DELIVERING ON OUR STRATEGY

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

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

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

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

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

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

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

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

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

IMPROVED PERFORMANCE

The success with which we are delivering our strategy is translating into improved operational and financial performance, with growth in net revenue of 1.5% and in adjusted operating profit of 1.8% at constant currency in this financial year. Reported revenue was down 0.7% driven by adverse foreign exchange translation and operating profit declined 14.7% driven primarily by charges related to our exit from Russia and associated markets and nonrecurrence of gains on disposal of the Premium Cigar Division. Strong cash performance delivered almost £2.6 billion of free cash flow, which has further strengthened the balance sheet, and enabled us to step up returns to shareholders.

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

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

FOUNDATIONS FOR A STRONG CHALLENGER

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

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

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

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

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

PURPOSE, PEOPLE AND PLANET

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

UNDERSTANDING CONSUMER DYNAMICS

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

Impact: Ongoing

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

Impact: Not material in 2022

Potentially reduced harm
Consumers continue to seek reduced harm alternatives.

Impact: Long-term

For more information, please see page 10.

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

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

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

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

ALLOCATING CAPITAL WITH DISCIPLINE

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

Our strategy is supported by four clear capital priorities:

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

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

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

STRENGTHENING DELIVERY

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

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

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

OUTLOOK

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

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

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

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

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

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

Stefan Bomhard
Chief Executive Officer