b>Net assets</b>		<b>6,642</b>	<b>7,473</b>
<b>Equity</b>			
Share capital	25	97	103
Share premium and capital redemption		5,843	5,837
Retained earnings		(674)	(443)
Exchange translation reserve		755	1,363
<b>Equity attributable to owners of the parent</b>		<b>6,021</b>	<b>6,860</b>
Non-controlling interests		621	613
<b>Total equity</b>		<b>6,642</b>	<b>7,473</b>

The financial statements on pages 178 to 262 were approved by the Board of Directors on 13 November 2023 and signed on its behalf by:



**Lukas Paravicini**  
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 September 2023

£ 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
<b>At 1 October 2022</b>	<b>103</b>	<b>5,837</b>	<b>(443)</b>	<b>1,363</b>	<b>6,860</b>	<b>613</b>	<b>7,473</b>
Profit for the year	-	-	2,328	-	2,328	128	2,456
Exchange movements on retranslation of net assets	-	-	-	(942)	(942)	(15)	(957)
Exchange movements on net investment hedges	-	-	-	427	427	-	427
Exchange movements on quasi-equity loans	-	-	-	22	22	-	22
Hyperinflation adjustment in the year	-	-	5	-	5	-	5
Current tax on hedge of net investments and quasi-equity loans	-	-	-	(115)	(115)	-	(115)
Net actuarial losses on retirement benefits	-	-	(376)	-	(376)	-	(376)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	135	-	135	-	135
Other comprehensive expense	-	-	(236)	(608)	(844)	(15)	(859)
<b>Total comprehensive income/(expense)</b>	<b>-</b>	<b>-</b>	<b>2,092</b>	<b>(608)</b>	<b>1,484</b>	<b>113</b>	<b>1,597</b>
<b>Transactions with owners</b>							
Costs of employees' services compensated by share schemes	-	-	41	-	41	-	41
Repurchase of shares	(6)	6	(1,006)	-	(1,006)	-	(1,006)
Changes in non-controlling interests	-	-	1	-	1	(1)	-
Deferred tax on share-based payments	-	-	1	-	1	-	1
Registration of put/call option	-	-	(48)	-	(48)	-	(48)
Dividends paid	-	-	(1,312)	-	(1,312)	(104)	(1,416)
<b>At 30 September 2023</b>	<b>97</b>	<b>5,843</b>	<b>(674)</b>	<b>755</b>	<b>6,021</b>	<b>621</b>	<b>6,642</b>
<b>At 30 September 2021</b>	<b>103</b>	<b>5,837</b>	<b>(788)</b>	<b>200</b>	<b>5,352</b>	<b>588</b>	<b>5,940</b>
<b>Hyperinflation restatement to 1 October 2021</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>22</b>
<b>At 1 October 2021</b>	<b>103</b>	<b>5,837</b>	<b>(766)</b>	<b>200</b>	<b>5,374</b>	<b>588</b>	<b>5,962</b>
Profit for the year	-	-	1,570	-	1,570	95	1,665
Exchange movements on retranslation of net assets	-	-	-	1,518	1,518	16	1,534
Exchange movements on net investment hedges	-	-	-	(649)	(649)	-	(649)
Exchange movements on quasi-equity loans	-	-	-	(44)	(44)	-	(44)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	-	-	-	190	190	-	190
Hyperinflation adjustment in the year	-	-	11	-	11	-	11
Current tax on hedge of net investments and quasi-equity loans	-	-	-	148	148	-	148
Net actuarial gains on retirement benefits	-	-	76	-	76	-	76
Current tax relating to net actuarial gains on retirement benefits	-	-	10	-	10	-	10
Deferred tax relating to net actuarial gains on retirement benefits	-	-	(52)	-	(52)	-	(52)
Other comprehensive income	-	-	45	1,163	1,208	16	1,224
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1,615</b>	<b>1,163</b>	<b>2,778</b>	<b>111</b>	<b>2,889</b>
<b>Transactions with owners</b>							
Costs of employees' services compensated by share schemes	-	-	29	-	29	-	29
Changes in non-controlling interests	-	-	(3)	-	(3)	3	-
Deferred tax on share-based payments	-	-	2	-	2	-	2
Dividends paid	-	-	(1,320)	-	(1,320)	(89)	(1,409)
<b>At 30 September 2022</b>	<b>103</b>	<b>5,837</b>	<b>(443)</b>	<b>1,363</b>	<b>6,860</b>	<b>613</b>	<b>7,473</b>

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2023

£ million	2023	2022
<b>Cash flows from operating activities</b>		
Operating profit	3,402	2,683
Dividends received from investments accounted for using the equity method	7	7
Depreciation, amortisation and impairment	632	660
Profit on disposal of non-current assets	(39)	-
Loss on disposal of subsidiaries	1	428
Post-employment benefits	(29)	(56)
Costs of employees' services compensated by share schemes	31	29
Other non-cash items	40	37
Movement in provisions	21	39
Operating cash flows before movement in working capital	4,066	3,827
Increase in inventories	(551)	(195)
Decrease in trade and other receivables	46	89
Increase in trade and other payables	158	146
Movement in working capital	(347)	40
Tax paid	(590)	(681)
<b>Net cash flows generated from operating activities</b>	<b>3,129</b>	<b>3,186</b>
<b>Cash flows from investing activities</b>		
Interest received	10	8
Proceeds from the sale of non-current assets	71	53
Proceeds from sale of subsidiaries, net of cash disposed of (note 10)	-	27
Purchase of non-current assets	(325)	(230)
Purchase of brands and operations (note 10/11)	(183)	(13)
<b>Net cash used in investing activities</b>	<b>(427)</b>	<b>(155)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(417)	(366)
Purchase of shares by Employee Share Ownership Trusts	-	(1)
Lease liabilities paid	(92)	(68)
Increase in borrowings	1,462	1,710
Repayment of borrowings	(1,518)	(2,476)
Cash flows relating to derivative financial instruments	(64)	94
Repurchase of shares	(1,006)	-
Dividends paid to non-controlling interests	(104)	(89)
Dividends paid to owners of the parent	(1,312)	(1,320)
<b>Net cash used in financing activities</b>	<b>(3,051)</b>	<b>(2,516)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(349)</b>	<b>515</b>
<b>Cash and cash equivalents at start of year</b>	<b>1,850</b>	<b>1,287</b>
Effect of foreign exchange rates on cash and cash equivalents	(156)	48
<b>Cash and cash equivalents at end of year</b>	<b>1,345</b>	<b>1,850</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### Basis of preparation

The consolidated financial statements comprise the results of the Company, a public company limited by shares, incorporated in England and Wales, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL.

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("UK-adopted IAS").

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis.

The consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one million (£1 million) except where otherwise indicated.

#### Alternative performance measures

Information on Alternative Performance Measures (APMs) is presented within the Supplementary Information section of this document.

#### Basis for going concern

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

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

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

- A one-off discrete event resulting in immediate cash outflow such as unexpected duty and tax payments, and/or other legal and regulatory risks materialising, of c.£500m.
- A rapid and lasting deterioration to the Group's profitability because markets become closed to tobacco products or there are sustained failures to our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15 per cent from 1 October 2023.

The scenario planning also considered mitigation actions including reductions to capital expenditure, dividend payments and share buyback programme. There are additional actions that were not modelled but could be taken including other cost mitigations such as staff redundancies, working capital management, retrenchment of leases, and discussions with lenders about capital structure.

Under the reverse stress test scenario, after considering mitigation actions including reductions of capital expenditure, dividend payments and share buyback programme, we have modelled that a 38% EBITDA reduction would lead the Group to have sufficient headroom until April 2024. The Group believes this reverse stress test scenario to be remote given the relatively small impact on our trading performance and bad debt levels during the COVID-19 pandemic, as well as the current political situation in Ukraine. In this scenario Group would implement a number of mitigating actions including revoking the uncommitted dividend, pausing the share buyback and reducing discretionary spend such as capex.

Based on its review of future cash flows covering the period through to November 2024, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet their operational needs from the date of this report through to 30 November 2024 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

Imperial Brands PLC (the Company) provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2023. See note VIII Guarantees of the Imperial Brands PLC financial statements for further details.

The principal accounting policies, which have been applied consistently other than where new policies (detailed below) have been adopted, are set out below.

#### Basis of consolidation

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.



### Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled "Investments accounted for using the equity method". In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled "Share of profit of investments accounted for using the equity method".

### Foreign currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intercompany loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

	2023		2022	
	Closing rate	Average rate	Closing rate	Average rate
Foreign exchange rate versus GBP				
Euro	1.1545	1.1487	1.1325	1.1807
US dollar	1.2214	1.2264	1.1040	1.2813

### Hyperinflation

The Turkish economy was designated hyperinflationary from April 2022. The Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies to its Turkish operations with effect from 1 October 2021. In accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates, the comparative figures for the year ended 30 September 2022 have not been modified. The adjustments required by IAS 29 are set out below.

- Adjustment of historical cost non-monetary assets and liabilities from their date of initial recognition to the balance sheet date (1 October 2021) to reflect the changes in purchasing power of the currency caused by inflation, as measured by the official Consumer Price Index (CPI) published by the Turkish Statistical Institute (TurkStat).
- Adjustment of the components of the income statement and cash flow statement for the inflation index since their generation, with a balancing entry in the income statement and a reconciling item in the cash flow statement, respectively.
- Adjustment of the income statement to reflect the impact of inflation on holding monetary assets and liabilities in local currency and where necessary.
- The financial statements of the Group's Turkish operations have been translated into sterling at the closing exchange rate at 30 September 2023.
- The impact of adjustments to non-monetary assets recognising inflation from the adoption date to the closing balance sheet date, on translation into sterling at the closing balance sheet rate has been recognised within other comprehensive income.

The TurkStat CPI index was 1,691.04 at 30 September 2023 (1,046.89 at 30 September 2022 and 570.66 at 30 September 2021). The inflation index for the year is therefore 1.6153 (2022: 1.8345). The Turkish economy has been designated hyperinflationary since April 2022, but the impact on the Group's results remains immaterial.

### Revenue recognition

For the Tobacco & Next Generation Products (Tobacco & NGP) business, revenue comprises the invoiced value for the sale of goods net of sales taxes, rebates and discounts. Revenue is based on the completion of performance obligations that constitute the delivery of goods. The performance obligation is recognised as complete at the point in time when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. The distribution business also recognises revenue associated with logistics services, recognised on the basis of the invoiced value for the provision of these services net of sales taxes, rebates and discounts. The performance obligations associated with distribution services, which include fees for distributing certain third-party products, are linked to the successful distribution of products for customers.

The Group recognises income arising from the licensing of intellectual property, occurring in the ordinary course of business, which is treated as revenue. Licensing revenue will be recognised over the period of the licence. The licences granted are distinct from other promises in the contract.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

For the Distribution business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or distribution services have been provided. The Distribution business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Payments are made to both direct and indirect customers for rebates, discounts and other promotional activities. Direct customers are those to which the Group supplies goods or services. Indirect customers are other entities within the supply chain to the end consumer. Rebates and discounts are deducted from revenue. Where the contract with customers has an entitlement to variable consideration due to the existence of retrospective rebates and discounts, revenue is estimated based on the amount of consideration expected to be received. This estimation is a determination of the most likely amount to be received using all known factors including historic experience. Typically there is a high degree of certainty over the amount of retrospective rebates/discounts paid due to relatively low year-on-year variations in the volume and pattern of product sales. As the provision of distribution services typically involves product delivery tasks undertaken in a short period of time, revenue and any associated rebates and discounts relating to these services do not normally span an accounting year end.

Payments for promotional activities will also be deducted from revenue where the payments relate to goods or service that are closely related to or indistinct from associated sales of goods or services to that customer. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

### Duty and similar items

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Duty is regarded as a sales tax and excluded from revenue where:

- duty becomes payable to the tax authority when the goods are sold;
- there is an obligation to change the sales price when a change in the rate of duty is imposed; and
- there is a requirement to identify the duty separately on sales information such as invoices.

Payments made in the USA under the Master Settlement Agreement are recognised in other cost of sales, for further disclosure see note 29 contingent liabilities.

### Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions where we operate using management's estimate of the most likely outcome. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The Group recognises interest on late paid taxes as part of financing costs. The Group recognises penalties, if applicable, as part of administrative and other expenses.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

### 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 less accumulated amortisation and impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

These assets consist mainly of acquired trademarks, intellectual property, product development, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark is considered by the Directors to have an indefinite life based on the fact that it is an established international brand with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36 as the Group does not currently foresee a limit to the period over which the asset is expected to generate net cash inflows. The most recent assessment indicates that the carrying value is not impaired.

Intellectual property (including trademarks), product development, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

#### Intellectual property

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 10 years	straight line
Product development	3 – 10 years	straight line

#### Property, plant and equipment

Property, plant and equipment are recognised in the consolidated balance sheet at historical cost or at their initial fair value where they are acquired as part of an acquisition, subject to depreciation or impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/ reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

#### Financial instruments and hedging

Receivables held under a hold to collect business model are stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are separately classified as fair value through profit or loss, within trade and other receivables.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IFRS 9) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of collateral appendix documents in respect of certain derivatives are netted off the carrying value of those derivatives in the consolidated balance sheet.

#### Right of use assets

The Group has lease contracts relating to property and other assets (which predominantly relates to motor vehicles).

The Group recognises right of use assets, at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments which depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments include the exercise of purchase options if determined reasonably certain to be exercised and termination payments if the lease term reflects the exercise of an option to terminate.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

In calculating the present value of lease payments, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment, at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accumulation of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight line basis over the lease term in cost of sales or distribution, advertising and selling costs.

### Short term leases, leases of low value assets and practical expedients applied

The Group has applied a number of practical expedients permitted by IFRS 16. These include;

- the exclusion of leases where the lease term ends within 12 months of the commencement of the lease or date of initial application; and
- the exclusion of leases of low value assets, defined as those of less than US\$5,000.

IFRS 16 was applied using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. The Group has elected to;

- apply hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- exclude initial direct costs from the measurement of the right of use asset; and
- use a single discount rate to a portfolio of leases with reasonably similar characteristics.

These elections were only applied on transition to IFRS 16 and have not been applied to new leases following adoption of the standard.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory is considered for obsolescence or other impairment issues and an associated provision is booked where necessary.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

### Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group.

### Retirement benefit schemes

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

### Share-based payments

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

### Treasury shares

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

Where the Group enters into a contract with a third party that contains an obligation to re-purchase its own shares for cash or another financial asset, a financial liability is recognised for the present value of the redemption amount. One example is an obligation under a forward contract to re-purchase shares in Imperial Brands PLC for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured in accordance with IFRS 9, and is revalued at subsequent reporting points as appropriate. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

### New accounting standards

The following amendments to the accounting standards, issued by the IASB or International Financial Reporting Standards Interpretations Committee (IFRS IC) and endorsed for use in the UK, have been adopted by the Group from 1 October 2022 with no impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IAS 12 International Tax Reform – Pillar Two model rules. (The Group has applied the mandatory exception under IAS 12 in relation to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.)

### New accounting standards and interpretations not yet in issue

There are also a number of other amendments and clarifications to IFRS, effective in future years, none of which are expected to significantly impact the Group's consolidated results or financial position.

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The actual amounts recognised in the future may deviate from these estimates and judgements.

### Estimates

#### Significant estimates

Companies are required to state whether estimates have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. We have reviewed the items below where estimation uncertainty exists. While a number of these areas do involve estimation of the carrying value of assets or liabilities that are potentially significant within the context of the financial statement. The Group considers the probability of a significant risk of material adjustment to be low. None of these estimates are expected to present a material adjustment to the carrying amount of assets and liabilities in the next financial year. Therefore, no significant estimates are required to be disclosed.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### Other estimates

Other estimates involve other uncertainties, such as those carrying lower risk, which have a smaller potential impact or would be expected to crystallise over a longer timeframe than a significant estimate. These items, listed below, are only disclosed where this provides material relevant information.

### Determination of useful economic life of intangible assets

For non-goodwill intangible assets, there is a need to estimate the useful economical life of each asset. This includes determining whether the asset has an indefinite useful economic life, or not. The Davidoff trademark has a significant market share and positive cash flow growth expectations. There are no regulatory or contractual restrictions on the use of this trademark, and there are no plans to significantly redirect resources elsewhere which would reduce the value of this asset. Consequently, in the view of management, the Davidoff trademark does not have a foreseeable and definite end to its ability to generate future cash flows and hence it is not amortised. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36. The most recent assessment indicates that the carrying value is not impaired.

### Amortisation and impairment of intangible assets

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the time period during which an intangible asset will support future cash flows, and the quantum of those cash flows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, an impairment to the carrying value of the asset may be required. Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets can affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions significantly change it is possible that materially different amounts could be reported in the Group's financial statements in future periods. Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are long term uncertainties associated with estimating the value of the recoverable amount, particularly with regard to long term cash flow growth rates which are influenced by the future size and shape of the tobacco sector. While long term growth rates currently used in impairment assessments are based on current best estimates of future performance, there may be changes in these assumptions when conducting impairment tests in subsequent years. Details of goodwill and intangible asset impairment assessments are included in note 11.

### Corporate income taxes

Where tax liabilities have been judged to exist, estimation is often required to determine the potential future tax payments. The Group is subject to tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the valuation estimates related to tax provisions is given in note 7 to these financial statements.

### Other legal proceedings and disputes

Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of estimation uncertainty include consideration as to the expected future amount to be paid out in the event the claim succeeds. In some situations where a probability risk calculation is required to determine the amount of an associated provision, both the quantum of future payments and the probability of those payments crystallising needs to be considered, both factors having a degree of uncertainty. More detail as to the considered position of these claims is given in note 24 and note 29 of the financial statements. To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

### Restructuring provisions

The Group holds restructuring provisions where appropriate in respect of estimated future economic outflows which arise due to past events. Estimates are based on information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate. These provisions cover the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 24.



### **Judgements**

Paragraph 122 of IAS 1 requires disclosure of judgements made by management in applying an entity's accounting policies, other than those relating to estimation uncertainty. Paragraph 125 of IAS 1 requires more wide-ranging disclosures of judgements that depend on management assumptions about the future, and other major sources of estimation uncertainty ("significant judgements").

### **Corporate income taxes**

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining whether there is a liability requiring a provision for tax. Recognition of tax liabilities in situations where there is uncertainty is based on precedent in similar tax cases and external advice as to whether challenges by tax authorities are likely to result in future tax payments being made. The recognition of a tax liability involves consideration of the probability of tax authorities accepting the position taken in the tax return and there is therefore some uncertainty.

### **Deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the temporary differences, losses and credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Group has determined that it cannot recognise deferred tax assets on the temporary differences, tax losses and tax credits carried forward for certain subsidiaries. Further details of the estimates related to deferred taxes are given in note 22 to these financial statements.

### **Legal proceedings and disputes**

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment. Judgement is required as to whether a liability exists. A provision will only be recognised where it is probable that the Group will be required to settle a claim.

### **Control of Logista**

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01% of the voting shares. The Group has reviewed its control of Logista and that it is appropriate to consolidate this entity in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group continues to have Director presence on the Board of Logista, representing 5 out of 12 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

### **Climate change**

The Group has a designated program to manage and mitigate climate-related risks. The effect of climate change is not considered to have a material effect on the estimates in the financial statements. Governmental and societal responses to climate change risks are still developing and consequently financial statements cannot capture all possible future outcomes as these are not yet known or don't have sufficient certainty to be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK-adopted International Accounting Standards. Please refer to the following sections for further discussion on the impact of climate change relating to going concern assumptions in note 1, intangible assets impairment assumptions in note 11 and recoverability of deferred tax assets in note 22.

NOTES TO THE FINANCIAL STATEMENTS *continued*

**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 2022 the Group reorganised the structure of the Europe and AAA regions. The Central and Eastern Europe cluster, which includes operations in Poland, Czech Republic, Ukraine, Slovakia, Hungary, Azerbaijan, Armenia, Georgia and Slovenia, moved from the Europe region to the AAA region. The AAA region has been re-named AAACE. The managerial and internal reporting structures of the regions 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 comparative figures below have been restated accordingly

The function of the Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on the Group's segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive.

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

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

Americas – United States.

AAACE – Australia, Japan, Saudi Arabia, Taiwan, Poland, Czech Republic, Ukraine, Slovakia, Hungary, Slovenia and our African markets including Algeria and Morocco.

**Tobacco & NGP**

£ million unless otherwise indicated	2023			2022		
	Tobacco	NGP	Tobacco & NGP	Tobacco	NGP	Tobacco & NGP
Revenue	<b>22,114</b>	<b>299</b>	<b>22,413</b>	23,232	224	23,456
Net revenue	<b>7,747</b>	<b>265</b>	<b>8,012</b>	7,585	208	7,793
Operating profit/(loss)	<b>3,262</b>	<b>(156)</b>	<b>3,106</b>	2,599	(127)	2,472
Adjusted operating profit			<b>3,583</b>			3,441
Adjusted operating margin %			<b>44.7</b>			44.2

**Distribution**

£ million unless otherwise indicated	2023	2022
Revenue	<b>10,819</b>	9,756
Distribution gross profit	<b>1,466</b>	1,046
Operating profit	<b>298</b>	212
Adjusted operating profit	<b>306</b>	254
Adjusted operating margin %	<b>20.9</b>	24.3

## Revenue

£ million	2023		2022 (restated)	
	Total revenue	External revenue	Total revenue	External revenue
Tobacco & NGP				
Europe	11,749	10,992	12,052	11,391
Americas	3,700	3,700	3,756	3,756
AAACE	6,964	6,964	7,648	7,648
Total Tobacco & NGP	22,413	21,656	23,456	22,795
Distribution	10,819	10,819	9,756	9,756
Eliminations	(757)	-	(661)	-
Total Group	32,475	32,475	32,551	32,551

The eliminations all relate to Tobacco & NGP sales to Distribution.

## Tobacco & NGP net revenue

£ million	2023		2022 (restated)			
	Tobacco	NGP	Total	Tobacco	NGP	Total
Europe	3,020	220	3,240	2,883	156	3,039
Americas	2,778	34	2,812	2,784	42	2,826
AAACE	1,949	11	1,960	1,918	10	1,928
Total Tobacco & NGP	7,747	265	8,012	7,585	208	7,793

## Adjusted operating profit and reconciliation to profit before tax

£ million	2023	2022 (restated)
Tobacco & NGP		
Europe	1,482	1,447
Americas	1,257	1,179
AAACE	844	815
Total Tobacco & NGP	3,583	3,441
Distribution	306	254
Eliminations	(2)	(1)
Adjusted operating profit	3,887	3,694
Russia, Ukraine and associated markets – Tobacco & NGP	(4)	(399)
Amortisation and impairment of acquired intangibles – Tobacco & NGP	(339)	(323)
Amortisation of acquired intangibles – Distribution	(8)	(26)
Restructuring costs – Tobacco & NGP	-	(197)
Fair value adjustment and impairment of other financial assets – Tobacco & NGP	(36)	(37)
Loss on disposal of subsidiaries – Tobacco & NGP	(1)	(13)
Loss on disposal of subsidiaries – Distribution	-	(16)
Acquisition and disposal costs – Tobacco & NGP	-	(5)
Excise tax provision – Tobacco & NGP	-	9
Charges related to legal provisions – Tobacco & NGP	(85)	-
Structural changes to defined benefit pension schemes – Tobacco & NGP	(12)	(4)
Operating profit	3,402	2,683
Net finance costs	(298)	(117)
Share of profit/(loss) of investments accounted for using the equity method	7	(15)
Profit before tax	3,111	2,551

NOTES TO THE FINANCIAL STATEMENTS *continued*

Other information

£ million	2023		2022 (restated)	
	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco & NGP				
Europe	69	79	44	76
Americas	36	20	31	25
AAACE	46	41	41	52
Total Tobacco & NGP	151	140	116	153
Distribution	40	41	29	32
Total Group	191	181	145	185

Additional geographic analysis

External revenue and non-current assets are presented for individually significant countries. The geographical analysis is based on country of origin. The Group's products are sold in over 120 countries.

£ million	2023		2022 (restated)	
	External revenue	Non-current assets	External revenue	Non-current assets
UK	3,926	148	4,286	149
Germany	4,142	3,245	4,238	3,280
France	3,428	2,350	3,215	2,371
USA	3,657	5,646	3,726	6,430
Other	17,322	7,553	17,086	7,490
Total Group	32,475	18,942	32,551	19,720

Non-current assets comprise intangible assets, property, plant and equipment, right of use assets and investments accounted for using the equity method. Note the comparative figure has been restated to include right of use assets.

4. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

£ million	2023	2022
Raw materials and consumables used	773	857
Changes in inventories of finished goods – Tobacco & NGP	2,630	2,660
Changes in inventories of finished goods – Distribution	7,994	7,350
Depreciation and impairment of fixed assets	153	235
Amortisation and impairment of intangible assets and investments in associates	394	406
Acquisition and disposal costs	-	5
Expenses relating to short-term leases	4	3
Expenses relating to low value asset leases	1	2
Depreciation and impairment of right of use assets	85	74
Net foreign exchange (gains)/losses	(11)	75
Write down of inventories	40	20
Profit on disposal of non-current assets	39	-
Write back of trade receivables	(5)	(3)

Analysis of fees payable to Ernst & Young LLP and its associates

£ million	2023	2022
Parent Company and consolidated financial statements	2.7	2.2
The Company's subsidiaries	6.1	5.6
<b>Total audit fees</b>	<b>8.8</b>	<b>7.8</b>
Audit-related assurance services	0.5	0.4
<b>Total audit-related fees</b>	<b>9.3</b>	<b>8.2</b>
Other assurance services	0.5	0.6
<b>Total non-audit fees</b>	<b>0.5</b>	<b>0.6</b>
<b>Total auditor's remuneration</b>	<b>9.8</b>	<b>8.8</b>

## 5. RESTRUCTURING COSTS

£ million	2023	2022
Employment related	–	103
Asset impairments	–	70
Other charges	–	24
	–	197

Analysed by workstream:

£ million	2023			2022		
	Costs	Cash spend	Cumulative cash spend	Costs	Cash spend	Cumulative cash spend
2021 Strategic review programme	–	61	165	197	56	104
Other	–	37	1,276	–	35	1,239
	–	98	1,441	197	91	1,343

Restructuring projects involve significant one-off costs that are incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects.

As these projects are not part of business as usual, any costs incurred are classified as restructuring costs and are included within administrative and other expenses in the consolidated income statement and treated as adjusting items.

No accounting charges are now expected to be recognised in relation to historic restructuring programmes, however there remains some ongoing cash costs to be incurred which are not expected to be in excess of existing provisions.

## 6. DIRECTORS AND EMPLOYEES

### Employment costs

£ million	2023	2022
Wages and salaries	882	642
Social security costs	186	142
Other pension costs (note 23)	41	64
Share-based payments (note 26)	31	29
	1,140	877

### Operating executive (excluding executive directors)

£ million	2023	2022
Base salary	4.7	4.3
Benefits	0.9	0.7
Pension salary supplement	0.7	0.7
Bonus	4.8	5.3
Termination payments	2.1	5.8
LTIP annual vesting <sup>1</sup>	7.8	1.5
	21.0	18.3

1. Share plans vesting represent the value of LTIP awards (inclusive of Recruitment Awards) where the performance periods ends in the year.

Note: aggregate remuneration paid to or receivable by Executive directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges was £39,323,966 (2022: £31,671,710).

### Key management compensation<sup>1</sup>

£ million	2023	2022
Short term employee benefits	17.0	17.6
Post-employment benefits	–	0.1
Termination payments	2.1	5.7
Share based payments (in accordance with IAS 24)	15.0	3.6
	34.1	27.0

1. Key management includes Directors, members of the Executive Committee and the Company Secretary.

Details of Directors' emoluments and interests, and of key management compensation which represent related-party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors' Remuneration Report, on pages 142-163 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Number of people employed by the group during the year

	2023		2022	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	18,800	19,100	19,900	22,600
Distribution	6,400	6,400	5,800	6,000
	25,200	25,500	25,700	28,600

Number of people employed by the group by location during the year

	2023		2022	
	At 30 September	Average	At 30 September	Average
UK and European Union	12,200	11,900	14,000	14,200
Americas	4,700	5,100	5,700	7,800
Rest of the World	8,300	8,500	6,000	6,600
	25,200	25,500	25,700	28,600

7. TAX

The major components of income tax expense for the years ended 30 September 2023 and 2022 are:

£ million	2023	2022
UK current tax		
Current year (credited)/charged to the consolidated income statement	(55)	217
Current year charged/(credited) to consolidated other comprehensive income	115	(158)
Total current year UK current tax	60	59
Adjustments in respect of prior years charged to the consolidated income statement	15	149
Total UK current tax	75	208
Overseas current tax		
Current year charged to the consolidated income statement	620	670
Total current year overseas current tax	620	670
Adjustments in respect of prior years charged/(credited) to the consolidated income statement	233	(116)
Total overseas current tax	853	554
Total current tax charged to the consolidated statement of other comprehensive income	928	762
£ million	2023	2022
UK current tax		
Current year	(55)	217
Adjustments in respect of prior years	15	149
Overseas current tax		
Current year	620	670
Adjustments in respect of prior years	233	(116)
Total current tax	813	920
Deferred tax		
Relating to origination and reversal of temporary differences	(158)	(34)
Total tax charged to the consolidated income statement	655	886



£ million	2023	2022
Tax related to items recognised in consolidated other comprehensive income during the year:		
Current tax on hedge of net investment and quasi-equity loans	115	(148)
Current tax on actuarial gains and losses	-	(10)
Total current tax	115	(158)
Deferred tax on actuarial gains and losses	(135)	52
Deferred tax on hyperinflation adjustment	1	3
Total deferred tax	(134)	55
Total tax credited to consolidated other comprehensive income	(19)	(103)
Tax related to items recognised in equity during the year:		
Deferred tax on share-based payments	(1)	(2)
Total tax credited to equity	(1)	(2)

### Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 22.0% (2022: 19.0%) as follows:

£ million	2023	2022
Profit before tax	3,111	2,551
Tax at the UK corporation tax rate of 22.0% (2022: 19.0%)	684	484
Tax effects of:		
Differences in effective tax rates on overseas earnings	24	118
Movement in provision for uncertain tax positions	211	(78)
Remeasurement of deferred tax balances arising from changes in tax rates	-	4
Remeasurement of previously recognised deferred tax assets	(6)	(1)
Increase in unrecognised deferred tax assets	1	14
Deferred tax on unremitted earnings	5	(26)
Share of (profit)/loss of investments accounted for using the equity method	(2)	3
Non-deductible expenses	24	18
(Non-taxable gains)/non-deductible losses on net foreign exchange on financial instruments	(122)	145
Recognition of deferred tax assets	(212)	-
Exempt losses on Russian and associated markets exit	-	88
Provision for state aid tax recoverable	-	101
Adjustments in respect of prior years	48	16
Total tax charged to the consolidated income statement	655	886

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 22.0%.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £nil (2022: £4 million).

During the year the Group has increased the provision for deferred tax on unremitted earnings by £5 million (2022: £26 million decrease). The tax will arise on the distribution of profits through the Group and on planned Group simplification.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### Movement on the current tax account

£ million	2023	2022
At 1 October	27	82
Charged to the consolidated income statement	(813)	(920)
(Charged)/credited to other comprehensive income	(115)	158
Cash paid	590	681
Exchange movements	6	(7)
Balance sheet reclassification	(1)	33
At 30 September	(306)	27

The cash tax paid in the year is £223 million lower than the current tax charge (2022: £239 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.

### Analysis of current tax account

£ million	2023	2022
Current tax assets	112	334
Current tax liabilities	(418)	(307)
	(306)	27

### 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 2023 the total value of these provisions excluding compensating assets under mutual agreement procedure was £261 million (2022: £215 million excluding compensating assets, 2022: £148 million including compensating assets). The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice. Until matters are finally concluded it is possible that amounts ultimately paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the matters referred to below the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact on the results of the Group.

### French tax litigation

The Group has an ongoing challenge from the French tax authorities, which is now in litigation, and could lead to additional liabilities of £254 million including tax, interest, and penalties. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intragroup transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In May 2023 the Administrative Tribunal of Montreuil issued its decision, ruling in favour of the French tax authorities. In July 2023 the Group appealed to the Administrative Court of Appeal of Paris. Whilst the Group has appealed, in the light of the Administrative Tribunal of Montreuil's decision, having subsequently reassessed the probability of a successful appeal, the Group has now determined it is appropriate to increase the provision for uncertain tax positions to £180 million (2022: £42 million).

### State and UK CFC

In April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent state aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, along with a number of UK corporates, has made a similar application to the European Court.

Based on the Commission's decision and despite the appeals, the UK Government was obliged to recover state aid received. Whilst the Group's position remains that no state aid has been received, in February 2021 a recovery charging notice for £101 million was issued to the Group by HMRC and has since been paid.

In June 2022 the European General Court rejected the appeals. Whilst this decision has been appealed to the Court of Justice of the European Union (CJEU) and the appeal may possibly be successful, in the light of the European General Court's decision, during 2022 the Group reassessed recoverability of the £101 million previously recorded as a receivable and determined it was appropriate to provide in full.

### Transfer pricing

The Group has been subject to tax audits relating to transfer pricing matters in several jurisdictions, principally UK, France and Germany. The Group estimates the potential gross level of exposure relating to transfer pricing issues is approximately £100 million (2022: £200 million). The Group holds a provision of £68 million excluding compensating assets (2022: £121 million excluding compensating assets, £54 million including compensating assets) in respect of these items.

In December 2021 the Group concluded a transfer pricing audit with the French tax authorities. In September 2022 the Group concluded transfer pricing audits with the UK and German tax authorities. Settlements of the French and UK audits were made during 2022. Settlement of the German audit was made during 2023. In September 2023 an additional separate transfer pricing audit was opened by the German tax authorities.

The Group believes the transfer pricing provision held above appropriately provides for this and other transfer pricing issues.

### French branch tax

In December 2021 the Group received assessments from the French tax authorities concerning the intragroup financing of the French branch of Imperial Tobacco Limited. In February 2022 the Group appealed against the assessment. In September 2022 the French tax authorities opened a further tax audit into this matter. Following discussions with the French tax authorities a settlement proposal covering all years was made for £48 million including interest, for which a provision was made in 2022 and has since been settled in 2023. The Group holds a provision of £nil (2022: £48 million) in respect of this matter.

## 8. DIVIDENDS

### Distributions to ordinary equity holders

£ million	2023	2022	2021
Paid interim of 43.18 pence per share (2022: 42.54 pence, 2021: 42.12 pence)			
• Paid June 2021	-	-	199
• Paid September 2021	-	-	199
• Paid December 2021	-	-	458
• Paid June 2022	-	202	-
• Paid September 2022	-	202	-
• Paid December 2022	-	464	-
• Paid June 2023	196	-	-
• Paid September 2023	195	-	-
Interim dividend paid	391	868	856
Proposed third interim of 51.82 pence per share (2022: 49.31 pence, 2021: 48.48 pence)			
• To be paid December 2023	466	-	-
Interim dividend proposed	466	-	-
Proposed final of 51.82 pence per share (2022: 49.32 pence, 2021: 48.48 pence)			
• Paid March 2022	-	-	458
• Paid March 2023	-	457	-
• To be paid March 2024	465	-	-
Final dividend	465	457	458
Total ordinary share dividends of 146.82 pence per share (2022: 141.17 pence, 2021: 139.08 pence)	1,322	1,325	1,314

The proposed third interim dividend for the year ended 30 September 2023 of 51.82 pence per share amounts to a proposed dividend of £466 million, which will be paid in December 2023. The proposed final dividend for the year ended 30 September 2023 of 51.82 pence per share amounts to a proposed dividend payment of £465 million in March 2024 based on the number of shares ranking for dividend at 30 September 2023, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2023 will be £1,322 million (2022: £1,325 million). The dividend paid during 2023 is £1,312 million (2022: £1,320 million).

NOTES TO THE FINANCIAL STATEMENTS *continued*

**9. EARNINGS PER ORDINARY SHARE**

Basic earnings per share is based on the profit for the period attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the period excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2023	2022
Earnings: basic and diluted – attributable to owners of the Parent Company	<b>2,328</b>	1,570
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	<b>922.5</b>	946.2
Potentially dilutive share options	<b>5.7</b>	6.8
Shares for diluted earnings per share	<b>928.2</b>	953.0
Pence		
Basic earnings per share	<b>252.4</b>	165.9
Diluted earnings per share	<b>250.8</b>	164.7

**10. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

**Russian associated markets exit**

In the prior year a loss on exit from the Russian and associated markets of £423 million was incurred, comprising a loss on transfer of Russian operations of £364 million, impairment of assets and exit costs of the associated markets of £35 million and the impairment of an intangible asset held by the Global Horizon Ventures Limited joint venture of £24 million. Following a review of the impacts resulting from the decision to transfer the Russian factory it was determined that it was unviable to continue trading in these areas for a number of reasons including duty and supply chain challenges. The decision to exit operations results in a number of assets held by these markets having to be impaired. In addition, certain exit costs are expected to be incurred in the process of ceasing operations. Total impairment and exit costs of £35 million were recognised in the financial year ending 30 September 2022. There is ongoing work to complete the exit from the associated markets. In the current year revisions to these exit provisions totalling £14 million have been recognised primarily arising due to changes in the expected level of exit costs.

**Logista**

**Acquisition of Speedlink Worldwide Express B.V.**

On 16 February 2022, the Group's subsidiary Logista acquired 70% of the share capital of Speedlink Worldwide Express B.V. for a purchase consideration of €20 million (£16 million) which has been paid in cash. There is an intention to purchase the remaining 30% of share capital over the next two years. As effective control has been achieved through this acquisition, Speedlink Worldwide Express B.V. has been consolidated as a subsidiary within the Group with a 65% minority interest. Goodwill of €12 million (£10 million), intangible assets of €15 million (£13 million) and deferred tax liability of €4 million (£3 million) were recognised on acquisition.

**Acquisition of Herinvemol, S.L. (Transportes El Mosca)**

On 17 June 2022, the Group's subsidiary Logista announced the acquisition of 60% of the shares of Herinvemol S.L. Herinvemol S.L. is the parent company of a group of companies over which it holds control, trading as 'Transportes El Mosca'. This acquisition completed on 28 October 2022.

Transportes El Mosca offers national and international intermodal transport services by road, sea and air, as well as frozen or refrigerated transport. The main destination markets for the international road transport activity are the United Kingdom, Germany, Portugal, France, the Netherlands, and Italy, and its clients are mainly producers and large distribution chains in the food sector.

The total purchase consideration for the 60% initial shareholding is €99 million (£86 million) with €1 million (£1 million) remaining as a current liability as at 30 September 2023. The agreement contemplates cross-call and call options for the remaining 40% exercisable over a 3-year time horizon. At 30 September 2023 goodwill of €39 million (£33 million) has been recognised relating to this acquisition which has been assigned to the Distribution segment. The valuation of the assets at fair value has been carried out by an independent expert. This valuation includes, as intangible assets, Customer Relationships for €42 million (£38 million) and Trademarks for €5 million (£4 million).

On 3 August 2023, Logista announced the acquisition of an additional 13.33% of equity for a consideration of €23 million (£20 million), increasing its total ownership to 73.33%.

At 30 September 2023, Logista has a purchase option for the remaining 26.67%, which is recorded at fair value as a non-current liability for an amount of €25 million (£22 million) and a current liability for an amount of €25 million (£22 million), with a corresponding adjustment taken to equity reserves. The equity movement of €56 million (£48 million) is calculated based on the initial valuation of the call options at fair value of €75 million (£65 million), reduced by the minority interests arising from the purchase transaction of €17 million (£14 million) and those arising from the profit for the year generated by the acquired company.

The revenue and net profit that were contributed to the consolidated income statement for the period ended 30 September 2023 totalled €260 million (£226 million) and €4 million (£3 million), respectively.

The ordinary income and net profit that would have contributed to the consolidated income statement if Transportes El Mosca had been acquired on 1 October 2022 is not significantly different from the figures indicated in the previous paragraph.

#### Acquisition of Carbó Collbatallé S.L.

In April 2022, the Group's subsidiary Logista reached an agreement for the acquisition of 100% of the shares of Carbó Collbatallé, a company that offers transport and logistics services for refrigerated and frozen foods, which carries out its commercial activity mainly in the Spanish market. This acquisition was completed in October 2022.

The total consideration for the shares acquired was €55 million (£46 million) of which €51 million (£42 million) was paid in cash at the time of the purchase with €4 million (£4 million) outstanding as at 30 September 2023.

As at 30 September 2023, goodwill of €36 million (£31 million) has been recognised which has been assigned to the Distribution segment. The valuation of the assets at fair value has been carried out by an independent expert. This valuation includes, as intangible assets, Customer Relationships for €20 million (£17 million) and Trademarks for €1 million (£1 million).

The revenue and net profit that were contributed to the consolidated income statement for the period ended 30 September 2023 totalled €63 million (£55 million) and €5 million (£4 million) respectively.

#### Acquisition of Gramma Farmaceutici, S.R.L.

In July 2023, the Group's subsidiary Logista acquired 100% of the equity shares of Gramma Farmaceutici, S.R.L., a company specialised in logistics services for the pharmaceutical industry in Italy. The total purchase price of these shares amounted to €3 million (£3 million), paid in cash at the time of purchase. The book value of the net assets acquired was €296 thousand (£257 thousand). As at 30 September 2023, the company has recorded provisional goodwill of €3 million (£3 million) which has been assigned to the Distribution segment.

The revenue and net profit that were contributed to the consolidated income statement for the period ended 30 September 2023 totalled €2 million (£2 million) and €18 thousand (£16 thousand) respectively. The ordinary income and net profit that would have contributed to the consolidated income statement if the company had been acquired on 1 October 2022 is not significantly different from the figures indicated in the previous paragraph.

The amounts of the assets and liabilities arising from the following acquisitions during the year ending 30 September 2023 are as follows:

£ million	Carbó Collbatallé S.L. Fair value	Hernivemol, S.L. (Transportes El Mosca) Fair value	Total Fair value
Property, plant and equipment and right of use assets	29	67	96
Other intangible assets	18	42	60
Other non-current assets	-	1	1
Trade receivables and other accounts receivable	10	75	85
Cash and other equivalent liquid assets	3	11	14
Other current assets	1	2	3
Deferred tax liabilities	(5)	(10)	(15)
Trade payables and other accounts payable	(16)	(55)	(71)
Other current financial liabilities	-	(43)	(43)
Other non-current financial liabilities	(25)	(23)	(48)
Total net assets	15	67	82
Less minority interests	-	(14)	(14)
Net assets acquired by the group	15	53	68
Consideration for the acquisition	46	86	132
Goodwill	31	33	64

NOTES TO THE FINANCIAL STATEMENTS *continued*

11. INTANGIBLE ASSETS

	2023				
£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
Cost					
At 1 October 2022	14,228	13,871	1,433	522	30,054
Additions	-	136	1	119	256
Acquisitions	67	5	54	2	128
Disposals	-	(115)	-	(3)	(118)
Reclassifications	-	(2)	-	2	-
Exchange movements	(510)	(853)	(31)	(12)	(1,406)
At 30 September 2023	13,785	13,042	1,457	630	28,914
Amortisation and impairment					
At 1 October 2022	1,587	8,925	1,414	351	12,277
Amortisation charge for the year	-	352	6	34	392
Disposals	-	(109)	-	(3)	(112)
Reclassifications	-	(1)	-	1	-
Exchange movements	(31)	(517)	(31)	(8)	(587)
Accumulated amortisation	-	8,111	1,389	374	9,874
Accumulated impairment	1,556	539	-	1	2,096
At 30 September 2023	1,556	8,650	1,389	375	11,970
Net book value					
At 30 September 2023	12,229	4,392	68	255	16,944

	2022				
£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
Cost					
At 1 October 2021	13,417	12,359	1,387	451	27,614
Additions	-	20	1	65	86
Acquisitions	10	-	13	-	23
Disposals	-	-	-	(8)	(8)
Reclassifications	4	-	-	-	4
Exchange movements	797	1,492	32	14	2,335
At 30 September 2022	14,228	13,871	1,433	522	30,054
Amortisation and impairment					
At 1 October 2021	1,542	7,735	1,355	308	10,940
Amortisation charge for the year	-	331	27	35	393
Impairment	-	-	-	1	1
Disposals	-	-	-	(5)	(5)
Reclassifications	4	-	-	-	4
Exchange movements	41	859	32	12	944
Accumulated amortisation	-	8,386	1,414	350	10,150
Accumulated impairment	1,587	539	-	1	2,127
At 30 September 2022	1,587	8,925	1,414	351	12,277
Net book value					
At 30 September 2022	12,641	4,946	19	171	17,777

Amortisation and impairment of acquired intangibles excluded from adjusted operating profit amounted to £347 million (2022: £349 million), this comprises amortisation on intellectual property of £341 million (2022: £323 million) and amortisation on supply agreements of £6 million (2022: £26 million).

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships acquired as part of the purchase of Altadis, and of Carbó Collbatallé S.L. and Herinvemol S.L. (Transportes El Mosca) in the current financial year.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

In June 2023 the Group purchased intellectual property relating to tobacco pouches to be marketed within the United States. The purchase consideration was \$130 million (£106 million) comprising \$50 million (£41 million) which was paid in cash on completion, deferred consideration of \$31 million (£25 million) expected to be paid in December 2023 and contingent consideration currently estimated at \$49 million (£40 million) payable over a five-year period up until 2028. All deferred and contingent consideration has been discounted at a rate of 13% and a corresponding consideration liability of \$81 million (£66 million) has been recognised. The total initial intangible asset value recognised was \$130 million (£106 million).

### Goodwill and intangible asset impairment review

On 1 October 2022 the Group reorganised the Tobacco & NGP business, changing our geographic footprint with the markets comprising our Central and Eastern Europe cluster moving from our Europe region into the Africa, Asia & Australasia (AAA) region to form the newly constituted AAACE region. 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. As the Group's Cash Generating Unit Groupings (CGUG) that are used for annual goodwill impairment testing are aligned to the region-based segments, where appropriate, goodwill and other indefinite life intangible assets has been reapportioned across the new CGUG structure on a relative value basis to reflect the segmental changes.

One of the requirements of IAS 36 is to undertake an impairment test based on the former CGUG prior to reapportioning intangible assets to new CGUG in the event of a Group reorganisation. The impairment testing which was undertaken as at 1 October 2022 indicated no impairment. Therefore there was no requirement to impair any goodwill or brand intangible prior to the reallocation to new CGUG.

Our reportable segments have been updated to Americas, Europe, AAACE and Distribution. The Tobacco & NGP operating segments continue to be comprised of geographical groupings of business markets. The main Tobacco & NGP business markets that have moved segments as part of this restructuring are Poland, Czech Republic, Ukraine, Slovakia, Hungary, Azerbaijan, Armenia, Georgia, Moldova, Croatia and Slovenia.

Goodwill is allocated to CGUG that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business, CGUG are based on the markets where the business operates and are grouped in line with the regional 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.

£ million	2023		2022 (restated)	
	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Europe	4,123	307	4,295	313
Americas	4,147	-	4,326	-
AAACE	2,181	162	2,277	165
Tobacco & NGP	10,451	469	10,898	478
Distribution	1,778	-	1,743	-
	<b>12,229</b>	<b>469</b>	<b>12,641</b>	<b>478</b>

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGUG), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGUG) and ITG Brands in 2015 (USA). Intangible assets with indefinite lives relate to the tobacco trademark, Davidoff, which was purchased as part of the acquisition of Reemtsma in 2002.

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGUG is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans of our Tobacco business which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer 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.



## NOTES TO THE FINANCIAL STATEMENTS *continued*

### Growth rates and discount rates used

The compound annual growth rates implicit in these value-in-use calculations are shown below.

%	2023			2022		
	Pre-tax discount rate	Initial growth rate	Long-term growth rate	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Europe	10.4	4.5	1.0	10.3	4.6	0.6
Americas	8.9	5.8	2.1	8.7	5.2	1.6
AAACE	12.5	4.3	2.2	11.1	2.8	1.3
Distribution	12.3	5.0	1.6	11.8	3.9	1.5

The calculation to determine the value in use involves a discounted future cash flow forecast model. Nominal cash flows are used in the calculation which will themselves already factor in the effects of inflation. The cash flows are sourced from the Group business plan which considers and factors in the risk of variability of future business performance and hence cash flow variation. A nominal discount rate is used within the model based on the Group's weighted average cost of capital which is itself calculated using the Capital Asset Pricing Model. As risk has been applied within the undiscounted cash flows no adjustment is made to the discount rate for risk, except for the application of country risk premia over and above the Group weighted average cost of capital where appropriate.

Country-specific discount rates are used based on the Group's weighted average cost of capital adjusted for country risk premium. The impairment review is undertaken at a CGUG level which involves the aggregation of the individual value in use amounts for the individual countries which constitute each CGUG. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Nominal cash flows from the business plan period are used for year one, two and three, then extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. In certain markets, the extrapolated cash flow growth rate can exceed the long term growth rate based on the business plan being a better reflection of the anticipated initial growth. Estimated long term weighted average compound growth rates are used beyond year five.

Long term growth rates are determined as the lower of:

- the nominal GDP growth rates for the country of operation; and
- the extrapolation of the initial growth rates as estimated by management for years one to five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry. Year on year variations in initial growth rates may result in consequential changes to estimated long term rates.

Europe's initial growth rate was in line with the prior year. The long term growth rate improved by 0.4%. This primarily reflects improvements in the UK market where the outlook is forecast to be better than prior year forecast and where the long term growth rate was not capped by the medium term rate.

Americas was broadly in line with the prior year growth assumptions for the initial and medium growth rate. The key changes which largely offset each other were the 0.5% increase in long-term growth rate and an increased tax rate by 4%.

AAACE's increases in the initial growth rates are driven by improved initial and medium-term forecasts, which are both due to changes in the growth outlook for a number of key markets including Taiwan, Ivory Coast and Hungary. Improvements in forecast profitability reflect actions delivered in line with our strategic goals. The long-term growth rate has improved this year, in the prior year this needed to be capped to the medium-term rate for a number of the key markets.

The Distribution improved initial growth rate reflects stronger business projections compared to prior year.

### Goodwill and intangible asset impairment review conclusion

Our impairment testing confirms there are sufficient cash flows to support the current carrying values of the goodwill held at 30 September 2023. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets can affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions significantly change it is possible that materially different amounts could be reported in the Group's financial statements in future periods. There are uncertainties associated with estimating the valuation of the recoverable amount.

At the present time the recoverable amount is significantly in excess of the carrying value of goodwill and other intangible assets. However, given the uncertainties mentioned above this could change in the future.



### Consideration of the impact of climate change

The Group has completed an assessment of the impact of climate change which includes how it will vary future costs and therefore cash flows. The detail of the Tobacco & NGP climate change review can be found on pages 74-77. The review has concluded that there are impacts on future cash flows as a result of climate change, with the most significant being relating to NTM and leaf costs due to increases in the operating costs of suppliers and raw materials. We have factored the additional costs to the Group relating to forecast climate costs into our discounted cash flow forecasts used for impairment testing valuation purposes. The modelled impact of this for the Group was £338 million (2022: £726 million). This concluded that there continues to be sufficient headroom. There is therefore no impairment recognised as result of incremental climate change costs. However, the Group will continue to review the climate change impact going forward and any future changes in impact assessment could potentially result in changes to the impairment assessment.

### Other intangible assets

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cash flows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cash flows. No impairments (2022: £nil) have been recognised for brand intangibles.

Intellectual property and product development intangible assets have also been reviewed to identify potential impairment triggers. No such impairment triggers were noted in the year ended 30 September 2023 and hence no impairment charge has been incurred (2022: £nil).

No impairment charge (2022: £1 million) was incurred in the year relating to software.

## 12. PROPERTY, PLANT AND EQUIPMENT

	2023			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
<b>Cost</b>				
At 1 October 2022	806	2,080	455	3,341
Additions	3	130	58	191
Acquisitions	-	5	9	14
Disposals	(22)	(74)	(24)	(120)
Hyperinflation adjustment (note 1)	-	5	-	5
Exchange movements	(31)	(81)	(14)	(126)
At 30 September 2023	756	2,065	484	3,305
<b>Depreciation and impairment</b>				
At 1 October 2022	181	1,200	301	1,682
Depreciation charge for the year	17	98	32	147
Impairment	-	6	-	6
Disposals	(11)	(60)	(15)	(86)
Exchange movements	(10)	(41)	(10)	(61)
At 30 September 2023	177	1,203	308	1,688
<b>Net book value</b>				
At 30 September 2023	579	862	176	1,617

NOTES TO THE FINANCIAL STATEMENTS *continued*

£ million	2022			Total
	Property	Plant and equipment	Fixtures and motor vehicles	
<b>Cost</b>				
At 30 September 2021	797	2,086	411	3,294
Hyperinflation restatement to 1 October 2021	1	24	2	27
At 1 October 2021	798	2,110	413	3,321
Additions	13	74	58	145
Disposals	(51)	(170)	(24)	(245)
Hyperinflation adjustment (note 1)	1	7	-	8
Reclassifications	19	(4)	(5)	10
Exchange movements	26	63	13	102
At 30 September 2022	806	2,080	455	3,341
<b>Depreciation and impairment</b>				
At 30 September 2021	162	1,146	271	1,579
Hyperinflation restatement to 1 October 2021	-	-	-	-
At 1 October 2021	162	1,146	271	1,579
Depreciation charge for the year	14	102	34	150
Impairment	10	69	6	85
Disposals	(13)	(146)	(21)	(180)
Reclassifications	-	(4)	1	(3)
Exchange movements	8	33	10	51
At 30 September 2022	181	1,200	301	1,682
<b>Net book value</b>				
At 30 September 2022	625	880	154	1,659

**13. RIGHT OF USE ASSETS AND LEASE LIABILITY**

The movements in right of use assets in the year were as follows:

£ million	2023			Total
	Property	Plant and equipment	Fixtures and motor vehicles	
<b>Net book value</b>				
At 1 October 2022	194	3	31	228
Additions	74	3	37	112
Acquisitions	50	-	32	84
Terminations and modifications	(3)	-	(2)	(5)
Depreciation and impairment	(53)	(4)	(28)	(85)
Exchange movements	(6)	-	(2)	(8)
At 30 September 2023	256	2	68	326

The movements in lease liabilities in the year were as follows:

£ million	Lease Liabilities
At 1 October 2022	248
Cash flow	(92)
Accretion of interest	10
New leases, terminations and modifications	106
Acquisitions	84
Exchange movements	(7)
At 30 September 2023	349

The maturity profile and the future minimum lease payments of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2023 is disclosed in Note 20.

The following are the amounts recognised in the consolidated income statement:

£ million	2023	2022
Expenses relating to short-term leases	4	3
Expenses relating to low value asset leases	1	2
Depreciation and impairment expense of right of use assets	85	74
Interest on lease liabilities	10	6

The movements in right of use assets in the year ending 30 September 2022 were as follows:

£ million				2022
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Net book value				
At 1 October 2021	202	6	34	242
Additions	57	1	11	69
Terminations and modifications	(13)	-	(2)	(15)
Depreciation	(56)	(4)	(14)	(74)
Exchange movements	4	-	2	6
At 30 September 2022	194	3	31	228

The movements in lease liabilities in the year ending 30 September 2022 were as follows:

£ million	Lease Liabilities
At 1 October 2021	251
Cash flow	(68)
Accretion of interest	6
New leases, terminations and modifications	54
Exchange movements	5
At 30 September 2022	248

The maturity profile and the future minimum lease payments of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2022 is disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS *continued*

**14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

The principal joint venture during the year was Global Horizon Ventures Limited. In the prior year, the entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets on 27 April 2022 these royalties ceased and, therefore, the Group's share of this intangible asset was fully impaired.

Summarised financial information for the Group's joint ventures, which are accounted for using the equity method, is shown below:

	2023		
£ million	Global Horizon Ventures	Others	Total
Revenue	19	28	47
Profit after tax	13	4	17
Non-current assets	-	7	7
Current assets	56	49	105
Total assets	56	56	112
Current liabilities	(7)	(41)	(48)
Non-current liabilities	-	(14)	(14)
Total liabilities	(7)	(55)	(62)
Net assets	49	1	50

	2022		
£ million	Global Horizon Ventures	Others	Total
Revenue	23	27	50
Profit after tax	(7)	5	(2)
Non-current assets	-	6	6
Current assets	62	44	106
Total assets	62	50	112
Current liabilities	-	(39)	(39)
Non-current liabilities	(7)	(10)	(17)
Total liabilities	(7)	(49)	(56)
Net assets	55	1	56

## Transactions and balances with joint ventures

£ million	2023	2022
Purchases from	4	11
Accounts payable to	(2)	(3)

## Movement on investments accounted for using the equity method

£ million	2023	2022
At 1 October	56	88
Share of profit/(loss) for the year from joint ventures	7	(15)
Share of profit for the year from associates	2	2
Increase in investment in associates	-	2
Impairment of investment in associates	(2)	(12)
Dividends	(7)	(9)
Foreign exchange losses	(1)	-
At 30 September	55	56

## 15. INVENTORIES

£ million	2023	2022
Raw materials	1,159	910
Work in progress	81	73
Finished inventories	3,106	2,969
Other inventories	176	188
	4,522	4,140

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £3,106 million (2022: £2,969 million) there is excise duty of £1,192 million (2022: £1,255 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 £337 million (2022: £114 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

£ million	2023		2022	
	Current	Non-current	Current	Non-current
Trade receivables	2,211	3	2,262	3
Less: loss allowance	(63)	(3)	(76)	(3)
Net trade receivables	2,148	-	2,186	-
Other receivables	149	26	200	37
Prepayments	193	37	157	30
	2,490	63	2,543	67

Trade receivables may be analysed as follows:

£ million	2023		2022	
	Current	Non-current	Current	Non-current
Within credit terms	1,996	-	2,084	-
Past due by less than 3 months	121	-	93	-
Past due by more than 3 months	31	-	9	-
Amounts that are impaired	63	3	76	3
	2,211	3	2,262	3

NOTES TO THE FINANCIAL STATEMENTS *continued*

The movements in the total loss allowance for receivables can be analysed as follows:

£ million	2023	2022
At 1 October	79	71
Net (decrease)/increase in provision	(13)	8
At 30 September	66	79

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. Expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach.

**17. CASH AND CASH EQUIVALENTS**

£ million	2023	2022
Cash at bank and in hand	683	703
Short-term deposits and other liquid assets	662	1,147
	1,345	1,850

£135 million (2022: £144 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time which in all cases is three months or less from the date the transfer is requested.

**18. TRADE AND OTHER PAYABLES**

£ million	2023		2022	
	Current	Non-current	Current	Non-current
Trade payables	1,507	-	1,345	-
Duties payable	5,297	-	5,453	-
Other taxes and social security contributions	1,375	-	1,412	-
Other payables	526	-	500	-
Accruals	874	27	796	10
	9,579	27	9,506	10

## 19. BORROWINGS

The Group's borrowings held at amortised cost, are as follows:

£ million	2023	2022
Current borrowings		
Bank loans and overdrafts	49	27
Capital market issuance:		
\$354 million 3.5% notes due February 2023	-	322
€750 million 1.125% notes due August 2023	-	662
£600 million 8.125% notes due March 2024	627	-
\$1,000 million 3.125% notes due July 2024	823	-
Total current borrowings	1,499	1,011
Non-current borrowings		
Bank loans	2	1
Capital market issuance:		
£600 million 8.125% notes due March 2024	-	626
\$1,000 million 3.125% notes due July 2024	-	910
€500 million 1.375% notes due January 2025	437	445
\$1,500 million 4.25% notes due July 2025	1,236	1,367
€650 million 3.375% notes due February 2026	574	584
\$750 million 3.5% notes due July 2026	617	682
£500 million 5.5% notes due September 2026	500	500
€750 million 2.125% notes due February 2027	657	670
\$1,000 million 6.125% notes due July 2027	822	908
\$1,000 million 3.875% notes due July 2029	822	909
€950 million 5.25% notes due February 2031	838	-
£500 million 4.875% notes due June 2032	505	505
€1,000 million 1.75% notes due March 2033	872	889
Total non-current borrowings	7,882	8,996
Total borrowings	9,381	10,007
Analysed as:		
Capital market issuance	9,330	9,979
Bank loans and overdrafts	51	28

Current and non-current borrowings include interest payable of £33 million (2022: £2 million) and £96 million (2022: £104 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 13 February 2023, \$354 million (£292 million equivalent) 3.5% notes were repaid. On 15 February 2023, €600 million (£533 million equivalent) 5.25% notes were issued. On 14 August 2023, €750 million (£646 million equivalent) 1.125% notes were repaid. On 12 September 2023, €350 million (£301 million equivalent) 5.25% notes were issued, supplementary to the 15 February 2023, €600 million issue.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2022: no defaults).

The maturity profile of the Group's bonds and the contractual cash flows as at September 2023 is disclosed in Note 20.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### Fair value of borrowings

The fair value of borrowings as at 30 September 2023 is estimated to be £8,669 million (2022: £9,030 million). £8,617 million (2022: £9,002 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	2023		2022	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	1,632	1,524	1,631	1,457
EUR	3,378	2,996	3,250	2,777
USD	4,320	4,097	5,098	4,768
Total capital market issuance	9,330	8,617	9,979	9,002

### Undrawn revolving credit facilities

At 30 September the Group had the following undrawn committed facilities:

£ million	2023	2022
Amounts maturing:		
In less than one year	550	-
Between one and two years	159	-
Between two and five years	2,866	3,091
	3,575	3,091

During the year the maturity of €3,125 million of the Group's syndicated multicurrency facility of €3,493 million (2022 €3,500 million) was extended to 30 September 2026. One syndicate member opted not to extend their participation of €184 million which has a maturity date of 30 September 2025. One syndicate member opted not to extend their participation of €184 million which has a maturity date of 30 March 2026. One syndicate member sold their participation of €125 million and one syndicate member sold their participation of €184 million. Two syndicate members increased their participations from €125 million to €184 million and a new syndicate member joined with a participation of €184 million.

During the year three new bilateral facilities for a total £550 million, all maturing in September 2024, were arranged.

## 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 four times per year and comprises the Chief Financial Officer, the Director of Treasury, the Group Finance Director, the Chief Legal and Corporate Affairs Officer, the Chief Strategy and Development Officer and three Group Regional Finance Directors. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a policy (the Treasury Operations Policy) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks covers 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 an equity holding in Oxford Cannabinoid Technologies PLC. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

### Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

### Transaction risk

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

### Translation risk

The Group's currency mix of debt and related derivatives is held with consideration to the currency mix of its net assets and profits, 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 2023. 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.

	2023	2022
£ million	Increase/ (decrease) in income	Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of sterling against euro (2022: 10%)	33	59
10% appreciation of sterling against US dollar (2022: 10%)	(9)	2

An equivalent depreciation of sterling against the above currencies would cause a decrease in income of £41 million and £11 million increase for euro and US dollar exchange rates respectively (2022: £72 million decrease and £2 million decrease).

Movements in equity in the table below relate to intercompany loans treated as quasi-equity under IAS 21 and hedging instruments designated as net investment hedges of the Group's euro and US dollar denominated assets.

	2023	2022
£ million	Change in equity	Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of sterling against euro (2022: 10%)	1,035	621
10% appreciation of sterling against US dollar (2022: 10%)	205	276

An equivalent depreciation of sterling against the above currencies would result in a change in equity of £(1,265) million and £(250) million for euro and US dollar exchange rates respectively (2022: £(759) million and £(338) million).

## NOTES TO THE FINANCIAL STATEMENTS *continued*

At 30 September 2023, after the effect of derivative financial instruments, approximately 111% of the Group's net debt was denominated in euro and non US dollar currencies (2022: 80%) and (11)% in US dollars (2022: 20%).

### 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 Operations Policy and Treasury Committee discussions.

As at 30 September 2023, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 107% (2022: 103%) of reported net debt was at fixed rates of interest and (7)% (2022: (3)%) was at floating rates of interest. After adjusting for cash held in subsidiary bank accounts and cash in transit, accrued interest, the mark to market of the derivative portfolio and finance leases, approximately 100% (2022: 97%) of debt was at fixed rates of interest and 0% (2022: 3%) 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 2023, 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 (2022: £nil).

£ million	2023	2022
	Change in income	Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2022: 1%)	12	13
+/- 1% increase in US dollar interest rates (2022: 1%)	(9)	(9)

### (B) Credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, on cash deposits and derivatives. The maximum aggregate credit risk to these sources was £4,507 million at 30 September 2023 (2022: £5,151 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 2023 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement, and subsequently derecognised totalled £570 million (2022: £570 million). The total value of trade receivables reclassified as fair value was £22 million at 30 September 2023 (2022: £50 million). There was no valuation difference between amortised cost and fair value. Analysis of trade and other receivables is provided in note 16.

### Financial instruments

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Operations Policy. 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. During the year the Group terminated one collateralised trade held under an ISDA Credit Support Annex and as at 30 September 2023 had placed collateral of £nil (2022: £12 million) with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2023. At the balance sheet date management does not expect these counterparties to default on their current obligations.

Counterparty exposure	2023	2022
	Maximum exposure to credit risk £ million	Maximum exposure to credit risk £ million
Highest	311	136
2nd highest	104	135
3rd highest	84	128
4th highest	83	127
5th highest	80	114

These exposures are held with counterparties with investment grade credit ratings or in money market funds with a AAA rating.

### (C) Liquidity risk

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and money market funds and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2023, the Group held liquid assets of £1,345 million (2022: £1,850 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2023. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 21.

£ million	Balance sheet amount	Contractual cash flows total	2023			
			<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	51	51	49	2	-	-
Capital market issuance	9,330	10,663	1,767	1,951	3,651	3,294
Trade payables	1,507	1,507	1,507	-	-	-
Lease liabilities	349	406	82	70	114	140
Total non-derivative financial liabilities	11,237	12,627	3,405	2,023	3,765	3,434

£ million	Balance sheet amount	Contractual cash flows total	2022			
			<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	28	28	27	1	-	-
Capital market issuance	9,979	11,440	1,349	1,830	5,710	2,551
Trade payables	1,345	1,345	1,345	-	-	-
Lease liabilities	248	289	64	56	84	85
Total non-derivative financial liabilities	11,600	13,102	2,785	1,887	5,794	2,636

NOTES TO THE FINANCIAL STATEMENTS *continued*

**Capital management**

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward. Management have assessed that the likelihood of a future covenant breach is remote.

The Group continues to manage its capital structure to maintain investment grade credit ratings 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 share buybacks and in on-going discussions with the relevant rating agencies.

As at 30 September 2023 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/F2/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	2023	2022
Adjusted net debt	8,026	8,054
Equity attributable to the owners of the parent	6,021	6,860
Total capital	14,047	14,914

**Hedge accounting**

The Group has investments in foreign operations which are consolidated in its financial statements and whose functional currencies are euros or US dollars. Where it is practicable and cost effective to do so, the foreign exchange rate exposures arising from these investments are hedged through the use of cross-currency swaps, foreign exchange swaps and foreign currency denominated debt.

The Group only designates the undiscounted spot element of the cross currency swaps, foreign exchange swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross currency swaps and foreign exchange 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 and losses 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 2023.

The following table sets out the maturity profile of the hedging instruments used in the Group's net investment hedging strategies:

£ million	2023				
	Total notional balance	Maturity			
		<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(3,897)	-	(433)	(2,645)	(819)
Cross-currency swaps	(5,986)	(1,447)	(1,214)	(1,971)	(1,354)
Foreign exchange swaps	(541)	(541)	-	-	-
	(10,424)	(1,988)	(1,647)	(4,616)	(2,173)

  

£ million	2022				
	Total notional balance	Maturity			
		<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(5,378)	(982)	(906)	(3,490)	-
Cross-currency swaps	(3,623)	-	(1,475)	(1,596)	(552)
Foreign exchange swaps	(273)	(273)	-	-	-
	(9,274)	(1,255)	(2,381)	(5,086)	(552)

The following table contains details of the hedging instruments and hedged items used in the Group's net investment hedging strategies:

£ million	Carrying amount			Balance sheet line item	2023
	Notional balance	Assets	Liabilities		Changes in fair value used for calculating hedge ineffectiveness
Hedging instrument:					
Bonds	3,897	-	3,929	Borrowings	338
Cross-currency swaps	5,986	-	249	Derivative financial instruments	75
Foreign exchange swaps	541	1	-	Derivative financial instruments	14
Hedged item:					
Investment in a foreign operation	n/a	10,424	-		427

£ million	Carrying amount			Balance sheet line item	2022
	Notional balance	Assets	Liabilities		Changes in fair value used for calculating hedge ineffectiveness
Hedging instrument:					
Bonds	5,378	-	5,414	Borrowings	(532)
Cross-currency swaps	3,623	-	331	Derivative financial instruments	(117)
Foreign exchange swaps	273	-	7	Derivative financial instruments	-
Hedged item:					
Investment in a foreign operation	n/a	9,274	-		(649)

#### Reconciliation of changes in the value of net investment hedges:

£ million	2023				
	At the beginning of the year	Income statement	Other comprehensive income	Designations/ (de-designations)	At the end of the year
Derivatives in net investment hedges of foreign operations	(338)	1	89	-	(248)
Bonds in net investment hedges of foreign operations	(5,414)	(3)	338	1,150	(3,929)
Total	(5,752)	(2)	427	1,150	(4,177)

  

£ million	2022				
	At the beginning of the year	Income statement	Other comprehensive income	Designations/ (de-designations)	At the end of the year
Derivatives in net investment hedges of foreign operations	(214)	(7)	(117)	-	(338)
Bonds in net investment hedges of foreign operations	(5,286)	(3)	(532)	407	(5,414)
Total	(5,500)	(10)	(649)	407	(5,752)

The Group also treats certain permanent intragroup loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intragroup loans with a notional value of €3,714 million (£3,217 million equivalent) (2022: €674 million (£595 million equivalent)) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS *continued*

**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 fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date (Level 2 classification hierarchy per IFRS 7). Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £2 million (2022: £3 million) and would have been a £5 million (2022: £8 million) reduction without considering the early termination options. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 20.

**Auxly Cannabis Group Inc.**

The Group has invested CAD 123 million into Auxly Cannabis Group Inc. by way of a debenture convertible to equity at a conversion price of \$0.81 per share. Following a two year extension to the repayment date which was agreed in July 2023, repayment of the debenture is now repayable on 25 September 2026. The debenture is valued as a loan receivable measured on the basis of discounting future cash flows at a rate of 14% (2022: 14%) plus the application of an expected credit loss provision. At 30 September 2023 the loan was held at a fair value of £nil (30 September 2022: £17 million) following an increase in the expected credit loss provision to £70 million (30 September 2022: £53 million). The expected credit loss provision increase reflects changes in the counterparty credit risk.

**Netting arrangements of financial instruments**

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to collateral in respect of one derivative financial instrument under an ISDA Credit Support Annex.

					2023
£ million	Gross financial assets/ (liabilities)	Gross collateral assets/ (liabilities) set-off	Net financial assets/ (liabilities) per balance sheet	Related amounts not set-off in the balance sheet	Net
<b>Assets</b>					
Derivative financial instruments	950	-	950	(817)	133
<b>Liabilities</b>					
Derivative financial instruments	(1,003)	-	(1,003)	817	(186)
					2022
£ million	Gross financial assets/ (liabilities)	Gross collateral assets/ (liabilities) set-off	Net financial assets/ (liabilities) per balance sheet	Related amounts not set-off in the balance sheet	Net
<b>Assets</b>					
Derivative financial instruments	1,051	(12)	1,039	(948)	91
<b>Liabilities</b>					
Derivative financial instruments	(1,138)	12	(1,126)	948	(178)

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

2023						
£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	-	-	2,323	2,323	2,297	26
Cash and cash equivalents	-	-	1,345	1,345	1,345	-
Derivatives	949	1	-	950	126	824
<b>Total financial assets</b>	<b>949</b>	<b>1</b>	<b>3,668</b>	<b>4,618</b>	<b>3,768</b>	<b>850</b>
Borrowings	-	-	(9,381)	(9,381)	(1,499)	(7,882)
Trade and other payables	-	-	(8,705)	(8,705)	(8,705)	-
Derivatives	(754)	(249)	-	(1,003)	(174)	(829)
Lease liabilities	-	-	(349)	(349)	(81)	(268)
<b>Total financial liabilities</b>	<b>(754)</b>	<b>(249)</b>	<b>(18,435)</b>	<b>(19,438)</b>	<b>(10,459)</b>	<b>(8,979)</b>
<b>Total net financial assets/(liabilities)</b>	<b>195</b>	<b>(248)</b>	<b>14,767</b>	<b>14,820</b>	<b>(6,691)</b>	<b>8,129</b>

2022						
£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	17	-	2,406	2,423	2,386	37
Cash and cash equivalents	-	-	1,850	1,850	1,850	-
Derivatives	1,039	-	-	1,039	54	985
<b>Total financial assets</b>	<b>1,056</b>	<b>-</b>	<b>4,256</b>	<b>5,312</b>	<b>4,290</b>	<b>1,022</b>
Borrowings	-	-	(10,007)	(10,007)	(1,011)	(8,996)
Trade and other payables	-	-	(8,710)	(8,710)	(8,710)	-
Derivatives	(788)	(338)	-	(1,126)	(54)	(1,072)
Lease liabilities	-	-	(248)	(248)	(58)	(190)
<b>Total financial liabilities</b>	<b>(788)</b>	<b>(338)</b>	<b>(18,965)</b>	<b>(20,091)</b>	<b>(9,833)</b>	<b>(10,258)</b>
<b>Total net financial assets/(liabilities)</b>	<b>268</b>	<b>(338)</b>	<b>(14,709)</b>	<b>(14,779)</b>	<b>(5,543)</b>	<b>(9,236)</b>

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps and foreign exchange swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of these derivative instruments and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of these derivative instruments attributable to changes in interest rates and the effect of discounting are recognised in the income statement. The Group also designates certain bonds as hedges of foreign currency denominated net investments and the foreign exchange revaluation of those bonds is recognised in other comprehensive income. The carrying value at 30 September 2023 of those bonds included in the above table is £3,929 million (2022: £5,414 million). All of the Group's net investment hedges remain effective.

NOTES TO THE FINANCIAL STATEMENTS *continued*

**21. DERIVATIVE FINANCIAL INSTRUMENTS**

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

£ million	2023			2022		
	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments:						
Interest rate swaps	30	(66)	(36)	6	(36)	(30)
Foreign exchange contracts	12	(5)	7	31	(13)	18
Cross-currency swaps	84	(103)	(19)	17	(5)	12
Total current derivatives	126	(174)	(48)	54	(54)	-
	126	(174)	(48)	54	(54)	-
Non-current derivative financial instruments:						
Interest rate swaps	745	(652)	93	680	(746)	(66)
Cross-currency swaps	79	(177)	(98)	305	(338)	(33)
Total non-current derivatives	824	(829)	(5)	985	(1,084)	(99)
Collateral <sup>1</sup>	-	-	-	-	12	12
	824	(829)	(5)	985	(1,072)	(87)
Total carrying value of derivative financial instruments	950	(1,003)	(53)	1,039	(1,126)	(87)
Analysed as:						
Interest rate swaps	775	(718)	57	686	(782)	(96)
Foreign exchange contracts	12	(5)	7	31	(13)	18
Cross-currency swaps	163	(280)	(117)	322	(343)	(21)
Collateral <sup>1</sup>	-	-	-	-	12	12
Total carrying value of derivative financial instruments	950	(1,003)	(53)	1,039	(1,126)	(87)

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

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced from a reputable financial data provider and valuations are validated by comparison to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £2 million (2022: £3 million) and would have been a £5 million (2022: £8 million) reduction without considering the early termination options. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 20.

**Maturity of obligations under derivative financial instruments**

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2023. As at 30 September 2022 collateral transferred to counterparties in respect of derivative financial liabilities was classified consistently with the related underlying derivative. No collateralised trades are outstanding as at 30 September 2023.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2023. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non derivative financial instruments are detailed in note 20.

£ million	Balance sheet amount	Contractual cash flows total	2023			
			<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	57	200	(3)	34	143	26
Gross settled derivatives	(110)	-	-	-	-	-
• receipts	-	17,822	5,429	4,010	5,283	3,100
• payments	-	(17,675)	(5,374)	(3,941)	(5,247)	(3,113)
	(53)	347	52	103	179	13



£ 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	(84)	(321)	(71)	(64)	(101)	(85)
Gross settled derivatives	(3)	-	-	-	-	-
• receipts	-	9,890	1,934	3,293	4,059	604
• payments	-	(9,635)	(1,851)	(3,201)	(3,944)	(639)
	(87)	(66)	12	28	14	(120)

### 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.

As a result of the discontinuation of GBP LIBOR in December 2021 and US\$ LIBOR discontinuation in June 2023, the Group amended all GBP LIBOR derivatives to reference the daily risk free rate of SONIA instead of GBP LIBOR and all US\$ LIBOR derivatives were amended to reference the daily risk free rate of SOFR instead of US\$ LIBOR. There are no changes pending for EUR derivatives. These changes did not impact the Group's commercial hedging strategy and they did not have a material financial impact.

### Interest rate swaps

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2023, 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 was £8,111 million equivalent (2022: £9,578 million equivalent) with a fair value of £714 million liability (2022: £755 million liability). The fixed interest rates vary from 1.3% to 7.9% (2022: 1.1% to 7.9%), and the floating rates are based on EURIBOR, SONIA and SOFR.

As at 30 September 2023, 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 was £11,622 million equivalent (2022: £11,548 million equivalent) with a fair value of £771 million asset (2022: £671 million asset). The fixed interest rates vary from 3.1% receivable to 4.0% payable (2022: 0.5% payable to 4.0% payable), and the floating receivable rates reference EURIBOR and SOFR. This includes forward starting interest rate swaps with a total notional amount of £4,055 million equivalent (2022: £3,353 million equivalent) with tenors between 1 and 10 years, starting between October 2023 and May 2032.

### Cross-currency swaps

The Group enters into cross-currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless the swaps are designated as hedges of a net investment in foreign operations, in which case the fair value movement attributable to changes in foreign exchange is recognised in other comprehensive income.

As at 30 September 2023, the notional amount of cross-currency swaps entered into to convert sterling debt into the desired currency was £1,600 million (2022: £1,600 million) and the fair value of these swaps was £111 million net liability (2022: £232 million net liability); the notional amount of cross-currency swaps entered into to convert US dollar debt into the desired currency was \$5,250 million (2022: \$2,250 million) and the fair value of these swaps was £6 million net liability (2022: £211 million net asset).

### 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 2023, the notional amount of these contracts was £2,020 million equivalent (2022: £1,662 million equivalent) and the fair value of these contracts was a net asset of £7 million (2022: £19 million net asset).

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### Hedges of net investments in foreign operations

As at 30 September 2023, cross currency swaps with a notional amount of €6,910 million (2022: €4,103 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £75 million (2022: £105 million losses) were recognised within exchange movements in other comprehensive income in respect of cross currency swaps designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2022: £nil).

As at 30 September 2023, foreign exchange swaps with a notional amount of €624 million (2022: €309 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £14 million (2022: £12 million losses) were recognised within exchange movements in other comprehensive income in respect of foreign exchange swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2022: £nil).

The movements in other comprehensive income due to net investment hedging in the period were as follows:

£ million	2023	2022
Foreign exchange gains/(losses) on borrowings	338	(532)
Foreign exchange gains/(losses) on derivative financial instruments	89	(117)
	427	(649)

## 22. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax relates to the following:

£ million	Consolidated income statement 2023	Consolidated income statement 2022	Consolidated balance sheet 2023	Consolidated balance sheet 2022
Temporary differences on depreciation and amortisation	164	14	(716)	(895)
Retirement benefits	(9)	(4)	30	(90)
Tax credits and losses	6	(17)	282	278
Accruals, provisions and other temporary differences	(3)	41	186	185
Deferred tax (expense)/benefit	158	34		
Net deferred tax (liabilities)/assets			(218)	(522)

### Reflected in the consolidated balance sheet as follows

£ million	2023	2022
Deferred tax assets	653	439
Deferred tax liabilities	(871)	(961)
	(218)	(522)

### Reconciliation of net deferred tax liabilities

£ million	2023	2022
At 1 October	(522)	(479)
Credited to the income statement	158	34
Credited/(charged) to other comprehensive income	134	(55)
Credited to equity	1	2
Acquisitions	(15)	-
Exchange movements	22	(18)
Other movements	4	(6)
As at 30 September	(218)	(522)

### Unrecognised deferred tax assets

£ million	Gross 2023	Net 2023	Gross 2022	Net 2022
Tax losses	235	62	278	75
Tax credits	15	15	25	25
Other temporary differences	84	24	71	20
	334	101	374	120

## Analysis of unrecognised deferred tax assets by expiry date

£ million	Gross 2023	Net 2023	Gross 2022	Net 2022
Tax losses expiring:				
Within 2-5 years	-	-	20	4
No expiry	235	62	258	71
	235	62	278	75
Tax credits expiring:				
Within 1 year	15	15	22	22
Within 2-5 years	-	-	1	1
No expiry	-	-	2	2
	15	15	25	25
Other temporary differences expiring:				
No expiry	84	24	71	20
	84	24	71	20

In December 2021, the OECD issued model rules for a new global minimum tax framework (Pillar Two), applicable for multinational enterprise groups with global revenue over €750 million. The legislation implementing the rules in the UK was substantively enacted on 20 June 2023 and will apply to the Group from the financial year ending 30 September 2025 onwards. The Group has applied the mandatory exception under IAS 12 in relation to the accounting for deferred tax assets and liabilities arising from the implementation of the Pillar Two model rules. The Group is reviewing this legislation and monitoring the status of implementation of the model rules outside of the UK to assess the potential impact.

Included within net deferred tax liabilities are deferred tax assets recognised of £257 million (2022: £257 million) for tax credits arising in the Group's Spanish business. These tax credits have no time expiry. Utilisation of these tax credits is restricted to 50% of the Spanish business's taxable profits arising in any given year; those tax law restrictions extend the period over which the deferred tax assets would otherwise be recovered. The Group considers there to be forecast future taxable profits which support the recognition of these long-term deferred tax assets. The period over which these deferred tax assets are utilised is sensitive to forecasting assumptions about future growth rates (which may be influenced by the future effects of climate change) and regulatory changes. Any material effects of climate change in the long term could extend the period over which the deferred tax asset will be recovered but as the tax credits do not expire, the Group considers there is positive evidence that sufficient future taxable profits would still be available. Based on a range of forecast scenarios modelling sensitivities (including the future effects of climate change) these deferred tax assets are expected to be utilised over a period of 18-22 years.

Included within net deferred tax liabilities are deferred tax assets recognised for retirement benefits of £88 million (2022: £55 million) arising in the Group's German business. These deferred tax assets are expected to be recovered both by way of utilisation against the reversal of deferred tax liabilities of £40 million (2022: £20 million) arising in the Group's German business and by way of utilisation against future taxable profits. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. Based on a range of forecast scenarios modelling sensitivities these deferred tax assets are expected to be recovered over a period of 20-40 years corresponding to the life of the pension scheme.

Included within net deferred tax liabilities are deferred tax assets recognised for intangibles of £199 million (2022: £nil) arising in the Group's Dutch business. These deferred tax assets are expected to be recovered by way of utilisation against future taxable profits. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. The period over which these deferred tax assets are utilised is sensitive to forecasting assumptions about future growth rates and regulatory changes. These deferred tax assets are expected to be recovered over a period of 16 years corresponding to the life of the intangibles.

We have reviewed the recoverability of deferred tax assets in overseas territories in light of forecast business performance. In 2023 we have recognised deferred tax assets of £6 million that were previously unrecognised (2022: recognised deferred tax assets of £1 million that were previously unrecognised) on the basis that it is more likely than not that these are recoverable (2022: recoverable).

A deferred tax liability of £40 million (2022: £43 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £2 billion (2022: £2 billion).

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised in the periods presented, aggregate to £1,215 million (2022: £1,244 million) for which a deferred tax liability of £38 million (2022: £37 million) has not been recognised. No liability has been recognised because the Group is in a position to control the timing of the reversal of those temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 23. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 64%, 15% and 9% of the Group's total defined benefit obligations (2022: 62%, 15% and 10%) and 22%, 32% and 8% of the current service cost (2022: 31%, 32% and 10%) respectively.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### Imperial tobacco pension fund

The UK scheme, the Imperial Tobacco Pension Fund ("ITPF"), was closed to future accrual on 30 September 2023. All active members are now enrolled into the defined contribution scheme as of 1 October 2023 alongside all new employees that have joined since 1 October 2010. Former active members of the defined benefit section of the ITPF are now deferred members who are able to draw their pension in the same way as an existing deferred member and are in receipt of annual inflationary increases as existing deferred members. The closure to future accrual resulted in a curtailment credit of £8.3 million in the 2023 income statement. As part of the agreement with active members to close to future accrual, the company agreed a compensation package. The main component included a number of payments to members between October 2023 and October 2025, for which the company has accrued £14.3 million in the 2023 income statement. The ITPF defined benefit obligation comprises 80% in respect of pensioners and dependants, 20% in respect of deferred members and has a weighted average maturity of 12 years.

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 assets are held by the trust.

The main risk for the company in respect of the ITPF is that additional contributions are required if the assets are not expected to be sufficient to pay for the benefits. The investment portfolio is subject to a range of risks typical of the asset classes held, such as liquidity to manage the Liability Driven Investment (LDI) portfolio, credit exposure within investment funds and exposure to the property market. The ITPF holds a buy-in policy with Standard Life as an asset; this covers around 61% of the pensioner defined benefit obligation. The buy-in eliminates investment return, longevity, inflation and funding risks in respect of those benefits covered. The ITPF also has access to a loan facility to provide short-term liquidity to support the LDI portfolio in the event of significant changes in government bond yields.

The main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels, as these impact increases to pensions, 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 company, the level of risk in the ITPF, the expected return on assets, the results of the funding assessment on the Technical Provisions basis and the expected cost of securing benefits if the ITPF were to be wound up.

The latest valuation agreed at 31 March 2022 reported a 118% funding ratio on the Technical Provisions basis. The company and Trustee agreed to maintain the existing dynamic contribution schedule, which means ITL's annual contributions will reduce or increase depending on the ITPF valuation going forward. The level of ITL's annual contribution to the ITPF was nil for the year to 31 March 2023. ITL expect to pay £8.4 million in contributions to an escrow account for the year to 31 March 2024. Further contributions were agreed to be paid by ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, a reduced surety guarantee with a total value of £120 million was agreed (previously £225 million) and a parental guarantee from Imperial Brands PLC remains in place. In certain circumstances, surplus funds in the defined benefit section of the ITPF may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The IAS 19 measurement of the defined benefit obligation is sensitive to the assumptions made about future inflation as well as the assumptions made about life expectancy. It is also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the Technical Provisions and IAS 19 assumptions are a more prudent longevity assumption for Technical Provisions and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a proportion of the assets invested in return-seeking assets, is that the difference between the market value of the assets and the IAS 19 defined benefit obligation may be relatively volatile.

The ITPF has a pension surplus on the IAS 19 measure and, in line with IFRIC 14, recognition of the net asset on the fund is only appropriate where it can be recovered. The ITPF trust deed gives the company an ability to receive a refund of surplus assets assuming the full settlement of liabilities in the event of a wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up the ITPF or otherwise augment the benefits due to the ITPF's members. Based on these circumstances, any net surplus in the ITPF is recognised in full.

### The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan, though a small group of members has final salary benefits. The RCPP defined benefit obligation comprises 53% in respect of pensioners and dependants, 24% in respect of deferred members and 23% in respect of active members and has a weighted average maturity of 16 years. The RCPP was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits.

The RCPP is unfunded and the company pays benefits as they arise. The RCPP 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 (2022: £23 million) in respect of benefits.

The main uncertainties affecting the level of benefits payable under the RCPP are future inflation levels, as these impact increases to pensions, and the actual longevity of the membership.

The IAS 19 measurement of the defined benefit obligation and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

## ITG scheme

The main US pension scheme, held by ITG Brands is the ITG Scheme, is a defined benefit pension plan that is closed to new entrants. The ITG Scheme defined benefit obligation comprises 83% in respect of pensioners and dependants, 2% in respect of deferred members and 15% in respect of active members and has a weighted average maturity of nine years.

The ITG Scheme is funded and benefits are paid from the ITG Scheme assets. Contributions to the plan are determined based on US regulatory requirements. ITG Brands made no contributions this year and 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 union negotiations.

The IAS 19 measurement of the defined benefit obligation 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. Some of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, whilst others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

For the year ended 30 September 2023 the Group included no new schemes in the IAS 19 position that had not been previously reported in the IAS 19 position or elsewhere in the financial statements.

The company agreed with the Trustees in Ireland to merge both defined benefit plans into a single trust and with the trustees in New Zealand to fully close and wind-up the defined benefit plan.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2023 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	2023			2022		
	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(3,609)	3,541	(68)	(5,319)	5,166	(153)
Consolidated income statement expense:						
Current service cost	(25)	-	(25)	(49)	-	(49)
Settlements gains/(losses)	2	(6)	(4)	136	(139)	(3)
Past service income/(costs)	9	-	9	(2)	-	(2)
Cost of termination benefits	(5)	-	(5)	(10)	-	(10)
Net interest (expense)/income on net defined benefit (liability)/asset	(165)	178	13	(99)	107	8
Administration costs paid from plan assets	-	(5)	(5)	-	(5)	(5)
Cost recognised in the income statement			(17)			(61)
Remeasurements:						
Actuarial loss due to liability experience	(132)	-	(132)	(94)	-	(94)
Actuarial gain due to financial assumption changes	234	-	234	1,659	-	1,659
Actuarial gain due to demographic assumption changes	-	-	-	10	-	10
Return on plan assets excluding amounts included in net interest (expense)/income above	-	(478)	(478)	-	(1,499)	(1,499)
Remeasurement effects recognised in other comprehensive income			(376)			76
Cash:						
Employer contributions	-	59	59	-	120	120
Employee contributions	-	-	-	(1)	1	-
Benefits paid directly by the company	265	(265)	-	311	(311)	-
Benefits paid from plan assets	-	-	-	-	-	-
Net cash			59			120
Immaterial benefit plans categorised as an IAS 19 obligation	(8)	-	(8)	-	-	-
Exchange movements	64	(47)	17	(151)	101	(50)
Total other			9			(50)
At 30 September	(3,370)	2,977	(393)	(3,609)	3,541	(68)

NOTES TO THE FINANCIAL STATEMENTS *continued*

**Retirement benefit scheme costs charged to operating profit**

£ million	2023	2022
Defined benefit expense in operating profit	30	69
Defined contribution expense in operating profit	16	16
Total retirement benefit scheme cost in operating profit	46	85

Split as follows in the consolidated income statement:

£ million	2023	2022
Cost of sales	15	25
Distribution, advertising and selling costs	20	39
Administrative and other expenses	11	21
Total retirement benefit scheme costs in operating profit	46	85

**Assets and liabilities recognised in the consolidated balance sheet**

£ million	2023	2022
Retirement benefit assets	414	826
Retirement benefit liabilities	(807)	(894)
Net retirement benefit liability	(393)	(68)

**Key figures and assumptions used for major plans**

£ million unless otherwise indicated	2023			2022		
	ITPF	RCP	ITG Scheme	ITPF	RCP	ITG Scheme
Defined benefit obligation (DBO)	2,142	496	311	2,229	538	365
Fair value of scheme assets	(2,481)	-	(337)	(2,958)	-	(405)
Net defined benefit (asset)/liability	(339)	496	(26)	(729)	538	(40)
Current service cost	6	8	2	15	15	3
Employer contributions	-	23	-	50	-	-
Principal actuarial assumptions used (% per annum)						
Discount rate	5.6	4.2	5.7	5.3	3.7	5.4
Future salary increases	n/a	3.5	n/a	3.7	3.7	n/a
Future pension increases	3.4	2.4	n/a	3.7	2.5	n/a
Inflation	3.4	2.4	2.3	3.7	2.5	2.3

	2023					
	ITPF		RCP		ITG Scheme	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.2	22.5	20.8	24.2	19.7	21.7
Member currently aged 50	21.9	23.8	22.8	25.8	20.8	22.8

	2022					
	ITPF		RCP		ITG Scheme	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.1	22.4	20.5	23.9	19.7	21.7
Member currently aged 50	21.8	23.7	22.6	25.6	20.9	22.9

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S3 (2022: SAPS S3) tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S3 All Pensioner Male Amounts Middle table with a 105% multiplier. An allowance for improvements in longevity is made using the 2021 (2022: 2021) CMI improvement rates with a long-term trend of 1.25% per annum.

### Sensitivity analysis for key assumptions at the end of the year

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

% increase in DBO	2023			2022		
	ITPF	RCP	ITG Scheme	ITPF	RCP	ITG Scheme
Discount rate: 0.5% decrease	5.6	8.1	4.5	6.1	9.5	4.9
Rate of inflation: 0.5% decrease	(4.2)	(5.7)	n/a	(4.9)	(6.3)	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.2	4.4	3.7	4.7	4.6

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5% decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £12 million (2022: £22 million).

An approximate split of the major categories of ITPF scheme assets is as follows:

£ million unless otherwise indicated	2023		2022	
	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Bonds – index linked government / LDI funds	351	14.1	409	14.0
Bonds – corporate and other	–	–	34	1.0
Property including ground leases	488	19.7	604	20.0
Secured finance and private debt funds	620	25.0	827	28.0
Insurance contract (buy-in policy)	1,044	42.1	1,058	36.0
Other – including cash and short-term loan drawings	(22)	(0.9)	26	1.0
	<b>2,481</b>	<b>100.0</b>	<b>2,958</b>	<b>100.0</b>

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.

The majority of the assets are non-quoted. The ITPF holds £nil of self-invested assets (2022: £nil).

An approximate split of the major categories of ITG Scheme assets is as follows:

£ million unless otherwise indicated	2023		2022	
	Fair value	Percentage of ITG Scheme assets	Fair value	Percentage of ITG Scheme assets
Bonds – government, corporate and other	203	60.2	129	31.9
Other – including derivatives, commodities and cash	134	39.8	276	68.1
	<b>337</b>	<b>100.0</b>	<b>405</b>	<b>100.0</b>

The majority of the assets are non-quoted.

NOTES TO THE FINANCIAL STATEMENTS *continued*

24. PROVISIONS

£ million	2023			Total
	Restructuring	Employment related claims	Other	
At 1 October 2022	286	59	81	426
Additional provisions charged to the consolidated income statement	-	106	40	146
Amounts used	(100)	(9)	(18)	(127)
Unused amounts reversed	-	(12)	(8)	(20)
Exchange movements	(6)	-	(5)	(11)
At 30 September 2023	180	144	90	414

Analysed as:

£ million	2023	2022
Current	148	203
Non-current	266	223
	414	426

Restructuring provisions relate mainly to our 2021 Strategic review programme and other programmes (see note 5).

The restructuring provision is split between 2021 Strategic review programme of £88 million (2022: £155 million) and other programmes of £92 million (2022: £131 million).

Employment related claims provisions include £31 million (2022: £37 million) relating to local employment requirements including holiday pay and £28 million (2022: £21 million) of distribution requirements relating to employment and duty. An amount of £85 million (2022: £nil) has been provided for employment related claims arising from a number of legacy legal disputes. Although the company continues to appeal a number of these claims, in the current year the Group has resolved to engage with certain counterparties where a valid claim has been established. There are uncertainties relating to the estimation and quantification of this provision and amounts may change in the future, but any provisions are expected to be utilised within the next 2 years.

Other provisions include £38 million (2022: £46 million) relating to various local tax or duty requirements, £9 million (2022: £21 million) of market exit provisions and £30 million for factory closure provisions (2022: £nil).

The provisions are spread throughout the Group and payment will be dependent on local statutory requirements.

Most of the other provisions will also be utilised within the next two years, though certain employee related provisions may be required to be held for a period of up to 10 years.

25. SHARE CAPITAL

	2023		2022	
	Ordinary shares 10p each		Ordinary shares 10p each	
	Number	£ million	Number	£ million
Authorised, issued and fully paid:				
1 October	1,020,697,237	103	1,020,697,237	103
Shares cancelled	(52,107,043)	(6)	-	-
30 September	968,590,194	97	1,020,697,237	103

During the period a share buy back scheme was initiated and 52,107,043 10p shares were repurchased for a cost of £1,000 million.

Upon completion of the purchase, these shares were cancelled and transferred to the capital redemption reserve. The stamp duty costs were £5 million and the fees charged for the share repurchase were £1 million.

On 6 March 2014, 31,942,881 shares held in treasury were cancelled creating the capital redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

26. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

Share matching scheme

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

Long term incentive plan (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.



### Sharesave plan

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

### Discretionary share awards plan (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25% of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

### Analysis of charge to the consolidated income statement

£ million	2023	2022
Share Matching Scheme	2	2
Long Term Incentive Plan	27	25
Sharesave Plan	1	1
Discretionary Share Awards Plan	1	1
	<b>31</b>	<b>29</b>

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2023 was £3.4 million (2022: £3.6 million).

### Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated					2023
	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2022	486	8,120	1,934	120	13.21
Granted	161	3,853	862	67	13.24
Lapsed/cancelled	(18)	(2,402)	(90)	(11)	12.63
Exercised	(176)	(1,069)	(1,020)	(3)	12.38
Outstanding at 30 September 2023	453	8,502	1,686	173	13.72
Exercisable at 30 September 2023	-	-	264	-	12.37

  

Thousands of shares unless otherwise indicated					2022
	Share matching awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2021	482	7,412	2,053	60	13.89
Granted	192	2,658	274	106	14.56
Lapsed/cancelled	(23)	(873)	(321)	(5)	18.11
Exercised	(165)	(1,077)	(72)	(41)	16.14
Outstanding at 30 September 2022	486	8,120	1,934	120	13.21
Exercisable at 30 September 2022	-	-	151	-	17.45

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £18.28 (2022: £16.83). The weighted average fair value of Sharesave options granted during the year was £3.26 (2022: £3.30).

NOTES TO THE FINANCIAL STATEMENTS *continued*

Summary of awards/options outstanding at 30 September 2023

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
<b>Share Matching Scheme</b>			
2021	181	5	n/a
2022	139	17	n/a
2023	133	29	n/a
Total awards outstanding	453		
<b>Long Term Incentive Plan</b>			
2021	2,369	5	n/a
2022	2,896	17	n/a
2023	3,237	29	n/a
Total awards outstanding	8,502		
<b>Sharesave Plan</b>			
2020	264	-	17.45
2021	315	10	13.09
2022	254	22	14.56
2023	855	34	14.29
Total options outstanding	1,688		
<b>Discretionary Share Awards Plan</b>			
2021	5	10	n/a
2022	101	15	n/a
2023	67	30	n/a
Total options outstanding	173		

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 options. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their options. 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 Share Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2023 and 2022 is as follows:

	2023		
	Share Matching Scheme	Sharesave	DSAP
Risk-free interest rate %	4.0	4.4	4.1
Volatility (based on 3 or 5 year history)%	33.1	27.7	33.2
Expected lives of options granted years	3.0	3.0	3.0
Dividend yield %	8.2	8.2	8.2
Fair value £	16.04	3.30	14.72
Share price used to determine exercise price £	20.53	17.88	18.84
Exercise price £	n/a	14.29	n/a

	2022		
	Share Matching Scheme	Sharesave	DSAP
Risk-free interest rate %	2.0	1.2–2.2	2.0–2.2
Volatility (based on 3 or 5 year history)%	35.5	35.3–35.5	35.5
Expected lives of options granted years	3.0	3.0	3.0
Dividend yield %	9.2	9.2	9.2
Fair value £	10.35	3.21–3.31	10.35–10.67
Share price used to determine exercise price £	13.65	17.83–18.39	13.65–14.08
Exercise price £	n/a	14.56	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2023 and 2022 are given in the following table:

%	2023	2022
Future Imperial Brands share price volatility	23.3	29.6
Future Imperial Brands dividend yield	–	–
Share price volatility of the tobacco and alcohol comparator group	15.9–63.5	17.0–83.7
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	21.4	24.4

### 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 2023. 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	2023	2022
At 1 October	3.7	0.9
Gift of shares from Treasury	–	4.0
Distribution of shares held by Employee Share Ownership Trusts	(2.1)	(1.2)
At 30 September	1.6	3.7

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2022: nil) and 1.6 million (2022: 3.7 million) treasury shares gifted to the Trusts by the Group. No (2022: 4 million) shares were gifted to the Trusts in the financial year 2023.

## 27. TREASURY SHARES

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Act. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of Group's issued share capital. Shares held in treasury do not qualify for dividends. Shares purchased under the share buyback programme initiated on 7 October 2022 will be cancelled immediately on completion of the purchase. There were no movements in treasury shares during the year to 30 September 2023 (2022: reduced by 4.0 million shares).

£ million unless otherwise indicated	2023		2022	
	Millions of shares (number)	Value £	Millions of shares (number)	Value £
At 1 October	70.3	2,183	74.3	2,183
Gifted to Employee Share Ownership Trusts	–	–	(4.0)	–
At 30 September	70.3	2,183	70.3	2,183
Percentage of issued share capital	7.3	n/a	6.9	n/a

## 28. COMMITMENTS

### Capital commitments

£ million	2023	2022
Contracted but not provided for:		
Property, plant and equipment and software	97	95

**NOTES TO THE FINANCIAL STATEMENTS** *continued***29. CONTINGENT LIABILITIES**

The following summary includes updates to matters that have developed since the 2022 Annual Report and Accounts.

**USA state settlement agreements**

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

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

**Delaware**

ITGB is involved in litigation with Reynolds in the Delaware court that has jurisdiction over disputes under the Asset Purchase Agreement (APA) for the Acquired Brands. The current case in progress involves Reynolds' claim to indemnify for Florida settlement payments. The issue in this case is whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlement with Florida under the APA and whether regardless of that "reasonable best efforts" requirement whether ITGB is required to indemnify Reynolds for amounts the Florida Court may require Reynolds to pay.

On 30 September 2022, the trial court granted summary judgment to Reynolds and denied summary judgment to ITGB. It held that the Florida court's determination that ITGB did not assume payments under the Florida settlement unless it agreed to do so was not binding on the Delaware courts under principles of issue preclusion. It further held that as a matter of law the contract provisions were unambiguous and no evidence was required, and that ITGB had assumed and was required to indemnify Reynolds for Florida settlement payments. The Court did not determine the amount of Reynolds' damages but left that question open for further proceedings. The parties submitted an agreed schedule to the court to address the issue of damages.

On 23 February 2023 the initial motions on the amount of indemnity due were argued and supplemental briefing requested by the court was completed on 9 June 2023, with the Court having 90 days to issue its decision. On 2 October 2023 the Court issued an order on damages. The court rejected ITGB's claim that no damages could be assessed but declined to decide the amount of damages and other issues until after a trial. The trial is expected to take place in the first quarter of 2024.

Reynolds' claim for indemnification in Delaware is limited at most to the amounts it has been required to pay under the Florida determination described above, plus interest and attorney's fees. ITGB continues to deny that indemnity is appropriate and intends to appeal that determination. ITGB further contends that Reynolds' damages should be substantially reduced by the amount by which Reynolds' settlement payments have been reduced through operation of the "profit adjustment" by reason of ITGB not becoming a party to the Florida settlement as well as by reason of Reynolds' and third-parties' conduct.

Amounts at issue range to US\$ 250 million through 2022, plus future payments of US\$ 19 million to US\$ 32 million annually going forward, alleged accrued interest of up to US\$ 23 million and attorney's fees of up to US\$ 7 million through 2022. Based on the current facts and circumstances it is currently unclear as to what level of damages will become payable in this case. Due to the inability to determine a reliable estimate of the amount involved, no provision has been recognised pending the outcome of the trial at which the level of damages will be decided.

**MSA previously settled states reduction**

The MSA contains a downward adjustment, called the Previously Settled States Reduction, which reduces aggregate payments made by Philip Morris, Reynolds, and ITGB by a specified percentage each year. The State of California, later joined by the remainder of the MSA states and by Philip Morris, challenged the application of that Reduction to ITGB for every year from 2016 forward, claiming that it cannot apply to ITGB since it is not making settlement payments to Florida, Minnesota, or Texas under their settlements. The Independent Auditor to the MSA, which initially addresses disputes related to payments, has rejected that challenge every year. It is possible that one of the parties making the challenge may seek to arbitrate the claim under the MSA. The PSS Reduction provides annual MSA payment reductions of circa US\$ 65 million.

**Overall summary of liability position associated with USA state settlement agreements**

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

**Product liability investigations**

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. This assessment of the probability of economic outflows at the year-end is a judgement which has been taken by management. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements. There have been no material updates to matters in any product liability investigations in the period since the 2023 Annual Report and Accounts.

## Competition authority investigations

### Spain

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

Both in the Altadis and Logista appeals, the parties have concluded their submissions to the Court and a judgment is awaited. The judgment of the Court of First Instance is currently pending, and it is possible it might be served in 2024.

In parallel to the main proceedings against the CNMC decision, on 28 February 2023, the Supreme Court annulled the unannounced inspection carried out by the CNMC officials on Altadis' premises in February 2017 for lack of consent by Altadis. Therefore, all the documents and evidence seized by the CNMC during Altadis' inspection have to be returned to the company and should be struck out from the CNMC decision. It remains to be seen what the impact of this Court decision will be on the main proceedings.

### Other litigation

#### US Helms-Burton litigation

Imperial Brands Plc has been named as a defendant in a civil action in federal court in Miami, Florida under Title III of the Cuban Liberty and Democratic Solidarity Act of 1996 ("Helms-Burton") filed on 6 August 2020. Title III provides United States nationals with a cause of action and a claim for treble damages against persons who have "trafficked" in property expropriated by the Cuban government. Treble damages are automatically available under Helms-Burton. Although the filed claim is for unquantified damages, we understand the claim could potentially reach approximately US\$ 365 million, based on the claimants' claim to own 90% of the property, which they value at US\$ 135 million (and then treble). The claim is based on allegations that Imperial, through Corporación Habanos S.A. (a joint venture between one of Imperial's now former subsidiaries and the Cuban government), has "trafficked" in a factory in Havana, Cuba that the Cuban government confiscated from the claimants' ancestor in the early 1960s, by using the factory to manufacture, market, sell, and distribute Habanos cigars.

At the time the claim was filed against Imperial and up until the conclusion of the Brexit "transition period" on 31 December 2020, Imperial was subject to an EU law known as the EU Blocking Statute (Regulation (EC) No. 2271/96), which conflicts with Helms-Burton, protected Imperial against the impact of Title III, and impacted how Imperial might respond to the threatened litigation. The EU Blocking Statute has been transposed into domestic law with only minimal changes. Accordingly, on 10 January 2021, Imperial submitted an application to the UK Department for International Trade for authorisation from the Secretary of State for International Trade to defend the action or, at a minimum, to file and litigate a motion to dismiss the action.

On 8 February 2021, the United Kingdom Secretary of State for International Trade authorised Imperial to file and litigate a motion to dismiss the action. A hearing on the motion to dismiss took place on 26 July 2022 before a magistrate judge. On 2 November 2022 the magistrate judge recommended that the action be dismissed, without prejudice to re-filing in a proper venue.

On 31 March 2023 the district judge issued an order addressing the magistrate's recommended ruling and adopting the recommended ruling in part. In respect of Habanos, the motion to dismiss was granted, without objection from the claimants, on the basis that the federal court in Florida was an "improper venue" (wrong court). Habanos was therefore dismissed from the case, without prejudice to the claimants' right to sue it in a proper venue. As to Imperial and the other defendants, the district judge remanded the motion to dismiss back to the same magistrate for a further review and analysis and a report and recommendation on whether the ruling regarding Habanos should result in dismissal of all defendants. The magistrate is also permitted to address "other issues if warranted", including Imperial's other arguments for dismissal.

The hearing with the magistrate on further arguments on the motion to dismiss took place on 28 September 2023. The recommended ruling from the magistrate is now expected by the end of November 2023. The magistrate's recommendation will not be binding on the parties, who will be permitted to file objections to the recommendation with the district judge. No provision has been made for potential liabilities related to this claim.

### UK

In June 2020, the Group responded to a claimant law firm's allegation of human rights issues in the Malawian tobacco supply chain, which included allegations relating to child and forced labour. In December 2020, a claim was filed in the United Kingdom High Court against Imperial Brands plc, Imperial Tobacco Limited and four of its subsidiaries (the Imperial Defendants) and two entities in the British American Tobacco (BAT) group by a group of tobacco farm workers. The Imperial Defendants have acknowledged service and confirmed to the claimants that they intend to defend the claim in full. The Imperial Defendants have not yet been required to file their defence.

A procedural hearing scheduled for November/December 2021 was adjourned. The deadline for Imperial and BAT to file a defence was postponed pending other case management actions and will be determined at a subsequent case management hearing after the completion of a matching exercise (which will seek to establish whether the claimants worked for farmers who grew tobacco purchased by either Defendant group). The claim is unquantified and given the early stage of the litigation a provision would not be appropriate.

NOTES TO THE FINANCIAL STATEMENTS *continued*

**30. NET DEBT**

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

£ million	Current borrowings	Lease liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2022	(1,011)	(248)	(8,996)	(87)	(10,342)	1,850	(8,492)
Reallocation of current borrowings from non-current borrowings	(1,536)	-	1,536	-	-	-	-
Cash flow	891	92	(835)	64	212	(349)	(137)
Change in accrued interest	2	(10)	(24)	1	(31)	-	(31)
Change in fair values	-	-	-	139	139	-	139
New leases, terminations and modifications	-	(106)	-	-	(106)	-	(106)
Acquisitions	-	(84)	-	-	(84)	-	(84)
Exchange movements	155	7	437	(170)	429	(156)	273
At 30 September 2023	(1,499)	(349)	(7,882)	(53)	(9,783)	1,345	(8,438)

£ million	Current borrowings	Lease liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2021	(1,107)	(251)	(8,715)	(587)	(10,660)	1,287	(9,373)
Reallocation of current borrowings from non-current borrowings	(1,392)	-	1,392	-	-	-	-
Cash flow	1,595	68	(829)	(94)	740	515	1,255
Change in accrued interest	58	(6)	(16)	(7)	29	-	29
Change in fair values	-	-	-	270	270	-	270
New leases, terminations and modifications	-	(54)	-	-	(54)	-	(54)
Exchange movements	(165)	(5)	(828)	331	(667)	48	(619)
At 30 September 2022	(1,011)	(248)	(8,996)	(87)	(10,342)	1,850	(8,492)

Average reported net debt during the year was £10,072 million (2022: £9,822 million).

**Analysis by denomination currency**

£ million	2023				Total
	GBP	EUR	USD	Other	
Cash and cash equivalents	177	405	324	439	1,345
Total borrowings	(1,631)	(3,417)	(4,319)	(14)	(9,381)
	(1,454)	(3,012)	(3,995)	425	(8,036)
Effect of cross-currency swaps	122	(9,028)	328	425	(8,153)
Lease liabilities	(43)	(247)	(26)	(33)	(349)
Derivative financial instruments					64
Net debt					(8,438)

£ million	2022				Total
	GBP	EUR	USD	Other	
Cash and cash equivalents	257	216	971	406	1,850
Total borrowings	(1,631)	(3,261)	(5,096)	(19)	(10,007)
	(1,374)	(3,045)	(4,125)	387	(8,157)
Effect of cross-currency swaps	1561	(3,637)	2,056	-	(20)
Lease liabilities	187	(6,682)	(2,069)	387	(8,177)
Derivative financial instruments	(45)	(148)	(20)	(35)	(248)
Net debt					(8,492)

### 31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2023	2022
(Decrease)/increase in cash and cash equivalents	(349)	515
Cash flows relating to derivative financial instruments	64	(94)
Repayment of lease liabilities	92	68
Increase in borrowings	(1,462)	(1,710)
Repayment of borrowings	1,518	2,476
Change in net debt resulting from cash flows	(137)	1,255
Other non-cash movements including revaluation of derivative financial instruments	108	299
Lease liabilities	(190)	(54)
Exchange movements	273	(619)
Movement in net debt during the year	54	881
Opening net debt	(8,492)	(9,373)
Closing net debt	(8,438)	(8,492)

The increase in borrowings and repayment of borrowings reflect the cash flow movements relating to borrowings outstanding at the start and at the end of each financial year; cash flows relating to short term borrowings drawn down and repaid within the year are not included in this analysis.

### 32. NON-CONTROLLING INTERESTS

#### Material non-controlling interests

Detailed below is the summarised financial information of Logista, being a subsidiary where the non-controlling interest of 49.99% is considered material to the Group.

#### Summarised balance sheet

at 30 September

Euro million	2023	2022
Current assets	6,246	6,094
Current liabilities	(6,983)	(6,763)
Current net liabilities	(737)	(669)
Non-current assets	1,816	1,599
Non-current liabilities	(482)	(365)
Non-current net assets	1,334	1,234
Net assets	597	565

#### Summarised statement of comprehensive income

for the year ended 30 September

Euro million	2023	2022
Revenue	12,428	11,464
Profit for the year	274	199
Other comprehensive income	3	7
Total comprehensive income	277	206

#### Summarised cash flow statement

for the year ended 30 September

Euro million	2023	2022 (restated)
Cash flows from operating activities	308	642
Cash flows from investing activities	(83)	(389)
Cash flows from financing activities	(250)	(206)
Net (decrease)/increase in cash and cash equivalents	(25)	47

NOTES TO THE FINANCIAL STATEMENTS *continued*

**33. POST BALANCE SHEET EVENTS**

**Share Buybacks**

On 5 October 2023 Imperial Brands PLC ("the Company") announced the start of an ongoing share buyback programme, to initially repurchase up to £1.1 billion of shares in the period from 6 October 2023 to 30 September 2024.

**34. RELATED UNDERTAKINGS**

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by Imperial Brands PLC, as at 30 September 2023, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.