

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC

Opinion

In our opinion:

- Imperial Brands PLC's 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 2022 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 2022 which comprise:

Group	Parent company
Consolidated balance sheet at 30 September 2022	Balance sheet at 30 September 2022
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 X 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 221 to 228	

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 31 March 2024;
- assessing the appropriateness of the duration of the going concern assessment period to 31 March 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 prior year end and half year going concern assessments;
- 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;

- evaluated the amount and timing of identified mitigating actions available to respond to a severe 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 92.

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. Under management's worst-case scenario, which includes a permanent reduction in profitability of 30%, an increase in bad debt and the loss of factoring facilities, liquidity is eliminated in January 2024. This scenario is not considered plausible. We have not identified any climate-related risks that would materially impact the group's forecasts to 31 March 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 restore 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 31 March 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

Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 14 components. • The components where we performed full or specific audit procedures accounted for 91% of Profit before tax on an absolute basis, 83% of Revenue and 89% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • Revenue recognition, including management override of controls • Measurement and classification of adjusting items • Uncertain tax positions • Litigation
Materiality	<ul style="list-style-type: none"> • Overall group materiality of £126m which represents 5% of profit before tax.

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 19 components covering entities within the UK, USA, Germany, Spain, Australia, Morocco, France, Poland and Belgium, which represent the principal business units within the group.

Of the 19 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 14 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 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 also covered 18 additional locations and performed specified procedures over Cash and Cash equivalents by obtaining bank confirmation letters to validate the amounts held in those locations in order to increase the coverage of this account to 95% of the total group cash balance at 30 September 2022. Of the remaining 357 components that together represent 9% of the group's Profit before tax on an absolute basis, none are individually greater than 1% 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC *continued*

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

Reporting components	2022				2021			
	Number	% of group PBT (on absolute basis) ¹	% of group Revenue	% of group Assets	Number	% of group PBT (on absolute basis) ¹	% of group Revenue	% of group Assets
Full scope	5	73%	60%	70%	5	63%	60%	55%
Specific scope	14	18%	23%	19%	19	32%	25%	25%
Specified procedures	18	0%	0%	1%	10	1%	1%	2%
Full, specific, and specified procedures coverage	37	91%	83%	90%	34	96%	86%	82%
Remaining components	357	9%	17%	10%	354	4%	14%	18%
Total reporting components	394	100%	100%	100%	388	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 include the following:

- The Russian component has been removed from scope as a result of its disposal which completed in April 2022;
- Certain components in Belgium, Netherlands and USA have moved from specific scope to review scope 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 14 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 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 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 the USA, Germany, Spain, Morocco, France and Poland. 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. Other group partners are responsible for the UK component teams. 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 PLC. The group has determined that the most significant future impacts from climate change on their operations will be from:

- an increase in material costs
- 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 59 to 65 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 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.

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 climate change 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 pages 62 and 63 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.

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>Revenue recognition, including management override of controls (2022: £32,551m, 2021: £32,791m)</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>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.</p> <p>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.</p> <p>Refer to the audit committee report (page 126); accounting policies (note 1); accounting estimates and judgements (note 2); and segmental information (note 3) of the consolidated financial statements.</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 & 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. This provided us with a high level of assurance over £17.6 billion (75%) of Tobacco & NGP revenue recognised by the group. For one in-scope component where we did not use data analysis techniques, we performed substantive tests of detail, including procedures to identify fictitious manual journals and non-routine transactions to ensure these were appropriately recorded.</p> <p>For the Distribution component, we performed a combination of tests of controls and substantive tests of detail to obtain assurance over £8.5 billion (87%) of Distribution revenue recognised by the group.</p> <p>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.</p> <p>We reviewed external factors for indicators of trade pull factors with a focus on full scope and high-risk markets.</p> <p>We made inquiries outside of finance to identify instances of late or unusual requests for shipments or extensions of credit terms.</p> <p>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.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC *continued*

Risk	Our response to the risk
	<p>Our remaining procedures, applicable to all full and specific scope components included the following:</p> <ul style="list-style-type: none"> • 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 <p>The audit procedures performed to address this risk were performed by component and shared service centre teams and reviewed by the group team.</p>

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.

Measurement and classification of adjusting items

A number of Alternative Performance Measures (APMs) are used in the annual report, including adjusted measures that are linked to executive remuneration. There is a risk that management could override controls by classifying costs as adjusting that do not meet the criteria as defined by group policy to manipulate KPIs which have a bearing on remuneration. In the current year we identified the following adjusting items as areas of focus:

- Incorrect classification of items as restructuring costs, including Project Novo, 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

Refer to the audit committee report (page 123); accounting policies (note 1); accounting estimates and judgements (note 2); restructuring provision (note 5) of the consolidated financial statements; and the supplementary information.

Measurement and classification of adjusting items

We considered the appropriateness of the APM policy implemented by management, including how this linked to metrics which impact management remuneration, with reference to FRC guidance and recent thematic reviews.

We assessed the APM policy for alignment with ESMA guidance, specifically:

- The clarity of definitions and explanations for the use of APMs;
- adequacy of reconciliations to GAAP measures;
- equal prominence to GAAP measures; and
- consistency of application, including explanations for any changes.

In respect of our focus on restructuring costs, we have:

- Challenged the classification and timing of recognition of one-off costs as adjusting and evaluated the one-off adjustments for indicators of management bias; in particular, whether both income and expense items are treated consistently.
- We tested the completeness and accuracy of restructuring costs including verifying that IAS 37 criteria had been correctly met. We also verified that the company's accounting policy, including the treatment of all restructuring costs as adjusting, was appropriately approved by the Audit Committee.

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.
- 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.

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.

Key observations communicated to the Audit Committee

We confirmed that the APM policy is substantially aligned to ESMA guidance, with the basis for use and reconciliation to GAAP measures appropriately disclosed in the annual report.

We consider that restructuring costs and provisions are materially correct and disclosed appropriately.

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

Risk	Our response to the risk
<p>Uncertain tax positions (Provision for uncertain tax positions – 2022: £148m, 2021: £306m)</p> <p>The global nature of the group's operations results in complexities in the payment of, and accounting for, tax.</p> <p>Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.</p> <p>Given this judgement, there is a risk that tax provisions are misstated.</p> <p>Refer to the audit committee report (page 125); accounting policies (note 1); accounting estimates and judgements (note 2); and tax disclosure (note 7) of the consolidated financial statements.</p>	<p>We understood:</p> <ul style="list-style-type: none"> • the group's process for determining the completeness and measurement of provisions for tax; • the methodology for the calculation of the tax charge; and • management's controls over tax reporting. <p>The group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our assessment included consideration of the past outcome of comparable cases and look-back analysis on management's historic provisioning for uncertain tax positions. Our work utilised additional support from country tax specialists in France, Germany, Malta, Netherlands and the USA.</p> <p>We assessed the group's transfer pricing judgements, considering the way in which we observed the group's businesses operating and the correspondence and agreements reached with tax authorities.</p> <p>We developed our own independent range of potential provisions for the group's transfer pricing tax exposures, based on the evidence we obtained, and compared management's provision to our range.</p> <p>We assessed the group's judgement relating to the UK CFC's State Aid investigations, including holding discussions with management's legal advisors.</p> <p>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.</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>
<p>Key observations communicated to the Audit Committee</p>	
<p>Based on the procedures performed, we consider the amounts provided are reasonable. We consider the group's tax disclosures are also appropriate.</p>	
<p>We conclude that the group's approach to judgements for uncertain tax positions is balanced and that the approach in calculating the transfer pricing provisions is reasonable based on our assessment of the range of potential outcomes and the latest status of tax audits.</p>	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC *continued*

Risk	Our response to the risk
<p>Litigation</p> <p>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 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 125); accounting policies (note 1); accounting estimates and judgements (note 2), and contingent liabilities (note 29) of the consolidated financial statements.</p>	<p>We assessed 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.</p> <p>We inspected Imperial's litigation log and communications to the Executive Leadership Team and met with group Finance, group General Legal Counsel and the group's external legal counsel to discuss the developments in significant cases.</p> <p>We requested, received and read letters received directly from the 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. For certain cases we involved legal specialists or met with external legal counsel to further our understanding and assess potential outcomes.</p> <p>We evaluated whether any of the fines levied or ongoing litigation cases 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 carrying value of NGP intangible assets. In the current year, the continued amortisation of such assets and absence of additions meant this was no longer considered as significant for the financial statements as a whole.

In the prior year, our auditor's report included a key audit matter in relation to reporting performance. This year, the key audit matter has been refined to focus on the measurement and classification of adjusting items. We now focus on the manipulation of adjusted measures that are linked to executive remuneration, namely working capital balances that impact the adjusted operating cash conversion metric, and the classification of items as restructuring.

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 £126 million (2021: £148 million), which is 5% of Profit before tax (2021: 5% of profit before tax, adjusted for one-off gain on disposal of subsidiaries). 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 £309 million (2021: £275 million), which is 2% (2021: 2%) of net assets. In performing our procedures, materiality was capped at the group allocated materiality of £30 million (2021: £25 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% (2021: 50%) of our planning materiality, namely £95 million (2021: £74 million). Performance materiality has increased to 75% this year as a result of a lower number of audit adjustments identified in the September 2021 audit.

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 £19 million to £30 million (2021: £7 million to £39 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 £6 million (2021: £7 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 1-155, 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 112;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC *continued*

- 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 92 to 93;
- 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 112;
- Directors' statement on fair, balanced and understandable set out on page 112;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 84 to 91;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 82 to 83; and;
- The section describing the work of the audit committee set out on page 119 to 120

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 155, 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. In addition, as a result of the sanctions imposed to Russia and Belarus companies and individuals, we have performed inquiries to understand Imperial's process to identify these and whether there were impacts to the business.

- 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 three years, covering the years ending 2020 to 2022.

- 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.

Ernst & Young LLP

Andrew Walton (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

15 November 2022

CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2022

£ million unless otherwise indicated	Notes	2022	2021
Revenue	3	32,551	32,791
Duty and similar items		(15,644)	(16,229)
Other cost of sales		(10,869)	(10,535)
Cost of sales		(26,513)	(26,764)
Gross profit		6,038	6,027
Distribution, advertising and selling costs		(2,021)	(2,118)
Administrative and other expenses		(1,334)	(763)
Operating profit	4	2,683	3,146
Investment income		1,600	1,060
Finance costs		(1,717)	(979)
Net finance (costs)/income		(117)	81
Share of (loss)/profit of investments accounted for using the equity method	14	(15)	11
Profit before tax	4	2,551	3,238
Tax	7	(886)	(331)
Profit for the year		1,665	2,907
Attributable to:			
Owners of the parent		1,570	2,834
Non-controlling interests		95	73
Earnings per ordinary share (pence)			
— Basic	9	165.9	299.9
— Diluted	9	164.7	299.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2022

£ million	Notes	2022	2021
Profit for the year		1,665	2,907
Other comprehensive income			
Exchange movements		841	(680)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	10	190	(337)
Hyperinflation adjustment in the year	1	11	—
Current tax on hedge of net investments and quasi-equity loans		148	(105)
Deferred tax on hedge of net investments and quasi-equity loans		—	(12)
Items that may be reclassified to profit and loss		1,190	(1,134)
Net actuarial gains on retirement benefits	23	76	41
Current tax relating to net actuarial gains on retirement benefits		10	2
Deferred tax relating to net actuarial gains on retirement benefits		(52)	(21)
Items that will not be reclassified to profit and loss		34	22
Other comprehensive income/(loss) for the year, net of tax		1,224	(1,112)
Total comprehensive income for the year		2,889	1,795
Attributable to:			
Owners of the parent		2,778	1,761
Non-controlling interests		111	34
Total comprehensive income for the year		2,889	1,795

CONSOLIDATED BALANCE SHEET
at 30 September

£ million	Notes	2022	2021
Non-current assets			
Intangible assets	11	17,777	16,674
Property, plant and equipment	12	1,659	1,715
Right of use assets	13	228	242
Investments accounted for using the equity method	14	56	88
Retirement benefit assets	23	826	1,046
Trade and other receivables	16	67	62
Derivative financial instruments	20/21	985	391
Deferred tax assets	22	439	564
State aid tax recoverable	7	–	101
		22,037	20,883
Current assets			
Inventories	15	4,140	3,834
Trade and other receivables	16	2,543	2,749
Current tax assets	7	334	234
Cash and cash equivalents	17	1,850	1,287
Derivative financial instruments	20/21	54	68
Current assets held for disposal	10	–	35
		8,921	8,207
Total assets		30,958	29,090
Current liabilities			
Borrowings	19	(1,011)	(1,107)
Derivative financial instruments	20/21	(54)	(62)
Lease liabilities	13	(58)	(57)
Trade and other payables	18	(9,506)	(9,106)
Current tax liabilities	7	(307)	(253)
Provisions	24	(203)	(188)
Current liabilities held for disposal	10	–	(35)
		(11,139)	(10,808)
Non-current liabilities			
Borrowings	19	(8,996)	(8,715)
Derivative financial instruments	20/21	(1,072)	(984)
Lease liabilities	13	(190)	(194)
Trade and other payables	18	(10)	(7)
Deferred tax liabilities	22	(961)	(1,037)
Retirement benefit liabilities	23	(894)	(1,199)
Provisions	24	(223)	(206)
		(12,346)	(12,342)
Total liabilities		(23,485)	(23,150)
Net assets		7,473	5,940
Equity			
Share capital	25	103	103
Share premium and capital redemption		5,837	5,837
Retained earnings		(443)	(788)
Exchange translation reserve		1,363	200
Equity attributable to owners of the parent		6,860	5,352
Non-controlling interests		613	588
Total equity		7,473	5,940

The financial statements on pages 166 to 244 were approved by the Board of Directors on 15 November 2022 and signed on its behalf by:



LUKAS PARAVICINI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2022

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 30 September 2021	103	5,837	(788)	200	5,352	588	5,940
Hyperinflation restatement to 1 October 2021	–	–	22	–	22	–	22
At 1 October 2021	103	5,837	(766)	200	5,374	588	5,962
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
Total comprehensive income	–	–	1,615	1,163	2,778	111	2,889
Transactions with owners							
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)
At 30 September 2022	103	5,837	(443)	1,363	6,860	613	7,473
At 1 October 2020	103	5,837	(2,364)	1,295	4,871	647	5,518
Profit for the year	–	–	2,834	–	2,834	73	2,907
Exchange movements on retranslation of net assets	–	–	–	(1,034)	(1,034)	(39)	(1,073)
Exchange movements on net investment hedges	–	–	–	476	476	–	476
Exchange movements on quasi-equity loans	–	–	–	(83)	(83)	–	(83)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	–	–	–	(337)	(337)	–	(337)
Current tax on hedge of net investments and quasi-equity loans	–	–	–	(105)	(105)	–	(105)
Deferred tax hedge of net investments and quasi-equity loans	–	–	–	(12)	(12)	–	(12)
Net actuarial gains on retirement benefits	–	–	41	–	41	–	41
Current tax relating to net actuarial gains on retirement benefits	–	–	2	–	2	–	2
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(21)	–	(21)	–	(21)
Other comprehensive income/(expense)	–	–	22	(1,095)	(1,073)	(39)	(1,112)
Total comprehensive income/(expense)	–	–	2,856	(1,095)	1,761	34	1,795
Transactions with owners							
Costs of employees' services compensated by share schemes	–	–	25	–	25	–	25
Dividends paid	–	–	(1,305)	–	(1,305)	(93)	(1,398)
At 30 September 2021	103	5,837	(788)	200	5,352	588	5,940

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September 2022

£ million	2022	2021
Cash flows from operating activities		
Operating profit	2,683	3,146
Dividends received from investments accounted for under the equity method	7	4
Depreciation, amortisation and impairment	660	815
Loss on disposal of non-current assets	–	2
Loss/(profit) on disposal of subsidiaries	428	(281)
Post-employment benefits	(56)	(63)
Costs of employees' services compensated by share schemes	29	25
Fair value adjustment to financial assets	37	(15)
Movement in provisions	39	18
Operating cash flows before movement in working capital	3,827	3,651
(Increase)/decrease in inventories	(195)	70
Decrease/(increase) in trade and other receivables	89	(201)
Increase/(decrease) in trade and other payables	146	(533)
Movement in working capital	40	(664)
Tax paid	(681)	(820)
Net cash flows generated from operating activities	3,186	2,167
Cash flows from investing activities		
Interest received	8	15
Proceeds from the sale of non-current assets	53	50
Proceeds from sale of subsidiaries, net of cash disposed of (note 10)	27	845
Purchase of non-current assets	(230)	(200)
Purchase of brands and operations (note 10)	(13)	–
Net cash (used in)/generated from investing activities	(155)	710
Cash flows from financing activities		
Interest paid	(366)	(415)
Purchase of shares by Employee Share Ownership Trusts	(1)	–
Lease liabilities paid	(68)	(69)
Increase in borrowings	1,710	858
Repayment of borrowings	(2,476)	(2,224)
Cash flows relating to derivative financial instruments	94	41
Dividends paid to non-controlling interests	(89)	(93)
Dividends paid to owners of the parent	(1,320)	(1,305)
Net cash used in financing activities	(2,516)	(3,207)
Net increase/(decrease) in cash and cash equivalents	515	(330)
Cash and cash equivalents at start of year	1,287	1,626
Effect of foreign exchange rates on cash and cash equivalents	48	(9)
Cash and cash equivalents at end of year	1,850	1,287

NOTES TO THE CONSOLIDATED 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.

Adjusted performance measures

During the year the Group conducted a review of Adjusted Performance Measure (APM) metrics within the Annual Report and Accounts. The aim of the review was to increase transparency as to the definition of APMs and to ensure that reconciliations to IFRS-based measures were presented in a consistent and understandable format. Information on APMs is now presented within the Supplementary Information section of this document. As part of the changes key adjusting items within administration costs which were previously shown on the face of the Group Income Statement are now set out within the APM disclosures area.

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. Given the current macroeconomic situation, our plans include higher than historical inflation impact to cost of sales driven by commodity price increases, energy and logistic costs; as well as higher people costs. During the period of the Covid-19 pandemic as well as during the 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 short-term liquidity of the Group.

The Directors have assessed the 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. £1,000 million.
- 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% from 1 October 2022.
- The additional impact of potential bad debt risks arising from a recession of c. £220 million.
- The withdrawal of facilities that provide receivables factoring of c. £560 million.

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, retrenchment of leases, and discussions with lenders about capital structure.

Under the worst-case scenario, where the largest envisaged downside scenarios all take place at the same time the Group would have sufficient headroom until December 2023. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on our trading performance and bad debt levels during the Covid-19 pandemic. In this scenario Group would implement a number of mitigating actions including revoking the uncommitted dividend, pausing share buyback and reducing discretionary spend such as capex.

Based on its review of future cash flows covering the period through to March 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 31 March 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 2022. See note VII 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 (loss)/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.

Foreign exchange rate versus GBP	2022		2021	
	Closing rate	Average rate	Closing rate	Average rate
EUR	1.1325	1.1807	1.1621	1.1451
USD	1.1040	1.2813	1.3456	1.3690

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.

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 in which 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.

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	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 assets are 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.

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.

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 from the beginning of the 2022 financial year. IAS 29 requires that hyperinflationary adjustments are reflected from the start of the reporting period in which it is applied. For the Group's Turkish operations this is 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 2021 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 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, where necessary.
- The financial statements of the Group's Turkish operations have been translated into Sterling at the closing exchange rate at 30 September 2022.
- 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 cumulative impact corresponding to previous years has been reflected directly in equity as an adjustment to the opening retained earnings reserve at 1 October 2021.

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

New accounting standards

The following amendments to the accounting standards, issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) and endorsed for use in the UK, have been adopted by the Group from 1 October 2021 with no impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 2) (effective in the year ending 30 September 2022)

Following the announcement of the discontinuation of GBP LIBOR at the end of 2021 and USD LIBOR discontinuation in 2023, the Group has amended its bank facility agreement to stop referencing GBP and USD LIBOR and instead reference the daily risk free rates of SONIA and SOFR respectively. All GBP LIBOR derivatives were changed to reference SONIA instead of GBP LIBOR. All USD LIBOR derivatives will be changed to reference SOFR instead of USD LIBOR during the remainder of calendar year 2022. There are no changes pending for euro derivatives. No temporary reliefs or practical expedients were required to be taken by the Group.

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.

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 statements 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.

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 are given in note 7 to these financial statements.

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 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 would accept 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 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

Climate change

The Group have a designated a programme 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 do not 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.

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.

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 our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive.

Our reportable segments are Europe, Americas, Africa, Asia & Australasia (AAA) and Distribution. Operating segments are comprised of geographical groupings of business markets. The main Tobacco & NGP business markets within the Europe, Americas and AAA reportable segments are:

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

Americas – United States.

AAA – Australia, Japan, Saudi Arabia, Taiwan and our African markets including Algeria and Morocco.

Tobacco & NGP

£ million unless otherwise indicated	2022			2021		
	Tobacco	NGP	Tobacco & NGP	Tobacco	NGP	Tobacco & NGP
Revenue	23,232	224	23,456	23,664	199	23,863
Net revenue	7,545	208	7,793	7,422	188	7,610
Operating profit			2,472			2,991
Adjusted operating profit			3,441			3,308
Adjusted operating margin %			44.2			43.5

Distribution

£ million unless otherwise indicated	2022	2021
Revenue	9,756	9,589
Distribution net revenue	1,046	1,069
Operating profit	212	148
Adjusted operating profit	254	258
Adjusted operating margin %	24.3	24.1

Revenue

£ million	2022		2021	
	Total revenue	External revenue	Total revenue	External revenue
Tobacco & NGP				
Europe	14,194	13,533	14,720	14,059
Americas	3,756	3,756	3,393	3,393
Africa, Asia & Australasia	5,506	5,506	5,750	5,750
Total Tobacco & NGP	23,456	22,795	23,863	23,202
Distribution	9,756	9,756	9,589	9,589
Eliminations	(661)	–	(661)	–
Total Group	32,551	32,551	32,791	32,791

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

Tobacco & NGP net revenue

£ million	2022			2021		
	Tobacco	NGP	Total	Tobacco	NGP	Total
Europe	3,306	166	3,472	3,425	126	3,551
Americas	2,784	42	2,826	2,478	56	2,534
Africa, Asia & Australasia	1,495	–	1,495	1,519	6	1,525
Total Tobacco & NGP	7,585	208	7,793	7,422	188	7,610

Adjusted operating profit and reconciliation to profit before tax

£ million	2022	2021
Tobacco & NGP		
Europe	1,562	1,670
Americas	1,179	1,037
Africa, Asia & Australasia	700	601
Total Tobacco & NGP	3,441	3,308
Distribution	254	258
Eliminations	(1)	7
Adjusted operating profit	3,694	3,573
Russian and associated markets exit – Tobacco & NGP	(399)	–
Acquisition and disposal costs – Tobacco & NGP	(5)	–
Acquisition and disposal costs – Distribution	–	(17)
(Loss)/profit on disposal of subsidiaries – Tobacco & NGP	(13)	281
Loss on disposal of subsidiaries – Distribution	(16)	–
Amortisation and impairment of acquired intangibles – Tobacco & NGP	(323)	(365)
Amortisation of acquired intangibles – Distribution	(26)	(85)
Excise tax provision – Tobacco & NGP	9	1
Fair value adjustment to financial assets – Tobacco & NGP	(37)	15
Buy-out of liabilities on Irish pension scheme – Tobacco & NGP	(4)	–
Restructuring costs – Tobacco & NGP	(197)	(249)
Restructuring costs – Distribution	–	(8)
Operating profit	2,683	3,146
Net finance (costs)/income	(117)	81
Share of (loss)/profit of investments accounted for using the equity method	(15)	11
Profit before tax	2,551	3,238

Other information

£ million	2022		2021	
	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco & NGP				
Europe	63	103	87	99
Americas	31	25	26	28
Africa, Asia & Australasia	22	25	20	27
Total Tobacco & NGP	116	153	133	154
Distribution	29	32	32	40
Total Group	145	185	165	194

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	2022		2021	
	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,286	112	4,558	102
Germany	4,238	3,269	4,566	3,246
France	3,215	2,365	3,537	2,336
USA	3,726	6,410	3,405	5,486
Other	17,086	7,336	16,725	7,307
Total Group	32,551	19,492	32,791	18,477

Non-current assets comprise intangible assets, property, plant and equipment and investments accounted for using the equity method.

4. PROFIT BEFORE TAX

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

£ million	2022	2021
Raw materials and consumables used	857	947
Changes in inventories of finished goods – Tobacco & NGP	2,660	2,700
Changes in inventories of finished goods – Distribution	7,350	7,009
Depreciation and impairment of fixed assets	235	170
Amortisation and impairment of intangible assets and impairment to investments in associates	406	575
Acquisition and disposal costs	5	17
Expenses relating to short-term leases	3	4
Expenses relating to low value asset leases	2	2
Depreciation and impairment of right of use assets	74	66
Net foreign exchange losses/(gains)	75	(442)
Write down of inventories	20	117
Loss on disposal of non-current assets	–	2
Write back of trade receivables	(3)	(10)

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

£ million	2022	2021
Parent Company and consolidated financial statements	2.2	2.0
The Company's subsidiaries	5.6	5.1
Total audit fees	7.8	7.1
Audit related assurance services	0.4	0.4
Total audit related fees	8.2	7.5
Other assurance services	0.6	0.4
Total non-audit fees	0.6	0.4
Total auditor's remuneration	8.8	7.9

5. RESTRUCTURING COSTS

£ million	2022	2021
Employment related	103	145
Asset impairments	70	92
Other charges	24	20
	197	257

Analysed by workstream:

£ million	2022			2021		
	Costs	Cash spend	Cumulative cash spend	Costs	Cash spend	Cumulative cash spend
2021 Strategic review programme	197	56	104	226	48	48
Cost optimisation II	–	19	567	16	41	548
Cost optimisation I	–	11	582	7	12	571
Other	–	5	90	8	11	85
	197	91	1,343	257	112	1,252

The charge for the year is £197 million (2021: £257 million). In the year to 30 September 2022 this all relates to the 2021 Strategic review programme.

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.

2021 strategic review programme

In January 2021, the Group announced the results of a Strategic review programme including an associated and specific time-bound restructuring programme.

The total restructuring costs in respect of the programme were expected to be in the range of £375 million – £425 million. The programme is now complete, and total restructuring costs in respect of the programme are £423 million, there are no further costs expected beyond September 2022.

Restructuring costs of £197 million (2021: £226 million) related to the 2021 Strategic review programme have been incurred in the year, representing £121 million costs in respect of the change programme itself and £76 million of impairments and other non-cash costs associated with machine and property assets.

Cost optimisation programmes

The cost optimisation programmes (Phase I announced in 2013 and Phase II announced in November 2016) were part of the Group strategy to optimise costs and drive operational efficiencies. The programmes were time bound projects which, given their scale, were delivered over a number of years.

Phase I was concluded at the end of 2018 and has delivered savings of c. £305 million per annum from September 2018.

Phase II was concluded at the end of 2021 and has delivered savings of c. £320 million per annum from September 2021.

Whilst both programmes are concluded there remain some ongoing cash costs.

6. DIRECTORS AND EMPLOYEES

Employment costs

£ million	2022	2021
Wages and salaries	642	775
Social security costs	142	177
Other pension costs (note 23)	64	75
Share-based payments (note 26)	29	25
	877	1,052

Operating executive (excluding executive directors)

£ million	2022	2021
Base salary	4.3	3.0
Benefits	0.7	0.7
Pension salary supplement	0.7	0.3
Bonus	5.3	2.9
Termination payments	5.8	–
LTP annual vesting ¹	1.5	0.8
	18.3	7.7

1. Share plans vesting represent the value of LTP 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 £31,671,710 (2021: £16,439,675).

Key management compensation¹

£ million	2022	2021
Short term employee benefits	17.6	12.7
Post-employment benefits	0.1	0.5
Termination payments	5.7	–
Share based payments (in accordance with IAS 24)	3.6	0.9
	27.0	14.1

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 130–148 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

Number of people employed by the group during the year

	2022		2021	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	19,900	22,600	24,100	24,000
Distribution	5,800	6,000	6,200	6,200
	25,700	28,600	30,300	30,200

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

	2022		2021	
	At 30 September	Average	At 30 September	Average
UK and European Union	14,000	14,200	14,600	14,700
Americas	5,700	7,800	8,300	8,000
Rest of the World	6,000	6,600	7,400	7,500
	25,700	28,600	30,300	30,200

7. TAX

The major components of income tax expense for the years ended 30 September 2022 and 2021 are:

£ million	2022	2021
UK current tax:		
Current year charged to the consolidated income statement	217	21
Current year (credited)/charged to consolidated other comprehensive income	(158)	105
Total current year UK current tax	59	126
Adjustments in respect of prior years charged/(credited) to the consolidated income statement	149	(38)
Total UK current tax	208	88
Overseas current tax:		
Current year charged to the consolidated income statement	670	458
Current year charged to consolidated other comprehensive income	–	(2)
Total current year overseas current tax	670	456
Adjustments in respect of prior years (credited)/charged to the consolidated income statement	(116)	46
Total overseas current tax	554	502
Total current tax charged to the consolidated statement of other comprehensive income	762	590
£ million	2022	2021
UK current tax:		
Current year	217	21
Adjustments in respect of prior years	149	(38)
Overseas current tax:		
Current year	670	458
Adjustments in respect of prior years	(116)	46
Total current tax	920	487
Deferred tax:		
Relating to origination and reversal of temporary differences	(34)	(156)
Total tax charged to the consolidated income statement	886	331
£ million	2022	2021
Tax related to items recognised in consolidated other comprehensive income during the year:		
Current tax on hedge of net investment and quasi-equity loans	(148)	105
Current tax on actuarial gains and losses	(10)	(2)
Total current tax	(158)	103
Deferred tax on hedge of net investment and quasi-equity loans	–	12
Deferred tax on actuarial gains and losses	52	21
Deferred tax on hyperinflation adjustment	3	–
Total deferred tax	55	33
Total tax (credited)/charged to consolidated other comprehensive income	(103)	136
£ million	2022	2021
Tax related to items recognised in equity during the year:		
Deferred tax on share based payments	(2)	–
Total tax charged to equity	(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 19.0% (2021: 19.0%) as follows:

£ million	2022	2021
Profit before tax	2,551	3,238
Tax at the UK corporation tax rate of 19.0% (2021: 19.0%)	484	615
Tax effects of:		
Differences in effective tax rates on overseas earnings	118	107
Movement in provision for uncertain tax positions	(78)	49
Remeasurement of deferred tax balances arising from changes in tax rates	4	15
Recognition of deferred tax assets for tax credits	–	(239)
Remeasurement of previously recognised deferred tax assets	(1)	(5)
Increase in unrecognised deferred tax assets	14	12
Deferred tax on unremitted earnings	(26)	(4)
Share of (loss)/profit of investments accounted for using the equity method	3	(2)
Non-deductible expenses	18	35
Non-deductible losses/(non-taxable gains) on net foreign exchange on financial instruments	145	(169)
Non-taxable gain on Premium Cigar Division disposal	–	(81)
Exempt losses on Russian and associated markets exit	88	–
Provision for state aid recoverable	101	–
Adjustments in respect of prior years	16	(2)
Total tax charged to the consolidated income statement	886	331

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0%. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties.

Recognition of deferred tax assets for credits includes £nil (2021: £239 million) in the Group's Spanish business arising from an internal reorganisation during the prior year.

Remeasurement of previously recognised deferred tax assets includes £nil (2021: £8 million) recognition in relation to deferred tax assets for tax losses in the Group's Dutch business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation, the interpretation thereof and changes in the Group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £4 million (2021: £15 million).

During the year the Group has decreased the provision for deferred tax on unremitted earnings by £26 million (2021: £4 million). The tax will arise on the distribution of profits through the Group and on planned group simplification.

Movement on the current tax account

£ million	2022	2021
At 1 October	82	(144)
Charged to the consolidated income statement	(920)	(487)
Credited/(charged) to other comprehensive income	158	(103)
Cash paid	681	820
Exchange movements	(7)	3
Balance sheet reclassification	33	(7)
At 30 September	27	82

The cash tax paid in the year is £239 million lower than the current tax charge (2021: £333 million higher). 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	2022	2021
State aid tax recoverable	–	101
Current tax assets	334	234
Current tax liabilities	(307)	(253)
	27	82

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 2022 the total value of these provisions, including foreign exchange movements, was £148 million (2021: £306 million). 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 to the results of the Group.

French tax litigation

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £240 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an 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 October 2018 the Commission Nationale, an independent adjudication body, whose decision is advisory only, issued a report supportive of the Group's arguments for no adjustment. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed of £240 million (2021: £234 million). In January 2019 the Group appealed against the assessment. In August 2020, the French tax authorities rejected the Group's appeal and the matter will now proceed to litigation. All submissions have been made to the court and we await a hearing date. The Group believes it is appropriate to maintain a £42 million (2021: £41 million) provision for uncertain tax positions in respect of this matter.

State aid UK CFC

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, along with a number of UK corporates, has made a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process.

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 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 we have reassessed recoverability of the £101 million previously recorded as a receivable and have now determined it is appropriate to provide in full.

Transfer pricing

The Group has tax audits in progress, relating to transfer pricing matters in a number of jurisdictions, principally UK, France and Germany. The Group estimates the potential gross level of exposure relating to transfer pricing issues is approximately £200 million (2021: £900 million). The Group holds a provision of £54 million (2021: £260 million) in respect of these items.

In August 2020 the Group notified HMRC of a potential Diverted Profits Tax (DPT) issue relating to brand rewards. In September 2020, HMRC issued a preliminary notice under the DPT regime in respect of the year ended 30 September 2016 indicating a potential liability of c. £6 million. Collaborative discussions on the issue continue and it is the Group's belief the issue is a transfer pricing one, and will be resolved as such. In November 2020, HMRC issued a final DPT notice, which has since been paid and recognised as a receivable. In September 2021, further preliminary DPT notices were received in respect of the year ended 30 September 2017 indicating a potential liability of c. £4 million, which has since been paid and recognised as a receivable. Based on advice, the Group continues to believe this is a transfer pricing matter. In September 2022 this matter was concluded as a transfer pricing matter, in respect of which a settlement was made. These DPT payments are now expected to be refunded.

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 the Group's year ended 30 September 2022.

The Group believe 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 which could lead to additional liabilities of £169 million. The challenge concerns 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 has been made for £48 million including interest, for which a provision has been made.

8. DIVIDENDS

Distributions to ordinary equity holders

£ million	2022	2021	2020
Paid interim of 42.54 pence per share (2021: 42.12 pence, 2020: 41.70 pence)			
– Paid June 2020	–	–	197
– Paid September 2020	–	–	197
– Paid December 2020	–	–	453
– Paid June 2021	–	199	–
– Paid September 2021	–	199	–
– Paid December 2021	–	458	–
– Paid June 2022	202	–	–
– Paid September 2022	202	–	–
Interim dividend paid	404	856	847
Proposed interim of 49.31 pence per share (2021: 48.48 pence, 2020: 48.00 pence)			
– To be paid December 2022	467	–	–
Interim dividend proposed	467	–	–
Proposed final of 49.32 pence per share (2021: 48.48 pence, 2020: 48.01 pence)			
– Paid March 2021	–	–	454
– Paid March 2022	–	458	–
– To be paid March 2023	467	–	–
Final dividend	467	458	454
Total ordinary share dividends of 141.17 pence per share (2021: 139.08 pence, 2020: 137.71 pence)	1,338	1,314	1,301

The third interim dividend for the year ended 30 September 2022 of 49.31 pence per share amounts to a proposed dividend of £467 million, which will be paid in December 2022.

The proposed final dividend for the year ended 30 September 2022 of 49.32 pence per share amounts to a proposed dividend payment of £467 million in March 2023 based on the number of shares ranking for dividend at 30 September 2022, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2022 will be £1,338 million (2021: £1,314 million). The dividend paid during 2022 is £1,320 million (2021: £1,305 million).

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	2022	2021
Earnings: basic and diluted – attributable to owners of the Parent Company	1,570	2,834
Millions of shares	2022	2021
Weighted average number of shares:		
Shares for basic earnings per share	946.2	945.0
Potentially dilutive share options	6.8	2.5
Shares for diluted earnings per share	953.0	947.5
Pence	2022	2021
Basic earnings per share	165.9	299.9
Diluted earnings per share	164.7	299.1

10. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Russian and associated markets exit

The total loss on exit from the Russian and associated markets was £423 million, 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.

Loss on transfer of Russian operations

On 27 April 2022, following registration with the Russian tax authority, the Group completed the transfer of its Russian assets to a third party for a total consideration of £20 million. Disposal costs of c. £4 million were incurred. An impairment charge against the Russian assets of £166 million was recognised as at 31 March 2022 when the assets were classified as an asset held for sale. A further net loss of £198 million arose on completion including recycled foreign exchange losses of £190 million. The total loss on disposal was £364 million. The impairment and disposal losses have been treated as adjusting items and are excluded from adjusted earnings.

Exit of the associated markets

The decision to transfer the assets of the Russian operations has implications for a limited number of Group markets that have historically been supplied by the Volgograd factory. 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 been impaired. In addition certain exit costs are expected to have to be incurred in the process of ending operations. Total impairment and exit costs of £35 million are now required to be recognised. Provisions for the costs of exit have been recognised as at the 30 September 2022 balance sheet date.

Impairment of Global Horizons Ventures Limited

The Group has an investment in the Global Horizon Ventures Limited joint venture company which is accounted for as an investment using the equity method. This 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 these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

Premium Cigar Division

On 27 April 2020 the Group announced that it had agreed the sale of the Premium Cigar Division ("the Division"). The share sale element of the sale of the Division completed on 29 October 2020. Further deferred consideration of €88 million (£74 million) relating to the share sale was received on 26 October 2021.

The sale of the La Romana factory in the Dominican Republic completed on 2nd August 2022. Sales consideration of €54 million (£46 million) was received on completion. A loss of £13 million was recognised on disposal.

Logista

Disposals

On 2 February 2022 the Group's subsidiary Logista sold its interest in Supergroup S.A.S. for a consideration of £nil. As at 30 September 2021 Supergroup S.A.S. was held as an asset held for sale. A loss on disposal of £16 million before tax and £9 million after tax has been recognised. In addition Logista sold two properties in the year that had previously been recognised as assets held for sale for consideration of €15 million (£13 million).

Speedlink

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 €17 million (£14 million) comprised of €15 million (£13 million) which has been paid in cash and €2 million (£2 million) of contingent consideration which is payable upon achievement of certain business objectives, the maximum contingent consideration payable is €3 million (£3 million). There is an intention to purchase the remaining 30% of share capital over the next 3 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 €11 million (£10 million), intangible assets of €15 million (£13 million) and deferred tax liability of €4 million (£3 million) were recognised on acquisition.

Carbó Collbatallé, S.L.

In April 2022, the Group's subsidiary Logista reached an agreement to acquire 100% of Carbó Collbatellé, S.L. for an expected maximum purchase consideration of €51 million (£44 million) based on achievement of certain business conditions being met. The acquisition was completed in October 2022, after these conditions had been met and payment of the full €51 million (£44 million) was made.

Transportes El Mosca

On 17 June 2022, the Group's subsidiary Logista announced the acquisition of 60% of Transportes El Mosca for an expected maximum purchase consideration of €106 million (£91 million). The acquisition of the remaining 40% is expected over the next three years. The acquisition was completed in October 2022, when Logista paid €83 million in addition to an advance payment of €15 million contingent consideration which will be payable or repayable in part or in full based on achievement of certain business conditions being met.

Assets and Liabilities Held For Disposal

There are no assets or liabilities classified as held for disposal in 2022 (2021: £35 million assets, £35 million liabilities).

11. INTANGIBLE ASSETS

	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

	2021				
£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
Cost					
At 1 October 2020	14,435	12,994	1,463	465	29,357
Additions	–	9	–	28	37
Disposals	(260)	5	(2)	(22)	(279)
Exchange movements	(758)	(649)	(74)	(20)	(1,501)
At 30 September 2021	13,417	12,359	1,387	451	27,614
Amortisation and impairment					
At 1 October 2020	1,895	7,663	1,341	298	11,197
Amortisation charge for the year	–	333	85	37	455
Impairment	–	118	–	2	120
Disposals	(260)	–	(1)	(15)	(276)
Exchange movements	(93)	(379)	(70)	(14)	(556)
Accumulated amortisation	–	7,196	1,355	304	8,855
Accumulated impairment	1,542	539	–	4	2,085
At 30 September 2021	1,542	7,735	1,355	308	10,940
Net book value					
At 30 September 2021	11,875	4,624	32	143	16,674

Amortisation and impairment of acquired intangibles excluded from adjusted operating profit amounted to £349 million (2021: £450 million), this comprises amortisation on intellectual property of £323 million (2021: £320 million) and amortisation on supply agreements of £26 million (2021: £85 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. All were acquired as part of the Altadis purchase.

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

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit, except to the extent these have been treated as restructuring costs.

Goodwill and intangible asset impairment review

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

£ million	2022		2021	
	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Europe	4,710	343	4,402	334
Americas	4,326	–	4,042	–
Africa, Asia & Australasia	1,862	–	1,740	132
Tobacco & NGP	10,898	343	10,184	466
Distribution	1,743	–	1,691	–
	12,641	343	11,875	466

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) 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 Cash Generating Unit Grouping (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 up-trading and down-trading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

Growth rates and discount rates used

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

%	2022			2021		
	Pre-tax discount rate	Initial growth rate	Long-term growth rate	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Europe	10.3	4.6	0.6	9.9	2.7	0.1
Americas	8.7	5.2	1.6	9.8	5.7	1.6
Africa, Asia & Australasia	11.1	2.8	1.3	12.1	1.7	0.3
Distribution	11.8	3.9	1.5	11.2	1.5	1.4

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 has improved compared with the prior year, with a minor improvement in the long term growth rate. This primarily reflects improvements in the Spanish market, travel retail and global duty free businesses.

Americas was broadly in line with the prior year growth assumptions for the initial and medium growth rate.

Africa, Asia & Australasia (AAA) increases in the initial growth rates are driven by improved medium term forecasts, which are due to changes in the growth outlook for a number of key markets. Improvements in forecast profitability reflect actions delivered in line with our strategic goals. The long term growth rate improvement reflects changes in certain assumptions associated with the extrapolation of the initial growth rate for a number of individual markets.

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 2022. 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 in the ESG review section. The review has concluded that there are limited impacts on future cash flows as a result of climate change. Within the impact assessment there is recognition that gross incremental costs of up to £3,466 million may be incurred in the period up to 2050. We have factored these additional costs to the Group into our discounted cash flow forecasts used for impairment testing valuation purposes. 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 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 2022 and hence no impairment charge has been incurred (2021: £118 million).

£1 million (2021: £2 million) impairment charge was incurred in the year relating to software.

12. PROPERTY, PLANT AND EQUIPMENT

	2022			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
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	1	7	–	8
Reclassifications	19	(4)	(5)	10
Exchange movements	26	63	13	102
At 30 September 2022	806	2,080	455	3,341
Depreciation and impairment				
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
Net book value				
At 30 September 2022	625	880	154	1,659

	2021			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2020	905	2,216	438	3,559
Additions	13	99	53	165
Disposals	(78)	(114)	(43)	(235)
Reclassifications	4	1	(4)	1
Transfer to current assets held for disposal	(8)	–	(12)	(20)
Exchange movements	(39)	(116)	(21)	(176)
At 30 September 2021	797	2,086	411	3,294
Depreciation and impairment				
At 1 October 2020	188	1,190	282	1,660
Depreciation charge for the year	20	104	33	157
Impairment	2	11	–	13
Disposals	(40)	(93)	(30)	(163)
Reclassifications	4	(6)	(2)	(4)
Exchange movements	(12)	(60)	(12)	(84)
At 30 September 2021	162	1,146	271	1,579
Net book value				
At 30 September 2021	635	940	140	1,715

13. RIGHT OF USE ASSETS AND LEASE LIABILITY

The movements in right of use assets in the year 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 and impairment	(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 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 of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2022 is as follows:

£ million	2022		
	Lease liabilities	Effect of discounting	Contractual cash flows
Amounts maturing:			
Within one year	58	6	64
Between one and five years	108	32	140
In five years or more	82	3	85
	248	41	289

Future minimum lease payments liabilities are analysed as below:

£ million	2022			
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Due in less than one year	48	2	14	64
Due between one and five years	121	2	17	140
Due in more than five years	85	–	–	85
Total future minimum lease payments payable	254	4	31	289
Effect of discounting				(41)
Lease liability				248

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

£ million	2022	2021
Expenses relating to short-term leases	3	4
Expenses relating to low value asset leases	2	2
Depreciation and impairment expense of right of use assets	74	66
Interest on lease liabilities	6	7

The movements in right of use assets in the year ending 30 September 2021 were as follows:

	2021			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Net book value				
At 1 October 2020	254	8	31	293
Additions	29	2	22	53
Terminations and modifications	(21)	(2)	(3)	(26)
Depreciation	(49)	(2)	(15)	(66)
Exchange movements	(11)	–	(1)	(12)
At 30 September 2021	202	6	34	242

The movements in lease liabilities in the year ending 30 September 2021 were as follows:

£ million	Lease Liabilities
At 1 October 2020	299
Cash flow	(69)
Accretion of interest	7
New leases, terminations and modifications	26
Exchange movements	(12)
At 30 September 2021	251

The maturity profile of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2021 is as follows:

	2021		
£ million	Lease liabilities	Effect of discounting	Contractual cash flows
Amounts maturing:			
Within one year	57	7	64
Between one and five years	124	17	141
In five years or more	70	8	78
	251	32	283

Future minimum lease payments liabilities as at 30 September 2021 are analysed as below:

	2021			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Due in less than one year	47	2	15	64
Due between one and five years	116	3	22	141
Due in more than five years	78	–	–	78
Total future minimum lease payments payable	241	5	37	283
Effect of discounting				(32)
Lease liability				251

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint venture during the year was Global Horizon Ventures Limited. 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 these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

Corporación Habanos SA, Cuba and Altabana SL, Spain were part of the Premium Cigar Division, disposed of on 29 October 2020. Summarised financial information for the Group's joint ventures, which are accounted for under the equity method, is shown below:

£ million	2022		
	Global Horizon Ventures	Others	Total
Revenue	23	27	50
(Loss)/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

£ million	2021				
	Corporación Habanos	Altabana	Global Horizon Ventures	Others	Total
Revenue	15	30	18	27	90
Profit after tax	5	5	13	5	28
Non-current assets	–	–	24	3	27
Current assets	–	–	47	49	96
Total assets	–	–	71	52	123
Current liabilities	–	–	(3)	(43)	(46)
Non-current liabilities	–	–	–	(9)	(9)
Total liabilities	–	–	(3)	(52)	(55)
Net assets	–	–	68	–	68

Transactions and balances with joint ventures

£ million	2022	2021
Sales to	–	6
Purchases from	11	19
Accounts payable to	(3)	(3)

Movement on investments accounted for using the equity method

£ million	2022	2021
At 1 October	88	117
Share of (loss)/profit for the year from joint ventures	(15)	11
Share of profit for the year from associates	2	–
Increase in investment in associates	2	3
Impairment of investment in associates	(12)	–
Dividends	(9)	(9)
Classification to held for disposal and disposals of business	–	(32)
Foreign exchange losses	–	(2)
At 30 September	56	88

15. INVENTORIES

£ million	2022	2021
Raw materials	910	839
Work in progress	73	58
Finished inventories	2,969	2,765
Other inventories	188	172
	4,140	3,834

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,969 million (2021: £2,765 million) there is excise duty of £1,255 million (2021: £1,282 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 £114 million (2021: £115 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	2022		2021	
	Current	Non-current	Current	Non-current
Trade receivables	2,262	3	2,431	3
Less: loss allowance	(76)	(3)	(68)	(3)
Net trade receivables	2,186	–	2,363	–
Other receivables	200	37	227	58
Prepayments	157	30	159	4
	2,543	67	2,749	62

Trade receivables may be analysed as follows:

£ million	2022		2021	
	Current	Non-current	Current	Non-current
Within credit terms	2,084	–	2,271	–
Past due by less than 3 months	93	–	85	–
Past due by more than 3 months	9	–	7	–
Amounts that are impaired	76	3	68	3
	2,262	3	2,431	3

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

£ million	2022	2021
At 1 October	71	116
Net increase/(decrease) in provision	8	(45)
At 30 September	79	71

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. Trade receivables are all repayable within 12 months and therefore the ECL provision represents all expected losses within this term.

17. CASH AND CASH EQUIVALENTS

£ million	2022	2021
Cash at bank and in hand	703	673
Short-term deposits and other liquid assets	1,147	614
	1,850	1,287

£144 million (2021: £152 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 3 months or less from the date the transfer is requested.

18. TRADE AND OTHER PAYABLES

£ million	2022		2021	
	Current	Non-current	Current	Non-current
Trade payables	1,345	–	1,018	–
Duties payable	5,453	–	5,507	–
Other taxes and social security contributions	1,412	–	1,399	–
Other payables	500	–	449	–
Accruals	796	10	733	7
	9,506	10	9,106	7

19. BORROWINGS

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

£ million	2022	2021
Current borrowings		
Bank loans and overdrafts	27	51
Capital market issuance:		
£1,000 million 9.0% notes due February 2022	–	1,056
US\$ 354 million 3.5% notes due February 2023	322	–
€750 million 1.125% notes due August 2023	662	–
Total current borrowings	1,011	1,107
Non-current borrowings		
Bank loans	1	1
Capital market issuance:		
US\$ 1,000 million 3.5% notes due February 2023	–	746
€750 million 1.25% notes due August 2023	–	646
£600 million 8.125% notes due March 2024	626	626
US\$ 1,000 million 3.125% notes due July 2024	910	745
€500 million 1.375% notes due January 2025	445	434
US\$ 1,500 million 4.25% notes due July 2025	1,367	1,119
€650 million 3.375% notes due February 2026	584	570
US\$ 750 million 3.5% notes due July 2026	682	559
£500 million 5.5% notes due September 2026	500	500
€750 million 2.125% notes due February 2027	670	653
US\$ 1,000 million 6.125% notes due July 2027	908	–
US\$ 1,000 million 3.875% notes due July 2029	909	745
£500 million 4.875% notes due June 2032	505	505
€1,000 million 1.75% notes due March 2033	889	866
Total non-current borrowings	8,996	8,715
Total borrowings	10,007	9,822
Analysed as:		
Capital market issuance	9,979	9,770
Bank loans and overdrafts	28	52

Current and non-current borrowings include interest payable of £2 million (2021: £56 million) and £104 million (2021: £93 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 17 February 2022, £1,000 million 9.0% notes were repaid. On 27 July 2022, US\$ 1,000 million (£829 million equivalent) 6.125% notes were issued. On 27 July 2022, a partial repayment of the US\$ 1,000 million 3.5% notes was made; US\$ 646 million (£535 million equivalent) was repaid with the remaining US\$ 354 million due February 2023.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2021: no defaults).

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2022 (including lease liabilities detailed in note 13 and net derivative financial instruments detailed in note 21) is as follows:

£ million	2022			
	Borrowings	Lease liabilities	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:				
Between one and two years	1,537	44	18	1,599
Between two and five years	5,155	64	148	5,367
In five years or more	2,304	82	(79)	2,307
	8,996	190	87	9,273

£ million	2021			
	Borrowings	Lease liabilities	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:				
Between one and two years	1,393	49	(6)	1,436
Between two and five years	4,553	75	(9)	4,619
In five years or more	2,769	70	608	3,447
	8,715	194	593	9,502

Fair value of borrowings

The fair value of borrowings as at 30 September 2022 is estimated to be £9,030 million (2021: £10,386 million). £9,002 million (2021: £10,334 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	2022		2021	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	1,631	1,457	2,686	2,894
EUR	3,250	2,777	3,168	3,278
USD	5,098	4,768	3,916	4,162
Total capital market issuance	9,979	9,002	9,770	10,334

Undrawn revolving credit facilities

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

£ million	2022	2021
Amounts maturing:		
Between two and five years	3,091	3,012
	3,091	3,012

During the year the maturity date of €3,316 million of the Group's existing syndicated multicurrency facility of €3,500 million was extended to 30 September 2025. One syndicate member opted not to extend their participation of €184 million which has a maturity date of 31 March 2025.

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 programs. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets when required and comprises the Chief Financial Officer, the Company Secretary, the Director of Treasury and three Group Regional Finance Directors. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

(A) market risk

Price risk

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 23, the investment in convertible debentures issued by Auxly Cannabis Group Inc. 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 seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

Foreign exchange sensitivity analysis

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2022. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

£ million	2022	2021
	Increase in income	Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of Sterling against euro (2021: 10%)	59	378
10% appreciation of Sterling against US dollar (2021: 10%)	2	7

An equivalent depreciation of Sterling against the above currencies would cause a decrease in income of £72 million and £2 million for euro and US dollar exchange rates respectively (2021: £462 million and £9 million).

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

£ million	2022	2021
	Change in equity	Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of Sterling against euro (2021: 10%)	621	264
10% appreciation of Sterling against US dollar (2021: 10%)	276	270

An equivalent depreciation of Sterling against the above currencies would result in a change in equity of £(759) million and £(338) million for euro and US dollar exchange rates respectively (2021: £(323) million and £(330) million).

At 30 September 2022, after the effect of derivative financial instruments, approximately 80% of the Group's net debt was denominated in euro and non US dollar currencies (2021: 78%), 20% in US dollars (2021: 22%).

Interest rate risk

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2022, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 103% (2021: 68%) of reported net debt was at fixed rates of interest and (3)% (2021: 32%) 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 97% (2021: 66%) of debt was at fixed rates of interest and 3% (2021: 34%) 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 2022, 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 (2021: £nil).

£ million	2022	2021
	Change in income	Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2021: 1%)	13	28
+/- 1% increase in US dollar interest rates (2021: 1%)	(9)	6

(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 £5,151 million at 30 September 2022 (2021: £4,177 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 2022 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement, and subsequently derecognised totalled £570 million (2021: £627 million). The total value of trade receivables reclassified as fair value was £50 million at 30 September 2022 (2021: £69 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 Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with one ISDA Credit Support Annex the Group had placed £12 million as at 30 September 2022 (2021: £37 million) as collateral 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 2022. At the balance sheet date management does not expect these counterparties to default on their current obligations.

Counterparty exposure	2022		2021	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A+	136	A+	35
2nd highest	A-	135	–	–
3rd highest	A-	128	–	–
4th highest	A	127	–	–
5th highest	A+	114	–	–

(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 uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2022, the Group held liquid assets of £1,850 million (2021: £1,287 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2022. 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.

		2022				
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	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

		2021				
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	52	52	51	1	–	–
Capital market issuance	9,770	11,158	1,341	1,678	5,068	3,071
Trade payables	1,018	1,018	1,018	–	–	–
Lease liabilities	251	283	64	55	86	78
Total non-derivative financial liabilities	11,091	12,511	2,474	1,734	5,154	3,149

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 rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in on-going discussions with the relevant rating agencies.

As at 30 September 2022 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	2022	2021
Adjusted net debt	8,054	8,615
Equity attributable to the owners of the parent	6,860	5,352
Total capital	14,914	13,967

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 attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line – These amounts are, therefore, not included in the hedge effectiveness assessment.

Net investment gains and losses are reported in exchange movements within other comprehensive income and the hedging instrument foreign currency gains deferred to the foreign currency revaluation reserve are detailed in the statement of changes in equity.

The Group establishes the hedging ratio by matching the notional balance of the hedging instruments with an equal notional balance of the net assets of the foreign operation. Given that only the undiscounted spot element of hedging instruments is designated in the hedging relationship, no ineffectiveness is expected unless the notional balance of the designated hedging instruments exceeds the total balance of the foreign operation's net assets during the reporting period. The foreign currency risk component is determined as the change in the carrying amount of designated net assets of the foreign operation arising solely from changes in spot foreign currency exchange rates.

All net investment hedges were fully effective at 30 September 2022.

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

£ 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)

£ million	2021				
	Total notional balance	Maturity			
		<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(5,253)	–	(1,389)	(3,219)	(645)
Cross-currency swaps	(2,782)	(1,026)	–	(1,218)	(538)
	(8,035)	(1,026)	(1,389)	(4,437)	(1,183)

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

£ million	2022			
	Notional balance	Carrying amount		Changes in fair value used for calculating hedge in- effectiveness
		Assets	Liabilities	Balance sheet line item
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)

£ million	2021			
	Notional balance	Carrying amount		Changes in fair value used for calculating hedge in- effectiveness
		Assets	Liabilities	Balance sheet line item
Hedging instrument:				
Bonds	5,253	–	5,286	Borrowings 308
Cross-currency swaps	2,782	–	214	Derivative financial instruments 168
Hedged item:				
Investment in a foreign operation	n/a	8,035		476

Reconciliation of changes in the value of net investment hedges:

£ 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)	(583)	(117)	576	(338)
Bonds in net investment hedges of foreign operations	(5,286)	(3)	(532)	407	(5,414)
	(7,165)	(586)	(649)	983	(5,752)

£ million	2021				
	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	(410)	28	168	–	(214)
Bonds in net investment hedges of foreign operations	(6,755)	13	308	1,148	(5,286)
	(7,165)	41	476	1,148	(5,500)

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 €674 million (£595 million equivalent) (2021: €2,506 million (£2,156 million equivalent)) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments and the investment in Auxly Cannabis Group Inc. 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 £3 million (2021: £19 million) and would have been an £8 million (2021: £49 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 and the Auxly investment, 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 CAD\$ 0.81 per share. Repayment of the debenture is due on 25 September 2024. The debenture is valued as a loan receivable measured on the basis of discounting future cash flows at a rate of 14% (2021: 14%) plus the application of an expected credit loss provision. At 30 September 2022 the loan was held at a fair value of £17 million (30 September 2021: £37 million), net of an expected credit loss provision of £53 million (30 September 2021: £16 million).

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.

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
Assets:					
Derivative financial instruments	1,051	(12)	1,039	(948)	91
Liabilities:					
Derivative financial instruments	(1,138)	12	(1,126)	948	(178)
2021					
£ 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
Assets:					
Derivative financial instruments	496	(37)	459	(435)	24
Liabilities:					
Derivative financial instruments	(1,083)	37	(1,046)	435	(611)

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

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
Total financial assets	1,056	—	4,256	5,312	4,290	1,022
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)
Total financial liabilities	(788)	(338)	(18,965)	(20,091)	(9,833)	(10,258)
Total net financial assets/(liabilities)	268	(338)	(14,709)	(14,779)	(5,543)	(9,236)
2021						
£ 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	37	—	2,611	2,648	2,590	58
Cash and cash equivalents	—	—	1,287	1,287	1,287	—
Derivatives	459	—	—	459	68	391
Total financial assets	496	—	3,898	4,394	3,945	449
Borrowings	—	—	(9,822)	(9,822)	(1,107)	(8,715)
Trade and other payables	—	—	(8,373)	(8,373)	(8,373)	—
Derivatives	(832)	(214)	—	(1,046)	(62)	(984)
Lease liabilities	—	—	(251)	(251)	(57)	(194)
Total financial liabilities	(832)	(214)	(18,446)	(19,492)	(9,599)	(9,893)
Total net financial liabilities	(336)	(214)	(14,548)	(15,098)	(5,654)	(9,444)

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of the cross currency swaps and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of the cross currency swaps 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 2022 of those bonds included in the above table is £5,414 million (2021: £5,286 million). All of the Group's net investment hedges remain effective.

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

£ million	2022			2021		
	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments:						
Interest rate swaps	6	(36)	(30)	60	(33)	27
Foreign exchange contracts	31	(13)	18	4	(4)	–
Cross-currency swaps	17	(5)	12	4	(25)	(21)
Total current derivatives	54	(54)	–	68	(62)	6
Collateral ¹	–	–	–	–	–	–
	54	(54)	–	68	(62)	6
Non-current derivative financial instruments:						
Interest rate swaps	680	(746)	(66)	391	(780)	(389)
Cross-currency swaps	305	(338)	(33)	–	(241)	(241)
Total non-current derivatives	985	(1,084)	(99)	391	(1,021)	(630)
Collateral ¹	–	12	12	–	37	37
	985	(1,072)	(87)	391	(984)	(593)
Total carrying value of derivative financial instruments	1,039	(1,126)	(87)	459	(1,046)	(587)
Analysed as:						
Interest rate swaps	686	(782)	(96)	451	(813)	(362)
Foreign exchange contracts	31	(13)	18	4	(4)	–
Cross-currency swaps	322	(343)	(21)	4	(266)	(262)
Collateral ¹	–	12	12	–	37	37
Total carrying value of derivative financial instruments	1,039	(1,126)	(87)	459	(1,046)	(587)

1. Collateral deposited against derivative financial liabilities under the terms and conditions of collateral appendices.

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 reputed 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 £3 million (2021: £19 million) and would have been an £8 million (2021: £49 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 2022. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2022. 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	2022					
	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)	(14,576)	(2,739)	(2,025)	(4,645)	(5,167)
Gross settled derivatives	(3)	–	–	–	–	–
– receipts	–	26,616	5,403	6,056	9,471	5,686
– payments	–	(9,635)	(1,851)	(3,201)	(3,944)	(639)
	(87)	2,405	813	830	882	(120)

£ million	2021					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(325)	(480)	16	(1)	(157)	(338)
Gross settled derivatives	(262)	–	–	–	–	–
– receipts	–	5,667	2,516	66	2,522	563
– payments	–	(5,818)	(2,521)	(48)	(2,661)	(588)
	(587)	(631)	11	17	(296)	(363)

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 IFRS9, 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.

Following the discontinuation of GBP LIBOR at the end of 2021 and the pending US\$ LIBOR discontinuation in 2023, in the first half of the fiscal year the Group amended all GBP LIBOR derivatives to reference the daily risk free rate of SONIA instead of GBP LIBOR. All existing US\$ LIBOR derivatives will be changed to reference the daily risk free rate of SOFR instead of US\$ LIBOR during the last quarter of calendar year 2022. New US\$ derivatives transacted during the fiscal year are referencing SOFR. There are no changes pending for EUR derivatives. At present, it is not anticipated that these changes will impact the Group's commercial hedging strategy, nor should they 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 2022, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £9,578 million equivalent (2021: £10,775 million equivalent) with a fair value of £755 million liability (2021: £425 million asset). The fixed interest rates vary from 1.1% to 7.9% (2021: 1.1% to 8.7%), and the floating rates are EURIBOR, SONIA and US dollar LIBOR.

As at 30 September 2022, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £11,548 million equivalent (2021: £8,806 million equivalent) with a fair value of £671 million asset (2021: £750 million liability). The fixed interest rates vary from 0.5% to 4.0% (2021: 0.5% to 4.4%), and the floating rates are EURIBOR, SOFR and US dollar LIBOR. This includes forward starting interest rate swaps with a total notional amount of £3,353 million equivalent (2021: £1,531 million equivalent) with tenors between 1 and 6 years, starting between October 2022 and October 2030.

US dollar interest rate swaps with a total notional amount of US\$ 8,240 million will be impacted by the changes to the use of US dollar LIBOR interest rates. However, the impact of the changes is not expected to be material.

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 rates are recognised in other comprehensive income.

As at 30 September 2022, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £1,600 million (2021: £2,600 million) and the fair value of these swaps was £232 million net liability (2021: £214 million net liability); the notional amount of cross currency swaps entered into to convert floating rate US dollar debt into the desired currency at floating rates of interest was US\$ 2,250 million (2021: US\$ 1,750 million) and the fair value of these swaps was £211 million net asset (2021: £48 million net liability).

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 2022, the notional amount of these contracts was £1,662 million equivalent (2021: £1,430 million equivalent) and the fair value of these contracts was a net asset of £18.5 million (2021: £0.6 million net liability).

Hedges of net investments in foreign operations

As at 30 September 2022, cross currency swaps with a notional amount of €4,103 million (2021: €3,233 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £105 million (2021: £168 million gains) were recognised within exchange movements in other comprehensive income in respect of cross currency swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2021: £nil).

As at 30 September 2022, foreign exchange swaps with a notional amount of €309 million (2021: £nil) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £12 million (2021: £nil) 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 (2021: £nil).

The movements in Other Comprehensive Income due to net investment hedging in the period were as follows:

£ million	2022	2021
Foreign exchange (losses)/gains on borrowings	(532)	308
Foreign exchange (losses)/gains on derivative financial instruments	(117)	168
Reclassification to the Income Statement	–	117
	(649)	593

US dollar cross currency swaps with a total notional amount of US\$ 1,750 million will be impacted by the changes to the use of LIBOR interest rates. However, this will not impact the effectiveness of the contracts in their net investment hedge relationship and the calculation of the amounts recognised in other comprehensive income will be unaffected.

22. DEFERRED TAX ASSETS AND LIABILITIES**Deferred tax assets**

£ million	Consolidated income statement 2022	Consolidated income statement 2021	Consolidated balance sheet 2022	Consolidated balance sheet 2021
Accelerated depreciation and amortisation	14	(7)	(895)	(864)
Retirement benefits	(4)	(38)	(90)	(23)
Tax credits and losses	(17)	171	278	301
Accruals, provisions and other temporary differences	41	30	185	113
Deferred tax expense	34	156		
Net deferred tax liabilities			(522)	(473)

Reflected in the consolidated balance sheet as follows

£ million	2022	2021
Deferred tax assets	439	564
Deferred tax liabilities	(961)	(1,037)
	(522)	(473)

Reconciliation of net deferred tax liabilities

£ million	2022	2021
As at 30 September 2021	(473)	(543)
Hyperinflation restatement to 1 October 2021	(6)	–
At 1 October 2021	(479)	(543)
Charged to the income statement	34	156
Charged to other comprehensive income	(55)	(33)
Credited to equity	2	–
Exchange movements	(18)	(55)
Other movements	(6)	2
As at 30 September	(522)	(473)

Unrecognised deferred tax assets

£ million	Gross 2022	Net 2022	Gross 2021	Net 2021
Tax losses	278	75	504	130
Tax credits	25	25	56	56
Other temporary differences	71	20	47	13
	374	120	607	199

Analysis of unrecognised deferred tax assets by expiry date

£ million	Gross 2022	Net 2022	Gross 2021	Net 2021
Tax losses expiring:				
Within 1 year	–	–	4	1
Within 2-5 years	20	4	36	8
No expiry	258	71	464	121
	278	75	504	130
Tax credits expiring:				
Within 1 year	22	22	36	36
Within 2-5 years	1	1	21	21
No expiry	2	2	–	–
	25	25	57	57
Other temporary differences expiring:				
No expiry	71	20	47	13
	71	20	47	13

Included within net deferred tax liabilities are deferred tax assets recognised of £257 million (2021: £267 million) for tax credits arising in the Group's Spanish business. The majority (£256 million) of these tax credits were recognised in the prior year following an internal reorganisation of the Spanish business. These tax credits have no time expiry. Utilisation of these tax credits is restricted to 50% of the Spanish business' 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 £55 million (2021: £157 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 £20 million (2021: £33 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. These deferred tax assets are expected to be recovered over a period of 20-40 years corresponding to the life of the pension scheme.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2022 we have recognised deferred tax assets of £1 million that were previously unrecognised (2021: recognised deferred tax assets of £8 million that were previously unrecognised) on the basis that it is more likely than not that these are recoverable (2021: recoverable).

A deferred tax liability of £43 million (2021: £101 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £2 billion (2021: £5 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 £1,244 million (£37 million net) (2021: £1,027 million (£29 million net)). 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 62%, 15% and 10% of the Group's total defined benefit obligations and 31%, 32% and 10% of the current service cost respectively.

Imperial Tobacco Pension Fund

The UK scheme, the Imperial Tobacco Pension Fund (or 'ITPF' or 'Fund'), is a capped final salary pension scheme with a normal retirement age of 60 for most members, pensionable pay was capped as at 1 September 2017 to £75,000 (or actual pensionable pay if it was higher at that date). The ITPF was offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 12 years. By number, the population as at the most recent funding valuation comprises 78% in respect of pensioners and dependants, 21% in respect of deferred members and 1% in respect of current employees. New employees in the UK are now enrolled into a defined contribution scheme. In certain circumstances, surplus funds in the defined benefit section, may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

The main risk for the Group 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 credit risk on bonds, and exposure to the property market.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases below the pensionable pay cap) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the Fund were to be wound up.

A new valuation is underway as at 31 March 2022 and will be finalised during the first half of 2023. The last valuation in 2019 reported total assets of £4,137 million which covered 110% of past service liabilities. Following the 2019 valuation, a dynamic contribution schedule was agreed such that ITL's annual contributions will reduce or increase depending on the ITPF's valuation going forward. The level of the ITL's annual contribution to the Fund was £50 million for the year to 31 March 2022, no contributions are expected for the year to 31 March 2023. 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, surety guarantees with a total value of £225 million and a parental guarantee from Imperial Brands PLC remains in place.

The ITPF undertook a key de-risking step in purchasing a buy-in policy with Standard Life in December 2021 covering around 60% of the current pensioner liabilities. The buy-in eliminates investment return, longevity, inflation and funding risks in respect of those liabilities covered. The buy-in is held as an asset of the ITPF.

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

The ITPF has a pension surplus on the IAS 19 measure, 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 Group an ability to receive a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan 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 this scheme 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. It has a weighted average maturity of 18 years. The scheme population comprises 51% in respect of pensioners, 19% in respect of deferred members and 30% in respect of current employees. It was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits in the plan.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £23 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

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

ITG Scheme

The main USA pension scheme, held by ITG Brands is the ITG Scheme, is a defined benefit pension plan that is closed to new entrants. It has a weighted average maturity of 9 years. The population comprises 79% in respect of pensioners, 9% in respect of deferred members and 12% in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

Other plans

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

For the year ended 30 September 2022 the Group included no new schemes in the IAS19 position following a review of the pension schemes in the Group.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2022 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	2022			2021		
	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(5,319)	5,166	(153)	(5,498)	5,182	(316)
Consolidated income statement expense:						
Current service cost	(49)	–	(49)	(47)	–	(47)
Settlements gains/(losses)	136	(139)	(3)	13	(13)	–
Past service (costs)/income	(2)	–	(2)	9	–	9
Cost of termination benefits	(10)	–	(10)	(18)	–	(18)
Net interest (expense)/income on net defined benefit (liability)/asset	(99)	107	8	(87)	89	2
Administration costs paid from plan assets	–	(5)	(5)	–	(5)	(5)
Cost recognised in the income statement			(61)			(59)
Remeasurements:						
Actuarial (loss)/gain due to liability experience	(94)	–	(94)	64	–	64
Actuarial gain/(loss) due to financial assumption changes	1,659	–	1,659	(114)	–	(114)
Actuarial gain due to demographic assumption changes	10	–	10	4	–	4
Return on plan assets excluding amounts included in net interest (expense)/income above	–	(1,499)	(1,499)	–	87	87
Remeasurement effects recognised in other comprehensive income			76			41
Cash:						
Employer contributions	–	120	120	–	126	126
Employee contributions	(1)	1	–	(1)	1	–
Benefits paid directly by the company	311	(311)	–	264	(264)	–
Benefits paid from plan assets	–	–	–	–	–	–
Net cash			120			126
Schemes brought into scope of IAS19	–	–	–	(13)	–	(13)
Exchange movements	(151)	101	(50)	105	(37)	68
Total other			(50)			55
At 30 September	(3,609)	3,541	(68)	(5,319)	5,166	(153)

The cost of termination benefits in the year ended 30 September 2022 and 30 September 2021 mainly relate to restructuring activity in Germany.

Retirement benefit scheme costs charged to operating profit

£ million	2022	2021
Defined benefit expense in operating profit	69	61
Defined contribution expense in operating profit	16	19
Total retirement benefit scheme cost in operating profit	85	80

Split as follows in the consolidated income statement:

£ million	2022	2021
Cost of sales	25	26
Distribution, advertising and selling costs	39	33
Administrative and other expenses	21	21
Total retirement benefit scheme costs in operating profit	85	80

Assets and liabilities recognised in the consolidated balance sheet

£ million	2022	2021
Retirement benefit assets	826	1,046
Retirement benefit liabilities	(894)	(1,199)
Net retirement benefit liability	(68)	(153)

Key figures and assumptions used for major plans

£ million unless otherwise indicated	2022			2021		
	ITPF	RCP	ITGBH	ITPF	RCP	ITGBH
Defined benefit obligation (DBO)	2,229	538	365	3,404	765	403
Fair value of scheme assets	(2,958)	–	(405)	(4,386)	–	(396)
Net defined benefit (asset)/liability	(729)	538	(40)	(982)	765	7
Current service cost	15	15	3	17	15	3
Employer contributions	50	–	–	65	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	5.3	3.7	5.4	2.1	1.1	2.7
Future salary increases	3.7	3.7	n/a	3.4	3.1	n/a
Future pension increases	3.7	2.5	n/a	3.4	2.0	n/a
Inflation	3.7	2.5	2.3	3.4	2.0	2.3

	2022					
	ITPF		RCP		ITGBH	
	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

	2021					
	ITPF		RCP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.1	22.7	20.5	23.9	19.7	21.7
Member currently aged 50	22.1	23.9	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 (2021: 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 (2021: 2018) 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	2022			2021		
	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Discount rate: 0.5% decrease	6.1	9.5	4.9	8.6	10.8	5.8
Rate of inflation: 0.5% decrease	(4.9)	(6.3)	n/a	(6.9)	(7.0)	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.7	4.7	4.6	5.1	5.1	5.1

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 £22 million.

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

£ million unless otherwise indicated	2022		2021	
	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Bonds – index linked government	409	14	2,115	48
Bonds – corporate and other	34	1	815	19
Property	604	20	592	14
Absolute return	827	28	849	19
Insurance contract	1,058	36	–	–
Other – including derivatives, commodities and cash	26	1	15	–
	2,958	100	4,386	100

The primary investment objective is to invest the ITPF's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as they fall due. Specifically the ITPF targets an expected return in excess of the growth in the liabilities, which in conjunction with the contributions paid is consistent to achieve and maintain an ongoing funding level of at least 100 % on a buy-out basis by 2028.

The majority of the assets are non-quoted. The ITPF holds £nil of self-invested assets (2021: £nil). As in previous years, the value of ground leases have been allocated to the property asset class.

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

£ million unless otherwise indicated	2022		2021	
	Fair value	Percentage of ITGBH scheme assets	Fair value	Percentage of ITGBH scheme assets
Investment funds	–	–	279	70
Bonds – fixed government	–	–	20	5
Bonds – corporate and other	–	–	63	16
Other – including derivatives, commodities and cash	405	100	34	9
	405	100	396	100

The majority of the assets are non-quoted.

24. PROVISIONS

£ million	2022		
	Restructuring	Other	Total
At 1 October 2021	251	143	394
Additional provisions charged to the consolidated income statement	115	46	161
Amounts used	(61)	(13)	(74)
Unused amounts reversed	(27)	(39)	(66)
Exchange movements	8	3	11
At 30 September 2022	286	140	426

Analysed as:

£ million	2022	2021
Current	203	188
Non-current	223	206
	426	394

Restructuring provisions relate mainly to our 2021 strategic review programme and cost optimisation programmes (see note 5).

The restructuring provision is split between 2021 strategic review programme of £155 million, cost optimisation programmes of £121 million and other programmes of £10 million.

Within the cost optimisation programme provisions there is £67 million related to costs of consolidating the manufacturing capacity within the Group.

Other provisions include £46 million relating to various local tax or duty requirements, £37 million relating to local employment requirements including holiday pay, £21 million of distribution requirements relating to employment and duty and £21 million of market exit provisions. The provisions are spread throughout the Group and payment will be dependent on local statutory requirements.

Most provisions will 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

£ million	2022	2021
Authorised, issued and fully paid		
1,020,697,238 ordinary shares of 10p each (2021: 1,020,697,238)	103	103

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	2022	2021
Share Matching Scheme	2	3
Long Term Incentive Plan	25	20
Sharesave Plan	1	1
Discretionary Share Awards Plan	1	1
	29	25

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2022 was £3.6 million (2021 £1.8 million).

Reconciliation of movements in awards/options

	2022				
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 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

	2021				
Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2020	461	6,595	2,006	70	15.31
Granted	253	3,763	371	17	13.09
Lapsed/cancelled	(25)	(2,003)	(323)	(3)	21.74
Exercised	(207)	(943)	(1)	(24)	5.45
Outstanding at 30 September 2021	482	7,412	2,053	60	13.89
Exercisable at 30 September 2021	–	–	170	–	22.24

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £16.83 (2021: £14.96). The weighted average fair value of Sharesave options granted during the year was £3.30 (2021: £2.35).

Summary of awards/options outstanding at 30 September 2022

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2020	139	5	n/a
2021	197	17	n/a
2022	151	29	n/a
Total awards outstanding	487		
Long Term Incentive Plan			
2020	2,137	10	n/a
2021	2,815	19	n/a
2022	3,168	29	n/a
Total awards outstanding	8,120		
Sharesave Plan			
2019	151	–	17.45
2020	1,161	11	12.37
2021	340	23	13.09
2022	273	33	14.56
Total options outstanding	1,925		
Discretionary Share Awards Plan			
2021	13	17	n/a
2022	106	30	n/a
Total options outstanding	119		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan, Discretionary Shares Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2022 and 2021 is as follows:

	2022		
	Share matching	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
	2021		
	Share matching	Sharesave	DSAP
Risk-free interest rate %	0.7	(0.4)-0.2	0.7
Volatility (based on 3 or 5 year history) %	36.0	33.9	26.3
Expected lives of options granted years	3.0	3.0	3.0
Dividend yield %	8.9	8.9	6.7
Fair value £	12.37	2.31-2.56	12.86
Share price used to determine exercise price £	16.00	16.00	15.27
Exercise price £	n/a	13.09	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 2022 and 2021 are given in the following table:

%	2022	2021
Future Imperial Brands share price volatility	29.6	31.2
Future Imperial Brands dividend yield	–	–
Share price volatility of the tobacco and alcohol comparator group	17.0-83.7	17.4-40.9
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	24.4	26.7

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 2022. 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	2022	2021
At 1 October	0.9	2.1
Gift of shares from Treasury	4.0	–
Distribution of shares held by Employee Share Ownership Trusts	(1.2)	(1.2)
At 30 September	3.7	0.9

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2021: nil) and £3.7 million (2021: £0.9 million) treasury shares gifted to the Trusts by the Group. There were 4 million shares (2021: nil) gifted in the year ended 30 September 2022.

27. TREASURY SHARES

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Acts. 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. Although the Group did not purchase any shares during the period, a share buyback programme was initiated after the balance sheet date, and these shares will be cancelled on completion of the purchase. Treasury shares reduced in the period after 4.0 million shares were gifted to the Employee Share Ownership Trusts to satisfy commitments to the employee share schemes.

£ million unless otherwise indicated	2022		2021	
	Millions of shares (number)	Value £	Millions of shares (number)	Value £
At 1 October	74.3	2,183	74.3	2,183
Gifted to Employee Share Ownership Trusts	(4.0)	–	–	–
At 30 September	70.3	2,183	74.3	2,183
Percentage of issued share capital	6.9	n/a	7.3	n/a

28. COMMITMENTS

Capital commitments

£ million	2022	2021
Contracted but not provided for:		
Property, plant and equipment and software	95	86

29. CONTINGENT LIABILITIES

The following summary includes updates to matters that have developed since the 2021 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"). ITGB 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. ITGB has also been involved in litigation with Reynolds in the Delaware court that has jurisdiction over disputes under the acquisition agreement for the Acquired Brands. All cases have now been resolved with the exception of Delaware court which involves Reynolds' claim to indemnity for Florida settlement payments. Amounts at issue range from US\$ 73 million to US\$ 182 million through 2021, plus interest and attorney's fees, and US\$ 20 million to US\$ 29 million annually going forward. Details are provided below.

Delaware

ITGB and Reynolds are engaged in litigation in the Delaware court with respect to whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlements with Florida, Minnesota and Texas under the APA through which ITGB purchased the Acquired Brands and whether regardless of that "reasonable best efforts" requirement whether ITGB is required to indemnify Reynolds for amounts other courts may require Reynolds to pay. On 30 November 2017, on cross-motions by Reynolds and ITGB, the Delaware court held that the "reasonable best efforts" provision did not automatically terminate due to the transaction closing, but determined further that the duty of reasonable best efforts was not perpetual and that whether ITGB complied with that obligation is a question of fact that the court has not decided. On 23 September 2019, the Delaware court denied a motion by Reynolds to hold ITGB liable under other indemnity provisions of the APA for Reynolds' liability under the Florida decision irrespective of whether ITGB breached a duty of reasonable best efforts, finding a fact question on that argument. The parties filed summary judgment motions. A trial was set for 24 October 2022. 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 under Florida law, and further held that as a matter of law the contract provisions were unambiguous and no evidence was required to determine 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 have submitted an agreed schedule to the court to address the issue of damages which would result in initial motions on that issue being submitted by mid-January 2023.

Reynolds originally sought indemnification for all amounts it might be required to pay in settlement for the Acquired Brands in the Florida, Minnesota, and Texas litigations, described above. The portions of the Delaware dispute that related to Minnesota and Texas have been settled and dismissed, however, so Reynolds' claim for indemnification in Delaware is now limited 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, and 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. Based on the current facts and circumstances we consider it improbable that this potential liability will crystallise and therefore no provision has been recognised.

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 c. 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 matters

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.

Competition authority investigations

Belgium

On 29 May 2017, the National Competition Authority in Belgium (the BCA) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. On 1 October 2021 the BCA announced that it had issued a Proposal for Decision which alleges the existence of anticompetitive practices in the tobacco industry that lasted for several years and consisted in repeated indirect exchanges of information on manufacturers' prices through wholesalers. The BCA stated that such conduct may be contrary to Article IV.1 CEL and Article 101 TFEU.

Following the parties' defence and a hearing, an infringement Decision was issued in April 2022 by the BCA Competition College imposing a fine of €7.14 million on the Company's Belgian subsidiary, payable within 30 Days of the notification of the Decision. This amount had been paid and accounted for during the year so no provision or contingent liability remains at the year-end relating to this case. An appeal to the Market Court in Brussels was made on 18 May 2022. The parties will exchange submissions ahead of the Market Court hearing on 23 and 30 November 2022.

Spain

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

In the Altadis appeal, both parties have concluded their submissions to the Court and a judgment is awaited. In the Logista appeal, Logista submitted their pleadings before the High Spanish Court in February 2021. The judgment of the Court of First Instance is currently pending.

Other litigation

US Helms-Burton litigation

Imperial 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. The district judge will review the recommendation, consider any objections to the recommendation filed by the parties, and issue a final order on the motion to dismiss. In the event the motion to dismiss is denied, the court has set a schedule for further proceedings, with trial commencing in July 2023. No provision has been made for potential liabilities related to this claim. The magistrate judge has recommended that the action be dismissed. In the event the district judge rejects that recommendation and the motion to dismiss is denied, the Company will have an opportunity to file a defence to the claim on the merits.

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 has been postponed pending other case management actions and will be determined at a subsequent case management hearing which will be held 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.

Morocco

A number of cases have been raised against Société Marocaine des Tabacs SA (SMT) disputing a reduction to retirees' pensions. These cases have been in the courts for several years and SMT has successfully defended many of them in the lower courts. A total of 188 cases have been reviewed by the Cour de Cassation (Supreme Court) in Morocco, and it is understood that they have been decided against SMT and in favour of retirees. SMT has filed retractions proceedings and raised new legal arguments in pending and new claims before the lower courts.

The written reasoned judgment of the Cour de Cassation in claims found against SMT has not been received by SMT at the time of signing these accounts. Furthermore, the judgments in favour of the retirees reportedly relate to unquantified claims. Because of this, it is not possible to assess the impact of the decided cases on the remaining cases within the Moroccan courts. SMT continues to defend its position.

Spain

A claim has been made against the Group's subsidiary, Altadis SA, by the General Attorney of Spain seeking repayment of state aid paid out between c. 2004 and 2010 (part of which period was prior to the Group's acquisition of Altadis, which took place in 2008). State aid was paid by the regional government of Andalusia to various insurance companies, to finance the early retirement costs of Altadis ex-employees following the termination of their employment contracts related to closure of an Altadis factory. In January 2022 the Court ordered that the claim should proceed to the next stage and that Altadis should file a bank guarantee in the sum of €27.3 million at Court (the amount claimed plus 1/3 required under Spanish law). Altadis appealed the ruling on the guarantee and, in September 2022, the Appeal Court decided that Altadis should not provide any guarantee. There are no dates scheduled in the court timetable for hearing the appeals against the main claim. The Group does not expect this claim to succeed, and no associated provision has been recognised.

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 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	–	–	–	–
Net cash flow	1,595	68	(829)	(94)	740	515	1,255
Accretion of 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)

£ million	Current borrowings	Lease liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2020	(1,442)	(299)	(10,210)	(816)	(12,767)	1,626	(11,141)
Reallocation of current borrowings from non-current borrowings	(1,055)	–	1,055	–	–	–	–
Net cash flow	1,294	69	72	(41)	1,394	(330)	1,064
Accretion of interest	13	(7)	1	1	8	–	8
Change in fair values	–	–	–	51	51	–	51
New leases, terminations and modifications	–	(26)	–	–	(26)	–	(26)
Exchange movements	83	12	367	218	680	(9)	671
At 30 September 2021	(1,107)	(251)	(8,715)	(587)	(10,660)	1,287	(9,373)

Average reported net debt during the year was £9,822 million (2021: £11,148 million).

Analysis by denomination currency

	2022				
£ million	GBP	EUR	USD	Other	Total
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	1,561	(3,637)	2,056	–	(20)
	187	(6,682)	(2,069)	387	(8,177)
Lease liabilities	(45)	(148)	(20)	(35)	(248)
Derivative financial instruments					(67)
Net debt					(8,492)

	2021				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	190	188	505	404	1,287
Total borrowings	(2,696)	(3,179)	(3,917)	(30)	(9,822)
	(2,506)	(2,991)	(3,412)	374	(8,535)
Effect of cross currency swaps	2,580	(4,147)	1,305	–	(262)
	74	(7,138)	(2,107)	374	(8,797)
Lease liabilities	(37)	(153)	(23)	(38)	(251)
Derivative financial instruments					(325)
Net debt					(9,373)

31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2022	2021
Increase/(decrease) in cash and cash equivalents	515	(330)
Cash flows relating to derivative financial instruments	(94)	(41)
Repayment of lease liabilities	68	69
Increase in borrowings	(1,710)	(858)
Repayment of borrowings	2,476	2,224
Change in net debt resulting from cash flows	1,255	1,064
Other non-cash movements including revaluation of derivative financial instruments	299	59
Lease liabilities	(54)	(26)
Exchange movements	(619)	671
Movement in net debt during the year	881	1,768
Opening net debt	(9,373)	(11,141)
Closing net debt	(8,492)	(9,373)

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	2022	2021
Current assets	6,094	5,958
Current liabilities	(6,763)	(6,687)
Current net assets	(669)	(729)
Non-current assets	1,599	1,630
Non-current liabilities	(365)	(376)
Non-current net assets	1,234	1,254
Net assets	565	525

Summarised statement of comprehensive income

for the year ended 30 September

Euro million	2022	2021
Revenue	11,464	10,817
Profit for the year	199	174
Other comprehensive income	7	–
Total comprehensive income	206	174

Summarised cash flow statement

for the year ended 30 September

Euro million	2022	2021
Cash flows from operating activities	649	(302)
Cash flows from investing activities	(63)	505
Cash flows from financing activities	(539)	(194)
Net increase in cash and cash equivalents	47	9

33. POST BALANCE SHEET EVENTS

Share Buybacks

On 6 October 2022 Imperial Brands plc ("the Company") announced the start of an ongoing share buyback programme, to initially repurchase up to £1 billion of shares in the period from 7 October 2022 to 30 September 2023.

Pension fund loan

Imperial Brands Finance PLC provided a temporary loan facility of £320 million to the Imperial Tobacco Pension Fund, of which £200 million had been drawn down during the first half of October 2022 to support ongoing liquidity requirements within the Fund's Liability Driven Investment holdings during a period of volatility in the UK Government Bond market. £70 million of the drawn amount has been repaid, with the remaining £130 million to be repaid before 31 March 2023.

Logista acquisitions

In October 2022, the Group's subsidiary Logista completed the acquisition of Carbó Collbatellé, S.L. and Transportes El Mosca. Further details can be found in note 10.

Russian disposal – associated markets exits

Following the decision to sell the Volgograd factory that completed April 2022, it was determined that it would no longer be economically viable to operate in a number of associated markets. As a consequence of this, the Group announced on 1 November 2022 that it was ending all operations in Kazakhstan, Kyrgyzstan and Mongolia.

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 the Imperial Brands PLC, as at 30 September 2022, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

ADJUSTED PERFORMANCE MEASURES

Use of adjusted performance measures

Management believes that non-GAAP or adjusted performance measures provide an important comparison of business performance and reflect the way in which the business is controlled. The adjusted performance measures seek to remove the distorting effects of a number of significant gains or losses arising from transactions which are not directly related to the ongoing underlying performance of the business and may be non-recurring events or not directly within the control of management.

Accordingly, adjusted performance measures exclude, where applicable, amortisation and impairment of acquired intangibles, profit/loss on disposal of subsidiaries, Russian and associated markets exit, restructuring costs, acquisition and disposal costs, fair value and exchange gains and losses on financial instruments, post-employment benefits net financing cost, and related tax effects and tax matters. Other significant gains or losses which are not representative of the underlying business may also be treated as adjusting items where there is appropriate justification. The adjusted performance measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. The adjusted performance measures that are used by the Group are defined and reconciled back to the associated IFRS metrics as detailed below.

Summary of key adjusting items

The items excluded from adjusted performance results are those which are one-off in nature or items which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted performance measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

Consolidated income statement adjusting items

The following tables summarise the key items recognised within the consolidated income statement that have been treated as adjusting items:

Adjusting items recognised within administrative and other expenses

£ million	Notes	2022	2021
Russian and associated markets exit costs		(399)	–
Amortisation and impairment of acquired intangibles		(349)	(450)
Restructuring costs	5	(197)	(257)
Fair value adjustment to financial assets		(37)	15
(Loss)/profit on disposal of subsidiaries	10	(29)	281
Acquisition and disposal costs		(5)	(17)
Excise tax provision		9	1
Buy-out of liabilities on Irish pension scheme		(4)	–
Total adjusting administrative and other expenses		(1,011)	(427)
Total non-adjusting administrative and other expenses		(323)	(336)
Administrative and other expenses		(1,334)	(763)

Amortisation and impairment of acquired intangibles

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. Any negative goodwill arising is recognised immediately in the income statement. The Group exclude from our adjusted performance measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles. Gains and losses on the sale of intellectual property are removed from adjusted operating profit.

It is recognised that there may be some correlation between the amortisation charges derived from the acquisition value of acquired intangibles, and the subsequent future profit streams arising from sales of associated branded products. However, the amortisation of intangibles is not directly related to the operating performance of the business. Conversely, the level of profitability of branded products is directly influenced by day to day commercial actions, with variations in the level of profit derived from branded product sales acting as a clear indicator of performance. Given this, the Group's view is that amortisation and impairment charges do not clearly correlate to the ongoing variations in the commercial results of the business and are therefore excluded to allow a clearer view of the underlying performance of the organisation. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

Total amortisation and impairment for the year is £394 million (2021: £575 million) of which £349 million (2021: £450 million) relates to acquired intangibles and is adjusting and £45 million (2021: £125 million) relates to internally generated intangibles and is non adjusting. In the year to 30 September 2022 adjusting items all relate to amortisation. £323 million (2021: £320 million) is attributable to Tobacco & NGP and £26 million (2021: £85 million) is attributable to distribution.

Profit/loss on disposal of subsidiaries/acquisition and disposal costs

Adjusted performance measures exclude costs and profits or losses associated with major acquisitions and disposals as they do not relate to the day to day operational performance of the Group. Acquisition and disposal costs, and profits or losses on disposal can be significant in size and are one-off in nature. Exclusion of these items allows a clearer presentation of the day to day underlying income and costs of the business. Where applicable and not reported separately, this includes changes in contingent or deferred consideration.

Restructuring costs

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs are all Board approved, and include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity. These costs are required in order to address structural issues associated with operating within the Tobacco sector that have required action to both modernise and right-size the organisation, ultimately delivering an operating model suitable for the future of the business. The Group's view is that as these costs are both significant and one-off in nature, excluding them allows a clearer presentation of the underlying costs of the business.

Russian and associated markets exit

The portion of the loss on exit of the Russian and associated markets adjusted out of operating profit was £399 million comprising a loss on transfer of Russian operations of £364 million and impairment of assets and exit costs of the associated markets of £35 million.

Fair value adjustment to financial assets

As the movement in the fair value of loan receivables associated with the investment in Auxly Cannabis Group Inc. and the movement in the investment in associate Oxford Cannabinoid Technologies Holdings plc has the potential to be significant, and do not relate to the day to day operational performance of the group, the Group has excluded these fair value movements from adjusted operating profit.

Adjusting items recognised within share of (loss)/profit of investments accounted for using the equity method

£ million	Notes	2022	2021
Impairment of intangible assets held by Global Horizons Ventures Limited		(24)	–
Other profits from investments accounted for using the equity method		9	11
Share of (loss)/profit of investments accounted for using the equity method		(15)	11

Impairment of intangible assets held by global horizon joint venture

The Group has an investment in the Global Horizon Ventures Limited joint venture company which is accounted for as an investment using the equity method. This 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 these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

Adjusting items recognised within tax

£ million	2022	2021
Deferred tax on amortisation of acquired intangibles	15	31
Tax on net foreign exchange and fair value gains and losses on financial instruments	(183)	78
Tax on post-employment benefits net financing cost	–	1
Tax on restructuring costs	49	72
Tax on disposal of subsidiaries	8	11
Recognition of tax credits	–	239
Provision for state aid tax recoverable	(101)	–
Uncertain tax positions	63	–
Deferred tax on unremitted earnings	26	–
Tax on unrecognised losses	(8)	(47)
Other non-adjusting taxation charges	(755)	(716)
Reported tax	(886)	(331)

Tax adjustments related to other pre-tax adjusting items

The adjusted tax charge has been calculated to include the tax effects of a number of pre-tax adjusting items including the amortisation of acquired intangibles, net foreign exchange gains and losses, fair value movements on financial instruments, restructuring costs and post-employment benefits net financing cost. The tax effect of the result of the disposal of subsidiaries has also been adjusted.

Significant one-off tax charges or credits

The adjusted tax charge also excludes significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or
- newly enacted taxes in the year; or
- tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

The recognition and utilisation of deferred tax assets relating to tax losses and tax credits not historically generated in the normal course of business are excluded on the same basis.

Recognition of tax credits

The recognition and utilisation of deferred tax assets relating to tax credits not historically generated in the normal course of business are excluded from the adjusted tax charge.

Uncertain tax positions

Significant one-off tax charges or credits arising from a provision for uncertain tax items not arising in the normal course of business are excluded from the adjusted tax charge.

Provision for State aid recoverable

Significant one-off tax charges or credits arising from prior period items are excluded from the adjusted tax charge. The provision against the state aid tax recoverable is excluded from the adjusted tax charge on this basis.

Deferred tax on unremitted earnings

Significant one-off tax charges or credits arising from prior period items are excluded from the adjusted tax charge. The tax effect of the release of a provision for deferred tax on unremitted earnings is excluded from the adjusted tax charge on this basis.

Tax on unrecognised losses

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded from the adjusted tax charge.

DEFINITIONS AND RECONCILIATIONS OF ADJUSTED MEASURES**A) Tobacco & NGP net revenue**

Tobacco & Next Generation Products (NGP) net revenue comprises associated revenue less duty and similar items, excluding peripheral products. Management considers this an important measure in assessing the performance of Tobacco & NGP operations.

The Group recognises revenue on sales to Logista, a Group company, within its reported Tobacco & NGP revenue figure. As the revenue calculation includes sales made to Logista from other Group companies but excludes Logista's external sales, this metric differs from revenue calculated under IFRS accounting standards. For the purposes of Adjusted Performance Measures on Net Revenue the Group treat Logista as an arm's length distributor on the basis that contractual rights are in line with other Third Party suppliers to Logista. Variations in the amount of inventory held by Logista results in a different level of revenue compared to that which is included within the income statement. For tobacco product sales, inventory level variations are normally not significant.

Reconciliation from Tobacco & NGP revenue to Tobacco & NGP net revenue

£ million	2022			2021		
	Tobacco	NGP	Total	Tobacco	NGP	Total
Revenue	23,232	224	23,456	23,664	199	23,863
Duty and similar items	(15,628)	(16)	(15,644)	(16,218)	(11)	(16,229)
Sale of peripheral products	(19)	–	(19)	(24)	–	(24)
Net revenue	7,585	208	7,793	7,422	188	7,610

B) Distribution net revenue

Distribution net revenue comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations.

Reconciliation from Distribution revenue to Distribution net revenue

£ million	2022	2021
Revenue	9,756	9,589
Cost of sales – Distribution	(8,710)	(8,520)
Distribution net revenue	1,046	1,069

C) Adjusted operating profit

Adjusted operating profit is calculated as operating profit amended for a number of adjustments, the principal changes are detailed below. This measure is separately calculated and disclosed for Tobacco, NGP and Distribution where appropriate.

Reconciliation from profit before tax to adjusted operating profit

£ million	2022	2021
Profit before tax	2,551	3,238
Net finance costs/(income)	117	(81)
Share of loss/(profit) of investments accounted for using the equity method	15	(11)
Operating profit	2,683	3,146
Russian and associated markets exit costs	399	–
Amortisation and impairment of acquired intangibles	349	450
Restructuring costs	197	257
Fair value adjustment to financial assets	37	(15)
Loss/(profit) on disposal of subsidiaries	29	(281)
Acquisition and disposal costs	5	17
Excise tax provision	(9)	(1)
Buy-out of liabilities on Irish pension scheme	4	–
Total adjustments	1,011	427
Adjusted operating profit	3,694	3,573

Reconciliation from Tobacco & NGP operating profit to adjusted operating profit

£ million	2022	2021
Operating profit	2,472	2,991
Russian and associated markets exit	399	–
Amortisation and impairment of acquired intangibles	323	365
Restructuring costs	197	249
Loss/(profit) on disposal of subsidiaries	13	(281)
Fair value adjustment to financial assets	37	(15)
Acquisition and disposal costs	5	–
Excise tax provision	(9)	(1)
Buy-out of liabilities on Irish pension scheme	4	–
Adjusted operating profit	3,441	3,308

Reconciliation from distribution operating profit to adjusted operating profit

£ million	2022	2021
Operating profit	212	148
Loss on disposal of subsidiaries	16	–
Acquisition and disposal costs	–	17
Amortisation of acquired intangibles	26	85
Restructuring costs	–	8
Adjusted operating profit	254	258

See note 7 for details of the Excise tax. See note 11 for details on amortisation and impairment, note 10 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

D) Adjusted operating profit margin

Adjusted operating profit margin is adjusted operating profit divided by net revenue expressed as a percentage. This measure is separately calculated and disclosed for Tobacco, NGP and Distribution businesses where appropriate. There is no reconciliation required for this metric.

E) Adjusted net finance costs

Adjusted net finance costs excludes the movements in the fair value of financial instruments which are marked to market and not naturally offset. This measure also excludes all post-employment benefit net finance costs since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt.

IFRS 9 requires that all derivative financial instruments are recognised in the consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IFRS 9 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IFRS 9, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IFRS 9, in order to reduce income statement volatility.

The Group exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as there is no direct natural offset between the movements on derivatives and the interest charge on debt in any one period, as the derivatives and debt instruments may be contracted over different periods, although they will reverse over time or are matched in future periods by interest charges. The fair value gains on derivatives are excluded as they can introduce volatility in the finance charge for any given period.

Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the instruments in a net investment hedging relationship are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

Fair value movements arising from the revaluation of contingent consideration liabilities are adjusted out where they represent one-off acquisition costs that are not linked to the current period underlying performance of the business. Fair value adjustments on loans receivable measured at fair value are excluded as they arise due to counterparty credit risk changes that are not directly related to the underlying commercial performance of the business.

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures, as they primarily represent charges associated with historic employee benefit commitments, rather than the ongoing current period costs of operating the business.

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2022	2021
Reported net finance costs/(income)	117	(81)
Fair value gains on derivative financial instruments	1,483	508
Fair value losses on derivative financial instruments	(1,213)	(457)
Exchange (losses)/gains on financing activities	(69)	445
Net fair value and exchange losses on financial instruments	201	496
Interest income on net defined benefit assets	107	89
Interest cost on net defined benefit liabilities	(99)	(87)
Post-employment benefits net financing cost	8	2
Adjusted net finance costs	326	417
Comprising:		
Interest income on bank deposits	(9)	(18)
Interest cost on lease liabilities	6	7
Interest cost on bank and other loans	329	428
Adjusted net finance costs	326	417

F) Adjusted tax charge

The adjusted tax charge is calculated by amending the reported tax charge for significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or
- newly enacted taxes in the year; or
- tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded on the same basis.

The adjusted tax rate is calculated as the adjusted tax charge divided by the adjusted profit before tax.

£ million	2022	2021
Reported tax	886	331
Deferred tax on amortisation of acquired intangibles	15	31
Tax on net foreign exchange and fair value gains and losses on financial instruments	(183)	78
Tax on post-employment benefits net financing cost	–	1
Tax on restructuring costs	49	72
Tax on disposal of subsidiaries	8	11
Recognition of tax credits	–	239
Provision for state aid recoverable	(101)	–
Uncertain tax positions	63	–
Deferred tax on unremitted earnings	26	–
Tax on unrecognised losses	(8)	(47)
Adjusted tax charge	755	716

G) Adjusted earnings per share

Adjusted earnings is calculated by amending the reported basic earnings for all of the adjustments recognised in the calculation of the adjusted operating profit, adjusted finance costs and adjusted tax charge metrics as detailed above. Adjusted earnings per share is calculated by dividing adjusted earnings by the weighted average number of shares.

Reconciliation from reported to adjusted earnings and earnings per share

£ million unless otherwise indicated	2022		2021	
	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	165.9	1,570	299.9	2,834
Russian and associated markets exit	42.2	399	–	–
Amortisation and impairment of acquired intangibles	35.4	334	44.3	419
Restructuring costs	15.6	148	19.6	185
Fair value adjustment to financial assets	3.9	37	(1.6)	(15)
Profit on disposal of subsidiaries	2.2	21	(29.7)	(281)
Acquisition and disposal costs	0.5	5	1.8	17
Excise tax provision	(1.0)	(9)	(0.1)	(1)
Buy-out of liabilities on Irish pension scheme	0.4	4	–	–
Tax on disposal of premium cigar division	–	–	(1.2)	(11)
Net fair value and exchange movements on financial instruments	(1.9)	(18)	(60.7)	(574)
Post-employment benefits net financing cost	(0.8)	(8)	(0.3)	(3)
Brand impairment in equity accounted joint venture	2.5	24	–	–
Provision for state aid recoverable	10.7	101	–	–
Uncertain tax positions	(6.7)	(63)	–	–
Deferred tax on unremitted earnings	(2.7)	(26)	–	–
Tax on unrecognised losses	0.8	8	5.0	47
Recognition of tax credits	–	–	(25.3)	(239)
Adjustments above attributable to non-controlling interests	(1.8)	(18)	(4.6)	(43)
Adjusted	265.2	2,509	247.1	2,335
Adjusted diluted	263.3	2,509	246.4	2,335

H) Return on invested capital (ROIC)

Return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted operating profit after tax by the annual average of intangible assets, property, plant and equipment, net assets held for sale, inventories, trade and other receivables and trade payables and other current liabilities.

The annual average is defined as the average of the opening and closing balance sheet values.

£ million unless otherwise stated	2022	2021	2020
Reported operating profit	2,683	3,146	–
Adjusting items (see reconciliation c)	1,011	427	–
Adjusted operating profit	3,694	3,573	–
Equivalent tax charge	(827)	(807)	–
Net adjusted operating profit after tax	2,867	2,766	–
Working capital	(2,823)	(2,523)	(3,467)
Intangibles	17,777	16,674	18,160
Property, plant & equipment	1,659	1,715	1,899
Assets held for disposal	–	–	1,024
Invested capital	16,613	15,866	17,616
Average annual invested capital	16,240	16,741	–
Return on invested capital	17.7%	16.5%	–

I) Constant currency

Constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. The Group translate current year results at prior year foreign exchange rates. An analysis of all key metrics can be found in the Group Financial Review on pages 73-81.

J) Adjusted net debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, lease commitments and the fair value of derivative financial instruments providing commercial hedges of interest rate risk. The adjusted net debt metric is used in monitoring performance against various debt management obligations including covenant compliance.

Adjusted net debt calculation

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and lease liabilities.

£ million	2022	2021
Reported net debt	(8,492)	(9,373)
Accrued interest	105	140
Lease liabilities	248	251
Fair value of interest rate derivatives	85	367
Adjusted net debt	(8,054)	(8,615)

Average adjusted net debt during the year was £9,198 million (2021: £10,361 million).

K) Adjusted net debt to earnings before interest, taxation, depreciation and amortisation (EBITDA) multiple

This is defined as adjusted net debt divided by adjusted EBITDA. Adjusted net debt is measured at balance sheet foreign exchange rates, with a full reconciliation shown in table J above. Adjusted EBITDA is calculated as adjusted operating profit plus amortisation, depreciation and impairments. The reconciliation from reported Group operating profit to EBITDA is shown below.

£ million	2022	2021
Operating profit	2,683	3,146
Depreciation, amortisation and impairments	660	815
EBITDA	3,343	3,961

L) Adjusted operating cash conversion

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

Adjusted operating cash conversion calculation

£ million	2022	2021
Net cash flows generated from operating activities	3,186	2,167
Tax	681	820
Net capital expenditure	(177)	(150)
Restructuring	91	112
Cash flow post capital expenditure pre interest and tax	3,781	2,949
Adjusted operating profit	3,694	3,573
Adjusted operating cash conversion	102%	83%

M) Free cash flow

Free cash flow is adjusted operating profit adjusted for certain cash and non cash items. The principal adjustments are depreciation, working capital movements, net capex, restructuring cash flows, tax cash flows, cash interest and minority interest dividends.

Net cash flows generated from operating activities to free cash flow

£ million	2022	2021
Net cash flows generated from operating activities	3,186	2,167
Net capital expenditure	(177)	(150)
Cash interest	(358)	(400)
Minority interest dividends	(89)	(93)
Free cash flow	2,562	1,524

GLOSSARY

Financial terms

Adjusted earnings per share	This is an adjusted performance measure which is defined within section G of the supplementary information
Adjusted net debt	This is an adjusted performance measure which is defined within section J of the supplementary information.
Adjusted net debt to EBITDA multiple	This is an adjusted performance measure. Adjusted net debt is defined within section J of the supplementary information. EBITDA is defined within section K of the supplementary information.
Adjusted EBITDA	Adjusted EBITDA is calculated as adjusted operating profit plus amortisation, depreciation and impairments.
Adjusted net finance costs	This is an adjusted performance measure which is defined within section E of the supplementary information.
Adjusted operating cash conversion	This is an adjusted performance measure which is defined within section L of the supplementary information.
Adjusted operating profit	This is an adjusted performance measure which is defined within section C of the supplementary information.
Adjusted operating profit margin	Adjusted operating profit margin is calculated as adjusted operating profit divided by net revenue.
Adjusted (Non-GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next.
Adjusted tax charge	This is an adjusted performance measure which is defined within section F of the supplementary information.
Aggregate priority market share	Aggregate weighted market volume share, based on our five priority markets (USA, Germany, UK, Spain and Australia). Market volume share is calculated based on a 12-month moving annual total (MAT) volume share position from October to September. The market volume size used in the weighting calculation is based on a constant prior year end actual market size.
All in cost of debt	Adjusted net finance costs divided by the average net debt in the year.
Constant currency	Removes the effect of exchange rate movements on the translation of the results of our overseas operations. The Group translate current year results at prior year foreign exchange rates.
Dividend per share	Dividend per share represents the total annual dividends, being the sum of the paid interim dividend and the proposed final dividend for the financial year.
GAAP	Generally accepted accounting principles.
EBITDA	Earnings before interest, taxation, depreciation and amortisation
Market share	Market share data is presented as a 12-month moving average weighted across the markets in which we operate.
Net debt to EBITDA	Adjusted closing net debt divided by adjusted EBITDA.
Reported (GAAP)	Reported (GAAP) Complies with International Financial Reporting Standards and the relevant legislation.
Return on invested capital	This is an adjusted performance measure which is defined within section H of the supplementary information.
Stick equivalent volumes	Stick equivalent volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes
Tobacco & NGP Net revenue/ Distribution Net Revenue	These are adjusted performance measures which are defined within sections A and B of the supplementary information.
Total shareholder return	Total shareholder return is the total investment gain to shareholders resulting from the movement in the share price and assuming dividends are immediately reinvested in shares.
A,A,A	Africa, Asia and Australasia
CEO	Chief Executive officer
CFO	Chief Financial officer
Distribution	Logistics segment
ELT	Executive leadership team
ERG	Employee resource groups
ESG	Environmental, social and governance
FCT	Fine cut tobacco
FMC	Factory made cigarette
KPI	Key performance indicators
LTIP	Long term incentive plans
MMC	Mass market cigar
MPI	Manufacturer's price increase
NGP	Next Generation Products
NTM	Non-tobacco materials
OND	Oral nicotine delivery category
Priority markets	Top 5 combustible markets USA, Germany, UK, Spain and Australia
PCD	Premium Cigar Division
SBTi	Science based target initiatives
SE	Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes
STP	Sustainable Tobacco Programme
TCFD	Task force on climate-related financial disclosures
Tobacco & NGP	Tobacco & Next Generation Products

IMPERIAL BRANDS PLC BALANCE SHEET

at 30 September 2022

£ million	Notes	2022	2021
Fixed assets			
Investments	iii	7,968	7,968
Current assets			
Debtors	iv	4,744	3,056
Creditors: amounts falling due within one year	v	(39)	(37)
Net current assets		4,705	3,019
Net assets		12,673	10,987
Capital and reserves			
Called up share capital	vi	103	103
Capital redemption reserve		4	4
Share premium account		5,833	5,833
Profit and loss account – brought forward		5,047	6,348
Profit and loss account – profit for the year		3,006	4
Profit and loss account – dividends paid		(1,320)	(1,305)
Total shareholders' funds		12,673	10,987

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £3,006 million (2021: £4 million).

The financial statements on pages 230-244 were approved by the Board of Directors on 15 November 2022 and signed on its behalf by:



LUKAS PARAVICINI
DIRECTOR

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2022

£ million	Share capital	Share premium and capital redemption	Retained earnings	Total equity
At 1 October 2021	103	5,837	5,047	10,987
Profit for the year	–	–	3,006	3,006
Total comprehensive income	–	–	3,006	3,006
Transactions with owners				
Dividends paid	–	–	(1,320)	(1,320)
At 30 September 2022	103	5,837	6,733	12,673
At 1 October 2020	103	5,837	6,348	12,288
Profit for the year	–	–	4	4
Total comprehensive income	–	–	4	4
Transactions with owners				
Dividends paid	–	–	(1,305)	(1,305)
At 30 September 2021	103	5,837	5,047	10,987

Total distributable reserves were £6,720 million (2021: £5,033 million).

I. ACCOUNTING POLICIES

Basis of preparation and statement of compliance with FRS 101

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in note 2 of the Group financial statements for the year ended 30 September 2022.

Imperial Brands PLC (the Company) is the ultimate parent company within the Imperial Brands group (the Group). The Company is a public company limited by shares, incorporated in England and Wales and its principal activity continued to be that of holding investments. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level. These risks are detailed in note 2 of the Group's Annual Report (see pages 176-177).

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and applicable accounting standards.

The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - The following paragraphs of IAS 1 'Presentation of financial statements':
 - (ii) 10(d) – statement of cash flows;
 - (iii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
 - (iv) 16 – statement of compliance with all IFRS;
 - (v) 38A – requirement for minimum of two primary statements, including cash flow statements;
 - (vi) 38B-D – additional comparative information;
 - (vii) 40A-D – requirements for a third statement of financial position;
 - (viii) 111 – cash flow information; and
 - (ix) 134-136 – capital management disclosures;
 - IAS 7 'Statement of cash flows';
 - Paragraph 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
 - Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
 - The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
 - The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments;
 - IFRS 7 'Financial Instruments: Disclosures'; and
 - Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently are set out below. The Directors do not consider there to be any critical accounting estimates or judgements in respect of the Company, see note 2 Accounting Estimates and Judgements of the consolidated financial statements for further detail.

Investments

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. An annual review of Investments is performed for indicators of impairment. If indicators of impairment are identified investments are tested for impairment to ensure that the carrying value of the investment is supported by their recoverable amount.

Financial instruments

Receivables held under a hold to collect business model are stated at amortised cost.

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

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

Treasury shares

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

II. DIVIDENDS**Distributions to ordinary equity holders**

£ million	2022	2021	2020
Paid interim of 42.54 pence per share (2021: 42.12 pence, 2020: 41.70 pence)			
– Paid June 2020	–	–	197
– Paid September 2020	–	–	197
– Paid December 2020	–	–	453
– Paid June 2021	–	199	–
– Paid September 2021	–	199	–
– Paid December 2021	–	458	–
– Paid June 2022	202	–	–
– Paid September 2022	202	–	–
Interim dividend paid	404	856	847
Proposed interim of 49.31 pence per share (2021: 48.48 pence, 2020: 48.00 pence)			
– To be paid December 2022	467	–	–
Interim dividend proposed	467	–	–
Proposed final of 49.32 pence per share (2021: 48.48 pence, 2020: 48.01 pence)			
– Paid March 2021	–	–	454
– Paid March 2022	–	458	–
– To be paid March 2023	467	–	–
Final dividend	467	458	454
Total ordinary share dividends of 141.17 pence per share (2021: 139.08 pence, 2020: 137.71 pence)	1,338	1,314	1,301

The third interim dividend for the year ended 30 September 2022 of 49.31 pence per share amounts to a proposed dividend of £467 million, which will be paid in December 2022.

The proposed final dividend for the year ended 30 September 2022 of 49.32 pence per share amounts to a proposed dividend payment of £467 million in March 2023 based on the number of shares ranking for dividend at 30 September 2022, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2022 will be £1,338 million (2021: £1,314 million). The dividend paid during 2022 is £1,320 million (2021: £1,305 million).

III. INVESTMENTS

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2022	2021
At 1 October	7,968	7,968
At 30 September	7,968	7,968

The Directors confirm that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 235-244.

IV. DEBTORS

£ million	2022	2021
Amounts owed from Group undertakings	4,744	3,056

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2022	2021
Amounts owed by Group undertakings	35	35
Bank overdrafts	2	2
Other creditors	2	–
	39	37

Amounts owed by Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

VI. CALLED UP SHARE CAPITAL

£ million	2022	2021
Authorised, issued and fully paid		
1,020,697,238 ordinary shares of 10p each (2021: 1,020,697,238)	103	103

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

VII. RESERVES

Treasury shares

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Acts. 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. Although the Group did not purchase any shares during the period, a share buyback programme was initiated after the balance sheet date, and these shares will be cancelled on completion of the purchase. Treasury shares reduced in the period after 4.0 million shares were gifted to the Employee Share Ownership Trusts to satisfy commitments to the employee share schemes.

£ million unless otherwise indicated		2022		2021	
	Millions of shares (number)	Value £	Millions of shares (number)	Value £	
At 1 October	74.3	2,183	74.3	2,183	
Gifted to Employee Share Ownership Trusts	(4.0)	–	–	–	
At 30 September	70.3	2,183	74.3	2,183	
Percentage of issued share capital	6.9	n/a	7.3	n/a	

VIII. GUARANTEES

The Company provides guarantees to the following subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2022:

- Imperial Tobacco Holdings (2007) Limited
- Imperial Tobacco Ventures Limited
- Rizla UK Limited
- Imperial Tobacco Overseas (Polska) Limited
- La Flor de Copán UK Limited
- Tabacalera de Garcia UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited
- Imperial Brands Ventures Finance Limited
- Imperial Brands Ventures Holdings (1) Limited
- Imperial Brands Ventures Holdings (2) Limited

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2022, the amount guaranteed is £14,151 million (2021: £14,708 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2022.

Many of the committed revolving credit facilities remain undrawn as at 30 September 2022 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiary, namely John Player & Sons Limited, which is included in the consolidated financial statements as at 30 September 2022.

The Company has also provided a parent guarantee to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

IX. RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 130-148 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

X. 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 country of incorporation and the effective percentage of equity owned, as at 30 September 2022 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

Name	Principal activity and registered address
Altadis New Co Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Attendfriend Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
British Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Congar International UK Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Hypofill Limited	In strike off Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Imperial Brands Enterprise Finance Limited	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Finance PLC	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Finance Limited ^(iv)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings (1) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings (2) Limited ^(xi)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Investments Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Altadis Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (1)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (2)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (3)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (4)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Group Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (1) Limited ^(iv)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (2007) Limited ^(iv)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Initiatives	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Lacroix Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Limited	Marketing and sale of tobacco products in the UK 121 Winterstoke Road, Bristol BS3 2LL, England
Imperial Tobacco Overseas (Polska) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (1) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (2) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (3) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (4) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Limited ^(xi)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

Name	Principal activity and registered address
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees Limited ^(iv)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
ITG Brands Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Joseph & Henry Wilson Limited	Dormant 121 Winterstoke Road, Bristol BS3 2LL England
Nerudia Limited ^(v)	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Consulting Limited	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
La Flor de Copán UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Park Lane Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Rizla UK Limited	Entity ceased trading 121 Winterstoke Road, Bristol, BS3 2LL, England
Sensus Investments Limited	In strike off Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Tabacalera de García UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity and registered address
1213509 B.C. Limited	Canada	Holding investments in subsidiary companies Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC. V6C 2X8, Canada
Altadis Canarias S.A.U. ⁽ⁱⁱ⁾	Spain	Marketing and sale of tobacco products in the Canary Islands C/Comandante Azcárraga 5, Madrid, 28016, Spain
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies 714 Green Valley Road, Greensboro, NC27408 USA
Altadis Management Services Corporation	United States of America	Trademark service company 714 Green Valley Road, Greensboro, NC27408 USA
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates
Altadis Ocean Indien S.A.S.	France (La Réunion Island)	Sales and distribution of tobacco products in la Réunion Island ZI n° 2 - BP 256 - 97457 Saint Pierre Cedex, La Réunion
Altadis Retail Corporation	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain C/Comandante Azcárraga 5, Madrid 28016, Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the USA 217 Shaker Road, Somers, CT, 06071, USA
Athena IP Vermögensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Cacique, SA - Comércio, Importação e Exportação	Brazil	Dormant Rua Marechal Deodoro, 690 - Centro Arapiraca, Alagoas, Brazil
CBHC Inc	United States of America	Dormant 714 Green Valley Road Greensboro, NC27408 USA
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the USA 714 Green Valley Road, Greensboro, NC27408 USA
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the USA 714 Green Valley Road, Greensboro, NC27408 USA
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies 714 Green Valley Road, Greensboro, NC27408 USA
Consolidated Cigar Holdings Inc ^(vii)	United States of America	Holding investments in subsidiary companies 714 Green Valley Road, Greensboro, NC27408 USA
Coralma International S.A.S.	France	Holding investments in subsidiary companies 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies 714 Green Valley Road Greensboro, NC27408 USA
Dunkerquoise des Blends S.A.S.	France	Tobacco processing 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium Sint-Bavostraat 66, 2610 Wilrijk, Belgium
Fontem (Beijing) Technology Solutions Limited ⁽ⁱ⁾	People's Republic of China	Research and development Room 201, Floor 2, Building 6, Yuan Dong science and technology park, 6 Hepingli North Street, Dong Cheng District, Beijing, 100013, China
Fontem Canada Limited	Canada	Non-trading C/O BDO Canada LLP, Suite 120, 230 Brownlow Avenue, Dartmouth, Nova Scotia B3B 0G5, Canada
Fontem US, LLC.	United States of America	Sales and marketing of tobacco products in the US 714 Green Valley Road, Greensboro, NC27408 USA
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Huotraco International Limited	Cambodia	Production and marketing of tobacco products No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia
Imperial Brands Colombia S.A.S.	Colombia	In Liquidation TV21 No.98 05, Bogotá D.C. Colombia
Imperial Brands CR s.r.o. (formerly Imperial Tobacco s.r.o.)	Czech Republic	Sales and marketing of tobacco products in the Czech Republic Karla Engliš 3201/6, 15 00, Praha 5
Imperial Brands Finance France SAS	France	Provision of finance to other Group companies 200-216 rue Raymond Losserand, 75014, Paris
Imperial Brands Finance Netherlands B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Brands Finland Oy	Finland	Sales and marketing of tobacco products in Finland Auriga Business Center, Juhana Herttuan Puistokatu 21, 20100 Turku
Imperial Brands Global Duty Free & Export S.L.	Spain	Sale and export of duty-free tobacco products C/Comandante Azcárraga 5, Madrid 28016, Spain
Imperial Brands Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Brands Japan Kabushiki Kaisha ^(v)	Japan	Sales and marketing of tobacco products in Japan The Okura Prestige Tower, 10th Floor, 2-10-4 Toranomon, Minato-ku, Tokyo 105-0001, Japan

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL BRANDS PLC *continued*

Name	Country of incorporation	Principal activity and registered address
Imperial Brands La Romana (formerly Tabacalera de García S.A.S.)	Dominican Republic	Manufacture of cigars in the Dominican Republic Industrial Free Zone #1, La Romana, Dominican Republic
Imperial Brands Luxembourg sarl	Luxembourg	Sale of tobacco products in Luxembourg 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Brands Malta Limited	Malta	Provision of finance to other Group companies Office 3, AX Business Centre, Ground Floor, Triq id-Difiza Ċivili Mosta, MST 1741, Malta
Imperial Brands Services Polska spółka z o.o	Poland	Manufacturing and supply chain services to other group companies Jankowice, Przemysłowa 1, 62-080 Tarnowo Podgórze, Poland
Imperial Brands Ventures LLC	United States of America	Holding investments in subsidiary companies 251 Little Falls Drive, Wilmington, DE 19808 USA
Imperial Finance Ireland Limited	Ireland	Provision of finance to other Group companies 21 Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Finance Malta Limited	Malta	Provision of finance to other Group companies Office 3, AX Business Centre, Ground Floor, Triq id-Difiza Ċivili Mosta, MST 1741, Malta
Imperial Nominees Limited ⁽ⁱⁱ⁾	New Zealand	Trustee Company Level 24, 157 Lambton Quay, Wellington Central, Wellington 6011, New Zealand
Imperial Tobacco (Asia) Pte. Ltd.,	Singapore	Trading of tobacco related products 80 Robinson Road, #02-00, 068898, Singapore
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia John Player Special House, Level 4, 4-8 Inglewood Place, Norwest, NSW 2153, Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria Zieglergasse 6, A-1070 Vienna, Austria
Imperial Tobacco BH doo ⁽ⁱ⁾	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia Adema Buce, Sarajevo, 71000, Bosnia & Herzegovina
Imperial Tobacco Bulgaria EOOD ⁽ⁱ⁾	Bulgaria	Manufacture and sale of tobacco products in Bulgaria 15 Henrik Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco Distribution Romania srl	Romania	Marketing and distribution of tobacco products in Romania Nicolae Canea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies C/Comandante Azcárraga 5, Madrid 28016, Spain
Imperial Tobacco Estonia OÜ	Estonia	Dormant Veskiposti 2, 10138 Tallinn, Tallinn, Estonia
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece 300 Klisthenous Str, 15344 Gerakas, Attikis, Athens, Greece
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Intellectual Property Limited	Ireland	Ownership of trademarks 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Tobacco International GmbH	Germany	Export and marketing of tobacco products Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Ireland Unlimited Company ^(v)	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Italy S.r.l.,	Italy	Holding investments in subsidiary companies Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Kyrgyzstan LLC ⁽ⁱ⁾	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan 115, Ibraimov Street, 10th Floor, Business Center 'Asyl-Tash', Bishkek, 720021, Kyrgyzstan
Imperial Tobacco Magyarország Dohányforgalmazó Kft (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary Váci út 141, 1138, Budapest, Hungary
Imperial Tobacco Management Luxembourg sarl	Luxembourg	Holding investments in subsidiary companies 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products 12th Floor Menara Symphony, No 5 Jalan Prof, Khoo Kay Kim, Seksyey, 46200 Petaling Jaya, Selangor, Malaysia
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand Level 24, 157 Lambton Quay, Wellington Central, Wellington 6011, New Zealand
Imperial Brands Norway A.S. (formerly Imperial Tobacco A.S.)	Norway	Sales and marketing of tobacco products in Norway Ryensvingen 2-4, 0680, Oslo, Norway
Imperial Tobacco Polska Manufacturing S.A.	Poland	Manufacture of tobacco products in Poland Ul. Tytoniowa 2/6, Radom, 26-600, Poland

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland Jankowice, ul. Przemyslowa 1, Pl-62-080, Tarnowo-Podgóme, Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management 144, 7 DT, Avenida da Liberdade, Lisbon, Portugal
Imperial Tobacco Production Ukraine ⁽⁶⁾	Ukraine	Manufacture of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco SCG doo Beograd ⁽⁶⁾	Serbia	Marketing and distribution of tobacco products in Serbia Milutina Milankovica 11a, Novi Beograd, Serbia
Imperial Tobacco Sigara ve Tutunculuk Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic 7A Galvaniho, 824 53 Bratislava, Slovakia
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan 6F1-2 No.2 Sec. 3, Minsheng E road, Zhongshen District, Taipei, Taiwan, Province of China
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan No 8 Cyunyi Road, Jhunan, MiaoLi County 350, Taiwan Province of China
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Ukraine ⁽⁶⁾	Ukraine	Sales and marketing of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies 121, Winterstoke Road, Bristol, BS3 2LL
Imperial Tobacco West Africa S.A.S. ⁽⁶⁾	Cote D'Ivoire	Holding investments in subsidiary companies Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan
Imperial Tobacco Zagreb doo ⁽⁶⁾	Croatia	Dormant Julija Kniefra 7, HR-100, Croatia
IMPTOB South Africa (Pty) Limited	South Africa	Provision of services to other Group companies 5 Sandwood Hills, Dunkirk Estate, Zimbali, South Africa
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the USA 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Cigars Inc	United States of America	Manufacture and sale of cigars in the USA 2601 Tampa East Blvd, Tampa, Florida FL33619-8306, USA
ITG Holdings USA Inc ^(6v)	United States of America	Holding investments in subsidiary companies 714 Green Valley Road, Greensboro, NC27408 USA
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco related products Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong
Imperial Ventures Malta Limited	Malta	Provision of finance to other Group companies Office 3, AX Business Centre, Ground Floor, Triq id-Difiza Ċivili Mosta, MST 1741, Malta
JAW-Invest Oy	Finland	Trademark owner Auriga Business Center, Juhana Herttuan puistokatu 21, 20100 Turku, Finland
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
JSNM SARL	France	Trademark owner 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
MYBLU Spain S.L.	Spain	Marketing and sale of e-vaopur products in Spain CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Max Rohr, Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE,19801, USA
Millennium Tobacco Unlimited Company	Ireland	Provision of finance to other Group companies 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Newglade International Unlimited Company	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Philippine Bobbin Corporation	Philippines	Manufacture of tobacco related products Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines
Real Club de Golf la Herreria S.A.	Spain	Management of golf course CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Skruf Snus AB	Sweden	Manufacture, marketing, sales of tobacco products in Sweden PO Box 3068, Stockholm, SE-103 61, Sweden
Société Centrafricaine de Cigarettes S.A. ⁽⁶⁾	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic Rue David Dacko, BP 1446, Bangui, Central African Republic

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL BRANDS PLC *continued*

Name	Country of incorporation	Principal activity and registered address
Société Centrafricaine de Distribution Sarl ⁽ⁱ⁾	Central African Republic	Dormant Avenue Boganda Pk4, Bangui, Central African Republic
Société du Mont Nimba Sarl ⁽ⁱ⁾	Guinee Conakry	In Liquidation BP 3391, Conakry, Guinea
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products 200-216 rue Raymond Losserand, Paris, 75014, France
Société pour le Développement du Tabac en Afrique S.A.S.	France	Purchasing company 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
System Designed to Africa Sarl	Morocco	Distribution of tobacco products Km 17, Route national de Rabat, Ain Harrouda, Morocco
Tabacalera Brands Inc	United States of America	Trademark owner 103 Foulk Road, Suite 253, Wilmington, Delaware, 19803, USA
Tabacalera de García Limited	Bermuda	Holding investments in subsidiary companies Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda
Tabacalera de García S.A.S.	France	Manufacture of cigars in the Dominican Republic 320, Rue Saint-Honore, Paris, 75001, France
Tahiti Tabacs SASU	France, Papeete (Tahiti)	Importation, distribution and selling of tobacco products in Tahiti (French Polynesia) PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobaccor S.A.S. ^(v)	France	Holding investments in subsidiary companies 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
Tobačna 3DVA, trgovsko podjetje, d.o.o.	Slovenia	Retail of products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana - Črnuče, Slovenia
Tobačna Grosist d.o.o.	Slovenia	Marketing and distribution in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana - Črnuče, Slovenia
Tobačna Ljubljana d.o.o.	Slovenia	Sales and marketing tobacco products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana - Črnuče, Slovenia
Van Nelle Tabak Nederland B.V.	The Netherlands	Manufacture and sale of tobacco products in the Netherlands Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco related products Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Von Erl GmbH ⁽ⁱ⁾	Austria	Sale of e-vapour products in the US and Europe Hegelgasse 13/26, 1010 Vienna, Austria

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Be To Be Pharma, S.L.U	Spain	Distribution of pharmaceuticals C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
CDIL Companhia de Distribuição Integral Logista Portugal, SA.	Portugal	Marketing and sale of tobacco and other products, and payment services in Portugal. Edifício Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal	50.0
Compagnie Agricole et Industrielle des Tabacs Africains S.A.S.	France	Management company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France	99.9
Compagnie Réunionnaise des Tabacs S.A.S.	France, St Pierre (La Réunion Island)	Manufacture of cigarettes ZI n° 2 - BP 256 - 97457 Saint Pierre Cedex, La Réunion	98.9
Compañía de Distribución Integral de Publicaciones Logista S.L.U. ^(iv)	Spain	Distribution of published materials and other products Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a - Modulo 3, Alcorcón, Madrid, 28922, Spain	50.0
Compañía de Distribución Integral Logista Holdings, S.A. ⁽ⁱⁱⁱ⁾	Spain	Holding investments in subsidiary companies C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL)	Poland	Distribution of tobacco products in Poland AV. Jerozolimskie 96 - 7ª Planta, Edificio Equator II, 02-304 Warsaw, Poland	50.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Dronas 2002, S.L.U.	Spain	Industrial parcel and express delivery service Energia, 25-29; Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain	50.0
Imperial Tobacco TKS a.d. ⁽ⁱ⁾	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia	99.1
Imperial Tobacco TKS a.d. - Dega Kosove	Kosovo	Manufacture, marketing and distribution of tobacco products in Kosovo Rrafshi i Kosoves, Nr. 80 (Magjistratja M2: Prishtine-Shkup, km i 2-te Vetermik) Prishtine, Republic of Kosovo	99.1
Imprimerie Industrielle Ivoirienne SA ⁽ⁱ⁾	Côte D'Ivoire	Printing company Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abidjan, Côte d'Ivoire	78.8
La Mancha 2000, S.A., Sociedad Unipersonal	Spain	Distribution services Av. de la Veguilla, 12-Nave A- Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain	50.0
Logesta Deutschland Gmbh, Sociedad Unipersonal	Germany	Long haul transportation in Germany Pilotystrasse, 4, 80538 München, Germany	50.0
Logesta France SARL	France	Long haul transportation in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logesta Gestión de Transporte S.A.U.	Spain	Long haul transportation services in Spain C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logesta Italia, S.R.L., Sociedad Unipersonal	Italy	Long haul transportation in Italy Via Valadier, 37 - 00193 Roma, Italy	50.0
Logesta Lusa LDA	Portugal	Long haul transportation in Portugal Edifício Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal	50.0
Logesta Polska Sp Zoo	Poland	Long haul transportation in Poland Av. Jerozolimskie 96 - 7ª Planta Edificio Equator II, Varsovia, Poland	50.0
Logista France Holding S.A.	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista France S.A.S.	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista Italia Spa	Italy	Long haul transportation in Italy Via Valadier, 37 - 00193 Roma, Italy	50.0
Logista Payments, S.L.U.	Spain	Provision of financial services C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logista Pharma Canarias, S.A.U.	Spain	Pharmaceutical products logistics in Canary Islands C/ Entreríos Nave 3, Las Palmas de Gran Canaria, 35600, Spain	50.0
Logista Pharma S.A.U.	Spain	Distribution of pharmaceuticals C/ Trigo Núm. 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logista Promotion et Transport S.A.S.	France	Marketing and distribution of tobacco products in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL BRANDS PLC *continued*

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Logista Regional de Publicaciones, S.A.U.	Spain	Marketing, distribution and sale to points of sale in Spain. Poligono Industrial Polvoranca, Calle Trigo 39, Leganes, Madrid, Spain	50.0
Logista Strator, SLU (formerly Cyberpoint, S.L.U.)	Spain	Distribution of POS software C/ Trigo, 39 - Poligono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logista Transport Europe B.V.	The Netherlands	Holding Company Learderhoogtwig 25, 1101 EB, Amsterdam, The Netherlands	50.0
Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical Distribution in Portugal Edificio Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal	50.0
Logista-Dis S.A.U.	Spain	Sale of tobacco products in Spain C/ Trigo, 39 - Poligono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
MABUCIG Industries S.A.	Burkina Faso	Manufacture of cigarettes in Burkina Faso No 55, Rue 19.14, B.P. 94, Kodení, - Bobo Dioulasso, Burkina Faso	72.7
MABUCIG (Manufacture Burkinabe de Cigarette)	Burkina Faso	Manufacture of cigarettes in Burkina Faso Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 - Bobo Dioulasso, Burkina Faso	72.7
Macotab S.A.S. (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes Route Nationale 193, Furiani, 20600, France	99.9
Manufacture de Cigarettes du Tchad S.A.	Tchad	Manufacture and distribution of cigarettes in Chad 0502 rue 1039, Arrondissement 1, N'Djamena, Chad	95.0
Midsid – Sociedade Portuguesa de Distribuição, S.A., Sociedad Unipersonal	Portugal	Wholesale of tobacco and other products Edificio Logista, Pracetta do Vale Da Fonte, Coberta 153/167, Freguesia de Alcochete, Portugal	50.0
MTOA S.A. ⁽ⁱ⁾	Senegal	Manufacture and sales of cigarettes in Senegal Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal	98.3
Publicaciones y Libros S.A.U.	Spain	Publishing company Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a - Modulo 3, Alcorcón, Madrid, 28922, Spain	50.0
Reemtsma Kyrgyzstan OJSC ⁽ⁱ⁾	Kyrgyzstan	In liquidation 115, Ibraimov Str., 10th Floor, Business Center "Asyl-Tash", Bishkek, Kyrgyzstan	99.7
S3T Pte Ltd ⁽ⁱ⁾	Singapore	Holding investments in subsidiary companies 80 Robinson Road, #02-00, 068898, Singapore	51.0
SACIMEM S.A. ⁽ⁱ⁾	Madagascar	Manufacture of cigarettes in Madagascar 110 Antsirabe - Madagascar, Route d'Ambositra, BP 128, Madagascar	65.4
SITAB Industries S.A. ⁽ⁱ⁾	Cote D'Ivoire	Manufacture of cigarettes in Côte D'Ivoire Rue de l'Industrie - Lot No 19, 01 - BP 607, Bouake, Côte d'Ivoire	75.9
SITAR Holding S.A.S.	France (La Réunion Island)	Holding investments in subsidiary companies Z.I n2, B.P. 256, 97457 Saint Pierre, Ile de la Réunion, France	99.0
Société Africaine d'Impression Industrielle S.A. ⁽ⁱ⁾	Senegal	Manufacture and distribution of cigarettes in Senegal Route de Bel Air - Km 2200, Dakar, Senegal	99.8
Société Allumettiere Française S.A.S.	France	Manufacture and distribution of cigarettes Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Société des Cigarettes Gabonaises S.A. ⁽ⁱ⁾	Gabon	In liquidation 2381 bld Léon MBA, BP 2175, Libreville, Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical S.A. ⁽ⁱ⁾	Congo	Manufacture and distribution of cigarettes in Congo Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo	89.7
Société Ivoirienne des Tabacs S.A. ⁽ⁱ⁾⁽ⁱⁱⁱ⁾	Côte D'Ivoire	Manufacture and distribution of cigarettes in Ivory Coast Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan	74.9
Société Marocaine des Tabacs S.A.	Morocco	Manufacture and distribution of cigarettes in Morocco 87 Rue Hamed El Figuigui, Casablanca, 20500, Morocco	99.9
SOCTAM S.A. ⁽ⁱ⁾	Madagascar	Manufacture and distribution of cigarettes in Mali 15 Rue Geoges V, Mahajanga, Madagascar	50.5
SOTCHADIS S.A.S.	Chad	Non-trading 502 Rue 1039, BP 852, N'Djamena, Chad	95.0
Terzia SPA	Italy	Wholesale to tobacconists in Italy Via Valadier, 37 - 00193 Roma, Italy	50.0

ASSOCIATES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
24 Hours B.V	The Netherlands	Courier Express Sector Wijkermeerstraat 31, 2131 HB, Hoofddorp, The Netherlands	35.0
Alcome S.A.S.	France	Waste management 88 avenue des Ternes, Paris, 75017, France	24.0
Azur Finances S.A.	Cameroon	Holding investments in subsidiary companies B.P 1105, Douala, Cameroon	20.0
Compañía Española de Tabaco en Rama SA (Cetarsa) ⁽ⁱ⁾	Spain	Production and sale of raw tobacco Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain	20.8
Distribuidora de Ediciones SADE, S.A.	Spain	Distribution of published materials and other products in Spain Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain	35.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products Carretera de la Esclusa, S/N - Pariela 2, Modulo 4, Sevilla, 41011, Spain	25.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain	40.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia Pedrapiquers 5, Poligono Industrial Vara de Quart, Valencia, 46014, Spain	25.0
Entreprises des Tabacs en Guinée ⁽ⁱ⁾	Guinée Conakry	Dormant B.P 3391, Conakry, Guinea	34.0
German-Ex B.V.	The Netherlands	Courier Express Sector Wijkermeerstraat 31, 2131 HB, Hoofddorp, The Netherlands	35.0
Lao Tobacco Limited ⁽ⁱ⁾	Laos	Manufacture and distribution of cigarettes in Laos KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic	43.7
Logista Libros S.L.	Spain	Distribution of books Avda. Castilla La Mancha, 2 - Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain	25.0
Promotion et Distribution a Madagascar ⁽ⁱ⁾	Madagascar	Distribution of cigarettes in Madagascar Tour ZITAL Ankorondrano, Antananarivo, Madagascar	33.4
SITABAC S.A.	Cameroon	Manufacture and distribution of tobacco products in Cameroon 113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon	34.5
Sociedad Anonima Distribuidoria De Ediciones	Spain	Publications distribution Calle B, esquina calle 4, s/n. Sector B Polígono, Industrial Zona Franca, 08040 Barcelona	35.0
Société Internationale des Tabacs Malgaches ⁽ⁱ⁾	Madagascar	Leaf processing BP 270, 401 Mahajanga, Madagascar	47.9
Société Nationale des Tabacs et Allumettes du Mali S.A. ⁽ⁱ⁾	Mali	Manufacture and distribution of cigarettes in Mali Route Sotuba - Z.I., BP 59, Bamako, Mali	28.0
Speedlink Worldwide Express B.V.	The Netherlands	Courier Express Sector Wijkermeerstraat 31, 2131 HB, Hoofddorp, The Netherlands	35.0

JOINT VENTURES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Global Horizon Ventures Limited	Hong Kong	Sales and marketing of cigarettes in Asia Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong	50.0
Intertab S.A. ⁽ⁱ⁾	Switzerland	Holding investments in subsidiary companies Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland	50.0
West Tobacco Pte Ltd ⁽ⁱ⁾	Singapore	Dormant 1 Harbourfront Avenue #14-07, Keppel Bay Tower, 098632 Singapore	50.0

PARTNERSHIPS

The Group also owns the following partnerships:

Name	Country	Principal activity, registered address and principal place of business
Fabrica de Tabacos La Flor de Copán S de R.L. de CV	Honduras	Holding investments in subsidiary companies Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras
Imperial Tobacco (Efka) GmbH & Co. KG	Germany	Manufacture of tubs in Germany Registered address and principal place of business: Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Kazakhstan LLP ⁽ⁱ⁾	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Registered address and principal place of business: 3 rd Floor, Prime Business Park, 100/2 Nursultan Nazarbayev Avenue, Medeuskiy District, Almaty, 050000, Kazakhstan
ITG Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27408, United States of America

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified. All dormant UK entities have taken the exemption available to not have an audit of their financial statements.

Unless otherwise stated the entities are unlisted, have 1 type of ordinary share capital and a reporting period ending on 30 September each year.

- (i) December year end
- (ii) March year end
- (iii) Listed entity
- (iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue).
- (v) Holding of two or more types of ordinary share (where more than one type of ordinary share is authorised / in issue).
Only applicable to 100% owned subsidiaries.
- (vi) Holding of preference shares only
- (vii) Holding of ordinary and preference shares
- (viii) Holding of ordinary and redeemable shares
- (ix) Holding of ordinary and deferred shares
- (x) Holding of two types of ordinary share and redeemable shares
- (xi) Holding of shares limited by guarantee.

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100% of the voting rights, are held by a number of Group companies.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR AND DIVIDENDS

Half year results are expected to be announced in May 2023 and the Full year results in November 2023.

The Annual General Meeting of the Company will be held on Wednesday 1 February 2023 at the Bristol Marriott Hotel, City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2022 final dividend, if approved, will be on 31 March 2023 to shareholders on the Register of Members at the close of business on 17 February 2023. The associated ex-dividend date will be 16 February 2023.

SHARE DEALING SERVICE

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between

8am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number, which you can find on your share certificate.

INDIVIDUAL SAVINGS ACCOUNT

Investors in Imperial Brands PLC ordinary shares may take advantage of a low-cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited.

For further information please go to www.shareview.co.uk/dealing or call Equiniti on 0345 0700 720.

DIVIDEND REINVESTMENT PLAN

Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2037 (+44 371 384 2037 if calling from outside the UK) or online at www.shareview.co.uk.

AMERICAN DEPOSITARY RECEIPT FACILITY

Imperial Brands PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'IMBBY'. The ADS facility is administered by J.P. Morgan Chase, N.A. and enquiries should be directed to them at the address shown below.

WEBSITE

Information on Imperial Brands PLC is available on our website: www.imperialbrandspc.com.

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk.

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