
## DEAR SHAREHOLDER

I am pleased to introduce Imperial Brands PLC's Corporate Governance Report for the financial year ended 30 September 2022.

### The year in review

During 2022, the Board remained focused on supporting management's disciplined delivery of our five-year strategy amid continued challenges, including rising inflation and a growing cost-of-living squeeze. This year our business has also been challenged by Russia's invasion of Ukraine, which necessitated urgent action to protect the long-term interests of the Company. Our first priority is the safety and wellbeing of our people and their families. This continues to be the case for our Ukraine colleagues. On page 109, you can find out more about how we took into consideration the interests of our stakeholders in addressing the situation in Ukraine and in exiting from Russia.

With the ending of COVID-19 restrictions, the Board has resumed in-person meetings and engaged face to face with our broad range of stakeholders, including shareholders, consumers, customers, suppliers and, of course, our people. During the year the Board has met in the UK, US and Spain.

This report marks the end of the second year of our renewed five-year strategy. It has been a year of consolidation, reinforcing the progress of the previous year to ensure a stable platform from which to move into the next phase of our strategy. The Board and the Executive Leadership Team have worked hard to maintain and build on a resilient and sustainable governance framework, which we believe makes us stronger and better placed to take sound decisions in the interests of the Company and its stakeholders.

### Purpose, vision and behaviours

Last year, we committed to oversee the further development and embedding of the Company's purpose, vision and behaviours, a key framework that underpins the delivery of our strategy. Responsibility sits at the heart of our vision and this year in particular saw developments in our approach to ESG issues. The reconstituted ESG Executive Committee, evolved out of the Board's ESG Steering Committee that I was chairing, is in place. It is chaired by our Chief Executive Officer and reports directly to the Board, which retains close oversight of this important work.

You can read more about our purpose and vision on page 13, our behaviours on page 23, our corporate governance framework in the pages that follow, and our ESG programme on pages 36 to 58.

### Our people and culture

Our people remain our greatest asset. We have been following the progress being made in developing a performance-based culture aligned to our purpose, vision and behaviours. The Board has been closely involved in the cultural transformation journey being led by our People and Culture team.

More details on our workforce engagement activities can be found on page 31, and more information about our people and culture initiatives can be found on pages 52 to 58.

I would like to take this opportunity to thank all our people for their contribution to the business, demonstrated in their focus on our consumers, and their care for each other, most vividly reflected in the amazing £87k raised by colleagues around the world for those affected by the situation in Ukraine.

### Succession planning and diversity

Our strong focus on succession planning, as well as our firm commitment to diversity, continue and the commitment does not stop with the Board. You will read in the People and Governance Committee report on pages 113 to 118 about the progress we are making to address diversity recommendations at Board and senior management level.

It is an important feature of delivering our strategy that our culture is transformed and becomes performance based. See pages 55 to 56 for a deep dive into the progress of our Employee Resource Groups.

### Stakeholders

You will read on pages 30 to 34 about how we ensure that we consider the views of our stakeholders in our decision-making process. Our engagement with stakeholders, including our employees, provides the Board with rich context and background when making decisions. I am particularly pleased with how we addressed one of our key objectives for the year, which was to get closer to the consumer. Further information on our stakeholder engagement can be found on pages 30 to 34 and in our Section 172 statement on pages 108 to 112. Our people, under the aegis of our the ESG Executive Committee, have worked hard on our ESG strategy, building on previous years' work and honing our approach, which we believe now has clarity and depth.

### Risk management

Regular reporting has provided the Board and its Committees with information to consider and use to guide management in responding to the events of the year, including the ongoing COVID-19 pandemic and the situation in Ukraine, as well as to monitor our underlying principal risks.

These are more fully described on pages 82 to 93.

Like many companies, the Board recognises climate change as a global threat as well as a direct threat to the Group's operations. We are committed to addressing climate change and we were one of the first FTSE100 companies to commit to being a Net Zero company across our global operations and value chain by 2040.

For more information on our sustainability initiatives and our first stand-alone report aligned to the requirements of the Task Force on Climate-related Financial Disclosures, see pages 59 to 65.

### Shareholder engagement

Our Chief Executive Officer, Chief Financial Officer, and I have met virtually and in person with shareholders throughout the year. In addition to hearing about our strategy, purpose and vision, shareholders have been interested in our ESG initiatives and our approach to creating a culture and environment within which our people will perform best to support our strategy.

As I mentioned earlier, our investor perception survey suggests they are supportive of these initiatives. You can find further detail on our investor engagement on page 107.

### Changes to the Board

In November 2021, we welcomed Ngozi Edozien and Diane de Saint Victor as independent Non-Executive Directors. Their appointments enhance the breadth of experience and diversity of views we have on the Board.

Following the Annual General Meeting on 2 February 2022, Steven Stanbrook retired as a Non-Executive Director. I would like to thank Steven for six years' valuable service to the Company. He was a highly engaged member of the Board, including in his role as Workforce Engagement Director.

Read about all our Board's skills and experience on pages 96 to 100.

### Board effectiveness

To ensure the Board and its Committees continue to work effectively, the Board has undertaken an internal review of its performance. The outcome of this year's evaluation concludes that the Board continues to operate effectively. Details of this year's evaluation, and the significant progress made against last year's actions can be found on pages 116 to 118.

## STRUCTURE AND CONTENT OF THE GOVERNANCE REPORT



### Looking forward

The progress we have made this year has provided us with a sound platform from which to look forward with confidence to the next phase of our strategy.

The 2023 Annual General Meeting will be held on 1 February 2023. Further details can be found in the Notice of Annual General Meeting sent to shareholders and made available on the Company's website. I look forward to meeting many of you then.

**Thérèse Esperdy**
Chair

### 1. BOARD LEADERSHIP AND COMPANY PURPOSE

The Company is led by an effective and determined Board, focused on the long-term sustainable success of the Company, generating value for shareholders and stakeholders, and contributing to wider society.

Read more on pages 13 and 96 to 99.

### 2. DIVISION OF RESPONSIBILITIES

The Chair and the Chief Executive Officer have clearly defined and separate responsibilities, and there is an appropriate combination of Executive and independent Non-Executive Directors.

Read more on page 102.

### 3. COMPOSITION, SUCCESSION AND EVALUATION

Appointments are subject to a formal, rigorous and transparent procedure. Succession plans, designed to promote diversity of gender, social and ethnic backgrounds and cognitive and personal strengths, are in place for the Board and senior management. An evaluation of the Board and its Committees is undertaken annually, in line with the Code.

Read more on pages 113 to 118.

### 4. AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

Formal, transparent policies and procedures are in place to ensure the independence and effectiveness of the internal and external audit functions and the integrity of financial and narrative statements, and to manage and mitigate risks.

Read more on pages 119 to 129.

### 5. REMUNERATION

The Company has remuneration policies and practices designed to support its strategy and promote long-term sustainable success. Executive remuneration is aligned to the Company's purpose and vision, and is clearly linked to the delivery of the Company's long-term strategy.

Read more on pages 130 to 148.


# A SKILLED AND DIVERSE BOARD

### Committee membership

- (P) People & Governance Committee
- (A) Audit Committee
- (R) Remuneration Committee
- ◆ Committee Chair

1. Public listed company.
2. Private organisation.

Find out more at www.imperialbrandsplc.com/about-us/leadership-team

# BOARD OF DIRECTORS

## 1. Thérèse Esperdy

**Chair R P**

### Appointment
Joined the Board in July 2016, serving as Senior Independent Director from May 2019 and appointed Chair in January 2020.

### Career and Experience
Thérèse has significant international investment banking experience having held a number of roles at JP Morgan including Global Chair of JP Morgan's Financial Institutions Group, Co-Head of Asia-Pacific Corporate & Investment Banking, Global Head of Debt Capital Markets, and Head of US Debt Capital Markets. She began her career at Lehman Brothers and joined Chase Securities in 1997 prior to the firm's merger with JP Morgan in 2000.

### Skills and Competencies
Thérèse brings to Imperial her excellent international leadership experience from serving on boards of both US and UK listed companies. She brings to bear her astute understanding of our business, the sector we operate in and the concerns of our investors.

### External Appointments
- Non-Executive Director, Senior Independent Director and Chair of the Finance Committee of National Grid Plc[1].
- Non-Executive Director of Moody's Corporation[1].

## 2. Stefan Bomhard

**Chief Executive Officer**

### Appointment
Appointed in July 2020.

### Career and Experience
Stefan joined Imperial from Inchcape plc, a global distribution and retail leader in the premium and luxury automotive sectors, where he delivered successful transformational change during a five-year tenure as Chief Executive.

Prior to Inchcape, Stefan was President of Bacardi Limited's European region and was also responsible for Bacardi's Global commercial organisation and Global Travel Retail. Previous roles have included Chief Commercial Officer of Cadbury plc and Chief Operating Officer of Unilever Food Solutions Europe. This followed senior management and sales and marketing positions at Diageo (Burger King) and Procter & Gamble.

### Skills and Competencies
With a PhD in marketing and significant exposure to multiple consumer sectors in large multinational organisations, Stefan brings excellent brand-building and consumer-led sales and marketing experience to Imperial, notably in other "challenger" businesses (Burger King and Bacardi).

### External Appointments
- Non-Executive Director of Compass Group PLC[1].

## 3. Lukas Paravicini

**Chief Financial Officer**

### Appointment
Appointed May 2021.

### Career and Experience
Lukas has a proven track record in multinational consumer goods companies around the world. He joined Imperial from agricultural commodities and brokerage group ED&F Man Holdings, where he was Chief Financial Officer. He has also held senior positions at Fonterra, a New Zealand and Australia listed co-operative and the world's largest dairy exporter, with sales in 130 countries. He was Chief Financial Officer from 2013-2017 and Chief Operating Officer, Global Consumer and Foodservice Business from 2017-2018. Prior to that, he spent 22 years with Nestlé in various senior finance and general management roles.

### Skills and Competencies
Lukas brings to Imperial broad financial and operational experience in consumer goods companies, and expertise in driving transformational change, including implementing global shared services in large international organisations.

### External Appointments
- None.

## 4. Sue Clark

**Senior Independent Director A P R**

### Appointment
Appointed Non-Executive Director in December 2018, Chair of the Remuneration Committee in February 2019 and Senior Independent Director in January 2020.

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

### Skills and Competencies
With a background in corporate and regulatory affairs, Sue brings to Imperial international experience in FMCG and regulated businesses and major corporate transactions, as well as expertise in governmental and regulatory relations. Sue is a passionate advocate for the contribution business can make to wider society, which brings valuable insight to Imperial's ESG ambitions.

### External Appointments
- Non-Executive Director, Chair of the Remuneration Committee and member of the Nominations Committee of Britvic plc[1].
- Non-Executive Director and member of the Audit, Nominations and Remuneration Committees of Mondi plc[1].
- Non-Executive Director of Tulchan Communications LLP[2], a leading advisory firm.

## 5. Diane de Saint Victor

**Non-Executive Director P R**

### Appointment
Appointed November 2021.

### Career and Experience
Diane has strong legal, regulatory, M&A, business alliance and ESG experience, having held a number of General Counsel, Company Secretary and other key roles in an international career. She spent 13 years on the Executive Committee, as General Counsel & Company Secretary, of ABB, the global technology company. Prior to joining ABB, she served as a Senior Vice President and General Counsel of Airbus Group from 2004 to 2006 and from 2003 to 2004 as a Vice President and General Counsel at SCA Hygiene Products. She spent a decade working at Honeywell, ultimately holding the post of Vice President and General Counsel International.

### Skills and Competencies
Diane brings over 30 years' experience of broad international legal, governance and regulatory expertise gained from a range of senior executive and non-executive positions in multinational organisations, as well as experience of transforming organisations in sectors undergoing change.

### External Appointments
- Non-Executive Director of Natixis, SA[2].
- Non-Executive Director and member of the Audit and HSES Committees, of Transocean Ltd[1].
- Non-Executive Director of C&A[2].

## 6. Ngozi Edozien
Non-Executive Director Ⓐ Ⓟ

### Appointment
Appointed November 2021.

### Career and Experience
Ngozi has over 25 years' experience in finance/private equity, general management and strategy/business development functions with multinational companies in Europe, the US and Africa. She joined McKinsey & Company in 1992, leaving in 1999 to join Pfizer Inc. as Vice President, Pfizer Global Pharmaceuticals (PGP) Strategic Planning and Business Development, a position she held until her appointment in January 2005 as the Regional Director, PGP East, Central and Anglophone West Africa. She served as Head of West Africa for Actis LLP from 2009 until 2014. She spent six years on the Board of PZ Cussons and four years on the Board of Vlisco PLC.

### Skills and Competencies
Ngozi brings to Imperial over 30 years' experience in general management, finance, strategy, business development and transformation gained at multinational companies, including in regulated consumer goods, in Europe, the US and Africa.

### External appointments
- Non-Executive Director and member of the Finance and Risk Committee of Guinness Nigeria, a listed subsidiary of Diageo[1].
- Non-Executive Director of Stanbic IBTC Holdings PLC[1].
- Non-Executive Director of Barloworld Ltd[1].

## 7. Alan Johnson
Non-Executive Director Ⓐ Ⓟ

### Appointment
Appointed in January 2021.

### Career and Experience
Alan has a strong financial background in consumer goods and retail, having held a number of senior finance positions at Unilever in Africa, Europe and Latin America during a 30+ year career, including Chief Audit Executive and Chief Financial Officer of the Global Foods Division.

He was previously Chief Financial Officer and then a Non-Executive Director of Jerónimo Martins SGPS, S.A., a food retailer with operations in Portugal, Poland, and Colombia, until April 2016, and retains a role as the independent chairman of the company's Internal Control Committee. Between July 2018 and September 2020 he was a Non-Executive Director of the UK Department for International Development (DFID) and chaired its Audit & Risk Assurance Committee.

### Skills and Competencies
As well as his financial acumen and international experience across mature and developing markets, Alan brings to Imperial experience of risk management and successfully managing business transformations, lending further strength to the Board's governance and effectiveness.

### External appointments
- President and Chair of the Board of the International Federation of Accountants[2].
- Member of the Board and Chair of the Audit Committee of the International Valuation Standards Council[2].
- Non-Executive Director of William Grant & Sons Ltd[2].
- Non-Executive Director of DS Smith plc[1].

## 8. Bob Kunze-Concewitz
Non-Executive Director Ⓟ Ⓡ

### Appointment
Appointed November 2020.

### Career and Experience
Bob is an experienced marketing professional and has held a number of senior roles at leading FMCG companies. He was appointed Chief Executive Officer of Campari Group, a major player in the global spirits industry, in May 2007 having joined the business in 2005 as Group Marketing Director. Bob previously held positions of increasing responsibility and global reach at Procter & Gamble, including Global Prestige Products Corporate Marketing Director.

### Skills and Competencies
With a strong track record of successfully executing brand and marketing strategies at the most senior level, Bob brings to Imperial international brand experience and a profound understanding of delivering for the consumer.

### External appointments
- Chief Executive Officer of Campari Group[1].
- Non-Executive Director of Luigi Lavazza S.p.A.[2]

## 9. Simon Langelier
Non-Executive Director Ⓐ Ⓟ

### Appointment
Appointed June 2017.

### Career and Experience
Simon has significant international experience within the tobacco industry. He held a number of senior commercial positions during a 30-year career with Philip Morris International, including in Latin America, Asia, Western and Eastern Europe, the Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses. Simon was also Chairman for almost six years of PharmaCielo Limited, a Canadian-based supplier of medicinal-grade cannabis oil extracts and related products.

### Skills and Competencies
As well as a deep understanding of the tobacco industry, Simon brings to Imperial knowledge and experience of its NGP agenda.

### External appointments
- Non-Executive Director of CryoMass Technologies Inc.[1]


Committee membership

- (P) People & Governance Committee
- (A) Audit Committee
- (R) Remuneration Committee
- ◆ Committee Chair

1. Public listed company.
2. Private organisation.

## 10. Jon Stanton

Non-Executive Director (A) (P) (R)

**Appointment**
Appointed May 2019.

**Career and Experience**
Jon has a wide range of international leadership experience, encompassing transformation, M&A and all aspects of finance, principally in the B2B sector.

In 2016 he was appointed Chief Executive of The Weir Group PLC, one of the world's leading engineering businesses, having previously been CFO from 2010. Prior to that he spent 22 years at Ernst & Young, LLP, the last nine years of which were as a partner in its London office, where he led global board-level relationships. Jon is a Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales.

**Skills and Competencies**
Jon brings a breadth of experience, with a first-class international business track record, including significant US exposure, as well as investor relations experience and the financial acuity to challenge constructively at the Board and its Committees.

**External appointments**

- Chief Executive of The Weir Group PLC[1].

## 11. John Downing

Company Secretary

**Appointment**
Appointed June 2012. Secretary to the Board and each of the Board Committees.

**Career and Experience**
John, a qualified solicitor, joined Imperial in 2005 having previously worked for the law firm Linklaters. He has had a number of senior legal roles in Imperial, including playing a leading role in the acquisition of the Altadis business, and becoming Head of Group Legal in 2010. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters. In addition to his Group Company Secretary role, John has responsibility for the Group's governance, security, anti-illicit trade and information security functions.

# BOARD LEADERSHIP

## BOARD LEADERSHIP

Early in the year, we strengthened the depth and breadth of capability and experience on our Board and in our Executive Leadership Team. The enhanced combination of skills and competencies sets up Imperial for delivering the next phase of our five-year strategy.

**Leadership Skills Matrix**

| | Other current NED or Exec roles | FTSE/NYSE experience | UK corporate governance | Financial qualification | FMCG | Marketing & digital | Product development | Strategy | International | Change management / HR | ESG | Gov & Reg Affairs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | | | | | | |
| Thérèse Esperdy (Chair) | ◆ | ◆ | ◆ | ◆ | | | | ◆ | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | | ◆ | | | ◆ | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor ** | ◆ | ◆ | ◆ | | | ◆ | | ◆ | ◆ | ◆ | ◆ | ◆ |
| Ngozi Edozien ** | ◆ | ◆ | | ◆ | ◆ | | | ◆ | ◆ | ◆ | | |
| Alan Johnson | ◆ | ◆ | | ◆ | ◆ | | | ◆ | ◆ | | ◆ | |
| Bob Kunze-Concewitz | ◆ | | | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | | | ◆ | | ◆ | | ◆ | ◆ | | |
| Steven Stanbrook * | ◆ | ◆ | | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | | |
| Jon Stanton | ◆ | ◆ | ◆ | ◆ | | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| **Executive Directors** | | | | | | | | | | | | |
| Stefan Bomhard (CEO) | ◆ | ◆ | ◆ | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | | |
| Lukas Paravicini (CFO) | | | | ◆ | ◆ | | | ◆ | ◆ | ◆ | | |

* Until 2 February 2022 at the end of the AGM
** Ngozi Edozien and Diane de Saint Victor appointed 15 November 2021

## COMPLIANCE STATEMENT

It is the Board's view that for the financial year ended 30 September 2022, the Company has complied with all the requirements of the UK Corporate Governance Code 2018 (the Code).

The Company's auditor, EY LLP, is required to review whether the above statement reflects the Company's compliance with the provisions of the Code specified for its review by the UK Listing Authority's Rules (UKLA) and to report if it does not reflect such compliance. No such report has been made.

### Our Commitment to Corporate Governance

The Board is committed to the high standards of corporate governance set out in the Code. The Code can be found at https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

This Corporate Governance Report, together with the Directors' Remuneration Report set out on pages 130 to 148, describe how the Board has applied the main principles of good corporate governance and complied with the relevant provisions as set out in the Code for the year under review.

The Directors' Report also contains information required to be disclosed under the UKLA Rules and under the Disclosure Guidance and Transparency Rules (DTR). To the extent necessary, certain information has been incorporated into this Report by reference.

Throughout the Corporate Governance Report and Directors' Report, we have set out how we apply the main principles and complied with the relevant provisions of the Code.

## THE ROLE AND PURPOSE OF THE BOARD AND ITS COMMITTEES

### FOCUS IN 2022

- The wellbeing of our people and continuing business stability during the ongoing COVID-19 pandemic, as well as the Russia/ Ukraine conflict.
- Board succession and diversity.
- Further development and embedding of our renewed culture and purpose.
- Delivery against our strategy.
- Our NGP strategy.
- Our ESG strategy.

### LOOKING AHEAD TO 2023

- The wellbeing of our people, particularly in Ukraine, as well as those impacted by the cost-of-living crisis.
- Delivery in our first year of Phase 2 of our strategy, particularly given geopolitical and macro-economic factors.
- Our NGP agenda, as we move into an accelerated roll-out phase.
- The embedding of our cultural transformation.
- Our ESG agenda.

**Board and Committee membership as at 30 September 2022**

| | Board | Audit Committee | Remuneration Committee | People & Governance Committee |
|---|---|---|---|---|
| **Non-Executive Directors** | | | | |
| Thérèse Esperdy (Chair) | ◆[2] | | ◆ | ◆[1, 2] |
| Sue Clark (SID) | ◆ | ◆ | ◆[2] | ◆ |
| Diane de Saint Victor | ◆ | | ◆ | ◆ |
| Ngozi Edozien | ◆ | ◆ | | ◆ |
| Alan Johnson | ◆ | ◆ | | ◆ |
| Bob Kunze-Concewitz | ◆ | | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | | ◆ |
| Jon Stanton | ◆ | ◆[2] | ◆ | ◆ |
| **Executive Directors** | | | | |
| Stefan Bomhard (CEO) | ◆ | | | |
| Lukas Paravicini (CFO) | ◆ | | | |

1. Unless dealing with the succession of the Chair.
2. Denotes Chair

Executive Directors are invited to attend when appropriate.
John Downing is Secretary to the Board and each of the Board Committees.
Ngozi Edozien and Diane de Saint Victor appointed 15 November 2021.

### GOVERNANCE FRAMEWORK

The Board is responsible for the governance of the Company, undertaking its duties within a framework of clear authorities and governance structures, with effective controls that enable risk to be assessed and managed effectively.

The Board sets the tone for the Group from the top and delegates specific tasks to its Committees. Each of these Committees has specific written terms of reference issued by the Board, adopted by the respective Committee and published on our website. All Committee chairs report on the proceedings of their Committee at the next meeting of the Board, and make recommendations to the Board where appropriate. Minutes of Committee meetings are circulated to all Board members.

To ensure Directors are kept up to date on developments and to enhance the overall effectiveness of the Board, the Board Chair and Committee chairs communicate regularly with the Chief Executive Officer and the Chief Financial Officer. Where appropriate the Board convenes virtually outside of scheduled meetings to consider time-sensitive matters.

The Board is responsible to shareholders and stakeholders for approving the strategy of the Group, for overseeing the performance of the Group and evaluating and monitoring the management of risk in a manner that is most likely to promote the Company's long-term success.

As part of the governance framework, the Board has adopted a schedule of matters on which it must take the final decision. These include approving the Group's strategy, business plans, dividend, major financial announcements, and acquisitions and disposals exceeding defined thresholds.

Each member of the Board has access, collectively and individually, to the Company Secretary and is also entitled to obtain independent professional advice at the Company's expense, should they decide it is necessary in order to fulfil their responsibilities as Directors.

## BOARD ROLES AND COMPOSITION

While the Board shares collective responsibility for its activities, some roles have been defined in greater depth below.

**Chair**
Leads the Board and creates an environment that ensures there are strong links between the Board, management and stakeholders.

**Senior Independent Director**
Assists the Chair with effective shareholder communications including if investors have any issues which have not been resolved through the normal channels. Is available to other Directors should they have any concerns not appropriate to raise with the Chair.

**Non-Executive Directors**
Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring a diverse range of business and financial skills and experience that complement and supplement those of the Executive Directors.

**Chief Executive Officer**
With the CFO, has day-to-day management responsibility for the Group and for implementing the Group's strategy.

**Chief Financial Officer**
Supports the CEO in implementing strategy and overseeing the finances, operations and development of the Group.

**Company Secretary**
Provides independent advice to the Board on matters of corporate governance and supports the Chair and the Non-Executive Directors. Is responsible for ensuring good governance practices at Board level and throughout the Group.

## BOARD COMMITTEES

The Board delegates certain matters, listed below, to Board Committees, consisting of members of the Board. For further details, see the table of Board and Committee membership at 30 September 2022 on page 103.

**Audit Committee**
Assists the Board in fulfilling its corporate governance responsibilities. This includes oversight of the Group's external audit, internal control systems, risk management framework and processes, and the Group Internal Audit department. The Committee's responsibilities also include ensuring the integrity of the Group's financial statements and related announcements.

This Committee is chaired by Jon Stanton.

See page 119.

**Remuneration Committee**
Sets and implements our Remuneration Policy aimed at aligning the interests of Executive Directors and senior management with those of our stakeholders, ensuring our ability to attract and retain high-performing executives whilst incentivising the delivery of our strategic objectives and sustained returns for investors.

This Committee is chaired by Sue Clark.

See page 130.

**People and Governance Committee**
Reviews and evaluates the composition and succession plans of the Board and its Committees, to maintain an appropriate balance of skills, knowledge, experience and diversity. Retains oversight of the development plans for Executive Leadership Team (ELT) members together with the Company's wider organisational structure, its diversity, equity and inclusion agenda, and its talent management processes. Oversees workforce engagement and culture. Reviews and develops the Board's corporate governance framework, including the Board performance evaluation process.

This Committee is chaired by Thérèse Esperdy.

See page 113.

**Ad hoc committees**
Ad hoc committees may be established to review and approve specific matters or projects. For example, this year an ad hoc sub-committee of the Board was established to consider the Company's approach in respect of the Ukraine crisis.

## EXECUTIVE LEADERSHIP TEAM

The Board delegates responsibility for developing and implementing strategy, and for the day-to-day running of the business, to Stefan Bomhard, Chief Executive Officer, who is assisted in his role by the Executive Leadership Team (ELT) comprising the members listed on page 9.

The ELT is responsible for overseeing the operational execution and delivery of our strategic and financial plans. This includes: business performance management; transformation and cultural change initiatives; talent, capability and succession; major investments, divestment and capital expenditure proposals; business development considerations; ESG initiatives; and risk assessment and management.

For further details, see page 9.

## OTHER NON-BOARD COMMITTEES

The Board delegates certain matters, as follows, to management committees consisting of senior executives:

### Treasury Committee

(reporting to the Audit Committee)

This Committee reviews and approves material banking and treasury matters, providing second line of defence oversight of treasury-related risks.

This Committee is chaired by the Chief Financial Officer.

### Disclosure Committee

(reporting to the Board)

Approves the release of communications to investors and the London Stock Exchange. Reviews whether communications are inside information.

This Committee is chaired by the Company Secretary.

### ESG Steering Committee

(reporting to the People and Governance Committee, the Audit Committee and the Remuneration Committee as well as the Board)

As highlighted in our last Annual Report, with the new ELT in place, it was appropriate to reconstitute this Committee with delegated responsibility to management, and so this was done this financial year.

The purpose of this Committee is to define the Company's strategy relating to ESG and to provide oversight of its ESG programme, which is designed to assist in promoting the long-term sustainable success of the Company.

This Committee is chaired by the Chief Executive Officer.

### Risk Committee

(reporting to the Board and Audit Committee)

This Committee oversees and manages enterprise-wide risk by ensuring that the Group Risk Register remains relevant on an ongoing basis, reflecting the Group's risk appetite against those identified risks, and providing perspectives on the risks raised whilst also establishing the most effective presentation of risks for ELT and Board review.

In addition, the Committee oversees and, where necessary, directs the effective design and operation of the Group's governance, risk management and internal control framework.

This Committee is chaired by the Chief Executive Officer.

### Group Pensions Committee

(reporting to the Audit Committee and the Remuneration Committee)

This Committee has been established to provide global oversight on both risk and reward elements of the Group's pension arrangements, which were historically dealt with locally.

The Committee's objectives include tackling the risks inherent in the Group's defined benefit pension schemes as well as reward matters.

This Committee is chaired by the Chief Financial Officer.

## BOARD PROGRAMME IN 2022

### How the Board discharged its responsibilities in 2022

In addition to the seven scheduled Board meetings, the Board also met virtually a number of times, including during March and April 2022 to consider and make a decision in response to Russia's invasion of Ukraine.

### Attendance at meetings of the Board, Board Committees and AGM

| Name/Meeting | 1<br>11/21 | 2<br>02/22 | 3<br>03/22 | 4<br>05/22 | 5<br>06/22 | 6<br>08/22 | 7<br>09/22 | AGM[1] |
|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | | |
| Thérèse Esperdy (Chair) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor [2] | n/a | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Ngozi Edozien [2] | n/a | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Alan Johnson | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Bob Kunze-Concewitz | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Simon Langelier | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Steven Stanbrook [3] | ◆ | ◆ | n/a | n/a | n/a | n/a | n/a | |
| Jon Stanton[4] | ◆ | ◆ | ◆ | ◆ | ◆ | | ◆ | |
| **Executive Directors** | | | | | | | | |
| Stefan Bomhard (CEO) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Lukas Paravicini (CFO) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |

Notes:
1. In light of a rise in COVID-19 following the emergence of the Omicron strain, the Board decided that it was in the best interests of the Company to limit the number of Directors attending the AGM in person.
2. Appointed 15 November 2021.
3. Retired 2 February 2022 following the conclusion of the 2022 Annual General Meeting.
4. Jon Stanton was unable to attend one meeting due to a prior personal commitment.

Note: n/a signifies not eligible to attend.

Standard agenda items include strategy development and implementation, business performance and general corporate housekeeping. These are supplemented by updates, deep dives, special reports and matters brought to the Board for decision.

## BOARD IN ACTION

We focused on the following in 2022:

| The wellbeing of our people and our continuing business stability during the COVID-19 pandemic | Delivery against our renewed strategy |
|---|---|
| COVID-19 continued to impact Imperial, its people and its business. As a Board, we remained vigilant and ready to respond to the ongoing challenges of the global pandemic.<br>See opposite for an in-depth study of how we monitored the wellbeing of our people and ensured the stability of the business. | In this second year of our five-year strategy, building secure foundations in preparation for the acceleration phase, the Board maintained its focus on delivery.<br>See page 106 for an in-depth study of the Board's considerations in the context of some of the strategic pillars and critical enablers. |
| **Stakeholders engaged:** employees, suppliers, customers, investors | **Stakeholders engaged:** employees, consumers, suppliers, customers, investors, regulators |
| **S172 factors: a, b, c, d, e, f** | **S172 factors: a, b, c, d, e, f** |
| **See page 108 for definitions of S172 factors.** | |

| Board succession and diversity | Further development and embedding of our renewed culture and purpose |
|---|---|
| During 2022 we strengthened the Board, and in doing so addressed succession planning and diversity. In addition, succession planning for the ELT was a focus during the year. Nonetheless, succession planning is an ongoing requirement and diversity is an area where continuous improvement is an absolute necessity – this is acknowledged and has been codified in the People and Governance Committee's terms of reference, which were amended and approved at the People and Governance Committee's September meeting.<br>For further information, please see the People and Governance Committee report at pages 113 to 118. | As highlighted in the Transforming our culture section on pages 22 & 23, as well as the People and Governance Committee report, the Board takes a keen interest in the cultural transformation that the organisation is undertaking. In addition to regular updates to both the full Board, and the People and Governance Committee, the Board has undertaken a number of "Meet the Board" sessions: in November (Bristol), February (Bristol), March (Spain), June (US), and September (London).<br>Find details on pages 107, 113, and 133. |
| **Stakeholders engaged:** employees, investors | **Stakeholders engaged:** employees, investors |
| **S172 factors: a, b, c, d, e, f** | **S172 factors: a, b, c, d, e, f** |

Non-Executive Director Ngozi Edozien during a visit to a trade customer in the US

## IN-DEPTH STUDY:

**The wellbeing of our people and our continuing business stability during the COVID-19 pandemic**

It is easily forgotten how the first half of our financial year continued to be impacted by COVID-19. The Board was kept informed of the impact of the pandemic on our people and on the business on at least a monthly basis.

The November 2021 meeting noted that whilst the trend in positive tests was largely stable, some markets were showing renewed spikes (for example Russia, UK and Ukraine), and others were experiencing refreshed lockdown challenges (for example Laos, forcing the temporary closure of the factory there). In addition, challenges were being experienced in Global Supply Chain (GSC), particularly with non-tobacco materials (NTMs), where there was a significant watch-out on price pressures, commodity shortages and logistics. GSC confirmed that the situation could be managed successfully.

By the time of the February meeting, the Omicron variant appeared to be responsible for a rise in cases across the business, with the biggest spikes in the US, Spain and UK. Whilst these cases amongst our employees appeared to have a lower health impact and cause less business disruption to the business than earlier variants, steps continued to be taken to ensure our people were fully looked after, including continuous improvement steps to reinforce segregation in factories to avoid the risk of cross-infection.

Even at the March Board meeting, weekly infection numbers were still higher, but with no further hospitalisations since the last update in early February. The Board noted the ongoing challenge of absenteeism for the factories, in particular with the Europe region seeing rates of up to 15%. Nonetheless, our factories continued to manage through this, maintaining a zero out-of-stock standard. Likewise, the supply chain situation remained unchanged, with the business again managing through the logistics challenges and supplier pressures.

After over two years, management took the decision at the start of April to cancel its weekly Group COVID-19 calls and to consider absenteeism and any discernible COVID-19-related supply chain impacts within the wider context of performance management. As such, the Board was also updated on the wellbeing of our people and our continuing business stability pursuant to the COVID-19 pandemic in that wider context.

During our regular investor meetings we provided updates on how we were managing COVID-19-related challenges to our business.

Having been fully updated on a very regular basis throughout, the Board remains proud of the Company's response to the pandemic, with our employees also acknowledging that response as a defining feature of the Group's positive attitude towards the wellbeing of our people.

## BOARD ACTIVITIES 2021/22

The topics covered by the Board in its meetings during the financial year are detailed below:

| Meeting | Focus area | Discussion points/Decisions made |
|---|---|---|
| November 2021<br>(Bristol, UK) | • FY21 Performance<br>• ESG | • Approval of the full year announcement, the year-end results presentation and the Annual Report and Accounts.<br>• Review of work on our renewed ESG strategy, including approval of the terms of reference for the reconstituted ESG Committee. |
| February 2022<br>(Bristol, UK) | • Performance<br>• Russia/Ukraine<br>• ESG<br>• NGP Strategic Review<br>• Cyber security | • Q1 performance update, including ongoing COVID-19 challenges, contingency planning in respect of the escalating situation in Ukraine, and the growing inflation cost challenge.<br>• Endorsement of the Group's ESG strategy.<br>• Brand experience, consumer immersion and deep dive into the NGP strategy one year on from the announcement of the Group strategy.<br>• Update on the Group's cyber security posture, including its response preparedness in the event of a cyber attack. |
| March 2022<br>(Madrid, Spain) | • Priority markets (Spain)<br>• Russia / Ukraine<br>• Risk | • Performance update overall, but with an emphasis on Spain, including management discussions, consumer immersion, employee engagement, store visits and an update from Logista's CEO.<br>• Assessment of the Ukraine crisis and actions being, and to be, taken.<br>• Risk assessment update. |
| May 2022<br>(London, UK) | • Performance<br>• Inflation update<br>• Digital Transformation<br>• ESG | • Half year performance and announcement, with an update and assessment of the business being on track with the implementation of its strategy, including the NGP pilots and progress on the cultural transformation.<br>• Discussion with the Chief Supply Chain Officer on inflationary pressures and actions to mitigate the impact of these.<br>• Investment case for a single digital technology core enterprise resource planning (ERP) system.<br>• A review of the ESG landscape. |
| June 2022<br>(Greensboro, US) | • Priority markets (US)<br>• NGP strategy | • Performance update overall, but with an emphasis on the US, including management discussions, factory visit, leaf education session, consumer immersion, employee engagement and store visits.<br>• Focus on the US NGP market, including the legal and regulatory environment. |
| August 2022<br>(virtual, via Teams) | • Performance<br>• Regulatory affairs | • Q3 update, including inflation management, manufacturing capacity (COVID-19 absenteeism, the exit from Russia and the relocation of Kyiv factory production).<br>• Regulation horizon scanning and strategy. |
| September 2022<br>(London, UK) | • Performance<br>• Business Plan<br>• Risk<br>• Investor audit | • Performance update, including inflation tracker.<br>• Discussion and approval of the FY23 business plan.<br>• Board risk assessment, including risk appetite.<br>• Investor feedback discussion. |

## IN-DEPTH STUDY: DELIVERY AGAINST OUR RENEWED STRATEGY

As can be seen from the summary of key items discussed at the various Board meetings over the year, the Board has maintained its focus on delivery against the strategy, with this being the second year of building foundations in preparation for the acceleration phase for years three to five.

The Board looks at delivery, performance and improvement in the context of the Group's strategic pillars and critical enablers, about which you will read elsewhere. By way of example, the Board's activities in 2022 included the following consideration in respect of key elements of the strategy:

### Focusing on our priority markets

The Board looks in detail at the performance of each priority market as part of the monthly performance reporting and/or in the business review at each meeting. In addition, in March and June the Board visited two of the five priority markets, Spain and the US. In each review, discussions centred on overall strategy (including people and culture and must-win battles, as well as combustibles and NGP), consumers, portfolio management (including "local jewel" brands), route to market, market share, regulation and competitors.

### Building a targeted NGP business

Our Chief Consumer Officer presented to the Board in February on the NGP strategy one year on from the launch of the Group strategy, outlining the renewed analysis of the NGP landscape that had been undertaken, together with data-points and learnings from the ongoing NGP pilots in Europe and US. The Board endorsed the strategy and approach, noting that with an improved product, focused execution, and clear and differentiated target consumer, Imperial can expect to start to build up its NGP share position. Learnings from the pilots have provided a clearer view of the challenges and the investments required to deliver on our NGP ambition. Taking into account the investment and project spend required to support a step-up in innovation and consumer investment, the Board approved the necessary investment, including the incremental investment behind the NGP strategy, as part of the FY23 business plan at the September Board meeting. For more information on the Board's decision, refer to Stakeholder engagement on pages 30 to 34.

As mentioned above, the Board continues to be informed of, and discuss, the NGP strategy and performance, including market-specific considerations during its visits to Spain and the US.

Building a targeted NGP business is also a key part of the Group's ESG strategy in relation to consumer health. As set out above and on pages 36 to 58, ESG has been a focus area for the Board, with the overall ESG strategy being endorsed at the February Board meeting. In addition, and following engagement with investors, as set out in the Directors' Remuneration Report on page 132, we have included a consumer health metric into the annual bonus metrics.

### Consumer at the centre of the business

The Board has focused on this key enabler to the strategy by overseeing the strengthening of critical capabilities required to deliver it, including with the building of the Chief Consumer Office. The consumer has been noticeably "present" in the Board room, both through regular updates and discussions on key aspects of bringing the consumer to the centre of the business, and by Board members participating in three consumer immersion events at the February (Bristol), March (Spain), and June (US) Board meetings. The Board also participated in store visits in March, June and November.

### Simplified and efficient operations

As set out on page 24, a key enabler of our strategy is to simplify the organisation through global processes underpinned by technology.

With the need to replace end of life fragmented enterprise resource planning (ERP) systems, the opportunity to do so in a way that delivers better standardisation and integration was acknowledged by the Board. Building on the Central Finance (CFin) investment, the intention is therefore to create a standard core ERP with master data integrity and business platforms supporting all markets and factories, on which other applications can be built as the business evolves. The investment case for this single digital technology core ERP was discussed and approved at the May Board meeting, with the Board recognising that the significant multi-year investment will be a key enabler of the strategy and associated key business objectives. Details of how the Board took stakeholders into account in making its decision can be found on page 110.

### Driving value from our broader market portfolio

As set out on page 17, our strategy proposed a more rigorous approach to driving value from the breadth of our full market portfolio.

The strategy is focused on strengthening our regional and cluster structures, ensuring each of our markets is allocated the appropriate investment while managing our smaller markets to ensure they have the agility they need to spot trends and capitalise on emerging growth opportunities.

The Board was kept up to date with progress during the year, including discussions at its May meeting relating to the creation of a product innovations team and work reviewing the positioning of the right brands at the right price point across a number of markets.

### Performance-based culture and capabilities

As set out on page 23, the Board approved the launch of "Connections", our new purpose, vision and behaviours to all of our employees globally.

At its June meeting the Board received a progress report on culture and capabilities. A further update relating to the interaction of talent, capability and culture with the transformation of the operating model was provided to the Board in September.

### Engagement with Investors

We value the support and engagement of our equity and debt investors and understand the importance of this to our ability to access capital. Our aim is to provide balanced, clear and transparent communications enabling investors to understand how we see our prospects and the market environments in which we operate. Over the course of 2022 our teams held around 650 meetings with investors and research analysts through the following:

- results presentations and trading updates;
- CEO and CFO participation at investment banking conferences;
- investor roadshows in the UK, North America, Asia, with private client brokers and wealth managers and with debt investors in support of US dollar bond issue;
- two webinars: "Gaining traction in the US market" and "Our refreshed ESG agenda";
- our AGM, providing an opportunity for the Board to meet with shareholders, particularly our retail investors;
- shareholder engagement on our proposed ESG metrics into FY23 executive remuneration; and
- ad hoc meetings at the investors' request.

To monitor the effectiveness of this engagement, the Board commissioned an investor perception study during 2022 to gather feedback from investors and non-shareholders. The key findings were that shareholders believe Imperial has the right strategy in both combustible tobacco and in NGP, which plays to its strengths and position in the industry and there is widespread support for the new capital allocation policy. Shareholders are also supportive of the management team and are pleased with the operational progress to date. They are keen to see progress in NGP, which is considered a critical area to underpin long-term growth, and they also want to see signs of performance improving in the next three-year phase of the plan.

### Engagement with Colleagues

Despite the challenges of the COVID-19 pandemic, we have continued our workforce engagement activities. The People and Governance Committee has embraced its wider role as the workforce champion. Our "Meet the Board" listening sessions continue to provide the opportunity for a two-way dialogue between our colleagues and NEDs, tackling themes such as diversity and inclusion, ESG and culture. The sessions also included discussion in respect of investor sentiment, the Group's NGP ambitions, its digital marketing approach, regulation and the Russian invasion of Ukraine. These open and honest sessions have been positively received, and are considered by colleagues to be helpful in connecting to the strategy and the enablers for delivering it.

**Specific engagement:**

| | |
|---|---|
| November 2021<br>UK | • "Meet the Board" session<br>• Store visit with UKI team |
| March 2022<br>Spain | • "Meet the Board" session<br>• Office drinks<br>• Dinner with local management |
| June 2022<br>USA | • "Meet the Board" session<br>• Office drinks<br>• Dinner with management<br>• Factory tour and leaf education |
| September 2022<br>UK | • "Meet the Board" session<br>• Dinner with management |

Read more on how the Board considers all our stakeholders, and how the Directors fulfil their duties under Section 172 of the Companies Act 2006, in our S172 statement and accompanying information on pages 108 to 112.

### INVESTOR ENGAGEMENT DURING FY22

**OCTOBER**

Results
- Pre-close trading update

**NOVEMBER**

Results
- FY Results

Roadshows
- UK
- Private Client

**DECEMBER**

Conferences
- Virtual

Roadshows
- North America
- Private Client

**FEBRUARY**

Roadshows
- Private Client

Engagement
- AGM 2022

**MARCH**

Conferences
- Boston
- Virtual

Engagement
- Webinar on gaining traction in the US market

**APRIL**

Results
- Pre-close trading update

**MAY**

Results
- HY Results

Roadshows
- UK
- North America

**JUNE**

Conferences
- Paris

Roadshows
- Private Client

**JULY**

Roadshows
- Canada
- Asia

**AUGUST**

Engagement
- Engagement on ESG metrics in remuneration

**SEPTEMBER**

Conferences
- Boston

Engagement
- Webinar on Environmental, Social & Governance

# STATEMENT ON SECTION 172 OF THE COMPANIES ACT 2006

Effective engagement with a wide range of stakeholders, including consumers, colleagues, governments and regulators, our customers, suppliers, and investors is key to the successful delivery of our strategy and vision in the long term.

During the year, the Directors acted in a way they considered, in good faith, most likely to promote the Company's long-term success for the benefit of its members as a whole, paying due regard to the matters set out in Section 172 of the Companies Act 2006.

In taking into account the various interests of all relevant stakeholders when making decisions, the Board recognises it is not always possible to achieve each stakeholder's preferred outcome. Which stakeholder groups' interests are considered depends on the decision at hand. The Board endeavours to balance the different priorities and interests of our stakeholders in a way compatible with the long-term, sustainable success of the business and which aligns with our purpose, vision and behaviours.

Examples of key decisions taken by the Board during the year and how stakeholder views and inputs, as well as Section 172 factors, have been considered in its decision-making are shown on the following pages, which together form our Section 172 statement.

The Board recognises its responsibility to give due regard to the following matters in arriving at its decisions:

## Section 172 factors

- a The likely consequences of any decision in the long term
- b The interests of the Company's employees
- c The need to foster business relationships with suppliers, customers and others
- d The impact of the Company's operations on the community and the environment
- e The desirability of the Company maintaining a reputation for high standards of business conduct
- f The need to act fairly as between members of the Company

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as s. 172 considerations, have been considered in its decision-making are shown on the following pages.

## Key stakeholders

- Consumers
- Customers
- Governments and regulators
- Colleagues
- Suppliers
- Investors

# CONSIDERING STAKEHOLDERS IN KEY DECISIONS

## Decision to withdraw from Russia

ⓐⓑⓒⓓⓔⓕ

The Board was informed of the Company's ongoing contingency planning in respect of a possible invasion of Ukraine at its Board meeting on 1 February 2022. It was kept updated on the Company's response to the unfolding situation with regular reports, including being fully briefed on measures being taken to assist our employees in Ukraine.

Following an emergency Board call on 7 March 2022, we announced the suspension of all operations in Russia. This decision took into account the complex implications for various stakeholders, including Imperial's reputation as a responsible UK public company, an assessment of evolving international sanctions and growing concerns among suppliers and shareholders.

The Board then met as scheduled on 10 March 2022 and was briefed on how stakeholders were reacting to the crisis, including employees, consumers, shareholders, media and governments. The Board discussed next steps regarding the Russian business, again taking into account key stakeholders in both Russia and Ukraine, as well as competitor and other FMCG company reactions. A Board sub-committee was established to deal with urgent matters, whilst ensuring the Board was kept informed of developments.

Taking into account the implications for its various stakeholders, the Board decided that it was best for the success of the Company in the long term to exit Russia. On 15 March 2022, following a sub-committee meeting, the Company announced that it had begun negotiations to transfer its Russian assets and operations to a local third party. In negotiating the Company's exit from Russia, the safety and wellbeing of its employees was the key priority, with the Board deciding that an orderly transfer of the business as a going concern would be in the best interests of its 1,000 colleagues in Russia. In addition, despite always operating within the law, it was increasingly apparent that the international sanctions being imposed upon Russia were making several suppliers nervous about supplying Imperial, which could have impacted their business and Imperial's relationship with them in the longer-term.

The Board continued to receive updates on both the proposed exit from Russia and the situation in Ukraine, allowing a sub-committee of the Board to approve the exit, which completed on 20 April 2022. The Company safeguarded every Imperial job in Russia, with all employees transferring with the business. This was particularly important for those employed in Volgograd, given the importance of our factories in the communities in which they are located.

The Board continued to be updated on the crisis in Ukraine throughout the year, including the sad news in August that one of our Kyiv factory employees, who had joined the Ukrainian military, had been killed in the fighting.

### S172 CONSIDERATIONS AT A GLANCE

| | |
|---|---|
| Likely long-term consequences of the decision | Our decision brought stability to a complex and quickly evolving situation. It was informed at every step by consideration of the long-term consequences to the Group of continuing to do business in Russia or withdrawing from the market and protecting the wider business and its stakeholders. |
| Interests of our colleagues | Prompt action meant we safeguarded the interests of our Imperial Russia colleagues by ensuring their transfer as part of a going concern. At the same time, the interests of our colleagues in Ukraine and the wider business was a key factor in considering the long-term consequences of our decision. |
| Fostering business relationships with suppliers, customers and others | We took into account our suppliers' concerns about the potential impact of international sanctions on Russia. Our decision has secured our relationships with those suppliers. |
| Impact on community and environment | We recognised our decision would particularly affect the community around our factory at Volgograd. Taking that into account, we acted quickly to transfer the business as a going concern, safeguarding local jobs. |
| Maintaining a reputation for high standards of business conduct | Imperial conducted itself in this internationally volatile political situation with integrity and discipline. The Board remained updated and ready to act at short notice, applying high standards of governance, and considering the interests of all our stakeholders, while responding decisively. |
| Need to act fairly between members | The Board acted fairly when considering all key stakeholders in its decision-making. Once decisions were made, we provided clear and transparent reporting on our plans and progress. |

## Decision to approve investment behind our digital transformation strategy

ⓐⓑⓒⓓⓔⓕ

The Board was fully supportive of the digital transformation strategy and therefore the investment case for a single digital technology core enterprise resource planning (ERP) capability with master data integrity. In particular, the Board took into account the long-term sustainability of Imperial as a whole, seeing the investment as a key enabler of the strategy and associated key business objectives, which will further strengthen the foundations for a stronger, more resilient future, by:

- allowing the business to better serve its customers, with a consistent view of the consumer enabled by data;
- enabling rapid and nimble product innovation and introduction to help provide consumers with greater choice;
- increasing supply chain responsiveness and reducing wastage through an integrated end-to-end supply chain;
- allowing greater insight into customer and supplier data, and greater consistency of data across the entire business, enabling it to make decisions about strategic partners that, for example, share its ESG values;
- allowing the business to rely on more predictable and consistent data, which gives the right information upon which to make clear, informed and agile decisions;
- delivering better standardisation and integration, allowing consistent reporting and use of data, and better placing the business to oversee governance and reinforce its capabilities to deliver high standards of business conduct.

### S172 CONSIDERATIONS AT A GLANCE

| | |
|---|---|
| Likely long-term consequences of the decision | Transforming our digital capabilities is core to the strategy and Imperial's long-term success. |
| Interests of our colleagues | Streamlined systems and processes will empower our people to deliver their best work and make sound data-driven choices. In making its decision, the Board was keen to strike a balance between speed of implementation and the burden on colleagues to deliver a multi-year programme. |
| Fostering business relationships with suppliers, customers and others | Improved access to information allows the business to put the consumer first, giving it the ability to innovate and introduce new products quickly to satisfy consumer demand. At the same time, having an enhanced data analytics capability will allow the business to further develop its strong commercial relationships with our customers and suppliers. |
| Impact on community and environment | Greater insight into customer and supplier data, and greater consistency of data across our business, will enable us to make decisions about strategic partners that share our values, for example, on ESG and information security. |
| Maintaining a reputation for high standards of business conduct | Consistent reporting from across our international business means we are better placed to oversee governance and reinforces our capabilities to deliver high standards of business conduct. |

## Decision to extend the roll-out of NGP

ⓐⓑⓒⓓⓔⓕ

With NGP being a key enabler to achieving the Group's purpose and vision, as well as the commercial reality that NGP is gaining an increasing share of the total nicotine profit pools, the Board has fully supported Imperial's commitment to building a targeted NGP business based on consumer insights and validation.

To assist the Board in understanding the NGP strategy, one year on from the launch of Imperial's overall strategy, and to allow the Board to make a decision on the NGP roll-out for the next few years, the NGP Strategy Team provided the Board with a brand experience for both EVP and heated tobacco. Brand and product display booths were used to bring the consumer, product and experience to life for the Board, together with a comparison to competitor brands. This was supplemented with a consumer immersion event, with Board members talking to a group of vapers and a cohort of heated tobacco consumers.

In addition, the Board was presented with renewed analysis of the NGP landscape, together with data from the ongoing NGP pilots in Europe and the US. The Board was able to consider the Group's proposed footprint and category offerings with data points which indicated that with an improved product, focused execution, and a clear and differentiated target consumer, Imperial should be able to start building its NGP share position. Linked to this was consideration of the need to establish and maintain key supplier partnerships, as well as an understanding of the regulatory environment in the short, medium and longer term.

Taking into account a number of factors, including; consumer preferences, the attraction and retention of employees linked to having a growing non-tobacco business, investor and ESG analysts' appetite to see evidence of the transformation from a predominantly tobacco business to NGP business, adopting a challenger mentality by leading with supplier partnerships for innovation, and the regulatory landscape and horizon – the Board endorsed the roll-out plan for EVP benefiting from a better product and scale in Europe, and the accelerated roll-out of heated tobacco to new markets, thus helping Imperial's sustainability for the long-term.

### S172 CONSIDERATIONS AT A GLANCE

| | |
|---|---|
| Likely long-term consequences of the decision | Building a targeted NGP business is one of our key strategic pillars. Our decision to support the considered extension of our NGP products to new markets is based on learning from the past while continuing to secure our future. |
| Interests of our colleagues | Strengthening the portfolio and building a sustainable NGP business is fundamental to our Purpose and what we are all striving to achieve over the long term. This not only improves opportunities for growth for existing employees, but also attracts new talent into a growing non-tobacco business. |
| Fostering business relationships with suppliers, customers and others | Implementing a successful NGP business, which is responsive to consumer demands, allows the business to build connections with new partners, while strengthening relationships with existing ones. |
| Impact on community and environment | Our decision to support our NGP strategy underpins our Purpose, which is to forge a path to a healthier future for moments of relaxation and pleasure. This is our commitment to make a positive contribution to a healthier future for our consumers and society, including through potentially reduced risk products. |

### Section 172 of the Companies Act 2006

The Board seeks to consider the interests of all relevant stakeholders when making decisions. Our formal statement is disclosed on page 108. Throughout this Annual Report we have included information on how the Board operates and considers the interests of stakeholders when making its decisions.

Read more on pages 108 to 111.

### Viability statement

On the basis of a robust assessment of the principal risks facing the Group, and the assumption that they are managed or mitigated in the ways disclosed on pages 82 to 93, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2025.

Read more on pages 92 and 93.

### Going concern basis

Having assessed the principal risks facing the Group, including the current and forecast future impacts of the ongoing COVID-19 pandemic, emerging geopolitical strains, and the impact on consumers of fuel, food and inflation challenges, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs from the date of this Report through to March 2024 and, therefore, concludes that it is appropriate to prepare the financial statements on a going concern basis.

Read more on page 92.

### Principal risks and uncertainties

The processes and related reporting described in the Principal Risks and Uncertainties section on pages 82 to 93 enables the Audit Committee to review and monitor the effectiveness of our risk management and internal control systems and confirm their effectiveness to the Board, in accordance with the recommendations of the Code.

Read more on pages 82 to 93.

### Fair, balanced and understandable

The Directors confirm that they consider, taken as a whole, this Annual Report and Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Read more on page 127.

### Modern slavery statement

As an international business, we recognise the importance, influence and duty we have in promoting respect for human rights across our business and supply chains. We prepare an annual modern slavery statement which is available on our website. Our e-learning module, which provides a global overview of human rights abuse of modern slavery, and explains how employees can raise concerns, is now available in 15 languages and rolled out to employees. This year, the course was also delivered in person to over 2,500 people who do not have access to online learning in Laos and Madagascar including farmers.

Read more on page 50 and 51.

# PEOPLE AND GOVERNANCE COMMITTEE

## ABOUT THE PEOPLE AND GOVERNANCE COMMITTEE

### Membership* and attendance:

| Name/Meeting | 1 11/21 | 2 03/22 | 3 05/22 | 4 09/22 |
|---|---|---|---|---|
| Thérèse Esperdy (Chair)[1] | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor[2] | n/a | ◆ | ◆ | ◆ |
| Ngozi Edozien[2] | n/a | ◆ | ◆ | ◆ |
| Alan Johnson | ◆ | ◆ | ◆ | ◆ |
| Bob Kunze-Concewitz | ◆ | ◆ | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | ◆ | ◆ |
| Steven Stanbrook[3] | ◆ | n/a | n/a | n/a |
| Jon Stanton | ◆ | ◆ | ◆ | ◆ |

1. Unless dealing with the succession of the Chair.
2. Appointed 15 November 2021.
3. Retired 2 February 2022 following the conclusion of the 2022 Annual General Meeting.
* Only members are entitled to attend. Executive Directors are invited to attend when appropriate.
Note: n/a signifies not eligible to attend

### Other regular attendees

- Company Secretary, as Secretary to the People and Governance Committee
- Chief Executive Officer
- Chief Financial Officer
- Chief People and Culture Officer
- Other senior executives as appropriate

### Role of the People and Governance Committee

Following the decision to extend its remit, the People and Governance Committee is also responsible for the social and governance components of our ESG agenda. The Committee assists the Board in fulfilling its governance responsibilities to maintain an appropriate balance of skills, experience and diversity on the Board and in senior management, to implement succession plans for the Board and senior management, and to evaluate Board, Committee and Director effectiveness. It also covers the Board's corporate governance framework and its workforce engagement strategy.

## STRUCTURE AND CONTENT OF THE PEOPLE AND GOVERNANCE COMMITTEE REPORT



## PEOPLE AND GOVERNANCE COMMITTEE CHAIR'S OVERVIEW

### Dear shareholder

I am pleased to present to shareholders the report of the People and Governance Committee for the year ended 30 September 2022, which sets out how the Committee has discharged its duties in accordance with the Code and details the key matters it considered during the year.

### Broader scope and terms of reference

The externally facilitated Board evaluation conducted in 2021 recommended that, to support the Company's cultural transformation, the remit of the then Succession and Nominations Committee be broadened to include employee engagement strategy and monitoring our wider culture change activities, essential to meeting our objectives under the renewed strategy. To reflect the wider remit, we changed the name of the Committee to the "People and Governance Committee" and updated its terms of reference, which can be found on our website.

## Board diversity

The diversity we achieved at Board level by 30 September 2022 is summarised opposite.

We are always mindful of our diversity obligations, including the recommendations of the Hampton–Alexander Review and the ongoing FTSE Women Leaders Review, and will continue to incorporate their recommendations into our search criteria for new Board members and senior management.

We remain committed to the Hampton-Alexander target of at least 33% female Board membership. As at the date of this report, Imperial's figure is 40%.

We continue to embrace diversity of gender, cultural background and experience, and expect this to be increasingly reflected in our Board composition over the coming years. We support the Parker Review's ethnic diversity recommendations. We currently have two Board members (20%) who identify as being from an ethnic minority background.

In 18 months, we have transformed our Executive Leadership Team from 14% women and 0% People of Colour/ ethnic minority, to 30% women and 20% people of colour/ethnic minority.

This was important in sending an initial, early signal to our people of the positive action we will take to create a truly diverse and inclusive organisation. We have also created a dedicated diversity, equity and inclusion (DEI) team – the first in the history of the organisation.

As a Group, we are working to address imbalances in representation throughout the business and, in support of this aim, we will be setting clear KPIs to increase female representation at senior levels and taking targeted action as part of our DEI strategy to maintain oversight of the delivery of talent and diversity initiatives, to ensure they remain consistent with our emerging culture.

See pages 55 and 56 for more information about our DEI agenda.

## BOARD CHANGES DURING THE YEAR

As you will have read in my letter on page 95, during the year we welcomed Ngozi Edozien and Diane de Saint Victor to the Board and, after six years' valuable service, Steven Stanbrook retired.

### Induction programme

Since their appointment, Ngozi and Diane have undertaken a series of induction meetings with key areas of the business, both individually and together, as well as furthering their understanding of the business when attending Board meetings – for example via the educational sessions held at the Greensboro factory.

### Board evaluation

This year's Board evaluation was internally facilitated. You can read more about how we responded to last year's externally facilitated evaluation and the recommendations drawn from this year's evaluation on pages 116 to 118.

### Election and re-election of Directors

All Directors are appointed following a rigorous selection process. This is led by the People and Governance Committee which, supported by the Group People and Culture function, makes recommendations to the Board.

Read more about the skills and experience of our Board on pages 96 to 110.

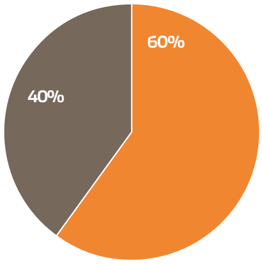
In accordance with the Code and with the Company's Articles of Association, all Directors who are not retiring put themselves up for re-election annually at the AGM. The Board recommends the re-election of all Directors who are standing at our 2023 AGM.

Each Director may be removed at any time by the Board or our shareholders.

Thérèse Esperdy

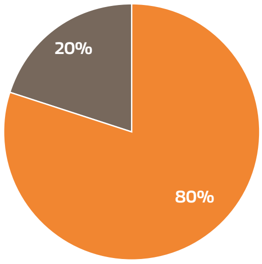
**Thérèse Esperdy**
Chair of the People and Governance Committee

### Board gender balance



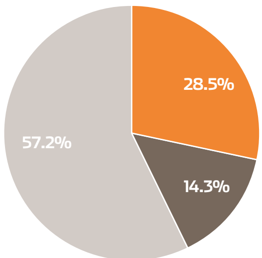

| | |
|---|---|
| Male | 60% |
| Female | 40% |

### Board ethnicity



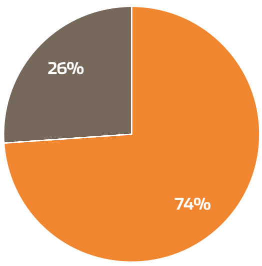

| | As at 30 September 2022 |
|---|---|
| Non-ethnic minority background | 80% |
| Ethnic minority background | 20% |

### Tenure of Non-Executive Directors at 30 September 2022




| | As at 30 September 2022 |
|---|---|
| 5-7 Years | 28.5% |
| 3-5 Years | 14.3% |
| 0-3 Years | 57.2% |

### Senior management gender balance




| | |
|---|---|
| Male | 74% |
| Female | 26% |

## MAIN RESPONSIBILITIES

In line with the authority delegated by the Board, the People and Governance Committee:

- Reviews and evaluates the composition and effectiveness of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence, and makes recommendations to the Board with regard to any changes, while having due regard to the benefits of diversity on the Board.
- Ensures that succession plans for the Chair, Non-Executive Directors (NEDs), Executive Directors and Group senior management are in place and kept under review.
- Nominates suitable candidates for appointment to the Board and its Committees, and makes recommendations to the Board on any matters relating to the continuation in office of any Director at any time.
- Approves the appointment of any Director to executive or other office, and retains oversight of the development plans for Executive Leadership Team members.
- Reviews and develops the Board's corporate governance framework and monitors its compliance with corporate governance standards and practices, ensuring that it remains appropriate to the size, complexity and strategy of the Company.
- Maintains the Directors' conflicts of interest policy and determines the principles on which outside directorships may be accepted by Executive Directors.
- Reviews the Board's policy on diversity, equality and inclusion and the effectiveness of its implementation.
- Owns the workforce engagement strategy on behalf of the Board, monitoring its effectiveness, and reports to the Board.
- Strengthens the employee voice within the Boardroom.
- Assesses and monitors the Group's culture.

The People and Governance Committee consists entirely of independent NEDs, as defined in the UK Corporate Governance Code 2018 (the Code). The Board Chair is the Chair of the Committee, and was independent, as defined by the Code, on appointment.

Biographical details of the current members of the Committee are set out on pages 96 – 99.

The Committee's terms of reference, which can be found on our website state it must meet at least three times a year. A quorum for meeting is two NEDs.

The Committee is authorised to seek external legal advice and other independent professional advice as it sees fit.

| Meeting | Matters discussed and decisions taken |
|---|---|
| November 2021 | • "Connections" launch update<br>• Diversity and inclusion, including executives |
| March 2022 | • Committee terms of reference<br>• Workforce engagement<br>• Board evaluation actions update |
| May 2022 | • Workforce engagement<br>• "Have Your Say" survey<br>• Initiatives in place building culture change and engagement |
| September 2022 | • Engagement survey updates<br>• Talent and capability deep dive<br>• Committee terms of reference<br>• Progress updates on people and organisation strategies, including leadership, operating model and culture change<br>• ELT succession<br>• Board evaluation feedback |

## PEOPLE AND GOVERNANCE COMMITTEE'S ACTIVITIES 2021/22

The revised terms of reference of the People and Governance Committee have helped it focus its agenda over the year, covering the issues highlighted in the summary of meetings on page 115 with "Connections" being the umbrella initiative covering the culture change, including the establishment of a performance-based culture. This included our DEI strategy, updates on the roll-out of behaviours, talent and capability-building strategies, and succession planning. The Committee also embraced workforce engagement through its "Meet the Board" sessions and feedback on the employee engagement initiatives.

### Looking ahead to 2023

The focus of the Committee in 2023 will continue to be on the cultural transformation of the business, which will include: updates, discussions and decisions on our DEI strategy and its implementation; planned cultural change activation, talent and capabilities, a continued focus on strengthening our succession, employee engagement and health, safety and wellbeing.

## INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

We require our Non-Executive Directors to remain independent from management so that they are able to exercise independent oversight and effectively challenge management. We therefore continually assess the independence of each of our NEDs. The Board is satisfied that the independence of those Directors who have external board appointments has not been compromised and there are currently no cross-directorships between Board members. The Board confirms that, with the exception of the Chair, who is not subject to the Code's independence test but met the independence criteria on appointment, all NEDs remained independent throughout the year as defined in the Code.

## CONFLICTS OF INTEREST

Our Directors have a statutory duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, and must give notice of any such conflict at the start of any Board meeting. The Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. Directors are not allowed to participate in such considerations or to vote regarding their own conflicts.

The Board considers all external directorships prior to appointment, reviewing any potential conflict of interests and time commitment for both Executive and Non-Executive Directors. All potential conflicts are submitted to the Board for consideration and, if appropriate, authorisation in accordance with our Articles of Association and the Companies Act 2006, and are entered into our Conflicts Register. As part of our annual review process, all situations entered in the Conflicts Register are reviewed and reconsidered.

Details of the Directors' share interests are shown in the Directors' Remuneration Report on page 143.

## EXTERNAL DIRECTORSHIPS

Non-Executive Directors, including the Chair, may serve on a number of other boards provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company, nor represent a conflict of interest. The People and Governance Committee reviews the extent of the NEDs' other interests throughout the year. In line with the provisions of the Code, they are required to obtain approval of the Board prior to accepting any new office or employment. The Board is satisfied that each of the Non-Executive Directors commits sufficient time to their duties in relation to the Company. The Chair and each of the Non-Executive Directors have confirmed they have sufficient time to fulfil their obligations to the Company.

The Board encourages the Executive Directors and members of the Executive Leadership Team (ELT) to serve as Non-Executive Directors of external companies in order to widen their experience and knowledge for the benefit of the Company. Accordingly, in accordance with the Code and subject to the agreement of the Board, Executive Directors and members of the ELT are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment. During the financial year, Stefan Bomhard was also a non-executive director of Compass Group PLC. No other ELT members had an external appointment.

## REAPPOINTMENT OF DIRECTORS

In accordance with the Code, all Directors offer themselves to shareholders for re-election annually, except those who are retiring immediately after the Annual General Meeting. Each Director may be removed at any time by the Board or the shareholders.

## INSURANCE AND INDEMNITIES

Our Directors and Officers can face significant personal liability under criminal or civil law or the UK Listing regime, and can face a range of penalties, including censure, fines and imprisonment. Each Director is covered by appropriate directors' and officers' liability insurance which the Company purchased and maintained throughout the year.

Qualifying third-party indemnity arrangements for the benefit of Directors, in a form and scope which comply with the requirements of the UK Companies Act 2006, were also in force throughout the year and up to the date of this Annual Report.

## BOARD EVALUATION

### Background

The Code requires that an external evaluation is carried out every three years, with an internal evaluation in the intervening years.

### Action taken in relation to 2021 evaluation

An externally facilitated independent evaluation was undertaken during May and June 2021, conducted by Lisa Thomas of Independent Board Evaluation. A summary of the recommendations arising from that evaluation together with how they have been addressed is as follows:

| Actions identified | Action taken |
|---|---|
| **Board focus**<br>In addition to its standard agenda, the Board agreed to prioritise its focus on certain key topics, including ESG, NGP and people and talent. | (i) As agreed, the Board's ESG Steering Committee has been reconstituted as an executive committee, chaired by the CEO. The ESG Committee reports directly on its meetings to the Board, ensuring the Board retains oversight of this important topic. As set out on pages 36 to 58, the Board has been closely involved in the ESG strategy;<br><br>(ii) NGP has remained a key focus, with the Board approving the continued investment behind developing the Group's NGP agenda, as set out on page 111; and<br><br>(iii) in addition to its expansion to include governance, the People and Governance Committee (formerly the Succession & Nominations Committee) has evolved to encompass the Group's people agenda, with updates on the cultural transformation, including talent, capability and succession, as further set out on pages 115.<br><br>Management has also assisted the Board to further enhance its approach to risk management, and has further improved the provision of information to the Board, both by way of Board papers and at meetings themselves, thus enabling appropriately-focused discussions to take place. |
| **Workforce engagement**<br>In support of deepening its knowledge of the business and encouraging greater collaboration with the new senior leadership team, the Board should ensure there would be a plan for greater engagement. | The People and Governance Committee has evolved to encompass a broader remit, including the Board's annual programme of workforce engagement initiatives. A number of workforce engagement activities took place in the year, as further highlighted on page 115.<br><br>The Board has also continued to build its own relationships and ways of working, including further cementing its relationships with management through regular contact, both inside and outside the boardroom. |
| **Board materials**<br>The Board's more focused agenda will be reflected in the approach to Board materials, including enhancing the information brought to bear in considering the Company's stakeholders. | As set out on pages 30 to 34, the Board has considered a broad range of stakeholders in the decisions it has taken. In addition, and in line with the strategy, the Board has had a particular focus on the consumer during the year, including by participating in a number of consumer immersion events (see page 30).<br><br>Feedback to this year's evaluation noted the improvements made on overall processes, logistics and materials. |

## 2022 BOARD EVALUATION

During July and August this year, the Board underwent an internally facilitated effectiveness review. This was led by our Chair, supported by the Company Secretary.

## REVIEW PROCESS

The review considered Board culture, Board focus, governance and process, and the Board Committees.

As part of the evaluation, the Chair held one-to-one meetings with each of the Board members to discuss their performance on the Board. The Senior Independent Director also held separate meetings with individual Board members and the Board as a whole, without the Chair present, to consider the performance of the Chair.

The evaluation showed that another year had further strengthened Board culture and dynamics, with an inclusive environment allowing for open discussions on focused agenda items.

The evaluation confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees, and that the Committees remain appropriately constituted.

The Board will prioritise its deep-dive focus on NGP, talent and longer-term strategic thinking. In addition, the Board will develop and monitor non-financial KPIs for qualitative issues such as culture and change management.

Other areas for consideration included bringing more external perspectives into the boardroom and broadening the Board's exposure to, and engagement with, external stakeholders.

## INDUCTION AND TRAINING

Following their appointment to the Board, new Directors receive a personalised induction programme which includes industry-specific training, meetings with senior management and site visits to the Group's businesses – although during the financial year these were initially restricted due to the COVID-19 pandemic. New Directors are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance-related matters.

This year, we concluded the induction programmes for Ngozi Edozien and Diane de Saint Victor. These programmes were tailored to their individual skills and experiences, and their roles on the Board. These induction programmes included:

- One-to-one meetings with senior executives to understand the roles played by our senior employees, and specifically how we do things at Imperial.
- Meetings with our external advisers, such as Allen & Overy, our corporate lawyers, EY LLP, our auditor, and Deloitte LLP, our Remuneration Committee adviser, to explain the legal and regulatory background to their roles on our Board and how these matters are approached at Imperial.

Our Board development programme focuses on facilitating a greater awareness and understanding of our business and stakeholders. Briefings are given by our advisers on legislative change and corporate governance developments, as well as focused Committee topics such as executive remuneration, financial reporting requirements and environmental issues. Periodic "deep dives" into various areas of the business are presented to the Board in the regular meeting schedule, and all Board members value and learn from their visits to the different Imperial sites around the world, where they meet with local managers of the businesses and see the daily operations in action. You can read more about our stakeholder engagement in more detail on pages 108 and 112.

The Chair regularly reviews the development needs of individual Directors and the Board as a whole.

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

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

## WORKFORCE ENGAGEMENT

Steven Stanbrook, our nominated Workforce Engagement Director, stepped down from the Board on 2 February 2022.

In light of Imperial's global nature, and given the importance of our cultural transformation to the successful delivery of our strategy, the Board has determined that a more appropriate and impactful approach to workforce engagement is for all NEDs to be involved in this important aspect of Board responsibility and oversight. This is an alternative method to the Code's three suggested options.

Our programme for employee engagement has therefore been embedded in the wider remit of the People and Governance Committee.

As well as participating in site visits, the Board receives the results of workforce surveys and engages with employees directly through structured listening sessions. Regular updates provide the Board with information about progress on our people agenda, including our "Connections" programme, and our talent and capability mechanisms to nurture strength, depth and diversity in our talent pool.

To increase the reach of its workforce engagement the Board held four Meet the Board sessions and participated in a number of dinners, informal drinks and office visits. In addition, our Chair and CEO met with works counsel representatives in Poland during a visit to our factory in Radom, and our CEO met with the works counsel representative during a visit to Germany.

Workforce engagement is a key element of our wider people and culture initiatives and further detail can be found on page 31.

# AUDIT COMMITTEE

## ABOUT THE AUDIT COMMITTEE

### Membership* and attendance

| Name/Meeting | 1 11/21 | 2 02/22 | 3 05/22 | 4 09/22 |
|---|---|---|---|---|
| Jon Stanton (Chair) | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | ◆ |
| Ngozi Edozien [1] | n/a | ◆ | ◆ | ◆ |
| Alan Johnson | ◆ | ◆ | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | ◆ | ◆ |

* Only members are entitled to attend.
1. Appointed 15 November 2021
Note: n/a signifies not eligible to attend

### Other regular attendees during FY22

- Board Chair
- Chief Executive Officer
- Chief Financial Officer
- Finance Director – Group
- Company Secretary, as Secretary to the Audit Committee
- Group Financial Controller
- Director of Assurance and Risk
- Director of Tax
- Head of Internal Audit
- Representatives from EY, our external auditor

### Role of the Audit Committee

The Audit Committee assists the Board in fulfilling its corporate governance responsibilities relating to financial and narrative reporting and controls. This includes oversight of the Group's internal control systems, risk management process and framework, the Group Internal Audit department and the external audit.

It also involves ensuring the integrity of the Group's financial statements and related announcements.

## STRUCTURE AND CONTENT OF THE AUDIT COMMITTEE REPORT



## AUDIT COMMITTEE CHAIR'S OVERVIEW

### Dear shareholder

I am pleased to present the report to shareholders of the Audit Committee for the year ended 30 September 2022, which sets out how it has discharged its duties in accordance with the UK Corporate Governance Code 2018 (the Code) and details the key matters considered and findings during the year. The Audit Committee has exercised the authority delegated to it by the Board to provide assurance for the integrity of the Group's financial statements, to oversee the Group's external and internal audit and to review the Group's internal control and compliance frameworks.

This year, the ongoing COVID-19 pandemic, the war in Ukraine and the challenging global macro-economic environment provided the backdrop to Imperial's second year of its five-year strategy. It has been a year of continued improvement for Imperial's risk management, control and financial governance framework, in service of the Group's strategic ambitions and its emerging performance-led culture.

The Board and Committee effectiveness review conducted in FY21 recommended the Committee focus on more simplified and efficient operational processes and promote a step-up in pace to enhancements of the Group's control framework. The Committee addressed this by ensuring an improvement in the information provided to it both in Committee papers and during Committee meetings themselves and to the Group's risk management processes.

See also the Committee's focus in 2022 on page 121.

The Audit Committee has closely scrutinised a number of areas when assessing critical judgements and estimates made by management and ensuring support for a robust financial close.

As a Committee, we continue to focus on ensuring the Annual Report is fair, balanced and understandable, with an emphasis on transparency of underlying performance drivers, and confirming both that adjusting items are in accordance with the agreed framework and that disclosures are enhanced where necessary to help users understand the accounts. This included ensuring that an appropriate balance within both the Half Year Report and the Annual Report of reported and adjusted results was presented.

Both external and internal auditors continue to present feedback on key financial risks and controls and to provide objective and appropriate challenge to management in addressing these areas. Both took advantage of regular private meetings with myself and the full Audit Committee throughout the year. These processes continue to enable the Audit Committee to report to the Board on how it discharged its responsibilities and to make recommendations to the Board, all of which were accepted.

The following pages provide an insight into the range of activities and deliberations of the Audit Committee during the financial year, supported by a fuller list of all key matters considered by the Audit Committee set out on pages 123 to 127.

**Jon Stanton**
Chair of the Audit Committee

## MAIN RESPONSIBILITIES

In line with the authority delegated by the Board, the Audit Committee:

- Reviews and challenges the critical management judgements and estimates which underpin the financial statements, drawing on the views of the external auditor in making an informed assessment, particularly in relation to each of the key matters detailed on pages 123 to 127.
- Maintains appropriate oversight over the work and effectiveness of Group Internal Audit, including confirming it is appropriately resourced, reviewing its audit findings and monitoring management's responses.
- Monitors and evaluates the effectiveness of Imperial's risk management and internal control systems, including obtaining assurance that controls are operating effectively and are evidenced as such through, for example, the internal self-certification exercise and subsequent internal audit testing.
- Reviews the adequacy and security of the Company's procedures for detecting fraud, and its systems and controls for preventing bribery.
- Scrutinises the independence, approach, objectivity, effectiveness, compliance and remuneration of the external auditor.
- Assesses the going concern status and medium-term viability of the Group.
- Assists the Board in confirming that, taken as a whole, the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy (see page 127).

The terms of reference of the Audit Committee can be found on our website.

## GOVERNANCE

The Audit Committee consists entirely of independent Non-Executive Directors as defined by the the Code. The Audit Committee chair and Alan Johnson meet the Code's standard of having recent and relevant financial experience. The Board is satisfied that they, and the Audit Committee as a whole, have the appropriate competence relevant to the sector in which the Company operates.

Biographical details of the current members of the Audit Committee are set out on pages 96 to 99. Members of the Audit Committee are appointed by the Board following recommendation by the People and Governance Committee.

The Audit Committee's terms of reference state it must meet at least three times a year. The quorum for meetings is two.

At each meeting, both the Director of Assurance and Risk and EY had the opportunity to meet with the Audit Committee without management present.

The Audit Committee is authorised to seek external legal advice and other independent professional advice as it sees fit.

## AUDIT COMMITTEE REPORT

### Focus in 2022

- Oversight of continuous improvement agenda of risk management, internal control and assurance taking into account BEIS proposals.
- Supporting the finance transformation being led by the CFO to enhance capabilities, prioritise controls and governance and support the broader culture change being led by our CEO.
- Reviewing and challenging critical judgements, estimates and disclosures, including adjusted performance measures, particularly as they relate to the ongoing execution of our new strategy, the continuing impact of COVID-19 and an uncertain macro environment.
- Ensuring reporting and disclosures are fair, balanced and understandable throughout the period of change for the Group, and adequately reflect developments in our ESG commitments and FRC disclosure guidelines.
- Implementing recommendations from the review of the Board and Committee effectiveness conducted in FY21 as they relate to the performance of the Audit Committee.
- Oversight of the external auditor and implementation of ongoing enhancements to derive value from the external audit whilst also enhancing audit quality.
- Supporting the Group Internal Audit strategy refresh.

### Looking ahead to 2023

For the coming year, the Committee will continue to support and monitor the Finance team's transformation programme, including the roll-out of the central finance support portal (CFin), and the roll-out of a refreshed Group Internal Audit strategy. Linked to this, the Audit Committee will engage in the development of the Group's total assurance approach, including the establishment of a dedicated Governance, Risk and Control team reporting to the Chief Legal and Corporate Affairs Officer. Regulatory developments will also be high on the agenda for 2023, with the outcome of the BEIS proposals to be taken into consideration, as well as any continuous improvements to our overall reporting (including our Task Force on Climate-Related Financial Disclosures (TCFD)).

## AUDIT COMMITTEE'S ACTIVITIES 2021/22

A summary of the topics covered by the Audit Committee in its meetings during the financial year is detailed below:

| Meeting | Matters discussed and decisions taken |
|---|---|
| November 2021 | • Finance and pensions updates.<br>• FY21 Results overview and accounting estimates and judgements update and recommendations to the Board.<br>• Financial controls self-certification and FY21 attestations update.<br>• Confirmed audit/non-audit service fees.<br>• Internal controls and risk management update, allowing confirmation of internal controls and risk Code compliance.<br>• External and Internal Audit updates and annual review.<br>• Recommended preliminary announcement and Annual Report and Accounts to Board, including the Audit Committee report and risk management disclosure.<br>• Recommended final dividend to the Board.<br>• Recommended reappointment of external auditor to the Board.<br>• Update on FY22 Audit Committee planner.<br>• Audit Committee improvement plan and priorities.<br>• Private discussions with external auditor, Group Internal Audit and CFO. |
| February 2022 | • Finance update.<br>• Reviewed reasonableness of the current intangibles policy.<br>• Update on alternative performance measures (APMs) and subsidiaries' statutory accounts.<br>• Confirmed tax strategy.<br>• FY22 audit plan and update.<br>• External audit effectiveness review, including FY21 learnings to improve ways of working.<br>• FY21 management letter.<br>• Risk and controls assurance – US.<br>• Internal Audit update.<br>• Private discussion with external auditor, Group Internal Audit and CFO. |

| Meeting | Matters discussed and decisions taken |
|---|---|
| May 2022 | • Update on transfer pricing, including tax settlements.<br>• Review of HY22 Results, including going concern and accounting estimates and judgements.<br>• Financial controls self-certification and HY22 attestations update.<br>• External auditor update.<br>• Recommended half year reporting to the Board, including interim dividends.<br>• Considered audit and non-audit service fees.<br>• Treasury risk management update.<br>• Internal controls and risk management update.<br>• Group Internal Audit update (including Group Internal Audit survey).<br>• Private discussion with external auditor, Group Internal Audit and CFO. |
| September 2022 | • Finance update.<br>• External audit update.<br>• Updates on risk, assurance and Internal Audit.<br>• Risk and controls assurance – pensions.<br>• Reviewed audit and non-audit fees.<br>• Reviewed independence of Audit Committee members.<br>• Private discussion with external auditor Group Internal Audit and CFO. |

## KEY MATTERS CONSIDERED

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

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| Use of adjusted measures | Non-GAAP or adjusted measures provide an appropriate and useful assessment of business performance and reflect the way the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors. There is a risk that their inappropriate use could distort the performance of the business. | During the year the conclusions of a detailed review and scrutiny of the proposed use of adjusted measures in FY22 were presented to the Audit Committee. The Committee also reviewed and approved changes to the alternative performance measures (APMs) proposed by management to provide greater clarity on the nature and amount of all adjusting items, together with management's proposals to further align adjusted and GAAP measures.<br><br>Last year, the Audit Committee considered and accepted management's recommendation that restructuring costs associated with the 2021 strategic review will continue to be incurred by the Group post FY21 and are expected to conclude in FY23. The programme is underway and remains on track.<br><br>The Audit Committee reviewed these events alongside the continued guidance from ESMA and previous correspondence with the FRC regarding the treatment of restructuring and agreed that it was appropriate that the implementation of the renewed strategy be treated as a major project restructuring and as an adjusting item until the end of FY22. It also agreed that the Group's Adjusted Performance Measures framework, used for presenting and disclosing the Group results for FY20 and FY21 should continue to apply unchanged during FY22, noting that in FY22 only charges relating to the Group strategic review were eligible for restructuring treatment as an adjusting item.<br><br>Although the framework remained unchanged, the number of APM's used during the year was reduced to be more in line with the number of GAAP measures used. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| **Goodwill and intangible asset impairment reviews**<br>(See note 11 to the financial statements for further information) | Goodwill and intangible assets form a major part of the Group's balance sheet, and their current valuations must be supported by future prospects. | At both the half year and the full year, the Audit Committee reviewed cash forecasts for the Cash Generating Unit Groupings (CGUGs) that are used to support the Group's goodwill and intangible assets balances. Within this review the potential impacts of climate change were considered. Following these reviews it was concluded that there is significant headroom from the discounted cash flows for each CGUG above the valuation of the goodwill allocated to it.<br>The Audit Committee also considered detailed reporting from, and held discussions with, the external auditor. The Audit Committee concluded that there was no requirement to impair goodwill and intangibles outside of those NGP assets previously identified and the sale of the Group's operations in Russia, and that the disclosure of sensitivities was appropriate and on this basis the Committee approved the note disclosure in the financial statements. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| Taxation<br>(See notes 7 and 22 to the financial statements for further information) | The Group is subject to taxation in a number of international jurisdictions, requiring significant management judgement in relation to effective tax rates, tax compliance and the reasonableness of tax provisions, which could materially affect the Group's reported results.<br><br>The Group is subject to periodic challenges by local tax authorities on a range of matters and there are uncertain tax positions in relation to three principal matters: transfer pricing audits in Germany, France and the UK; a French Tax Authority challenge in respect of an intra-Group disposal and financing; and the EU Commission's challenge of the UK Controlled Foreign Company (CFC) regime. | The Audit Committee received a detailed update from management at each Committee meeting on the status of ongoing inquiries and tax audits with local authorities; the Group's effective tax rate for the current year; and the level of provision for known and potential liabilities, including the third-party counsel received in developing estimates. In addition, the Audit Committee discussed material positions with the external auditor in support of developing an independent perspective on the positions presented.<br><br>The Audit Committee continued to receive specific progress reports on UK CFC following the EU General Court's decision, French tax litigation and the status of the transfer pricing audits, including settlement proposals on UK, German and French transfer pricing audits, and in light of these considered the reasonableness of provisions and reporting disclosures.<br><br>The Audit Committee continued to consider the appropriateness of items treated as adjusting and concluded that the items satisfied adjusting item criteria on the basis of materiality and nature.<br><br>The Audit Committee reviewed the status of each material tax judgement, including a range of possible outcomes, noted that independent third-party support had been obtained for each judgement and agreed that the level of tax provisions and disclosures was appropriate. |
| Litigation matters and competition investigations | The Group is exposed to litigation matters arising from claimants seeking remedies from the Company or its subsidiary companies. A small number of claims alleging smoking-related health effects remain, as well as NGP-related product litigation in the US only. One claim arising from specific US legislation (Helms-Burton) is ongoing, one element of the US State Settlement agreements remains unresolved, and the Group faces one ESG-related claim. See contingent liabilities on pages 216 to 218. The Group is in the process of appealing three decisions by national Competition Authorities in the EU. | The Audit Committee considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to a number of actual and threatened legal proceedings. The Audit Committee concluded that risks in respect of these actual and threatened legal proceedings and litigation matters otherwise covered in this report, along with any competition authority proceedings, are appropriately disclosed or provided for in the Group's Annual Report and Accounts. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| **Going concern and viability statement** | The COVID-19 pandemic continues to impact the global economy, and 2022 is characterised by the invasion of Ukraine by Russia, contributing to and exacerbating a global cost-of-living crisis.<br><br>In the context of this global economic uncertainty, the Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period. | Management performed a comprehensive series of stress tests to confirm that the going concern basis and viability statement remain appropriate. These tests are described in the going concern statement on page 92. The tests involved the stress testing of the resilience of the Group to certain changes in trading conditions that may come about as a result of the global economic environment, as well as realisation of other key risks, including climate change.<br><br>The Audit Committee reviewed these tests on operating cash flows, the ongoing resilience of demand and supply, the remaining disposal proceeds from the sale of the Premium Cigar Division, the financial impact of the disposal of the business in Russia, and the impact of the war in Ukraine on the business. The Audit Committee noted the Group's ability to raise funds, with the Group's recent US$ 1 billion bond issuance demonstrating ongoing access to debt financing.<br><br>Together, these points allowed the Audit Committee to form an opinion as to the ability of the Group to remain a going concern from the date of this Annual Report through to 31 March 2024 and make its recommendation to the Board.<br><br>In addition, the Audit Committee also reviewed management's view of the Group's ability to remain viable, for the agreed three-year period, following the forecast realisation of a number of key risks, including the possible impacts of climate change, and concluded that it is appropriate to sign off the Group's viability statement. |
| **Revenue recognition** | There is a risk that revenue could be overstated through the inclusion of sales which are not in compliance with the Group's revenue recognition policy. | Discussions were held with management and the external auditor which satisfied the Audit Committee that the Group's criteria for revenue recognition continued to be appropriate and that the central monitoring of trade weight at period ends ensured any material breaches to the Group's revenue recognition policy would be both detected and reported to the Audit Committee and, where applicable, disclosed externally. No breaches were found during the year.<br><br>The Audit Committee is satisfied that the level of trade debt has been appropriately valued and that any potential bad debt has been adequately provided for. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| **Fair, balanced and understandable** | The Board is required to state that the Group's external reporting is fair, balanced and understandable. The Audit Committee is requested by the Board to provide advice to support the assertion. | The Audit Committee received a report from management summarising the processes that had been undertaken to ensure that the Group's external reporting is fair, balanced and understandable. This included, but was not limited to, the following: (i) a full document review by the Disclosure Committee, including ensuring no undue reporting of good news and material informaiton is given due prominence (ii) engagement of a cross-functional group of internal and external subject matter experts and content owners in the preparation and review of materials, including the ELT, Group Corporate Communications, Group Finance, Group Internal Audit, Group Legal, Investor Relations, ESG team and Company Secretariat; (iii) input and advice from appropriate external advisers, including the Company's brokers and external audit challenge and scrutiny; (iv) regular research to identify emerging practice and guidance from relevant regulatory bodies; and (v) regular meetings involving the key contributors to the document, during which specific consideration was given to the fair, balanced and understandable assertion.<br><br>During the year the Audit Committee has continued its review of the use of APMs, including ensuring the appropriate balance of reported and adjusted measures in the Annual report.<br><br>After consideration of the Annual Report against these criteria the Audit Committee recommended to the Board, which accepted the recommendation, that taken as a whole the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's financial position and performance, business model and strategy. |

## GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Group's risk management approach is described in the Principal Risks and Uncertainties section on pages 82 to 93 and is designed to manage, rather than eliminate, the significant risks the Group may face. Consequently, our internal controls can only provide reasonable, and not absolute, assurance over our principal risks.

During the year the Board considered the Group's "bottom-up" risk assessment, which included consideration of both current and emerging risks and issues as discussed in the Principal Risks and Uncertainties section on pages 82 to 93.

## MONITORING THE EFFECTIVENESS OF RISK MANAGEMENT

The Audit Committee is responsible for approving the risk management approach on behalf of the Board, and for oversight of its ongoing effectiveness.

The Board and Audit Committee received regular updates throughout the year on the continued development of the Group's risk management and internal control systems, as well as on the results of risk assessments and internal control effectiveness assessments.

The Board and Audit Committee has been informed of, and looked at, all significant whistleblowing reports and reported frauds in the year, and is comfortable that none of these gave rise to evidence that there have been instances of non-compliance with relevant laws and regulations. Specific consideration was given to an allegation made against an employee responsible for the procurement of raw leaf tobacco and noted that no evidence had been found of any breach of controls, processes or procedures.

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

Reporting provided to the Audit Committee enables the review and monitoring of the effectiveness of our risk management and internal control systems. The Audit Committee has considered and confirmed to the Board that this is in accordance with the recommendations of the Code and that such systems were in place throughout the year and up to the date of the approval of the financial statements.

## INTERNAL AUDIT

Group Internal Audit (GIA) is responsible for providing independent and objective assurance on the adequacy and effectiveness of the risk management and internal controls framework.

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

The Audit Committee reviewed reports from GIA at each Audit Committee meeting to monitor the effectiveness of the control framework and considered the effectiveness and results of the audits undertaken by GIA, and monitored management responses to the audit matters raised.

The Audit Committee also met independently with the Director of Assurance and Risk to discuss additional insights.

The Audit Committee reviews the effectiveness of GIA routinely through post-audit surveys and KPI reporting. In addition, in FY22 a periodic internal stakeholder survey was conducted, as well as an external quality assessment in accordance with the best practice guidelines of the Institute of Internal Auditors.

The Audit Committee reviewed and approved the proposed direction, scope and investment required for the GIA Fit For Future Strategy. The strategy was developed using feedback from the FY22 Internal Stakeholder Survey and the External Quality Assessment performed by Deloitte. GIA's key strategic priorities relate to aligning to the wider organisation's developments on integrated assurance, building in-house capabilities to enhance auditing of IT-related risks, leveraging technology for audit planning through data analytics, positioning GIA as a route for talent within the Company and improving reporting and insights sharing. The Audit Committee also reviewed the FY23 GIA plan, including its scope and extent, and confirmed appropriate resources exist to deliver the plan.

## EXTERNAL AUDIT

The Audit Committee is responsible for oversight of EY as the Group's external auditor, agreeing its audit strategy and related work plan, as well as approving its fees. At the Committee's February 2022 meeting, EY set out its external audit plan for the year, which continued to build on its previous experience, EY's continued focus on audit quality and the feedback it received from management, the Board and the Audit Committee. EY provided the Audit Committee with an overview of its evolving audit strategy, tailored to the Group, including its audit risk assessment, Group audit materiality and scope, and the key areas of its proposed audit approach.

The Audit Committee considered the external auditor's feedback, management letter and half year review. EY also provided feedback to relevant Group and local management in a number of debrief sessions and audit close meetings.

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

The Audit Committee has had regular private meetings with EY and is satisfied that EY has been given full access and complete transparency by management throughout the year.

**Independence of our external auditor**
As part of the continual requirement to ensure the independence and objectivity of EY as our external auditor, the Audit Committee maintains and regularly reviews our Auditor Independence Policy. This policy, which provides clear definitions of services that the external auditor may and may not provide as determined by the FRC's Revised Ethical Standard published in December 2019, can be found on our website at www.imperialbrandsplc.com.

Our Auditor Independence Policy requires that the Group Audit Partner rotates after a maximum of five years (seven years for subsidiary companies). Andrew Walton, our signing audit partner, has just completed his third year. The policy states that EY may only provide non-audit services where those services do not conflict with its independence. It also establishes a formal authorisation process, including tendering for individual non-audit services expected to generate fees in excess of a specified threshold, and prior approval by the Audit Committee for allowable non-audit work that EY may perform. The threshold is currently fixed at £100,000. Guidelines for the recruitment of employees or former employees of EY, and for the recruitment of our employees by EY, are contained in the policy.

During the year EY undertook limited non-audit work, all of which was assurance or attestation-related. This non-audit work was awarded to EY due to its knowledge of the Group and it being deemed best placed to provide effectively the services required. In the current year, non-audit fees were 7% (2021: 5%) of total audit fees (see note 4). EY did not undertake any advisory or consultancy work for the Group. Following the auditor independence reviews during the year, the Audit Committee concluded that the level of non-audit fees is appropriate in the light of the above activities and the Audit Committee does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

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

## Audit quality
The Board and Audit Committee place great importance on ensuring that the Group receives a high-standard and effective external audit. The key tool in assessing the performance of our external auditor is an audit effectiveness questionnaire. The questionnaire covers audit scope, planning, quality and delivery, challenge and communication, and independence, and is completed by members of the Audit Committee, Logista's Audit Committee and senior managers and finance executives from across the Group. Responses indicated that EY had delivered a high-quality and effective audit, with no pervasive Group-wide concerns identified. Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of EY's reports to the Audit Committee and the Committee's interaction with the Group Audit Partner, the Audit Committee remains satisfied with the efficiency and effectiveness of the audit.

The Audit Committee noted that the FRC Audit Quality review team did not select our FY21 accounts for review. The Committee also noted that the FRC rated the majority of audits carried out by EY as either good or requiring only limited improvements.

## Audit tender
The external audit was last tendered in 2019. EY was awarded the audit in February 2019, with a 1 October 2019 start date. The next time the audit will be tendered will likely be in 2029, as required by regulation. The Audit Committee continues to review the independence and the quality of the external audit to assess whether a tender should be undertaken in advance of the regulatory requirement.

The Audit Committee recommended to the Board that EY should be reappointed as external auditor at the next AGM.

## Audit fees
In the current year audit fees were £8.2 million (2021: £7.5 million) (see note 4).

## Statement of auditors' responsibilities
EY is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Brands PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report as required by legislation or regulation and reports its opinion to members. Further details of EY's opinions start on page 156.

## Statement in relation to disclosure of information to auditors
Each of the Directors in office at the date of approval of this Annual Report confirms that:

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

# ANNUAL STATEMENT FROM REMUNERATION COMMITTEE CHAIR

### Membership and meeting attendance

| Members | 11/11/2021 | 11/05/2022 | 23/06/2022 | 15/09/2022 |
|---|---|---|---|---|
| Sue Clark (Chair) | ◆ | ◆ | ◆ | ◆ |
| Thérèse Esperdy | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor | n/a | ◆ | ◆ | ◆ |
| Bob Kunze-Concewitz | ◆ | ◆ | ◆ | ◆ |
| Steven Stanbrook | ◆ | n/a | n/a | n/a |
| Jon Stanton | ◆ | ◆ | ◆ | ◆ |

Diane de Saint Victor joined the Committee on 15 November 2021 and Steven Stanbrook stepped down on 2 February 2022.

### Focus in 2022

- Ensuring remuneration supports the implementation of the Company's revised strategy
- Remuneration and terms for new members of the Executive Leadership Team
- Development and incorporation of ESG strategy into incentive plans
- Review of remuneration consultants advising the Committee
- Wider workforce reward considerations

### Looking ahead to 2023

- Triennial review of the Directors' Remuneration Policy
- Wider workforce reward strategy to ensure alignment with priorities in a time of economic volatility
- Attraction and retention of high-performing individuals in a competitive global market place

### KEY SECTIONS OF THIS REPORT ARE AS FOLLOWS:



## DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present the Directors' Remuneration Report (DRR) for the financial year ended 30 September 2022.

The last year has seen ongoing challenges for businesses across the world, including the continued impact of COVID-19 and the inflationary pressures caused by the war in Ukraine. Despite the many challenges, the Company has delivered against the stretching remuneration targets that we set in the strengthening phase of our five-year strategy to transform into a more sustainable business capable of consistent growth. Our new global Executive Leadership Team (ELT) has worked extremely well together through the year, combining fresh perspectives and experience from a diverse range of global consumer businesses and FMCG backgrounds. In the coming year, the Committee will undertake the triennial review of our Remuneration Policy to ensure that it continues to support the retention and incentivisation of world-class talent and the delivery of our ambitious transformation plan.

I wish to thank the ELT and our entire workforce for their contribution during the year. I would like to pay special tribute to our 600 Ukrainian colleagues, their families and the teams who are working to keep them safe.

As in the prior year, no employees were placed on furlough and the Group did not benefit from any Government aid.

### Supporting our colleagues

In recent months, the Remuneration Committee has carefully monitored the impact of the volatile macroeconomic environment across our global workforce, overseeing a range of initiatives to support those employees. Our "Meet the Board" sessions are a valuable way of having open conversations with colleagues about a wide range of matters, and we have spent time engaging on a range of reward topics including the cost-of-living crisis. A number of targeted actions have been taken to support our colleagues where required:

- Annual salary budgets were determined with a focus on markets where wage inflation lagged price inflation by a significant margin, recognising the disproportionate impact for those on lower incomes. Across the countries we operate in, salary increases have typically ranged from 3% to 9% (excluding higher increases made in countries experiencing hyperinflation), with increases in the UK expected to be approximately 5% or higher for FY23.
- Introduction of a framework where local markets can request the award of one-off payments, accelerated salary payments or exceptional out-of-cycle increases for targeted groups of employees, in particular where inflationary pressures have impacted business continuity.
- Where appropriate, more frequent salary increases were made in countries experiencing hyperinflation.
- Additionally, we have worked to find new roles for our displaced Ukrainian colleagues and ensured the fair treatment of Russian colleagues leaving the business.

The Committee will continue to monitor and review workforce pay and policies over the coming year, to ensure we continue to support our colleagues during this challenging period.

### Alignment to purpose and strategy

Ensuring our Remuneration Policy supports and drives our strategy is a key focus of the Remuneration Committee. Our focus on transformation of brands, markets and culture is guided by our purpose of "forging a path to a healthier future for moments of relaxation and pleasure". Examples of how we put our purpose-led approach into practice are set out on page 4.

During FY22 the business completed a comprehensive review of our overall environmental, social and governance (ESG) strategy to ensure it is fully aligned with our five-year goals, and this is set out on pages 36 to 58. Our ESG priorities reflect issues which are both important business challenges and potential opportunities to make a positive difference. In recent months, the Committee has carefully considered the outcome of this review and will introduce new ESG metrics under the Annual Bonus for FY23. Further details are provided below.

### Remuneration outcomes for FY22

This year's results demonstrate the Group's continued strong delivery against the five-year strategy and the benefit of the additional investment in transforming the business.

Operational and financial delivery has strengthened in a year marked by continued uncertainties. Consumer buying patterns have been disrupted by the global pandemic, and geopolitical events in Russia and Ukraine have caused uncertainty and exacerbated global inflationary pressures.

During the year we disposed of our Russian business to a third party. This disposal was completed and concluded in April 2022. We have therefore adjusted incentive targets for the Annual Bonus and the LTIP in order to exclude the disposed Russian business, including associated direct costs. The approach is in line with the approach we would take for any material disposal of a business during the year. No adjustment was made for the impact of the suspension of operations in Ukraine.

The FY22 Annual Bonus was based on stretching financial measures with 40% based on adjusted operating profit, 20% on adjusted operating cash conversion and 20% on market share. Strategic objectives formed the remaining 20% of the bonus.

Investment initiatives and an increased focus supported a 35 basis points growth in market share in our five priority markets, which reverses a pattern of decline over the past ten years. Adjusted operating cash conversion was 102%, driven by a strong working capital performance. Adjusted operating profit grew 1.8% at constant currency and 1.9% taking into account the adjustment for the disposed Russian business. This performance reflects the increased investment behind the strategic initiatives in line with our five-year plan.

The market share and cash conversion targets were both exceeded, while the adjusted operating profit target was achieved.

The Executive Directors performed exceptionally well against their strategic objectives during the year. For Stefan Bomhard, this included the deployment of our new purpose and behaviours across the business, the delivery of a refreshed NGP strategy operating model, and development of our refreshed ESG strategy. Lukas Paravicini's objectives included key operational efficiency milestones and further deployment of technology-focused finance and integrated reporting solutions. Further detail is shown on page 140.

In aggregate, as a percentage of maximum, Stefan received a bonus of 84% and Lukas earned a bonus of 82.5%. 50% of the bonus will be deferred in Imperial Brands shares for three years. The Committee believes this outcome reflects fairly the performance of the business during the year and the strong base for growth Stefan and Lukas have created since joining the business. No discretion has been applied by the Committee.

As disclosed on his appointment, Imperial Brands agreed to compensate Lukas for a guaranteed bonus he would have received from his previous employer in the amount of US $750,000. This payment was made in December 2021 and has been disclosed in the single total figure table on page 139.

The LTIP award due to vest in February 2023 will vest in part, resulting in 19.83% of the total award vesting. Of the Executive Directors, only Stefan Bomhard participates in this award. No discretion was applied by the Committee in respect of the vesting outcome.

### Meetings held in FY22

In FY22, the Committee met on four occasions and the table below summarises the matters discussed:

| | November 2021 | May 2022 | June 2022 | September 2022 |
|---|---|---|---|---|
| Review of Executive Directors' remuneration dashboards | ◆ | ◆ | | ◆ |
| Approval of FY21 Annual Bonus out-turn | ◆ | | | |
| Approval of 2019-2021 LTIP out-turn | ◆ | | | |
| Approval of FY22 Annual Bonus metrics and weightings | ◆ | | | |
| Approval of FY22 LTIP metrics and weightings | ◆ | | | |
| Approval of DRR | ◆ | | | |
| Review of CEO pay ratio | ◆ | | | |
| Approval of vesting of Share Matching Scheme and Bonus Matching Plan for senior management and FY22 grant | ◆ | | | |
| Approval of operation of Discretionary Share Plan and Sharesave for FY22 | ◆ | | | |
| Review of FY23 bonus plan design | ◆ | ◆ | ◆ | ◆ |
| Discussion on workforce remuneration | | ◆ | | ◆ |
| Review of forecast Annual Bonus out-turn | | ◆ | | |
| Review of forecast LTIP out-turns | | ◆ | | ◆ |
| Discussion on ESG measures and remuneration | | ◆ | ◆ | ◆ |
| Review of ESG measures and targets in incentives | | | ◆ | ◆ |
| Discussion of FY23 Annual Bonus plan | | | | ◆ |
| Approval of base salaries for Executive Leadership Team and Chair's fee | | | | ◆ |
| Review of the Committee's terms of reference | | | | ◆ |

### Environmental, social and governance (ESG)

As noted above, over the last year the Committee has carefully considered all areas of our ESG strategy and how these key priorities could be introduced into our incentive plans for FY23. The Committee considered a broad range of metrics and was mindful that any measures used must be appropriate for the business, reflecting the stage of the business on its ESG journey, and have the ability to be tracked and measured.

We recognise that consumer health is the most important ESG priority for many of our stakeholders. This is a key pillar of our business strategy, which demonstrates our commitment to making a meaningful contribution to harm reduction by offering adult smokers a range of potentially reduced harm products. The Group has refreshed its NGP strategy, focusing on heated tobacco and vapour.

We are also committed to making a distinctive contribution to the environment and have pledged to become a net zero company by 2040, with a series of challenging intermediate objectives to reduce our carbon footprint as set out on page 41. Imperial Brands has been recognised as a 2022 Climate Leader by the *Financial Times* for a second consecutive year, and we are proud to have maintained our position on CDP's climate A list this year.

Reflecting these key priorities, as a first step for FY23 we will introduce two quantitative ESG measures under the Annual Bonus plan, with an overall weighting of 10%. The measures have been selected as areas of high priority for our key stakeholders, including investors and employees.

**Consumer health (5%) –** will be measured by reference to revenue from our next generation products, which offer adult smokers a range of products with the potential of harm reduction.

**Climate change (5%) –** will measure reduction in Scope 1 and 2 $CO_2e$ emissions and energy consumption (total GWh). Scope 1 and 2 emissions, and energy data, are independently assured on an annual basis and reported in our Annual Report and Accounts.

An overall weighting of 80% on financial metrics will be retained and the ESG metric will be incorporated by reducing the weighting of strategic performance objectives. We intend to consider the longer-term approach to ESG as part of the detailed Remuneration Policy review over the coming 12-18 months.

### Implementation for FY23

The Committee reviews remuneration trends and plans for the wider workforce each year and considers this to be important and relevant context for the decisions it makes regarding the Executive Directors and senior managers.

In reviewing salaries this year, the Committee has been mindful of the global inflationary pressures that have been impacting many of our people across the Group. The Company has put in place measures to target support where needed, as described above.

The annual salary review is effective from 1 October 2022. As I mentioned earlier salary increases awarded to employees have typically ranged from

3% to 9% across the markets we operate in (excluding higher increases made in countries experiencing hyperinflation), with increases in the UK expected to be approximately 5% or higher for FY23.

In setting the salary for the CEO, the Committee took into consideration global inflationary pressures, the approach taken for colleagues, the need to balance restraint with fair reward for contribution, and the impact on total remuneration. After careful consideration, the Committee decided to award a salary increase of 3% to Stefan, in the light of his exceptional contribution during the year. In taking this decision, the Committee considered the comparison with wider workforce increases noting that the increase was below the average increase for the UK workforce. His new salary is £1,339,747 pa.

The CFO was appointed to the Board in May 2021, and at that time it was agreed that his salary would not be adjusted before 1 January 2023. At the end of the year, the Committee did however take the opportunity to review both Directors' salaries and after careful consideration concluded that a 4% increase be awarded to Lukas, effective from 1 January 2023.

This increase reflects his strong contribution and impact since joining the Company and acknowledges that he will not have received an increase for over 18 months. Lukas' new salary will be £759,200 pa. The increase for Lukas is also below the average increase for the UK workforce.

FY23 is an important year of delivery as we move from the investment and foundation-building phase of our strategy into the "improving returns" phase.

At the same time, the Committee recognised that it is a more uncertain and challenging macroeconomic and geopolitical environment.

The Committee considered carefully the Annual Bonus measures for FY23 and concluded that the financial metrics will remain the same as those for FY22: adjusted operating profit at constant currency (40% weighting), adjusted operating cash conversion (20% weighting) and market share growth (20% weighting). Individual/strategic objectives will reduce from a 20% weighting to 10% and the new ESG measure of 10% will be introduced as detailed above. The financial targets will be aligned with the guidance provided at our Capital Markets Day and in our latest trading statements.

The FY23 LTIP will be granted in February 2023. As the business reached its target leverage levels in FY22, net debt/EBITDA will be removed as a measure for the FY23 plan and its 20% weighting reallocated to TSR. The measures for the FY23 award will therefore be: adjusted EPS growth at constant currency (40% weighting), return on invested capital (20% weighting) and relative TSR (40% weighting). The targets are detailed on page 138.

### Chair fees

The Committee reviewed and approved a 3% fee increase for the Company Chair. Thérèse Esperdy's fee will be £638,729 pa from 1 October 2022.

### Consideration of shareholder views

We are very grateful for the time shareholders spent with us to discuss plans prior to the 2022 AGM, and were delighted with the strong support we received for the Directors' Remuneration Report (95.93%). During the course of the year, we continued to engage with shareholders to understand their views on our proposals to include ESG measures in our incentive plans. The feedback received was very valuable and has helped inform the proposals shared in this report.

In the coming year, we will undertake the triennial review of our current Remuneration Policy (approved by 95.3% of shareholders at the 2021 AGM) to ensure that it remains appropriate and continues to support the retention and incentivisation of a world-class executive team. This will involve engagement with a range of key stakeholders and we will consult with shareholders on any material changes proposed.

### Consideration of colleagues' views

The Committee has been directly involved in the Board's work during the year on workforce engagement which is described in detail on page 107. Our "Meet the Board" sessions are a valuable way of having open conversations with colleagues about a wide range of matters, which have included the role of the Board in decision-making, our strategy, the ESG agenda, our purpose, vision and culture, and diversity, equity and inclusion. We have also explored the topic of reward, giving participants the opportunity to learn about how the Committee aligns executive reward with the wider workforce and to understand their views on reward at Imperial Brands. We also spent time answering their questions on a range of reward topics covering attraction and retention, flexible working practices and the cost-of-living crisis. I have been encouraged by the level of openness, engagement and interest shown by our colleagues, and would like to thank them for their valued contribution.

### Remuneration Committee advisers

During the year, the Committee undertook a competitive tender of its advisers, following which Deloitte LLP (Deloitte) was appointed. The process involved submission of written proposals, followed by shortlisted candidates being interviewed by members of the Committee. The Committee selected and appointed Deloitte with effect from February 2022. Further details are provided on page 148.

### Conclusion

As Imperial Brands continues to deliver on its five-year strategy and to embed its new Purpose, Vision and Behaviours, we strongly believe that this business has great potential to grow value for all its stakeholders. In the coming year, the Committee will continue to support management in achieving its ambitious objectives, while listening closely to all our key stakeholders and acting thoughtfully to meet their evolving expectations. Should any shareholder wish to contact me or my Committee members, please in the first instance write to John Downing, Company Secretary, at IR@impbrands.com. We hope to have your support at the upcoming AGM.

Sue Clark

**Sue Clark**
Chair of the Remuneration Committee

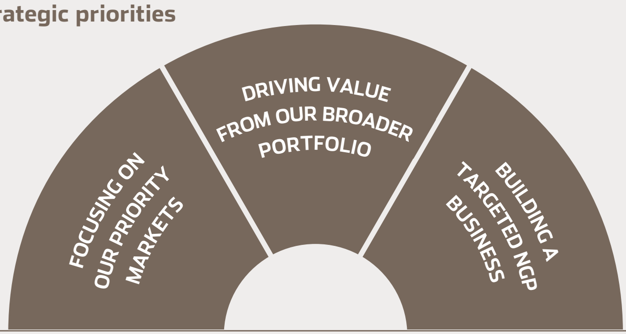
# REMUNERATION AT A GLANCE

## OUR EXECUTIVE PAY PRINCIPLES

- To attract and retain the very best global talent
- To reward executives well for maximising shareholder returns sustainably and delivering long-term quality growth that benefits all our stakeholders
- To motivate executives to consistently perform to the best of their ability
- To reinforce the behaviours that support our values
- To align executive reward with the experience of our shareholders through encouraging share ownership and an "ownership" mindset
- To balance restraint with fair reward for contribution, in the way we reward executives, as we do for the wider workforce

## OUR APPROACH TO REWARDING EXECUTIVE DIRECTORS IN 2023

### Our strategic priorities




### Measuring performance

**Annual Bonus:**
- Adjusted operating profit growth at constant currency (40%)
- Adjusted operating cash conversion (20%)
- Market share growth (20%)
- Strategic/individual (10%)
- Climate change, consumer health (10%)

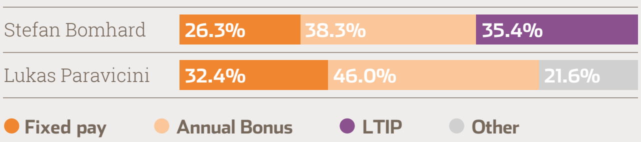
**LTIP:**
- Adjusted EPS growth at constant currency (40%)
- Return on invested capital (ROIC) (20%)
- Relative TSR (40%)

## EXECUTIVE DIRECTORS' VARIABLE REMUNERATION OUTCOMES FOR 2022

| | | Maximum % of bonus/ LTIP | Out-turn as a % of maximum bonus/ LTIP | % of weighting achieved |
|---|---|---|---|---|
| Annual Bonus | Adjusted operating profit growth at constant currency | 40% | 25% | 63% |
| | Adjusted operating cash conversion | 20% | 20% | 100% |
| | Weighted market share growth | 20% | 20% | 100% |
| | Strategic/individual – Stefan Bomhard | 20% | 19% | 95% |
| | Strategic/individual – Lukas Paravicini | 20% | 17.5% | 87.5% |
| Long-Term Incentive Plan[1] | Adjusted EPS growth at constant currency | 40% | 0% | 0% |
| | Adjusted net revenue growth at constant currency | 40% | 37.08% | 14.83% |
| | Relative TSR | 20% | 25% | 5% |

1. In respect of Stefan Bomhard only.

## TOTAL SINGLE FIGURE IN 2022




| (£,000) | Stefan Bomhard | Lukas Paravicini |
|---|---|---|
| Base salary | 1,301 | 730 |
| Benefits and pension | 199 | 117 |
| Total fixed pay | 1,500 | 847 |
| Annual Bonus | 2,185 | 1,205 |
| LTIP[1] | 2,022 | 0 |
| Other[2] | 0 | 566 |
| Total remuneration | 5,707 | 2,618 |

1. Includes FY20 LTIP and Recruitment Award tranches 3 & 4 of 4.
2. Buyout from previous employer.

## DIRECTORS' REMUNERATION POLICY (SUMMARY)

There are no changes proposed to our Directors' Remuneration Policy approved by shareholders at our AGM held on 3 February 2021, which is intended to be in place for three years, and a summary of which is set out below. It does not replace or override the full approved policy, which is available on our website within the 2020 Annual Report and Accounts.

| Element | Purpose | Operation | Maximum opportunity |
|---|---|---|---|
| Salary | Attract and retain high-performing individuals, reflecting market value of the role and the Executive Director's skills, experience and performance. | Reviewed, but not necessarily increased, annually by the Committee taking into account Company performance as well as each Executive Director's performance together with changes in role and responsibility.<br><br>Salary increases, if any, are generally effective from 1 October.<br><br>The Committee considers pay data for UK listed companies closest to the Company by FTSE ranking (and excluding those in the financial services sector). These comparators serve to define a "playing field" within which an individual's reward needs to be positioned. In determining individual remuneration, the primary factors taken into account are individual performance, the scale of the challenges intrinsic to that individual's role, changes in role, their ability and experience. The Committee also considers general increases for the wider workforce, with a focus on increases in the country in which the Executive Director is based. | Whilst there is no maximum salary or maximum increase in salary, the Committee would only set a salary which exceeded the top quartile of salaries of the comparator group in unforeseen and exceptional circumstances. |
| Pension | Provision of market-competitive pension aligned to workforce. | Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors are offered membership of the defined contribution section. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.<br><br>The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service.<br><br>The Committee may amend the form of any Executive Director's pension arrangements in response to changes in pensions legislation or similar developments, so long as any amendment does not increase the cost to the Company of an Executive Director's pension provision. | Executive Directors receive a workforce aligned pension rate (currently 14% of salary). |
| Benefits | Competitive benefits taking into account market value of role and benefits across the workforce. | Benefits include provision of a company car (or cash allowance in lieu), health insurance, life insurance and income protection insurance which are provided directly or through the Company's pension scheme. Other benefits, including expatriate or relocation arrangements, may also be provided on the basis that they are also offered more widely across the Company or are necessary in order to be competitive locally.<br><br>Reasonable business-related expenses will be reimbursed including any consequential tax arising. | The level of benefit provision is fixed although the value may vary depending on the cost of providing such provisions. |
| Annual Bonus Plan | Incentivise delivery of Group strategic objectives and enhance performance, including against the indicators we use to measure our performance. | The Annual Bonus will be subject to the relevant performance measures set by the Committee usually at the start of each year to reflect the Group's KPIs at that time. The measures may be a balance of financial and non-financial, but with the expectation that the majority of the Annual Bonus will be subject to quantifiable financial measures. | 200% of base salary or such lower sum as determined by the Committee. |

| Element | Purpose | Operation | Maximum opportunity |
|---|---|---|---|
| Annual Bonus Plan – continued | | Performance below the threshold results in zero payment. Payments rise from zero to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets.<br><br>Half of any Annual Bonus earned is deferred into an award over shares which vests after a minimum of three years, with the other half paid in cash. These awards are forfeitable if the Executive Director resigns voluntarily or is dismissed for cause.<br><br>Dividend roll-up may apply to any element of an annual bonus deferred into an award over shares. Any such dividend roll-up may be paid in additional shares (or, exceptionally, cash), and may assume dividend reinvestment.<br><br>Malus and clawback provisions are in place. The deferred shares are not subject to performance conditions. | |
| Long-Term Incentive Plan | Incentivise long-term Group performance in line with the Group's strategic objectives, including against the indicators we use to measure our performance and long-term shareholder returns.<br><br>Align Executive Directors' interests with those of shareholders. | Awards have a performance period normally of three financial years starting at the beginning of the financial year in which the award is made. Performance measures may include financial, non-financial or value creation (e.g. TSR) conditions as determined by the Committee normally before each grant to align with the strategic priorities of the business at that time. In normal circumstances, at least 70% of the LTIP award will be subject to financial and/or value creation measures.<br><br>Malus and clawback provisions are in place.<br><br>Executive Directors are ordinarily required to retain the net-of-tax number of vested LTIP award shares for a period of two years after vesting. | CEO: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Committee.<br><br>LTIP awards may include additional shares (or, exceptionally, cash) equivalent to the value of the dividend roll-up, and which may assume dividend reinvestment. |
| All-employee arrangements | Provision of market-competitive arrangements aligned to workforce. | Executive Directors may participate in any all-employee arrangements established and operated by the Company, on the same basis as other Group employees.<br><br>The Company currently operates a savings-related option plan for the benefit of its worldwide employees, and in which Executive Directors are eligible to participate. | In accordance with the limits applicable to the relevant all-employee arrangements. |
| Shareholding guideline | Align Executive Directors' interests with long-term interests of shareholders. | Executive Directors are expected to build a holding in the Company's shares to a minimum value broadly equivalent to 300% of gross base salary over a five-year period from date of appointment in role. For Executive Directors there is an additional requirement to hold shares after cessation of employment. The requirement is to hold shares to the value of the shareholding guideline (i.e. 300% of salary or the existing shareholding if lower at the time) for a period of one year, with the requirement reducing to half the shareholding guideline for the second year. Progress towards the shareholding guideline is monitored on an annual basis and the Committee will consider any necessary sanctions required for non-compliance. | No maximum holding but requirement to build to a minimum value broadly equivalent to 300% of gross base salary. |

## EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

| Executive Directors | Date of contract | Expiry date | Compensation on termination following a change of control |
|---|---|---|---|
| Stefan Bomhard | 31 January 2020[1] | Terminable on 12 months' notice | No provisions |
| Lukas Paravicini | 11 April 2021[2] | Terminable on 12 months' notice | No provisions |

1. Service agreement dated 31 January 2020 with a start date of 1 July 2020.
2. Service agreement dated 11 April 2021 with a start date of 1 May 2021.

## POLICY FOR THE CHAIR AND NON-EXECUTIVE DIRECTORS

| Element | Purpose and link to strategy | Operation | Maximum opportunity |
|---|---|---|---|
| Fees | Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders. | • Reviewed, but not necessarily increased, annually by the Board<br>• Fee increases, if applicable, are normally effective from 1 October<br>• The Board considers fee data at comparator companies of similar scale<br>• The Senior Independent Director and the chairs of the Audit and Remuneration Committees receive additional fees. Additional fees are paid for Remuneration and Audit Committee memberships. An allowance is paid when regular intercontinental travel is required<br>• Higher fees may be paid to a Non-Executive Director should they be required to assume executive duties on a temporary basis<br>• No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans | No prescribed maximum annual increase.<br>Aggregate annual fees limited to £2.0 million by Articles of Association. |
| Benefits | Reimbursement of business-related expenses. | • Travel to the Company's registered office is recognised as a taxable benefit<br>• To the extent that any other reasonable business-related expenses are recognised as a taxable benefit, these will be reimbursed at cost (including any consequential tax arising)<br>• Reasonable benefits may be provided from time to time on a case-by-case basis | Grossed-up costs. |

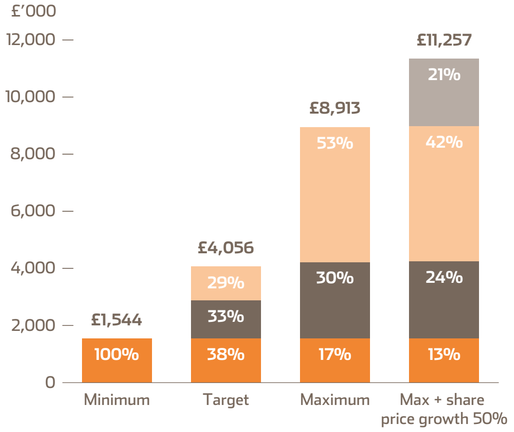
## CHAIR AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Chair and Non-Executive Directors do not have service agreements, but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at the Company's registered office during normal business hours, and both prior to and at the AGM.

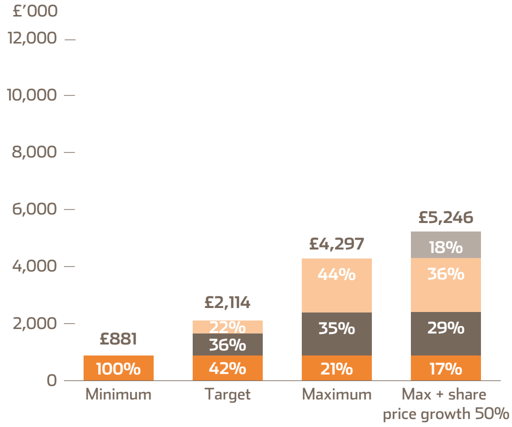
In line with the Board's annual review policy, the Chair's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 1 February 2022. There are no provisions regarding notice periods in their letters of appointment, which state that the Chair and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination. Under the terms of the Company's Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

## PAY ARRANGEMENTS FOR 2023

### Stefan Bomhard




### Lukas Paravicini




● Fixed pay ● Annual bonus ● LTIP ● Share price growth

The table below summarises how we intend to apply the main areas of our Directors' Remuneration Policy for FY23.

| Element | Implementation |
|---|---|
| **Salary**<br>Attract and retain high-performing individuals, reflecting market value of the role and the Executive Director's skills, experience and performance. | The CEO's salary was increased by 3% on 1 October 2022 to £1,339,747 pa. The CFO's salary will increase by 4% to £759,200 pa on 1 January 2023.. |
| **Annual Bonus**<br>Maximum opportunity is 200% of base salary.<br><br>50% deferred into an award of shares for three years, which is forfeitable if the Executive Director resigns voluntarily or is dismissed for cause. Malus and clawback provisions will apply. | No change to maximum opportunity.<br><br>Measures and weightings:<br>• Adjusted operating profit growth at constant currency 40%<br>• Adjusted operating cash conversion 20%<br>• Market share growth 20%<br>• ESG – climate change (Scope 1 and 2 $CO_2e$ emissions / energy consumption) and consumer health (NGP revenue) 10%<br>• Strategic/individual 10%<br><br>Underlying targets are commercially sensitive and will be fully disclosed in next year's Annual Report. |
| **LTIP**<br>Maximum award size: CEO: 350% of base salary, CFO 250% of base salary.<br><br>Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made. Performance measures may include financial, non-financial or value creation conditions.<br><br>Malus and clawback provisions are in place.<br><br>Executive Directors are ordinarily required to retain the net-of-tax number of vested LTIP award shares for a period of two years after vesting. | No change to maximum opportunity.<br><br>Measures, weightings and targets:<br>• Adjusted EPS growth at constant currency (40%). Cut in 4.4% – max 6.3%<br>• Return on invested capital (ROIC) (20%). Cut in 20.2% – max 21.0%<br>• Relative TSR against a group of FMCG companies (40%). Cut in at median – max upper quartile.<br>Cut in would deliver a 25% pay out with a straight-line pro-rata to 100% payout at maximum.<br><br>Should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time-prorated basis subject to the achievement of the applicable performance criteria. |
| **Chair and Non-Executive Directors' fees**<br>Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders. | With effect from 1 October 2022:<br>• Chair's fee will increase by 3% from £620,125 to £638,729 pa<br>• NED base fee will increase by approximately 3% from £ 81,500 to £83,945 pa<br>• Senior Independent Director and chairs of the Remuneration and Audit Committees' fees will increase by approximately 1.9% from £27,000 to £27,500 pa<br>• Committee membership fees will remain at £5,500 pa. |
| **Shareholding requirement**<br>Align Executive Directors' interests with long-term interests of shareholders. | 300% of base salary. Requirement to hold shares after cessation of employment to the value of the shareholding guideline (i.e. 300% or the existing shareholding if lower at the time) for a period of one year, with the requirement reducing to half the shareholding guideline for the second year. |

# ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration has been split into the following sections.

1. The remuneration earned by our Directors for the financial year ended 30 September 2022
2. Details of share awards granted, share interests held and historical CEO total single figure versus shareholder returns
3. How Directors' remuneration compares with employee pay including the CEO pay ratio, our relative spend on pay and current dilution
4. Remuneration Committee membership and work undertaken during the year, details of advice received and consideration of shareholders' views

## 1. REMUNERATION EARNED BY OUR DIRECTORS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2022

Single Total Figure of Remuneration for each Director (Audited)

| Executive Directors | Year | Salary £'000 | Benefits £'000[1] | Pension £'000[2] | Total fixed pay | Annual bonus £'000[3] | LTIP £'000[4] | Other £'000[5] | Total variable pay | Total pay |
|---|---|---|---|---|---|---|---|---|---|---|
| Stefan Bombhard | **2022** | **1,301** | **17** | **182** | **1,500** | **2,185** | **2,022** | **–** | **4,207** | **5,707** |
| | 2021 | 1,269 | 17 | 177 | 1,463 | 1,627 | 366 | – | 1,993 | 3,456 |
| Lukas Paravicini | **2022** | **730** | **15** | **102** | **847** | **1,205** | **–** | **566** | **1,771** | **2,618** |
| | 2021 | 304 | 6 | 43 | 353 | 353 | – | – | 353 | 706 |
| Total | **2022** | **2,031** | **32** | **284** | **2,347** | **3,390** | **2,022** | **566** | **5,978** | **8,325** |
| Total | 2021 | 1,573 | 23 | 220 | 1,816 | 1,980 | 366 | – | 2,346 | 4,162 |

Notes
1. Each individual received an annual car allowance of £15,000; Stefan Bomhard received private medical insurance and Lukas Paravicini received health cash plan.
2. Each individual received a cash supplement of 14% of salary in lieu of membership of the pension fund.
3. Annual bonus for the year ended 30 September 2022. Half of the gross value is deferred into an award over shares for three years; no further performance conditions apply.
4. For Stefan Bomhard, LTIP also represents the value of the FY20-22 LTIP awards whose performance period ended 30 September 2022. As these awards do not vest until February 2023 they are based on a share price of £18.73, being the three-month average to 30 September 2022, and an estimate of dividend roll-up based on announced dividend payable on 31 December 2022. For Stefan Bomhard, LTIP also represents the third and fourth tranches of the Recruitment Award which vested on 11 April 2022 on a share price of £16.90. Of the values shown, £512,791 and £42,352 is attributable to share price growth under the FY20 LTIP and Recruitment Award, respectively. The 2021 LTIP value represents the first tranche of the Recruitment Award which vested on 12 April 2021, and has been restated to reflect the actual dividend roll-up applying to this award.
5. For Lukas Paravicini 'Other' represents the buyout of a guaranteed bonus he would have received from his previous employer.

| Non-Executive Directors | Fees £'000 2022 | Fees £'000 2021 | Taxable benefits[1] 2022 | Taxable benefits[1] 2021 | Total 2022 | Total 2021 |
|---|---|---|---|---|---|---|
| Thérèse Esperdy | 620 | 605 | 14 | – | 634 | 605 |
| Sue Clark[2] | 141 | 138 | 2 | – | 143 | 138 |
| Diane de Saint Victor[3] | 77 | – | 3 | – | 80 | – |
| Ngozi Edozien[3 4] | 87 | – | 17 | – | 104 | – |
| Alan Johnson[5] | 87 | 64 | 3 | – | 90 | 64 |
| Bob Kunze-Concewitz | 87 | 78 | 3 | – | 90 | 78 |
| Simon Langelier | 87 | 85 | 3 | – | 90 | 85 |
| Pierre-Jean Sivignon[6] | - | 58 | - | – | - | 58 |
| Steven Stanbrook[7] | 36 | 103 | 0.4 | – | 36 | 103 |
| Jon Stanton[8] | 114 | 112 | 1 | – | 115 | 112 |
| Total | 1,336 | 1,243 | 46 | – | 1,382 | 1,243 |

Notes
1. Benefits in kind for Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.
2. Includes payments in respect of Senior Independent Director and Chair of the Remuneration Committee fees of £27,000 respectively pa.
3. Diane de Saint Victor and Ngozi Edozien were appointed to the Board on 15 November 2021.
4. Includes a payment in respect of a non-European travel allowance of £12,000 pa in recognition of the extra time commitment required for travel.
5. Alan Johnson was appointed to the Board on 1 January 2021.
6. Pierre-Jean Sivignon stepped down from the Board on 4 June 2021.
7. Steven Stanbrook stepped down from the Board on 2 February 2022. Includes a payment in respect of Workforce Engagement Director of £5,500 pa and a non-European travel allowance of £12,000 pa in recognition of the extra time commitment required for travel.
8. Includes payment in respect of chair of the Audit Committee fees of £27,000 pa.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions, Annual Bonus, LTIP was £9,708k (2021 restated: £6,715k).

No Director is eligible to participate in the defined benefit pension fund. Each Director eligible for membership of the defined contribution pension fund has opted to receive a cash supplement in lieu and therefore, no pension disclosure is required.

### Determination of 2022 Annual Bonus (Audited)

The 2022 Annual Bonus was based on a scorecard of measures. Details of the measures, their weightings, targets and extent of achievement are set out in the table below.

| Measure | Weighting | Cut in | Target | Max | Achievement | Pay-out |
|---|---|---|---|---|---|---|
| Adjusted operating profit at constant currency | 40% | 1.0% | 1.8% | 3.0% | 1.9% | 25% |
| Adjusted operating cash conversion | 20% | 87% | 93% | 97% | 102% | 20% |
| Weighted market share | 20% | -2bps | +2bps | +7bps | 35bps | 20% |
| Strategic/individual – Stefan Bomhard | 20% | – | – | – | 95% | 19% |
| Strategic/individual – Lukas Paravicini | 20% | – | – | – | 87.5% | 17.5% |
| | | | | | | |
| Total bonus Stefan Bomhard | 100% | | | | | 84% of max |
| Total bonus Lukas Paravicini | 100% | | | | | 82.5% of max |

The Committee set the following strategic goals for the Executive Directors:

| | Strategic/individual measures and targets | Performance assessment highlighting key achievements |
|---|---|---|
| Stefan Bomhard | • Deploy new Purpose, Vision, Behaviours and Operating Model (10%) | • Significant senior leader investment with impact measured through Top 500 Pulse Survey which showed:<br>- Overall engagement score top quintile versus other global organisations.<br>- 93% fully understand our Behaviours and what they mean for them in their role.<br>- 91% understand our Purpose, Vision, and Strategy and how we will achieve them.<br>• High performing ELT in place and operating as a committed and cohesive team.<br>• Substantial investment in series of immersion and development events for every employee across the 120 markets. |
| | • Formulate and start to deploy rejuvenated ESG strategy (5%) | • ESG Strategy launched and in progress, with clear ambitions, sponsors, and owners in place.<br>• People and Planet Strategy launched to whole organisation.<br>• Enhanced ESG reporting to stakeholders including an ESG focused webinar for investors.<br>• Updated SBTi in line with the 1.5C Net Zero by 2040 commitment.<br>• Strengthened governance, agreed by ESG Committee and endorsed by Board. |
| | • Qualify a sustainable NGP proposition (5%) | • NGP Pilots executed in line with timelines with all metrics ahead of target.<br>• New consumer proposition for both Blu and Pulze resonating strongly with consumers.<br>• Blu 2.0 rolled out in France ahead of schedule.<br>• Launch of disposables through an agile team. |
| **Total payout as a % of maximum bonus: 19%** | | |
| Lukas Paravicini | • Drive shareholder value (10%) | • Strategy delivering strong Free Cash Flow for FY22 above target levels.<br>• Group ERP Strategy developed to implement industry standard, integrated, end-to-end commercial and manufacturing processes, data and technology globally. Strategy approved by Board.<br>  • ERP Programme Director and Leadership Team appointed.<br>  • Vendor partnerships finalised.<br>  • Robust governance in place, project mobilisation and first wave implementation commenced.<br>  • CFin (Finance SAP/S4 Hana) Solution deployment commenced and in budget.<br>• Strengthening of cybersecurity with 13 key sites all upgraded to cautious risk levels of security.<br>• Acceleration of planned FY23 activities providing improved cyber security to remaining sites including 'Forescout' Network Access Controls, perimeter firewalls, autopilot devices enrolments, partner VPN improvements and Azure cloud server migrations for visibility and patching. |

| | Strategic/individual measures and targets | Performance assessment highlighting key achievements |
|---|---|---|
| | • Create efficient operations (10%) | • New Finance and IT Operating model, supporting Group strategy, designed and deployment well underway.<br>• Extended Financial Shared Services, providing top quartile transactional scope, to all key markets.<br>• Increased Financial Shared Services scope to include value-add Reporting, Tax and Statutory and Risk and Control Compliance services with new roles based in and first reports provided from Krakow, Poland.<br>• Building on Financial Shared Service created Global Business Service (GBS), as the Group's shared service platform, with GBS IT and Data Services roll-out having commenced including new IT roles based in Sofia, Bulgaria.<br>• In market, consumer and customer centric Finance and IT organisation designed and in consultation for key markets. |
| **Total payout as a % of maximum bonus: 17.5%** | | |

## Individual Annual Bonus payments:

| Executive Directors | Maximum | Total annual bonus £'000 Actual[1] |
|---|---|---|
| Stefan Bomhard | £2,601 | £2,185 |
| Lukas Paravicini | £1,460 | £1,205 |

Notes
1. Half of the bonus will be deferred into an award over shares.

## Long-Term Incentive Plan awards vesting (Audited)

Performance awards vesting in February 2023 are based on performance measured over the three-year period ended 30 September 2022. Of the current Directors only Stefan Bomhard participated in this LTIP cycle.

| Measure | Weighting | Cut-in (25% vesting) | Target (60% vesting) | Maximum (100% vesting) | Actual performance | Percentage of award vesting |
|---|---|---|---|---|---|---|
| Adjusted EPS growth at constant currency (average annual growth) | 40% | 2.00% | 3.87% | 6.00% | 0.57% | 0% |
| Adjusted net revenue growth at constant currency (average annual growth) | 40% | 1.00% | 2.40% | 4.00% | 1.48% | 14.83% |
| Relative TSR (return over three financial years) | 20% | Median | n/a | Upper quartile | 13/25 | 5% |
| Achievement | | | | | | 19.83% |

The TSR measure compared the Company's performance against the following companies: Altria Group, Anheuser-Busch InBev, Beiersdorf, British American Tobacco, Brown-Forman, Carlsberg, Clorox, Constellation Brands, Diageo, Heineken, Henkel, Japan Tobacco, Kimberly-Clark, Kirin Holdings, L'Oréal, Monster Beverage, Pernod Ricard, PepsiCo, Philip Morris International, Procter & Gamble, Reckitt Benckiser Group, Swedish Match, Unicharm and Unilever PLC.

Vested awards granted for FY21 onwards are subject to a two-year holding period.

## Recruitment Award vesting during the year ended 30 September 2022

In July 2020, Stefan Bomhard was granted a Recruitment Award to facilitate his recruitment as CEO and to replace certain outstanding awards granted to him by his previous employer, which were forfeited when he joined the Company. Full details of the Recruitment Award were disclosed in our 2020 DRR, but in summary Stefan was granted 116,921 shares set by reference to the value of the forfeited awards (£1,793,568). To replicate the terms of the forfeited awards, the Recruitment Award was split into four tranches, vesting in April 2021 and April 2022. Vesting of each tranche of the Recruitment Award is subject to the extent to which the original performance conditions applicable to the forfeited awards are met over the original performance period. The third and fourth tranches of the Recruitment Award were capable of vesting on 11 April 2022, and the final vesting outcome was 40%. Full details of the vesting of the forfeited award are disclosed in Inchcape Plc's Annual Report and Accounts 2021. 47,899 shares were granted under the third and fourth tranches of the Recruitment Award and the number of shares vesting (including dividend roll-up) was 24,695 at a value of £417,346.

## Payments for loss of office and payments to former Directors (Audited)

Oliver Tant stepped down from the Board on 18 May 2021 and retired on 4 August 2021. As disclosed last year, his outstanding LTIP awards remained eligible to vest on their normal vesting dates, subject to their original performance conditions and prorated to reflect the period of service rendered. The LTIP award due to vest in February 2023 will vest in part resulting in 19.83% of the total award vesting.

## 2. DETAILS OF SHARE AWARDS GRANTED, SHARE INTERESTS HELD AND HISTORICAL CEO TOTAL SINGLE FIGURE VERSUS SHAREHOLDER RETURNS

### Performance awards granted during the year (Audited)

When determining the Directors' awards, the Committee took into account the prevailing share price performance over the year and the number of shares awarded as a result.

| | Date of grant | Share price[1] | Number of nil-cost options | Face value | Amount of base salary | End of performance period |
|---|---|---|---|---|---|---|
| Stefan Bomhard | 15 February 2022 | £17.81 | 255,616 | £4,552,521 | 350% | 30 September 2024 |
| Lukas Paravicini | 15 February 2022 | £17.81 | 102,470 | £1,824,991 | 250% | 30 September 2024 |

1. Valued using the closing share price the trading day prior to grant

The targets for the above performance awards are as follows:

| | | Minimum performance (25% vesting) | Maximum performance (100% vesting) |
|---|---|---|---|
| Measure | Weight | Target | Target |
| Adjusted EPS growth at constant currency | 40% | 3.7% | 5.6% or higher |
| Adjusted net debt/EBITDA (for FY24) | 20% | 1.46x | 1.28x or lower |
| Return on invested capital (ROIC) (average annual) | 20% | 18.7% | 19.5% or higher |
| Relative TSR | 20% | Median | Upper quartile |

Adjusted net debt/EBITDA measure – The level of the gearing criterion assumes an additional shareholder distribution will be made either via share buybacks and/or special dividends during the period in line with the Group's capital allocation policy. To the extent the shareholder distribution is increased above the assumed level during the period, there is an agreed formula to raise the gearing target accordingly so as to incentivise incremental shareholder returns during the period. Similarly, if the shareholder distribution is reduced, the target gearing will be lowered. This will reinforce alignment of this measure to the Group's capital allocation policy and shareholder value creation.

The TSR comparator group comprises the following companies – Altria Group, Anheuser Busch Inbev, British American Tobacco, Brown-Forman, Carlsberg B, Carnival, Clorox, Constellation Brands, Diageo, Heineken, Henkel, Japan Tobacco, Kimberly-Clark, Kirin Holdings, L'Oreal, Monster Beverage, Pernod Ricard, PepsiCo, Philip Morris International, Procter & Gamble, Reckitt, Swedish Match, Unicharm, and Unilever.

Each measure operates independently and is capable of vesting regardless of the Company's performance in respect of the other metrics. The Committee retains discretion to adjust up or down including to zero the number of shares that vest taking into account a number of factors including personal or corporate performance and circumstances that were unforeseen at the date of grant.

## SHARE INTERESTS AND INCENTIVES (AUDITED)

| | Shares held at earlier of 30 September 2022 and leaving date | | Dividends reinvested post year end | Conditional awards and options held at earlier of 30 September 2022 and leaving date | | | | |
|---|---|---|---|---|---|---|---|---|
| | Owned outright | Subject to a holding period | Owned outright | Awards unvested and subject to performance conditions | Awards unvested and subject to continued employment | Options unvested and subject to continued employment | Vested but not exercised | Options exercised during the year |
| **Executive Directors** | | | | | | | | |
| Stefan Bomhard | 3,930 | 29,419 | 338 | 871,754 | 51,926 | 687 | – | 48,242 |
| Lukas Paravicini | – | – | – | 215,543 | 11,281 | – | – | – |
| **Non-Executive Directors** | | | | | | | | |
| Thérèse Esperdy[1] | 37,787 | – | – | – | – | – | – | – |
| Sue Clark | 6,506 | – | 13 | – | – | – | – | – |
| Diane de Saint Victor | 252 | – | – | – | – | – | – | – |
| Ngozi Edozien | 252 | – | – | – | – | – | – | – |
| Alan Johnson | 586 | – | 3 | – | – | – | – | – |
| Bob Kunze-Concewitz | 50,630 | – | – | – | – | – | – | – |
| Simon Langelier | 26,101 | – | 19 | – | – | – | – | – |
| Steven Stanbrook[1,2] | 19,559 | – | – | – | – | – | – | – |
| Jon Stanton | 2,820 | – | 11 | – | – | – | – | – |

1. Thérèse Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.
2. Steven Stanbrook stepped down from the Board on 2 February 2022.

Our middle market share price at the close of business on 30 September 2022, being the last trading day of the financial year, was £18.55 and the range of the middle market price during the year was £14.86 to £19.525.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

## EXECUTIVE SHAREHOLDINGS AND DIRECTORS' INTERESTS (AUDITED)

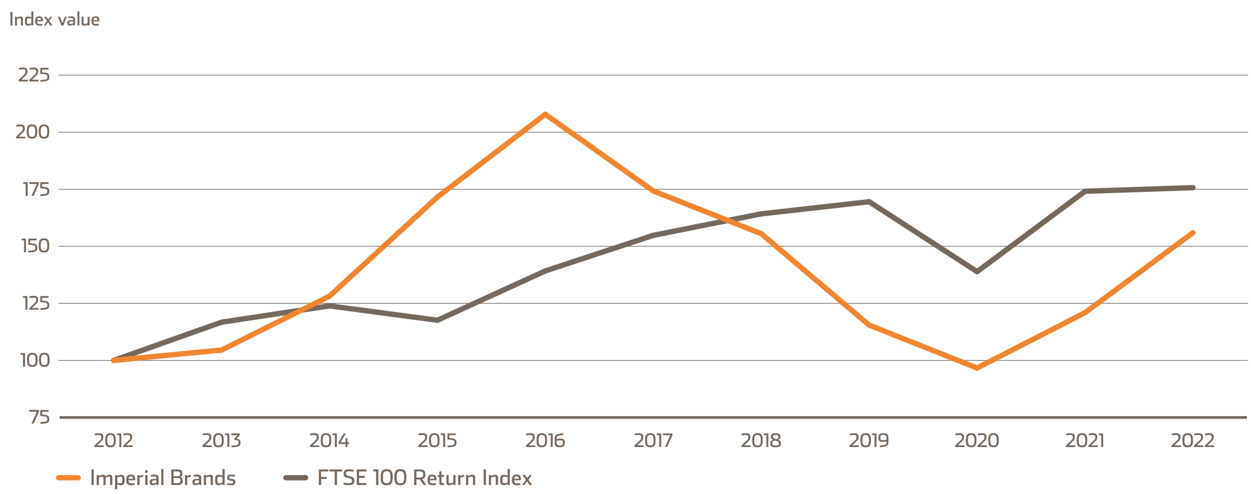
| | Shares held at start of year | Shares held at end of year[1] | Increase in shares held during year | Value of shares held at start of year[2] £'000 | Value of shares held at end of year[3] £'000 | Difference in value £'000 | Shareholding required (% salary) | Current shareholding (% salary/fees)[3] | Requirement met[3, 4 & 5] |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Stefan Bomhard[4] | 7,659 | 33,349 | 25,690 | 119 | 619 | 500 | 300 | 48 | Yes |
| Lukas Paravicini[5] | – | – | – | – | – | – | 300 | – | Yes |
| **Non-Executive Directors**[6] | | | | | | | | | |
| Thérèse Esperdy | 36,125 | 37,787 | 1,662 | 563 | 701 | 138 | – | – | n/a |
| Sue Clark | 6,121 | 6,506 | 385 | 95 | 121 | 26 | – | – | n/a |
| Alan Johnson | 263 | 586 | 323 | 4 | 11 | 7 | – | – | n/a |
| Bob Kunze-Concewitz | 50,388 | 50,630 | 242 | 785 | 939 | 154 | – | – | n/a |
| Simon Langelier | 25,665 | 26,101 | 436 | 400 | 484 | 84 | – | – | n/a |
| Diane de Saint Victor[7] | – | 252 | 252 | – | 5 | 5 | – | – | n/a |
| Ngozi Edozien[7] | – | 252 | 252 | – | 5 | 5 | – | – | n/a |
| Steven Stanbrook[8] | 19,559 | 19,559 | – | 305 | 363 | 58 | – | – | n/a |
| Jon Stanton | 2,451 | 2,820 | 369 | 38 | 52 | 14 | – | – | n/a |

1. Or date of leaving if earlier.
2. Based on a share price of £15.585, being the closing price on 30 September 2021, and includes the value of shares owned outright and those vested but subject to a holding period, being the deferred element of the bonus.
3. Based on a share price of £18.55, being the closing price on 30 September 2022.
4. Stefan Bomhard joined the Board on 1 July 2020 and has five years to build to his shareholding requirement.
5. Lukas Paravicini joined the Board on 1 May 2021 and has five years to build to his shareholding requirement.
6. Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in the Company's shares which they are required to retain for the duration of their appointment.
7. Diane de Saint Victor and Ngozi Edozien joined the Board on 15 November 2021.
8. Steven Stanbrook stepped down from the Board on 2 February 2022.

## REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2012 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year-ends to 30 September 2022. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a 10-year period.

### Total shareholder return



## CHANGE IN CHIEF EXECUTIVE OFFICER REMUNERATION

| | **2022 Stefan Bomhard** | 2021 Stefan Bomhard | 2020 Stefan Bomhard | 2020 Joerg Biebernick | 2020 Dominic Brisby | 2020 Alison Cooper | 2019 Alison Cooper | 2018 Alison Cooper | 2017 Alison Cooper | 2016 Alison Cooper | 2015 Alison Cooper | 2014 Alison Cooper | 2013 Alison Cooper |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total remuneration £'000 | **5,707** | 3,421 | 1,104 | 963 | 943 | 448 | 2,137 | 3,935 | 4,657 | 5,404 | 3,637 | 2,686 | 2,011 |
| Annual bonus as a percentage of maximum | **84** | 64.1 | 40[1] | 40[1] | 40[1] | 40[1] | 31[2] | 87 | 60 | 72 | 80 | 69 | 34 |
| Shares vesting as a percentage of maximum | **19.8**[3] | 30.8[4] | nil | nil | nil | nil | nil | 20 | 44.4 | 45.7 | 15.8 | 5.8 | nil |

1. 48.4% was the formulaic out-turn; however, the Remuneration Committee accepted the CEO's recommendation and used its discretion to reduce this to 40%.
2. 51% was the formulaic out-turn; however, the Remuneration Committee used its discretion and reduced this to 31%.
3. Relates to vesting of Long-term Incentive Plan (excluding Recruitment Award).
4. Relates to vesting of Recruitment Award based on performance criteria of former employer.

## 3. HOW DIRECTORS' REMUNERATION COMPARES WITH EMPLOYEES' REMUNERATION

There is a strong alignment between how we approach pay for our Executive Directors and the wider workforce, with a focus on performance-related pay and similar performance metrics in our Annual Bonus and LTIP. Our reward packages are designed to attract, incentivise and retain the best talent, driven by market practice, skills and experience.

| Executive Directors | | UK employees |
|---|---|---|
| Increase in line with wider workforce | Salary | Average increase for FY23 – between 3% and 9% |
| Mix of financial/strategic measures, with 50% of bonus deferred into award over shares | Annual Bonus | Mix of financial/strategic measures 100% paid in cash |
| Performance metrics measured over three years, with two-year holding period after vesting | LTIP | Performance metrics measured over three years<br>No holding period |
| 14% cash or contributions into Company's pension fund | Pension | The majority of UK employees receive a contribution of 14% of salary |
| £250 per month and three-year savings period | Sharesave | £250 per month and three-year savings period |

### Consideration of colleagues' views

Our colleagues are at the core of our business, and during the year the Board expanded on its listening sessions and workforce engagement which gave us an opportunity to hear feedback from colleagues on a variety of topics including our strategy, ESG, culture, and diversity, equity and inclusion. We also explored the topic of remuneration, giving participants the opportunity to learn about how the Committee is required to align executive reward with the approach to pay for all employees, and to understand their views on reward at Imperial Brands. The level of engagement was extremely high with a constructive discussion covering:

- Selection of Annual Bonus measures and how this links to culture and performance
- Focus on the wider package including opportunities and culture and links to attraction and retention
- Flexible working practices
- Recognition that pay and benefits are attractive within the Company and discussion on how these can be made more transparent
- Linking ESG targets to remuneration
- Cost-of-living crisis

The Board is committed to listening to colleagues and appreciates the opportunity to understand what is important to them. These views, such as the importance of ESG, are taken into account in decision-making and have been reflected in actions taken in the year.

We will look to hold further listening sessions on reward in FY23.

## PERCENTAGE CHANGE IN BOARD REMUNERATION

The table below shows the percentage change in the salary, benefits and Annual Bonus for the Directors, between FY22 and FY21, as well as the disclosures for FY21 and FY20.

| | Year-on-year change in pay for Directors compared with UK employees | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | | 2020 | | |
| | **Salary** | **Benefits** | **Annual Bonus** | Salary | Benefits | Annual Bonus | Salary | Benefits | Annual Bonus |
| **Executive Director** | | | | | | | | | |
| Stefan Bomhard | **2.5%** | **0.0%** | **34.3%** | 58.6% | 183.3% | 540.6% | Stefan was appointed to the Board on 1 July 2020 | | |
| Lukas Paravicini[1] | **140.1%** | **150.0%** | **241.4%** | Lukas was appointed to the Board on 1 May 2021 | | | | | |
| **Non-Executive Directors** | | | | | | | | | |
| Thérèse Esperdy | **2.5%** | **n/a** | **n/a** | 24.7% | (100%) | n/a | 353.27%[2] | -41.30% | n/a |
| Sue Clark | **2.2%** | **n/a** | **n/a** | 7.0% | (100%) | n/a | 55.42% | -50.00% | n/a |
| Alan Johnson | Alan was appointed to the Board on 1 January 2021[3] | | | | | | | | |
| Bob Kunze-Concewitz[4] | **11.5%** | **n/a** | **n/a** | Bob was appointed to the Board on 1 November 2020 | | | | | |
| Simon Langelier | **2.4%** | **n/a** | **n/a** | 0.0% | (100%) | n/a | 2.41% | -40.00% | n/a |
| Pierre-Jean Sivignon | Pierre-Jean stepped down from the Board on 4 June 2021 | | | 176.2% | n/a | n/a | Pierre-Jean was appointed to the Board on 1 July 2020 | | |
| Steven Stanbrook | Steven stepped down from the Board on 2 Feb 2022 | | | 0.0% | (100%) | n/a | 8.42% | -66.67% | n/a |
| Jon Stanton[5] | **1.8%** | **n/a** | **n/a** | 17.9% | (100%) | n/a | 187.88%[5] | 0.00% | n/a |
| Ngozi Edozien | Ngozi was appointed to the Board on 15 Nov 2021[3] | | | | | | | | |
| Diane de Saint Victor | Diane was appointed to the Board on 15 Nov 2021[3] | | | | | | | | |
| All UK employees | **2.7%** | **7.3%** | **2.9%** | 0.0% | 2.4% | 7.9% | 6.69% | -5.72% | 32.44% |

1. Lukas was appointed to the Board on 1 May 2021.
2. Increase reflects first full year as Chair.
3. A year on year comparison is not possible in these circumstances.
4. Bob was appointed to the Board on 1 November 2020
5. Increase reflects first full year as chair of the Audit Committee.

## CEO PAY RATIO

The table below shows the multiple of our CEO's pay ratio to median, lower quartile and upper quartile pay in the UK. The calculations are based on methodology Option A as defined by the regulations and by calculating the pay and benefits of all UK employees on a full-time equivalent basis. Option A was chosen as it is the most robust approach. The CEO pay ratio is based on comparing the CEO's pay to that of Imperial Brands' UK-based employee population, a large proportion of whom are in sales roles. The Committee anticipates that the ratios are likely to be volatile over time, largely driven by the CEO's incentive outcomes which are dependent on Group-wide results. In light of financial performance outcomes being signed off close to the publication of the Annual Report, the Annual Bonus outcomes for employees other than the CEO have been calculated at target performance (60% of maximum bonus opportunity), although some employees may receive a variation of this in practice. In 2021 total CEO remuneration used to calculate the ratios was £3,421,078; and in respect of base salary only £1,269,000 was used.

The pay levels shown for the percentiles reflect remuneration for the 12 months to 30 September 2022.

| Financial year | Calculation methodology | P25 (lower quartile) x:1 | P50 (median) x:1 | P75 (upper quartile) x:1 |
|---|---|---|---|---|
| 2022 | A | 102.9 | 79.6 | 52.1 |
| 2021[1] | A | 60.7 | 48.4 | 31.1 |
| 2020 | A | 50.2 | 38.7 | 24.4 |
| 2019 | A | 53.0 | 36.5 | 22.0 |

| | Stefan Bomhard | P25 (lower quartile) | P50 (median) | P75 (upper quartile) |
|---|---|---|---|---|
| Total remuneration | £5,707,264 | 102.9 | 79.6 | 52.1 |
| Base salary | £1,300,725 | 32.3 | 26.3 | 18.4 |

1. 2021 CEO pay ratios have been updated to reflect the value of the updated 2021 CEO single figure which incorporates long-term incentives based on actual vesting, rather than the estimate used for the 2021 disclosure. Historical data excludes Nerudia.

The CEO total remuneration pay ratio has increased across all percentiles, due to an increase in CEO total remuneration driven by incentive out-turns and strong share price performance. The CEO base salary ratio has remained static, confirming that the variance is driven by performance-related variable pay.

The salary component for FY22 at each quartile is £40,232 (P25), £49,412 (P50) and £70,647 (P75). The equivalent total pay numbers are £55,452 (P25), £71,685 (P50) and £109,463 (P75).

The Committee is satisfied that the overall picture presented by the 2022 pay ratios is consistent with the reward policies for our UK employees. The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and Imperial Brands takes seriously the need to ensure competitive pay packages across the organisation.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividends.

| £ million unless otherwise stated | 2022 | 2021 | Percentage change |
|---|---|---|---|
| Executive Directors' total remuneration[1,2] | **8** | 5[4] | 52 |
| Overall expenditure on pay[2] | **642** | 775 | (17.2) |
| Dividend paid in the year[3] | **1,320** | 1,305 | 1.1 |

1. Executive Directors' total remuneration is based on the total single figure for all Executive Directors and is included to provide a comparison between Executive Director and overall employee pay.
2. Excludes employer's social security costs.
3. There were no share buybacks during either FY21 or FY22.
4. The total single figure for FY21 has been restated to reflect the actual vesting of Sefan Bomhard's 2021 LTIP award on 12 April 2021.

## EMPLOYEE BENEFIT TRUSTS

Our policy remains to satisfy options and awards under our employee share plans either from market-purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: the Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2022, we held 70,289,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

| | Balance at 01/10/2021 | Acquired during year | Distributed during year | Balance at 30/09/2022 | Ordinary shares under award at 30/09/2022 | Surplus/ (shortfall) |
|---|---|---|---|---|---|---|
| Executive Trust | 584,370 | 1,000,000 | (80,037) | 1,504,333 | 2,049,346 | (545,013) |
| 2001 Trust | 371,833 | 3,050,000 | (1,264,376) | 2,157,457 | 8,600,580 | (6,443,123) |

## SHARE PLAN FLOW RATES

The rules of each of the Company's share plans contain provisions limiting the grant of options and awards to shares representing no more than 10% of the issued share capital of the Company over a period of 10 years (or, in the case of options and awards granted under the LTIP and Deferred Share Bonus Plan, 5% of issued share capital over the same 10-year period). As at 30 September 2022, an aggregate total of 1% of the Company's issued share capital (including shares held in treasury) is subject to options and awards under our executive and all-employee share plans.

## SUMMARY OF OPTIONS AND AWARDS GRANTED

| Limit on awards | Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury) | Options and awards granted during the year as a percentage of issued share capital (including those held in treasury) |
|---|---|---|
| 10% in 10 years | 2.5 | 0.3 |
| 5% in 5 years | 1.7 | 0.3 |
| 5% in 10 years (executive plans) | 2.0 | 0.3 |

## EXTERNAL BOARD DIRECTORSHIPS

The Committee recognises that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship in a listed company and may not serve as the chair of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Stefan Bomhard is a non-executive director of Compass Group PLC and was permitted to retain the £90,000 fee received from this position in the financial year.

## 4. REMUNERATION COMMITTEE MEMBERSHIP AND DUTIES

The Board is ultimately accountable for executive remuneration, but has delegated this responsibility to the Committee, at least three of whose members are independent Non-Executive Directors. The Chair, who is a member of the Committee, was independent on appointment. We consider this independence fundamental in ensuring that Executive Directors' and senior management's remuneration is set by those who have no personal financial interest, other than as shareholders, in the matters discussed. To reinforce this independence, a standing item at each Committee meeting allows the members to meet without any Executive Director or other manager being present.

Biographical details of the current members of the Remuneration Committee are set out at pages 96 to 99. Members of the Committee are appointed by the Board following recommendation by the People and Governance Committee (formerly known as the Succession and Nominations Committee).

The Committee must meet at least twice a year. A quorum for meeting is two.

The Committee considers its key responsibility as being to support the Company's strategy and its short and long-term sustainable success. This is ensured by the adherence to our Executive Pay Principles set out on pages 134 to 136 and to the Directors' Remuneration Policy which together set the right conditions for high-calibre executives to deliver and, further, to provide long-term benefits to all stakeholders. It also determines the specific remuneration package, including service agreements and pension arrangements, for the Chair, each Executive Director and our Executive Leadership Team. When setting the policy for Executive Director remuneration, the Committee reviews workforce remuneration and related policies to ensure the alignment of incentives and rewards across the Group.

The Committee's other responsibilities include:

- Maintaining a competitive Remuneration Policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract, retain and motivate high-calibre individuals throughout the business;
- Aligning Executive Directors' and senior management's remuneration with the interests of long-term shareholders and other stakeholders whilst ensuring that remuneration is fair but not excessive and reflects the contribution made;
- Setting measures and targets for the performance-related elements of variable pay;
- Oversight of our overall policy for employee remuneration, employment conditions and our employee share plans; and
- Ensuring appropriate independent advisers are appointed to provide advice and guidance to the Committee.

The Committee's terms of reference are reviewed annually and were last reviewed in September 2022. They are available on our website www.imperialbrandsplc.com

When carrying out its duties the Committee considers the Remuneration Policy and practices in the context of provision 40 of the UK Corporate Governance Code, as follows:

**Clarity** – The Remuneration Policy sets out clearly each element of remuneration limits in terms of quantum and the discretions the Committee can apply. The DRR sets out the arrangements clearly and transparently. Questions on the remuneration arrangements can be raised at the AGM and through our "Meet the Board" programme.

**Simplicity** – The remuneration structure for our Executive Directors consists of fixed pay (base salary, pension and benefits), Annual Bonus and a Long-Term Incentive Plan. Our remuneration structures throughout the organisation are simple in nature and understood by employees.

**Risk** – A number of features within the Remuneration Policy exist to manage different kinds of risks; these include:

- Malus and clawback provisions operating across all discretionary incentive plans;
- Deferral of remuneration and holding periods;
- Remuneration Committee discretion to override formulaic out-turns to ensure incentive pay-outs reflect underlying business performance and shareholder experience;
- Limits on awards specified within the policy and plan rules; and
- Regular interaction with the Audit Committee.

**Predictability** – The Committee regularly reviews the performance of in-flight awards so it understands the likely outcomes.

**Proportionality** – The Committee is against rewarding poor performance and, therefore, a significant portion of remuneration is performance-based and dependent on delivering the Company's strategy. Performance targets are based on a combination of measures to ensure there is no undue focus on a single measure.

**Alignment** – There is a clear progression of remuneration throughout the workforce with performance measures supporting the key performance indicators and the long-term sustainability of the business. The Committee reviews the Remuneration Policy, taking into account the feedback received from shareholders and the impact on the wider workforce.

### Remuneration Committee meetings 2021/22

The Remuneration Committee met for four scheduled meetings during the year, although there was significant work outside these meetings for the Committee to agree remuneration packages for new members of the senior leadership team and to review and appoint a remuneration adviser, Deloitte LLP. On appointment, Deloitte conducted a training session, which was an opportunity for Non-Executive Directors and relevant senior managers to meet the new adviser. Details of the main activities are set out in the Chair's statement at the beginning of the DRR on page 130.

Other regular attendees include the CEO, Company Secretary, Remuneration Committee Secretary, Chief People and Culture Officer, Global Reward Director and the Committee's principal adviser. None of the individuals were involved in any decisions relating to their own remuneration.

### Advice provided to the Remuneration Committee

FIT Remuneration Consultants LLP (FIT) acted as the independent remuneration adviser to the Committee until 6 January 2022. FIT was appointed by the Committee with effect from 1 November 2017. Following a comprehensive tendering process, Deloitte LLP was appointed as the independent adviser to the Committee effective 7 February 2022. FIT was paid fees of £14,774 for its services during the year. Deloitte was paid fees of £121,200 for its services during the year.

Both FIT and Deloitte are members of the Remuneration Consultants' Group and comply with its Code of Conduct which sets out guidelines to ensure that their advice is independent and free of undue influence. FIT carried out no other work for Imperial Brands or its subsidiaries. Deloitte LLP provided other advisory services including corporate tax and employee mobility advice, and technology consulting services.

The Committee is satisfied that advice received by FIT and Deloitte during the year was independent and objective and that all individuals who provided remuneration advice to the Committee have no connections with Imperial Brands that may impair their independence.

### Other companies which provided advice to the Remuneration Committee are as follows:

Alithos Limited undertook total shareholder return (TSR) calculations and provided advice on all TSR-related matters. During the year it was paid £19,500 and provided no other services to the Company. Willis Towers Watson provided market pay data and was paid £16,900 for these services. Willis Towers Watson also provided actuarial and wider reward-related services to the Company. All of these advisers were appointed by the Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee basis.

## VOTING ON THE REMUNERATION REPORT AT THE 2022 AGM

At the 2022 AGM there was a vote to approve the Directors' Remuneration Report. We received a strong vote in favour of our Director's Remuneration Policy at our 2021 AGM.

| Resolution | Votes for including discretionary votes | Percentage for | Votes against | Percentage against | Total votes cast excluding votes withheld | Votes withheld[1] | Total votes cast including votes withheld |
|---|---|---|---|---|---|---|---|
| Directors' Remuneration Report (2022 AGM) | 702,037,143 | 95.93 | 29,784,340 | 4.07 | 731,821,483 | 680,193 | 732,501,676 |
| Director's Remuneration Policy (2021 AGM) | 706,375,474 | 95.28 | 34,958,557 | 4.72 | 741,334,031 | 1,374,300 | 742,708,331 |

1. Votes withheld are not included in the final figures as they are not recognised as a vote in law.

The strong support received for the Directors' Remuneration Report followed engagement with our largest shareholders during 2021 and 2022. The input we received from shareholders was extremely helpful. Following the AGM, we continued to engage with our largest shareholders, taking their feedback on our plans to include ESG measures into our FY23 incentives. At the 2023 AGM, shareholders will be invited to vote on the 2022 Directors' Remuneration Report (advisory vote).

**Sue Clark**
Chair of the Remuneration Committee

# DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 30 September 2022. This Directors' Report forms part of the management report required under the Disclosure Guidance and Transparency Rules (DTR). The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, to include certain matters in the Strategic Report that would otherwise be required to be disclosed in the Directors' Report. The Strategic Report can be found on pages 2 to 93 and includes an indication of future likely developments of the Company, details of important Company events and the Company's business model and strategy. The Corporate Governance Report on pages 94 to 128, the Directors' Report on pages 150 to 154 and the Directors' Responsibilities Statement on page 155 are incorporated into the Directors' Report by reference.

Specifically, the following disclosures have been included elsewhere in the Annual Report and are incorporated into the Directors' Report by reference:

| Disclosure | Page |
|---|---|
| Future developments in the business | 26 |
| Disclosure of greenhouse gas emissions | 42 |
| Going concern statement | 92 |
| Viability statement | 92 |
| Qualifying Director's indemnity provisions | 116 |
| Statement of Directors' responsibilities including disclosure of information to the auditor | 129 and 155 |
| Financial risk management | 197 |
| Shareholder information | 245 |

## EQUAL OPPORTUNITIES

We regard equality and fairness as a fundamental right of all our people. We aim to create a work environment that allows equal opportunities so people are employed fairly, safely and in compliance with applicable employment laws and regulation. We respect each person for who they are and what they can contribute and provide the same opportunity for career development and promotion regardless of disability, physical or mental health, age, race, origin, gender, sexual orientation, political views, religion, marital status or any other legally protected status.

## CHARITABLE AND POLITICAL DONATIONS

As part of our responsible approach, we continued to support a number of communities in which we operate by allocating a central budget. This budget largely funds our support of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and our support of Hope for Justice. In addition, a number of our subsidiaries donate to charitable and community endeavours from local budgets.

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

No political donations were made to UK or non-UK political parties, organisations or candidates during the year (2021: nil). This approach is aligned with our Group policy and Code of Conduct.

## SHARE CAPITAL

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

As at 30 September 2022 we held 70,289,137 shares in treasury, which represented approximately 7.39 per cent of the Company's issued share capital and had an aggregate nominal value of £7,028,914.

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

### Transaction in own shares

Imperial Brands PLC (the Company) was on Friday 4 February 2022 informed of the transfer, on 4 February 2022, by way of gift of 3,000,000 (three million) of its ordinary shares of 10 pence each (Shares), which were held in treasury, to the Imperial Tobacco Group PLC 2001 Employee Benefit Trust and 1,000,000 (one million) Shares, which were held in treasury, to the Imperial Tobacco Group PLC Employee and Executive Benefit Trust. The shares were to be used to satisfy awards outstanding under the Company's employee share plans.

### Purchase of ordinary shares

During 2022, we announced a commitment to return surplus capital to shareholders though regular annual share buybacks if circumstances were right, expected to be in the region of £1 billion in the financial year ending 30 September 2023.

At its AGM on 2 February 2022, the Company obtained shareholder authorisation for the buyback of up to 94,600,000 shares. No shares were purchased during the year or in the previous financial year.

## INTEREST IN VOTING RIGHTS

The Company has been notified of the following interest in 3 per cent or more of our shares in accordance with Section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs). The Company has not been notified of any changes to these interests since the year-end and up to 14 November 2022, being a date not more than one month prior to the date of the AGM Notice of Meeting, in accordance with DTR 5:

| Disclosure | Number of ordinary shares at the date of notification (millions) | Percentage of issued share capital at the date of notification |
|---|---|---|
| BlackRock | 53 | 5.62[1] |
| Spring Mountain Investments Ltd | 48 | 5.19[2] |
| Capital Group Companies Inc | 48 | 5.09[1] |
| FIL Limited | 47 | 4.98[1] |

1. Direct holding.
2. Indirect holding.

## RESULTS AND DIVIDENDS

We include a review of our operational and financial performance on pages 28 and 29.

The profit attributable to equity holders of the Company for the financial year was £1,570 million, as shown in our Consolidated Income Statement. Note 3 to the financial statements gives an analysis of revenue and operating profit.

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

We pay quarterly dividends. The first and second dividends for financial year 2022 were paid on 30 June 2022 and 30 September 2022 respectively. The third dividend will be paid on 30 December 2022 and, subject to AGM approval, the final dividend will be paid on 31 March 2023 to our 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.

Following a review by the Audit Committee at its meeting in November 2022, which confirmed the accounts showed distributable reserves sufficient to support the expected third interim and final dividends and the interim dividends in financial year 2023, the Directors have declared and propose dividends as follows:

| Ordinary shares | **2022 £ million** | 2021 £ million |
|---|---|---|
| Interim paid – June 2022<br>21.27p per share | **202** | 199 |
| Interim paid – September 2022<br>21.27p per share | **202** | 199 |
| Declared interim – December 2022<br>49.31p per share | **467** | 458 |
| Proposed final – March 2023<br>49.32p per share | **467** | 458 |
| Total ordinary dividends<br>141.17p per share<br>(2021: 139.08p) | **1,338** | 1,314 |

## PENSION FUND

The Group Pensions Committee has been established to provide global oversight on both risk and reward elements of the Group's Pension arrangements.

The Committee's objectives include tackling the risks inherent in the Group's defined benefit pension schemes as well as reward matters.

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

## ARTICLES

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

## SIGNIFICANT AGREEMENTS

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

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

The credit agreement is:

- A credit facilities agreement dated March 2020 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Tobacco Germany Finance GmbH (now Reemtsma Cigarettenfabriken GmbH) committed credit facilities of €3,500 million for a period of up to three years with bi-annual six month auto-extensions.

In addition, five deeds of counter-indemnity each dated July 2020 made on substantially the same terms under which certain insurance companies (the Sureties) have made available to the Company, Imperial Brands Finance PLC and Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £225 million, until January 2026.

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

Imperial Brands Finance PLC and Imperial Brands Finance Netherlands B.V. have issued bonds under Euro Medium Term Notes (EMTN) Debt Issuance Programmes. The Company acts as guarantor.

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

The bonds Imperial Brands Finance PLC issued in such manner are as follows:

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

The bonds Imperial Brands Finance Netherlands B.V. issued in such manner are as follows:

- 18 March 2021 €1,000 million 1.750% guaranteed notes due 2033.

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

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

The bonds issued in such manner are as follows:

- 11 February 2013 $1,000 million 3.5 per cent guaranteed notes due 2023;
- 21 July 2015 $1,500 million 4.25 per cent guaranteed notes due 2025;
- 26 July 2019 $1,000 million 3.125 per cent guaranteed notes due 2024;
- 26 July 2019 $750 million 3.5% guaranteed notes due 2026;
- 26 July 2019 $1,000 million 3.875 per cent guaranteed notes due 2029; and
- 27 July 2022 $1,000 million 6.125% guaranteed notes due 2027.

## OTHER INFORMATION – LISTING RULES

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

## 2022 ANNUAL GENERAL MEETING VOTE

At the Annual General Meeting in 2022, the Company received strong support for all its resolutions.

## POST-YEAR-END EVENTS

### Share buybacks

On 6 October 2022 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 Carbo Collbatelle, S.L. and Transportes El Mosca. Further details can be found in note 10 to the consolidated financial statements.

### Russian disposal – associate market 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, Mongolia and Armenia.

## 2023 ANNUAL GENERAL MEETING

This year's AGM will be held at the Bristol Marriott Hotel City Centre, 2 Lower Castle Street, Old Market, Bristol, BS1 3AD on 1 February 2023 at 2.30pm.

Details of the resolutions to be put to the meeting can be found in the Notice of Annual General Meeting sent to shareholders and made available on the Company's website.

## SUMMARY

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

| Section | Information | Page |
|---|---|---|
| (1) | Interest capitalised | N/A |
| (2) | Publication of unaudited financial information | N/A |
| (4) | Details of long-term incentive schemes | 134, 136, 138, 139, 141 and 142 |
| (5) | Waiver of emoluments by a Director | N/A |
| (6) | Waiver of future emoluments by a Director | 135, 136 and 140 |
| (7) | Non pre-emptive issues of equity for cash | N/A |
| (8) | Non pre-emptive issue by major subsidiary undertakings | N/A |
| (9) | Listed subsidiary | N/A |
| (10) | Contracts of significance | 151 |
| (11) | Provision of services by a controlling shareholder | N/A |
| (12) | Shareholder waivers of dividends | See above |
| (13) | Shareholder waivers of future dividends | See above |
| (14) | Agreements with controlling shareholders | N/A |

## OTHER INFORMATION

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

- a fair review of the business, as required by the Companies Act 2006, is included in the Strategic Report;
- the information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the investment case commencing on page 26;
- information relating to our people, including colleague engagement, is included in the Stakeholder Engagement section on page 31, our People and Planet agenda on pages 36 and 37, Safe and Inclusive workforce on pages 52 to 57 and on pages 105 and 107 in our Governance Report;
- our principal risks are detailed on pages 82 to 93;
- information relating to our sustainability approach that supports our environmental, social and governance agenda is included on pages 36 to 58;
- responsibilities to a broader stakeholder group, including consumers and customers, are included on pages 30 to 34, and 108 to 112;
- information on our greenhouse gas emissions is included on page 42; and
- the Directors of the Company are listed on pages 96 to 99.

Our report under the Streamlined Energy and Carbon Reporting requirements can be found on pages 42 and 43.

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

**John Downing**
Company Secretary

15 November 2022

Imperial Brands PLC

Incorporated and domiciled in England and Wales No: 3236483

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with UK – adopted International Accounting Standards (UK – adopted IFRS). In addition, the Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and consistently apply suitable accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state whether the Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

In preparing the Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company on a consolidated and individual basis, and to enable them to ensure that the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Parent Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that comply with the law and those regulations.

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

Each of the Directors, whose names and functions are listed on pages 96 to 99, confirms that, to the best of their knowledge

- the Group and Parent Company financial statements, which have been prepared in accordance with IFRS as adopted by the UK and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company on a consolidated and individual basis;
- the Strategic Report and the Directors' Report contained in the Annual Report and Accounts include a fair review of the development and performance of the business and position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and the Parent Company's position and performance, business model and strategy.

The Directors' responsibilities in relation to the disclosure of information to auditors is disclosed in the Audit Committee Report on page 129.

This Statement of Directors' Responsibilities was approved by the Board and signed on its behalf.

The Strategic Report and the Directors' Report were approved by the Board and signed on its behalf.

By order of the Board.

**John Downing**
Company Secretary

15 November 2022

Imperial Brands PLC

Incorporated and domiciled in England and Wales

No. 3236483