DEAR SHAREHOLDERS

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

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

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

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

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

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

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

A purpose-led approach to ESG

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

Our most important area of focus will continue to be consumer health. Smoking is a cause of serious diseases and, despite these health risks, many people choose to continue to smoke. That is why it is important we are successful in offering attractive, potentially less harmful alternatives to adult smokers. Our NGP operations over the past two years have become more consumer-centric and innovative, and in this year the Board was pleased to authorise an ambitious but disciplined expansion of our footprint.

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

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

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

Upskilling and diversifying the Board

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

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

Broadening stakeholder engagement

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

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

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

Prioritising capital allocation

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

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

Towards a healthier future

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

Thérèse Esperdy

Thérèse Esperdy
Chair