IMPERIAL BRANDS

ANNUAL REPORT AND ACCOUNTS 2020

OUR BUSINESS

Our business is evolving. We appointed a new Chair and Chief Executive in the year and began to review our strategy with the aim of strengthening future performance and taking Imperial Brands into a new era of growth.

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An introduction from our new Chair Thérèse Esperdy.

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Engaging with Stakeholders

We engaged with a broad range of stakeholders in the year.

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Celebrating our People

Our people worked tirelessly to keep the business going in unprecedented circumstances.

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Managing our ESG Responsibilities

We have a clear focus on our core environmental, social and governance responsibilities.

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PERFORMANCE OVERVIEW

TOBACCO & NGP NET REVENUE*

£8.0bn

+0.8%

ASSET BRAND NET REVENUE*

£5.2bn

+1.0%

ADJUSTED EARNINGS PER SHARE*

254.4p

-5.6%

REPORTED EARNINGS PER SHARE

158.3p

+49.3%

DIVIDEND PER SHARE**

137.7p

-33.3%

* Movement on a constant currency basis.
** Rebased by a third to accelerate debt repayment.

▶ **More detailed information on how we measure progress against our financial and non-financial key performance indicators can be found on pages 12-13**

Performance measures used throughout the report

Reported (GAAP)
Complies with International Financial Reporting Standards and the relevant legislation.

Adjusted (Non-GAAP)
Non-GAAP measures provide a useful comparison of performance from one period to the next. Reconciliations can be found in notes 3, 6, 8, 10 and 31.

Constant currency basis
Removes the effect of exchange rate movements on the translation of the results of our overseas operations. We translate current year results at prior year foreign exchange rates.

Market share
Market share data is presented as a 12-month moving average weighted across the markets in which we operate.

Stick equivalent
Stick equivalent volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.

NON-FINANCIAL INFORMATION STATEMENT

The following table constitutes our Non-Financial Information Statement in compliance with Sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by cross-reference. Additional Non-Financial Information is also available on our website www.imperialbrands.com.

Reporting requirement	Policies and standards which govern our approach[1]	Information necessary to understand our business and its impact, policy due diligence and outcomes	
Environmental matters	• Occupational health, safety and environmental policy and framework • Sustainable tobacco programme	Environmental targets	13, 20, 21, 22
		International management systems	22, 24
		Climate and energy	13, 20, 21, 23, 45
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		Sustainable tobacco supply	20, 21
Employees	• Code of Conduct • Group-wide employment policy • Fairness at work policy • Occupational health, safety and environmental policy and framework	Diverse and engaged workforce	18, 19
		Workforce Engagement Director	18
		Workplace health and safety	13, 24, 25
		International management systems	22, 24
		Lost time accident (LTA) rate	13, 24
Respect for human rights	• Human rights policy • Code of Conduct • Supplier Code • Supplier qualification programme • Modern slavery statement • Speaking Up policy	Diverse and engaged workforce	18, 19
		Workforce Engagement Director	18
		Workplace health and safety	13, 24, 25
		International management systems	22, 24
Social matters	• International marketing standards • Fontem marketing standards • Policy on taxation • Community contributions and volunteering policy • Information security policy	Responsible operations and people	20-28
		Youth access prevention	27
		Charitable and political donations	87
Anti-corruption and anti-bribery	• Code of Conduct • Fraud risk management policy • Speaking Up policy • Finance manual • Group control matrix	How we manage risk	42
		Governance, risk management and internal control	82, 83
Description of principal risks and impact of business activity	• Principal risks and uncertainties • Governance, risk management and internal control		42-59 82, 83
Description of the business model	• Our business model		11
Non-financial key performance indicators	• Key performance indicators • Sustainability performance indicators		12, 13 13, 22, 24, 26

1. Not all of our Group policies and standards are publicly available.

LOOKING TO THE FUTURE WITH CONFIDENCE

Thérèse Esperdy is the new Chair of Imperial, having previously served as Senior Independent Director since May 2019. Thérèse joined the Board in July 2016 and was appointed Chair on 1 January 2020.

DEAR SHAREHOLDERS

This was a year of significant change, in which the Board took decisive action to address performance issues and strengthen leadership capabilities. After appointing a new Chief Executive Officer, we initiated a strategic review of the Company that is assessing all aspects of our strategy, business model, culture and purpose. The results will be shared with stakeholders in January 2021.

The actions we have taken underpin our commitment to create a more consumer focused organisation that will deliver stronger and more consistent results in both tobacco and next generation products (NGP). The Board firmly believes Imperial has great potential and we will continue to make the improvements required to realise the value creation opportunities that lie ahead.

"The Board firmly believes Imperial has great potential and we will continue to make the improvements required to realise the value creation opportunities that lie ahead."

Our new CEO Stefan Bomhard will be instrumental in realising these opportunities. He joined the Board on 1 July 2020, following five successful years as CEO at Inchcape, the global automotive distribution and retail company. He brings significant brand-building and consumer-led sales and marketing experience from large multinational organisations across multiple sectors.

Stefan is our first external CEO and is providing a fresh perspective at a pivotal time for the business. As well as leading Imperial through the final quarter of the year, Stefan has been strengthening the Executive Committee (ExCom) to ensure we have the skills, experience and capabilities required to realise our ambitions.

COVID-19

The commitment of our employees has enabled us to respond effectively to the challenges posed by COVID-19. We continued to prioritise their health and safety as we entered the second wave of the pandemic. On behalf of the Board, I would like to thank all our people around the world for their support and dedication.

The vast majority of our manufacturing sites operated throughout the coronavirus crisis, ensuring we maintained supply to our consumers. Employees in other functions worked from home and many continue to do so, as we embed new and more flexible ways of working.

The Board was highly engaged in the way the organisation responded to the situation. At the height of the pandemic, the safety of our people and the performance of the business were the most important agenda items in all formal and informal Board meetings.

I was in contact with our executive and senior management team throughout, and the Board received detailed weekly update reports. A series of additional Board calls with senior leaders was established to enable Non-Executive Directors to hear and discuss how the business was responding. Although the level of engagement was adjusted as the situation stabilised during the second half of the year, the Board continues to receive regular updates.

STATEMENT ON SECTION 172 OF THE COMPANIES ACT 2006

The ongoing sustainable success of the business is dependent on our relationship with a wide range of stakeholders, including shareholders, consumers, employees, suppliers, retailers, governments and non-governmental organisations.

Your Board seeks to consider the interests of all relevant stakeholders when reaching decisions.

Throughout this report you will find information about how the Board operates and makes decisions in accordance with Section 172 of the Companies Act, which states that:

- A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

  a. the likely consequences of any decision in the long term,
  b. the interests of the company's employees,
  c. the need to foster the company's 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, and
  f. the need to act fairly as between members of the company.

▶ **See pages 14, 15 and 68 for more information**

Balance sheet and dividend

COVID-19 impacted the timing of the completion of the sale of our Premium Cigar business in the year. The transaction was completed in the first quarter of the new financial year realising proceeds of €1.1 billion, which will be used to reduce debt.

The importance of deleveraging to strengthen the balance sheet and support a more flexible approach to capital allocation has been heightened by the uncertainty and volatility of the current environment.

With that in mind, the Board decided in May to rebase the dividend by one-third to accelerate debt repayment. Going forward, we will retain a progressive dividend policy, with the dividend growing annually from the rebased level, taking into account underlying business performance.

Board engagement

Given the level of change during the year, it was imperative for myself and the Board to step up our stakeholder engagement. My focus was on shareholders and employees.

I have regularly engaged with shareholders throughout the year, recognising the need to hear their concerns directly and to inform them of the steps we are taking to address performance issues, as well as updating them on our progress with the Chair, CEO and CFO transitions. I have welcomed engagement through the Investor Forum, which has provided a useful conduit to address shareholder concerns. We have also had constructive dialogue with shareholders on the proposed new Remuneration Policy.

"Given the level of change during the year, it was imperative for myself and the Board to step up our stakeholder engagement."

My communication with employees was focused on keeping them updated on the appointment of Stefan, including introducing him to the business. I have also engaged with our people on the importance of working together to create a new and inclusive culture that will support the new strategy and embrace diversity and equality.

Environmental, social and governance responsibilities

Our sustainability strategy is integral to our long-term success and frames the way we manage our environmental, social and governance (ESG) responsibilities. ESG considerations inform the way we run the business and are regularly assessed by the Board.

One of my first actions as Chair was to establish an ESG Steering Committee to provide greater oversight of the way we address ESG issues. The committee is chaired by me and is comprised of senior leaders from across the business.

The committee's initial focus has been to establish key performance indicators for our main ESG responsibilities. We will start reporting against these new KPIs in the 2021 financial year, once they have been aligned with the refreshed corporate strategy.

Board changes

My predecessor Mark Williamson, who served on the Board for 13 years, including six as Chairman, stepped down in December and I would like to thank him for the significant contribution he made to Imperial over the years.

Former Chief Executive Alison Cooper and Chief Development Officer Matthew Phillips left the business in February and Dominic Brisby (Divisional Director, Americas, Africa, Asia and Australasia) and Joerg Biebernick (Divisional Director, Europe) assumed the roles of Joint Interim CEOs, until Stefan's appointment.

Dominic and Joerg took on these roles just weeks before the coronavirus pandemic worsened, leading to lockdown restrictions across our markets. I would like to thank them for stepping up to lead the business in such challenging circumstances. Both have returned to their divisional roles, reporting to Stefan.

In June Karen Witts, Chair of the Audit Committee, stepped down from the Board after six years as a Non-Executive Director. Jon Stanton, who has been a member of the Audit Committee since May 2019 and has the required relevant financial experience, took over as Chair of the Audit Committee. My thanks to Karen for her considerable contribution.

In July we welcomed Pierre-Jean Sivignon to the Board as Non-Executive Director and a member of the Audit Committee. Pierre-Jean is an experienced finance professional, having held Chief Financial Officer positions at a number of companies including the global retailer Groupe Carrefour, where he was also deputy Chief Executive Officer. Pierre-Jean's international financial expertise in customer facing businesses will be of great value to Imperial.

Bob Kunze-Concewitz, Chief Executive of Campari Group, will join the Board on 1 November 2020. Bob has a wealth of international business experience and is particularly skilled at marketing, having held a number of senior roles at leading FMCG companies. His skills and capabilities will be another strong addition to the Board.

I was pleased that Sue Clark agreed to succeed me as Senior Independent Director in January. Sue is also Chair of the Remuneration Committee and has been leading the current Remuneration Policy review, which will be put to shareholders for approval at the Annual General Meeting in February 2021.

These appointments reflect my drive to reshape the Board and strengthen its capabilities to bring real insight and experience from the consumer and retailer sectors. I am determined to improve the diversity of the Board going forward to ensure we have the best possible mix of skills, experience and perspectives to support the business.

"Stefan's arrival has energised Imperial. He brings focus and discipline to the business and has rapidly built strong relationships with employees, who are providing him with their full support."

The year ahead

2020 was a year of substantial change and we look to the future with renewed optimism and confidence.

Stefan's arrival has energised Imperial. He brings focus and discipline to the business and has rapidly built strong relationships with employees, who are providing him with their full support.

The Board is working with Stefan to finalise the strategic review and we look forward to updating stakeholders early in the 2021 calendar year. Tobacco will continue to be the core focus, supported by stronger, more disciplined NGP operations. Our key aim is to ensure that over time, we deliver a better and more consistent performance that will create long-term sustainable value.

Thérèse Esperdy

THÉRÈSE ESPERDY
Chair

FOCUSED ON VALUE CREATION

Stefan Bomhard joined Imperial as the Chief Executive on 1 July 2020. Stefan has significant experience across multiple consumer sectors and within large multinational organisations, particularly in brand building and consumer-led sales and marketing.

1. What attracted you to Imperial Brands?

Imperial is a great consumer business that, despite the best efforts of employees, has not lived up to its potential in recent times. So, the attraction for me is the opportunity to lead a revitalised team that over time can deliver stronger results and create long-term value.

"I want us to become a successful consumer centric company that we can all be proud of."

The foundations for building a successful consumer centric company that we can all be proud of are very much here.

I believe in freedom of choice and respect the preferences of millions of adult smokers around the world who choose to enjoy combustible tobacco products. Although we have some classic tobacco brands, not all of them are performing as well as we'd like and we need to address that and make sure our core consumer offerings stay fresh and relevant.

I also want us to make a meaningful contribution to harm reduction and reduce the public health impact of smoking. This means, of course, that we need a significantly stronger NGP business. So, this is another key area for us to focus on. We need to take a more disciplined approach to capital investment to ensure that over time, NGP delivers attractive returns.

2. Why are you qualified for the role of CEO?

In terms of my qualifications for the role of CEO, I think I have the qualities needed to deliver the necessary performance improvements . I have accrued significant experience in the consumer and retail sector at companies such as Unilever, Cadbury, Burger King, Bacardi and Procter & Gamble.

More recently I was CEO at Inchcape for five years and during that time I reinvigorated the strategy and delivered transformational change and an improved performance.

I have always enjoyed being in businesses and sectors that are going through change, and that is certainly the case for Imperial and tobacco, which presents both challenges and opportunities.

I'm also attracted by the fact that Imperial is not the market leader. I have experience of working for companies that are the number two or number three players and I like the way that drives the need to work harder and smarter to identify your point of competitive difference.

So, my track record and experience are relevant to Imperial at this time of change. I also think it's significant that I am coming into the business with no background in tobacco or NGP. I am the first external CEO Imperial has appointed and that enables me to bring a new and fresh perspective, although it's clear that delivering the stronger performance we all want to see will take time.

3. How have you approached your first months in the business?

There were a number of priorities. First, stay focused on the great work the business has been doing to protect the health, safety and wellbeing of our people during the coronavirus pandemic.

Second, start to address the strategy and performance issues. As I've said, despite best efforts, the strategy and business model are clearly not delivering what our stakeholders expect and we need to tackle this. I have started by instilling greater discipline into the way the business operates, stemming the losses in NGP and embedding a more rigorous approach to tracking performance. The work we are doing on reviewing the strategy and business model is progressing well and I expect to be able to share the results in the first quarter of calendar year 2021.

Thirdly, I also prioritised engagement with employees, consumers and customers. Opportunities for actual market visits have obviously been limited due to COVID-19 but I have managed to meet retailers and consumers on the ground and have engaged physically or virtually with thousands of employees across all our main markets and functions. That was very enjoyable and informative and has really helped me build my knowledge and understanding of Imperial. All my stakeholder engagement is adding to the data and insights that are informing the strategic review.

4. You've also expanded the Executive Committee (ExCom) with a number of external appointments who are all new to tobacco. Was it important for you to appoint people from different sectors?

Yes, it's very important because we need new skills and fresh thinking for a changing industry. We have plenty of tobacco expertise in the management team, which of course is important. What we're doing now is adding to that by bringing in additional skills and capabilities that Imperial hasn't had at the top level of the business before and I have to say, it's proving really valuable in terms of shaping the new strategy.

Similarly, Thérèse has taken steps to strengthen the Board, appointing two new Non-Executive Directors who both bring a wealth of different international business experience.

MY INITIAL KEY PRIORITIES

- FOCUS ON EMPLOYEE HEALTH AND SAFETY
- LEAD THE STRATEGIC REVIEW
- STRENGTHEN PERFORMANCE MANAGEMENT
- ENGAGE WITH KEY STAKEHOLDERS
- VISIT AS MANY MARKETS AS POSSIBLE
- GATHER DATA AND INSIGHTS
- STRENGTHEN EXECUTIVE COMMITTEE

5. What are your initial impressions of Imperial?

At a headline level, it's mostly as I expected. We have a solid, resilient tobacco business with good brands but the performance has not been as good as it could have been, particularly in terms of the market share losses Imperial has incurred over recent years.

NGP has clearly underperformed and investment has not delivered the expected returns. As I've said, NGP absolutely has a role to play in Imperial's future but we will take a much more prudent approach, built around a tightly focused business model.

Although there is a lot we need to change, there are also areas of real excellence in the business that we must make sure we preserve. Our manufacturing and supply chain operations, for example, are truly competitive within our industry, and we have experienced minimal disruption across our factory footprint during the coronavirus pandemic.

CEO Stefan Bomhard visits a tobacconist in Madrid.

Our approach to customer engagement is also impressive. We have strong retail partnerships, which is critical given the role retailers can play in influencing consumer brand and product choices.

Finally, there's our people. I have been truly excited to see their energy, passion and overall willingness to embrace change. I appreciate all their support so far and the honesty they have shown. I feel confident that by working together we will deliver stronger and more consistent results over time.

"NGP absolutely has a role to play in Imperial's future but we will take a much more prudent approach, built around a tightly focused business model."

6. How has COVID-19 impacted your operations?

Imperial has shown resilience and the employees have done an exceptional job in keeping the business going and elsewhere in the report we quite rightly celebrate their extraordinary efforts.

Many of our people have worked from home for prolonged periods of time and we've ensured they've received all the support they need to create the right working environment.

Most of our factories stayed open and operational, which is another tremendous achievement, although of course the layout of the facilities and shift patterns had to change to enable us to adhere to local government health and safety guidelines. Also I'm pleased to say that we didn't furlough any employees, implement any pay cuts or make any redundancies as a result of COVID-19.

7. Imperial's performance has had a considerable impact on the share price. What is your message to shareholders?

I empathise with anyone who has invested in Imperial and has then seen the value of that investment decline so significantly. Many of our employees are shareholders and they have expressed their frustrations to me, as have some of our larger investors.

So, I very much understand the concerns and my message is this: we are going to address the performance of the business and once results start to strengthen, we will start to win back the trust and confidence of shareholders and other stakeholders, which is critical for rebuilding the valuation.

"We are going to address the performance of the business and once results start to strengthen, we will start to win back the trust and confidence of shareholders and other stakeholders."

8. What do you see as the key challenges and opportunities in both tobacco and NGP?

The challenges in tobacco are around managing declining volumes and increasing regulation, while growing returns. Imperial has a solid tobacco business with a good portfolio of brands and we have the opportunity to deliver better results over time. This will require improvements in our share performance, especially in our large markets, where we've suffered declines for a number of years, although we have started to see some improvements in recent months.

I've touched on the difficulties Imperial has had in NGP. As part of the strategic review, we are assessing our assets and capabilities in this space and the role they can play in meeting consumer needs for reduced risk products. In my view, no company has yet found the NGP solution that truly meets the expectations of adult smokers, so there is everything to play for.

9. You say you're committed to harm reduction? What will that mean for your NGP operations?

NGP has a role to play going forward and I want to be clear about that. The strategic review will define exactly what the new NGP business model looks like and as that is ongoing it would be premature to go into detail at this stage.

But, as I've said, we are now taking a different approach that is more disciplined and focused. In vapour, for example, we have historically had commercial plans that were far too ambitious, which resulted in significant NGP write-downs, which is not sustainable.

10. What is your broader view on the Company's ESG (environmental, social and governance) responsibilities?

The first point to make here is that ESG considerations are being factored into the strategic review.

I think we have a compelling and credible sustainability strategy, with clearly defined ESG priorities. This is important, given the controversial nature of our products and the level of stakeholder scrutiny we quite rightly receive.

As I've said, we need to do better in NGP to be able to deliver against our consumer health and harm reduction ambitions but if I look at the progress we're making in other areas, there's much to be pleased with.

On climate and energy, for instance, we have stretching long-term goals, with our carbon reduction targets validated and approved by the Science Based Targets initiative. We were also awarded an A rating by CDP for our commitment to addressing climate change and supplier engagement.

One area that has required attention is transparency around the way we measure performance. For some ESG issues, we have robust key performance indicators (KPIs) that we publicly report against, for others we have none. That will be changing this fiscal year.

The ESG Steering Committee has been working with the business to identify and agree appropriate KPIs for all our priority ESG issues. That work is complete and once these additional KPIs have been validated against the new strategy we will make them publicly available.

> *"Regular stakeholder engagement is very important to me. I'm also passionate about delivery and firmly believe a commitment is a commitment."*

11. How would you describe your leadership style?

I have a very open and honest style and I encourage others to behave in the same way. Teamwork is also very important to me. In my experience, employees working together and truly collaborating for the good of the company, always get the best results.

The CEO needs to lead the culture of the business and in my view, the best culture is underpinned by transparency and engagement. In my first 100 days I hosted 300 internal meetings, connecting with thousands of employees in the process, and this enabled me to get authentic insights into the issues we need to work together to address.

Early on, I spoke with some of our largest shareholders and, as I've said, I have also listened to the views of consumers and retailers. Regular stakeholder engagement is very important to me. I'm also passionate about delivery and firmly believe a commitment is a commitment. In other words, if we say we will deliver something, we will deliver it.

12. Why are you so optimistic about the future of Imperial Brands?

If I didn't think that over time we could turn things around and create a brighter future for our stakeholders, I wouldn't have taken the CEO role.

> *"Imperial has many attractive qualities, including its people, brands and market positions."*

Imperial has many attractive qualities, including its people, brands and market positions. These are the foundations of a successful business and I truly believe that over time, we can leverage these assets to drive a stronger performance.

The people in particular have really impressed me. The way employees have welcomed me to the business and their receptiveness to change and new ways of working have been great to see and only reinforces my confidence.

So, the potential is absolutely there. We are very focused on making the right strategic choices to strengthen results and the work we are doing on reviewing our strategy, business model and culture is progressing well.

It takes time to change a large organisation but I am excited about the future and convinced that with a clearer focus and better execution, we will deliver a new era of success that will create long-term value for stakeholders.

STEFAN BOMHARD
Chief Executive

A STRENGTHENED EXECUTIVE COMMITTEE

STEFAN BOMHARD
Chief Executive Officer

Stefan delivered successful transformational change during a five-year tenure as CEO of Inchcape. He has also held senior roles at Bacardi, Cadbury, Diageo, Unilever and Procter & Gamble.

ALISON CLARKE
Chief People and Culture Officer

Alison is a highly experienced business leader. She was Chief Human Resource Officer at Inchcape and held a number of senior positions at Whitbread, Ford and United Utilities.

OLIVER TANT*
Chief Financial Officer

Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director Financial Advisory and Private Equity Division and Head of UK Audit.

MURRAY MCGOWAN
Group Strategy and Transformation Director

Murray has a strong background in strategy gleaned from strategic and operational leadership roles for Costa Coffee, Yum! Brands, Cadbury, The Restaurant Group and McKinsey & Company.

JOERG BIEBERNICK
Division Director, Europe

Joerg's considerable consumer goods sector experience in Europe and the US includes senior roles at Kimberly Clark, Georgia Pacific and Procter & Gamble.

WALTER PRINZ**
Group Manufacturing & Supply Chain Director

Walter joined Reemtsma in 1987 and has held a number of senior roles at Imperial including Research & Development Director and Director of Product Development and Purchasing.

DOMINIC BRISBY
Division Director, Americas, Africa, Asia & Australasia

Dominic has held a number of senior positions since joining Imperial in 1999. He was appointed Division Director in 2013 and has been a member of the Executive Committee since 2014.

* In August 2020, Oliver Tant announced that he planned to retire once a suitable successor had been found.

** In October 2020, Walter Prinz announced that he would be retiring in the 2021 financial year. He will be succeeded by Javier Huerta, Executive Vice President Supply Chain for Foods and Refreshment at Unilever.

RESPONDING TO EVOLVING TRENDS

Our regulatory environment continues to evolve rapidly, with smokers increasingly likely to consume more than one type of product from a wide range of nicotine categories.

Nevertheless, the value of the world tobacco market remains significant at approximately US$705 billion (excluding China), with over 5,300 billion cigarettes consumed a year by 19 per cent of the world's adult population. Social change, regulation and innovation are combining to influence nicotine consumption trends, with a number of smokers transitioning to potentially less harmful next generation products (NGP) such as vapour, oral nicotine and heated tobacco.

This is an example of harm reduction, a pragmatic public health approach that focuses on reducing the negative impacts of an activity rather than eliminating the behaviour itself. Our new CEO Stefan Bomhard is actively considering the role NGP and harm reduction will play in Imperial's future as part of his strategic review.

A key focus to date has been to enhance the consumer experience through innovation and to share our scientific and other expertise. Constructive engagement in support of legislative frameworks that raise industry standards and give smokers the confidence to try NGP is essential if these products are to flourish.

TOBACCO PRODUCTS

Tobacco continues to be highly regulated and we are experienced in monitoring and managing the impact of legislation.

We believe tobacco control policies should recognise the public health potential of NGP and we encourage regulators to draw on our expertise when considering legislative measures.

As much as we wish to realise the potential of our NGP, we recognise that many adults still choose to smoke and it's important they are supplied by responsible, legitimate companies like Imperial.

Our responsible approach is enshrined in our International Marketing Standard, which is published on our corporate website.

We actively support reasonable regulation, especially when it aims to reduce illicit trade and stop youth smoking.

We also support appropriate ingredients disclosure and agree that tobacco products should display written health warnings. We oppose disproportionate regulation, such as plain packaging which, combined with high taxes, can fuel illicit trade.

The consequences of illicit trade are considerable, as youths can more easily obtain cigarettes, smokers are deprived of the quality they expect and governments and retailers lose revenue.

We are committed to tackling illicit trade, applying stringent controls to our distributors and employing a dedicated team of specialists to lead our anti-illicit trade initiatives. In 2020, the intelligence we shared with these agencies resulted in the seizure of around 200 million illicit cigarettes and the closure of three manufacturing facilities producing counterfeit product.

NEXT GENERATION PRODUCTS

To ensure that the benefits of harm reduction are realised, it is imperative that NGP are shown to be potentially safer than combustible alternatives, have the ability to meet the needs of adult smokers and do not encourage non-smokers or youths to start using NGP. As a responsible organisation, we work hard to ensure that our NGP portfolio and sales and marketing activities pass these tests.

In the USA, we have submitted a substantial volume of clinical, technical and behavioural science to the Food and Drug Administration to support our vapour products. We have also supported government efforts to promote the responsible development of the category through higher product and marketing standards.

The responsible approach we take is outlined in our E-vapour Products Marketing Standard, which is published on our corporate website.

We believe that a robust and comprehensive scientific assessment of the relative risk of NGP compared to cigarettes should form the basis of evidence-based global regulation.

For example, a significant body of evidence demonstrates that vapour flavours play a critical role in attracting adult smokers and preventing their return to combustible tobacco. Bans on the sale of flavoured liquids are therefore disproportionate and unjustified in our view.

Smokers should receive clear messages about the potential health benefits of NGP, and we oppose regulatory action based on poor science or public misconceptions.

Negative news flow, combined with widely differing levels of understanding about harm reduction, has undermined confidence in certain NGP, and we continue to engage with regulators to highlight and discuss quality scientific evidence.

OUR BUSINESS MODEL AND STRATEGY

Our new CEO Stefan Bomhard is leading a review of our business model, strategy and culture and will provide an update in the first quarter of calendar year 2021. Throughout the financial year, our strategic focus has been on driving performance in three areas: Tobacco, Next Generation Products and Cost and Cash. High standards of governance and a robust sustainability strategy that seeks to enable the business to grow and create value, underpin our commercial ambitions. We sell our products through three divisions, as set out in the Operating Review.

Our business model depends on high operating margins, which deliver the strong cash flows that are a hallmark of the Company. We use the cash we generate to reinvest to support growth, pay down debt or return to shareholders. When we are successful we are able to create value for a broad range of stakeholders. People are at the centre of everything we do and as part of his review, Stefan is also examining how we need to redefine our culture and purpose to support the consistent delivery of the new strategy.

HOW WE MEASURE PERFORMANCE

We use these key performance indicators and the metrics in the Operating Review to assess the progress we are making in delivering our strategy. As the strategy evolves in the coming year, these measures could potentially change to reflect our new strategic priorities.

TOBACCO & NGP NET REVENUE (£BN)[1]

Performance

Tobacco & NGP net revenue was down 0.1 per cent at actual exchange rates but grew by 0.8 per cent on a constant currency basis. Tobacco net revenue increased by 1.8 per cent and NGP revenue was down by 27.0 per cent at constant currency.

Definition

Tobacco & NGP net revenue comprises tobacco and NGP revenue less duty and similar items, excluding peripheral products

ADJUSTED EARNINGS PER SHARE[1] (PENCE)

Performance

Adjusted earnings per share was down 5.6 per cent on a constant currency basis. Reported earnings per share was up 49.4 per cent. This is explained in the Financial Review.

Definition

Adjusted earnings per share represents adjusted profit after tax attributable to the equity holders of the Company divided by the weighted average number of shares in issue during the period, excluding shares held to satisfy employee share plans and shares purchased by the Company and held as treasury shares.

* 2019 EPS restated to exclude other income.

ASSET BRANDS NET REVENUE (£BN)

Performance

Asset Brands net revenue increased by 1.0 per cent on a constant currency basis. Asset Brands account for 64.8 per cent of our total revenue, up 10 basis points on last year.

Definition

Asset Brands net revenue is revenue from our most important tobacco and NGP brands less duty and similar items, excluding peripheral products.

* Asset Brand net revenue restated to incorporate revised brand definitions.

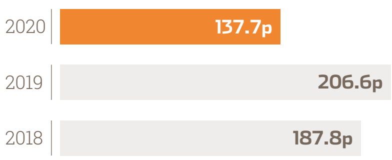
TOBACCO & NGP OPERATING MARGIN (%)

Performance

Margins have declined with NGP write-downs, further NGP losses, COVID-19 related costs and increased regulatory costs.

Definition

Tobacco & NGP operating margin is adjusted operating profit divided by tobacco and NGP net revenue expressed as a percentage.



DIVIDEND PER SHARE (PENCE)

Performance

As announced in May 2020, we rebased our dividend by one-third to accelerate debt repayment. We retain a progressive dividend policy, growing annually from the rebased level.

Definition

Dividend per share represents the total annual dividends, being the sum of the paid interim dividend and the proposed final dividend for the financial year.

RETURN ON INVESTED CAPITAL (%)

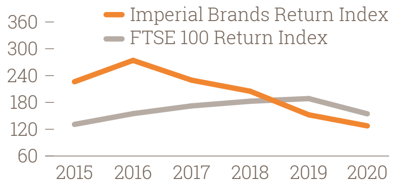
Performance

Return on invested capital reduced in the year impacted by lower tobacco and NGP profitability.

Definition

Return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted net operating profit after tax by invested capital. Invested capital is adjusted total equity and reported net debt.

1. KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 113 for more information.
2. 2020 data has been independently assured by EY. Our Reporting Criteria Document contains detail on definition and scope of all non-financial KPIs. See www.imperialbrandsplc.com/sustainability for more information.



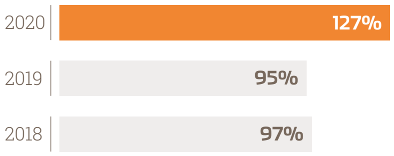
TOTAL SHAREHOLDER RETURN[1]

Performance

This was another challenging year in which total shareholder returns declined 25 per cent, with a lower share price and reduced dividend.

Definition

Total shareholder return is the total investment gain to shareholders resulting from the movement in the share price and assuming dividends are immediately reinvested in shares.



CASH CONVERSION RATE[1] (%)

Performance

Reported 2020 cash conversion of 127 per cent benefited from temporary upside due to the timing of duty payments. Strong underlying cash conversion of 107 per cent was driven by working capital improvements.

Definition

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

NON-FINANCIAL KPIs[2]

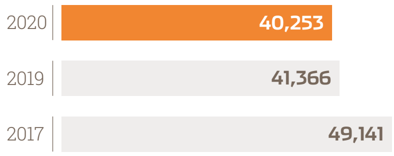
ENERGY CONSUMPTION (GWH)[3]

Performance

We have seen a 12 per cent decrease in energy consumption from our 2017 baseline year. Our target is to reduce energy consumption by 25 per cent by 2030. Our 2020 relative energy consumption is 96,625 kWh/£million.

Definition

We measure relative indicators against '£million' tobacco and NGP net revenue. Energy consumption covers the energy used in our offices, manufacturing sites and by our sales fleet vehicles. The energy we use originates from a variety of sources including fossil fuels and renewable sources.



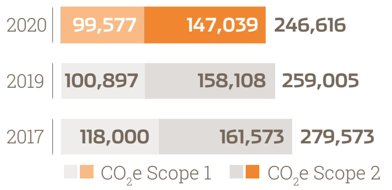
WASTE (TONNES)[3]

Performance

We have seen an 18 per cent decrease in waste from our 2017 baseline year. We seek to minimise the waste and waste to landfill associated with our production processes through a combined approach of reduce, reuse and recycle.

Definition

This includes waste from manufacturing sites and main offices, excluding Logista and Sales and Marketing entities. It does not include any material which is re-used.



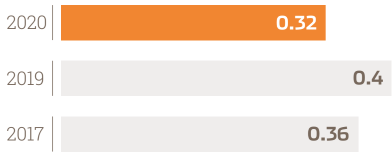
ABSOLUTE CO2 EQUIVALENT EMISSIONS (TONNES)[3]

Performance

We have seen a 12 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year. Our target is to reduce CO_2e emissions by 25 per cent by 2030. We have also set a Scope 3 target to minimise our carbon impact beyond our direct operations.

Definition

We report on greenhouse gas emissions resulting from the operations that fall within our consolidated financial statements, using the operational control reporting approach. We report on the seven main greenhouse gases and report in terms of tonnes of CO_2 equivalent (CO_2e).



LOST TIME ACCIDENT FREQUENCY RATE (PER 200,000 HOURS)[4]

Performance

Our continued focus on health, safety and risk management has resulted in a 20 per cent decline in our lost time accident rate compared to last year.

Definition

A lost time accident is an 'on-the-job' accident that results in an employee being unable to return to work for a minimum of one full day.

3. Our 2020 environmental data follows the reporting period Q4 financial year 2019 to Q3 financial year 2020. This is to allow for data collection, validation and external assurance. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
4. Our health and safety data is for the full 2020 financial year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.

ENGAGING STAKEHOLDERS

Building and maintaining trust with our stakeholders underpins the success and reputation of Imperial Brands. Through stakeholder collaboration we aim to develop the Company, minimise our environmental impact, make a positive social contribution and uphold high standards of governance. The output of our stakeholder engagement activities is shared with the Board and taken into consideration when making business decisions.

	Why this stakeholder is important to us
CONSUMERS	Millions of adults worldwide choose to enjoy our tobacco and NGP products. Meeting their expectations of quality and understanding their evolving needs is vital for the long-term sustainable growth of our business. Engagement with consumers this year has continued to inform brand and product investment decisions, as well as the way we manage our portfolio in markets.
EMPLOYEES	The health, safety and wellbeing of our people has never been more important. In the current climate it is essential that we create a supportive, safe and rewarding work environment that enables employees to continue to deliver our goals and develop their careers. Our 2020 engagement was considerable, as we actively took steps to explain performance issues, leadership changes and the impact of COVID-19 on our operations.
GOVERNMENTS & WIDER SOCIETY	We are transparent about the way we operate and seek to work together with a broad range of authorities and non-governmental organisations to address challenges and realise opportunities. Throughout the year, we continued to engage on regulatory issues and other areas of shared interest. During the coronavirus lockdown we increased engagement with a multitude of societal stakeholders to better understand how we could provide support.
RETAILERS	Our products are sold in a diverse range of outlets worldwide. We seek to develop partnerships that recognise the commercial objectives of retailers and the importance of responsible sales practices. This year's engagement included explaining our customer loyalty programmes and regulatory developments. In the second half, the focus shifted to discuss how we were maintaining product supply in a COVID-19 environment.
SHAREHOLDERS	It is important that we maintain the support of our shareholders and their confidence in the business. Through transparent and regular dialogue, we seek to enable a clear understanding of their opportunities to invest in the Company and the returns that can be delivered. Our engagement this year ensured shareholders were kept updated on financial performance, strategy, ESG matters, leadership changes and the way we responded to the coronavirus pandemic.
SUPPLIERS	We maintain strong relationships with our tobacco, non-tobacco and NGP suppliers to ensure sustainable supply and business continuity. We seek to work with suppliers to identify and action opportunities to improve our collective impact on society. This year we engaged with key suppliers on carbon emissions and reduction targets. We also allocated a proportion of our Leaf Partnership funds to support COVID-19 related initiatives within our tobacco supply chain.

▶ **Read more about our stakeholder engagement on page 68**

This section of the report provides an overview of the dialogue we had with our key stakeholders during the year. They are presented in alphabetical order and for each stakeholder group, we set out why they are important to us, what matters to them and our key areas of engagement. We anticipate that the strategic review will be an area of significant engagement in 2021. Further information on our stakeholder engagement and how the Board has considered stakeholders when making key decisions can be found on page 68.

What matters to these stakeholders	Engagement in 2020
• Choice and satisfaction • Product quality and availability • Innovation • Potentially less harmful Next Generation Products • Affordability and value • Responsible marketing practices • Impact of COVID-19	• Consumer panel testing • Ongoing focus on product stewardship • Consumer services • Product innovation and quality investments • Board consideration of right-sizing our investment behind NGP • Audit Committee review of NGP provisioning
• Impact of COVID-19 • Health, safety and wellbeing • Support for local communities • Flexible ways of working • Reward • Business change explained • Career development opportunities • Diversity, inclusion and belonging • Ethics and responsibility • How we manage our ESG responsibilities	• Regular Group, functional and local communications • CEO town hall meetings and market visits (mostly virtual in the second half) • Regular communications from the Board and ExCom • Employee engagement surveys • Explaining the role of the new Workforce Engagement Director • Training, development and learning programmes • Feedback from surveys and town hall meetings used by the Board to develop future engagement activities
• Reliable taxation and excise revenues • Public health impacts • Countering illicit trade and youth access • Responsible use of natural resources • Community investment • Impact of COVID-19	• Collaboration with law enforcement agencies to combat illicit trade • Submissions to peer-reviewed journals • Science-based carbon reduction targets • Sustainability reporting • CDP environmental disclosure • Board approval of Modern Slavery Statement • Audit Committee and Board review of tax audits and litigation and approval of provisions
• A diverse portfolio of quality products • Profitable growth opportunities • Expert sales and technical advice • Effective account management • Support to address illicit trade and underage sales • Impact of COVID-19	• Customer loyalty programmes • Support for youth access prevention • Support to ensure regulatory compliance • Investment in anti-illicit trade investigations • Data and insights gathered from CEO market visits shared with Board and informed strategic review
• Credible strategy • Robust business model • Strong and sustainable returns • Trusted leadership • Transparent disclosure • Executive Remuneration Policy • Corporate governance • Environmental, social and governance performance • Impact of COVID-19	• Stock exchange and results announcements • Investor meetings including updating on review of the Remuneration Policy • CEO and Board meetings • Annual General Meeting • Annual Report & Accounts • Shareholder information on website • ESG webinar on sustainability strategy and farmer welfare • Participation at CAGNY consumer goods conference • ESG ratings submissions
• Fair contract and payment terms • Impact of COVID-19 • Business continuity • Environmental, Social and Governance performance • Maximising quality tobacco yields • Collaboration opportunities	• Supplier qualification programme • Vendor rating system and engagement • Sustainable Tobacco Programme enhancements • Ongoing engagement and performance reviews • Carbon emissions webinar • Leaf Partnership funds

CELEBRATING OUR PEOPLE

Our people have done a tremendous job in keeping the business going and dealing with the unprecedented challenges posed by COVID-19. Our thanks to them all. We value and appreciate all their hard work and support.

COVID-19

We have 32,500 employees globally who have continued working with a relentless focus on health, safety and wellbeing. As we have repeatedly stated in previous annual reports, the welfare of our people is of paramount importance and this was a year when we truly put these words into action as we faced into the coronavirus crisis.

Early on we established a Group Coronavirus Steering Committee of senior leaders to oversee business continuity planning. The committee met daily at the peak of the crisis and regularly reported to the Executive Committee and the Board.

We maintained operational continuity throughout the crisis and did not furlough any employees, implement any pay cuts or make any redundancies as a result of COVID-19.

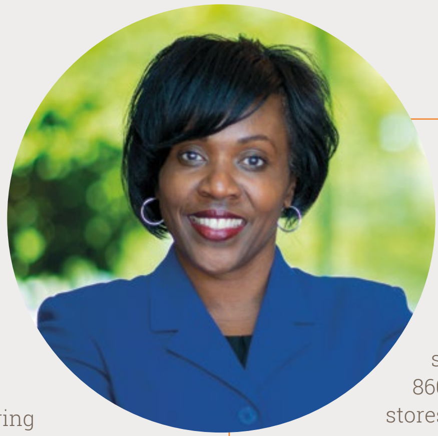
Across our markets, we scrupulously followed the advice of governments and public health bodies and continue to do so.

We operate 38 factories and it is a credit to our manufacturing colleagues that they managed to keep the vast majority operating throughout the crisis. To ensure appropriate infection controls and social distancing, we reconfigured factory layouts and introduced new shift patterns.

We are sad to report that two of our people died after becoming infected with the coronavirus. We ensured comprehensive support was provided to the families of both employees.

32,500

Employees globally who have continued working with a relentless focus on health, safety and wellbeing.



KIM REED EXECUTIVE VICE PRESIDENT SALES ITG BRANDS

I have the privilege of leading the ITG Brands sales organisation, a total of 860 people, who cover 160,000 stores across the USA.

Traditionally, each sales rep regularly visits retail outlets but that wasn't possible once the country went into lockdown. At that time, the entire field force transitioned to work from home, but most retailers were still open for business and distribution was operating as normal.

We rapidly moved from a traditional retail sales model to a call-based model. Instead of making 10 visits a day, each rep was now making 25 phone calls a day.

This was a major transition, but we had the foresight to plan for it, not just in terms of adapting the model, but also ensuring the team had the technical support they needed to work effectively from home.

By May, restrictions began easing and we started returning reps back to the field on a phased basis, prioritising their health and safety, with everyone equipped with personal protective equipment.

Since the end of July, we've returned to a traditional model. I'm very pleased with the results we achieved this year, particularly in terms of the growth we delivered in cigarette and mass market cigars.

My thanks to this fantastic team for the way they responded to a very challenging situation.

Many employees worked from home for extended periods of time and we provided all the support they needed to create the right working environment. This included strengthening our IT infrastructure and accelerating the roll-out of software to facilitate team working.

We also adopted a flexible approach to home working, encouraging employees to find a routine that works best for them and their families. Our new WorkFlex policy was developed from the learnings of recent months and provides employees with a permanent range of flexible working options.

We recognise the impact COVID-19 has had in the areas where our people live and work and we temporarily revised our community support guidelines so that we could support a broader range of charities and organisations.

This enabled us to fund a number of community initiatives across our geographic footprint including, among many others, providing support for hospitals in Poland and the UK and supporting homeless charities in Germany.

We operate 38 factories and it is a credit to our manufacturing colleagues that they managed to keep the vast majority operating throughout the crisis.

To ensure appropriate infection controls and social distancing, we reconfigured factory layouts and introduced new shift patterns.

NURIA GOMEZ OHSE ADVISOR CANTABRIA FACTORY

Our Cantabria factory in northern Spain employs 220 people and produces around 900 million cigars a year for European consumers.

Spain was hit hard and fast by the impact of COVID-19 and was among the first countries to experience a state of emergency and enter lockdown in the middle of March.

Employees were understandably nervous and we swiftly developed a contingency plan with two objectives: to keep our people safe and to ensure we maintained continuity of supply.

Developing and successfully implementing the plan involved support from a range of stakeholders, including employees, their representatives and contractors.

I'm proud that the model we came up with has served as a guide for how other Imperial factories now operate around the world.

We adapted our behaviours and resources to succeed in a COVID-19 environment, maintaining performance and delivering against our commercial targets for the year.

This has been a huge achievement and I would like to thank everyone for their hard work and support.

We continue to stay focused on the wellbeing of our people and although there are obviously challenges ahead, we are confident that we will deliver another strong performance in the coming year.

CEO EMPLOYEE ENGAGEMENT

Stefan Bomhard's CEO onboarding programme included extensive employee engagement.

On his first day, Stefan introduced himself to the business via a global employee video, and on day three he had his first session with the top 60 leaders via a virtual town hall meeting.

This marked the start of a comprehensive series of town hall meetings that connected him with thousands of people from all parts of the organisation.

This activity was supported by a drumbeat of CEO communications that covered a variety of topics, including business and COVID-19 updates, announcements on senior management changes, feedback on market visits and most recently, reflections on his first 100 days.

Quantitative and qualitative feedback tells us that our people have hugely appreciated these regular touch points with Stefan. They have warmed to his personable and transparent style, as well as his focus on teamwork and delivering against commitments.

EMPLOYEE ENGAGEMENT

Regular engagement is crucial for motivating employees to work together to deliver our strategy.

Throughout the year we provided updates on our strategic priorities, performance and leadership changes through a broad range of communication channels including meetings, emails, videos, intranet, webinars, virtual town halls and employee publications.

As you would expect, we significantly stepped up communication at a Group and market level during the coronavirus crisis, so that employees understood how Imperial was responding to the situation. We also ensured they were made aware of the latest health and safety advice from governments and public health bodies.

We conducted a number of engagement surveys and the feedback told us that during the prolonged lockdown period, employees remained positive and had adjusted well to new ways of working. Inevitably, morale was higher in some parts of the business than others and we are taking action to address this.

Workforce Engagement Director Steven Stanbrook, a Non-Executive Director of the Board, has been actively involved in our engagement activities.

The Board regularly engages with employees through Board and committee meetings as well as site visits, although clearly opportunities for these have been limited this year. Steven's role is to strengthen the connection between employees and the Board, ensuring our people have a voice at the highest level of the business.

During the year, Steven engaged with a broad array of colleagues and took the lead in two Group-wide employee videos, one explaining his role and responsibilities as Workforce Engagement Director and another outlining the results of a global engagement survey that he launched earlier in the year.

As with other Board members, his plans were severely hampered by COVID-19 restrictions, including the cancellation of the annual European Works Council meeting at which he was due to speak. Please see the Governance section of this report for further information.

CREATING A NEW CULTURE

The Board recognises the role it has to play in assessing and monitoring our culture. As part of the strategic review Stefan and the Board are examining the culture of the organisation, taking into account employee feedback gathered through this year's engagement surveys and the CEO onboarding programme. Culture defines our ethics, behaviours and the way we work together. The right culture ensures we value and respect each other, and truly embrace diversity and equality.

Our ambition is to create a culture and capabilities that will strengthen performance and give Imperial competitive advantage.

With that in mind at the end of the financial year we welcomed Alison Clarke to Imperial in the newly created Executive Committee role of Chief People and Culture Officer. Alison has significant experience of HR and business transformation at a number of organisations, including Inchcape, Ford, Whitbread and United Utilities.

Alison and her team will be working with the business and the Board to define the people and culture strategies required to successfully underpin the new strategic direction.

THE IMPORTANCE OF DIVERSITY

We are proud of our international workforce but recognise there is more we can do to improve diversity in the business. We want our people to feel they are heard, valued, supported, motivated and empowered.

Our new Chair and CEO have committed to address this and have spoken with employees about the importance of Imperial continuing to stand firm against racism and all other forms of discrimination and injustice.

In recognition of the need to work harder at creating a diverse and inclusive culture – whether that be diversity of gender, race, age, disability, sexual orientation or beliefs – we have focused on preparing our largest ever diversity and inclusion survey, which will be administered by a specialist third party supplier early next year in the first quarter of our new financial year.

The results will provide us with independent benchmark data from which we can set the standards and actions needed to effectively address the issues raised.

During the year, we also established a global Diversity Network, which connects employees who have a passion for diversity, inclusion and belonging. The network has a particular focus on creating global and local initiatives that will support our efforts to improve diversity in the business.

DIVERSITY OF OUR BUSINESS

Male	58%
Female	42%

▶ **Please read more on diversity on page 24**

LEARNING AND DEVELOPMENT

We are committed to creating a culture where everyone is able to take control of their career development and access learning.

During the year, we launched iLearn, a global learning platform of internal content, with links to a number of our partner organisations, including LinkedIn Learning and Harvard.

Initial uptake was encouraging, with 3,891 employees completing 12,418 hours of learning during the first six months of the year. This increased during the COVID-19 lockdown. Popular learning modules accessed by our people during this time were Microsoft Teams, Working Flexibly and Leading Virtually.

At the end of the year, a total of 5,933 employees had completed 30,986 hours of learning.

Teams of people set up collaboration groups to help promote and share more specialised content to aid their knowledge and to also maintain regular social contact.

In addition, more than 800 employees took part in 10 'lockdown learning' live webinars and as restrictions eased, we organised online 'bounce back' sessions. Although we advised employees to continue working from home wherever possible, these sessions were aimed at encouraging our people to start thinking about returning to a 'new normal' work environment.

The variety of learning opportunities we are providing employees has been very well-received and was recognised as one of the top 10 most positive factors in our global engagement survey.

TALENT AND LEADERSHIP

Realising the potential of our most talented people is integral to our long-term success.

Through our Talent Deal initiative, we provide select employees with targeted development solutions designed to accelerate their career progression. In return, we expect these employees to proactively seek opportunities to stretch themselves and, in turn, drive business performance.

Our Emerging Potential Programme is a good example of this: a six-month virtual programme we have developed in collaboration with Harvard to help junior colleagues make their first steps into global leadership roles.

This year we launched our third cohort of the programme. Although completing the programme does not automatically guarantee immediate career progression, out of the more than 150 employees that have taken part, nearly half have gone on to secure a promotion or a significantly enhanced role.

We continue to invest in developing our global leadership population, ensuring all new leaders experience a consistent induction programme and are able to access a range of learning and development tools.

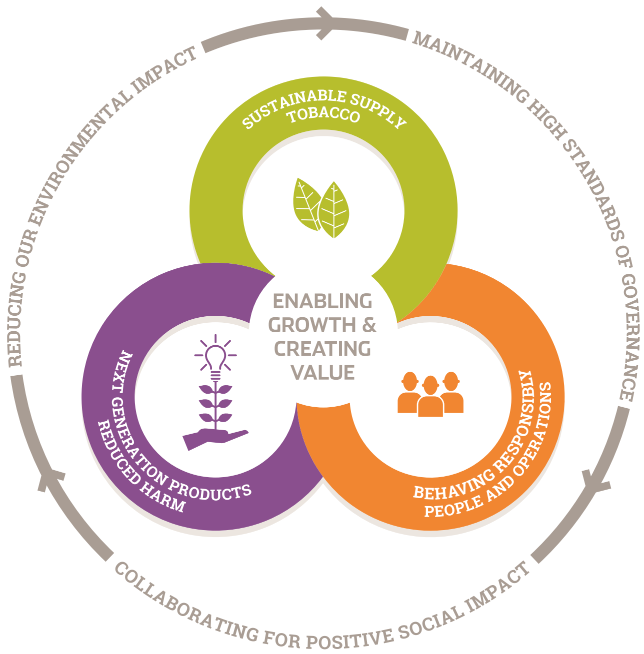
This includes our Dare to Lead and Inspire to Lead flagship programmes of workshops, digital learning, on the job exercises and peer support.

Based on our Leadership Expectations, these programmes have been adapted to be delivered virtually so that leaders can continue to develop without the need to travel or be in the same physical offices. In total, 320 leaders across 12 markets participated in Dare to Lead and Inspire to Lead during the year.

MANAGING OUR ESG RESPONSIBILITIES

Our sustainability strategy is integral to our long-term success and frames the way we manage our environmental, social and governance (ESG) responsibilities. Our strategy is aligned with the UN Sustainable Development Goals, which aim to have a transformational impact on the world by 2030 by addressing global challenges such as poverty, availability of clean water, inequality and climate change.

OUR SUSTAINABILITY STRATEGY



Next Generation Products

Developing alternative products that are potentially less harmful to health.

Sustainable Tobacco Supply

Maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco.

Behaving Responsibly

Behaving responsibly at all times and providing a safe and rewarding work environment for employees.

Overseen by the Board and ESG Committee

The Board has oversight of our ESG responsibilities, supported by a cross-functional ESG Steering Committee, chaired by the Chair of Imperial Brands. The Committee meets formally during the year and encourages members to stay in touch with each other on a day-to-day basis to ensure there is regular ongoing dialogue about ESG matters.

▶ Read more in our governance report on page 62

OUR PRIORITY ESG ISSUES

1 Consumer health

We understand society's concerns about the health risks of smoking and recognise the important role we can play in helping to reduce the harm caused by combustible tobacco products.

2 Climate and energy

Given our global reach and influence, we have a duty to protect the natural environment and actively work to minimise our environmental impacts.

3 Farmer livelihoods and welfare

Farmer livelihoods and welfare is of paramount importance to sustainable tobacco production and we continue to engage with our suppliers to support farming communities.

4 Human rights – modern slavery

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.

5 Waste

As part of our duty to protect the natural environment, we seek to minimise waste and waste sent to landfill.

▶ Find out more at www.imperialbrandsplc.com/sustainability/approach

Our commitment	How we are achieving this	Our progress in 2020	UN SDGs
We are committed to strengthening our NGP performance and in doing so, making a more meaningful contribution to harm reduction by offering adult smokers a range of potentially less harmful products.	Building consumer and regulatory confidence in NGP by scientifically substantiating their harm reduction potential relative to conventional cigarettes. Seeking to underpin our NGP operations with leading-edge science, innovation and high quality standards.	Completed pre-clinical studies that show NGPs *my*blu and Pulze aerosols contain fewer and substantially lower levels of toxicants, and reduced in vitro toxicity, compared to cigarette smoke. Our clinical studies show substantial reductions in exposure to harmful chemicals for smokers that switch to *my*blu.	3 GOOD HEALTH AND WELL-BEING We are committed to tobacco harm reduction.
We are committed to reducing our climate and energy impacts across our value chain, from crop production to manufacturing and distribution.	Managing our climate-related risks and opportunities across our business and value chain. Reducing our carbon footprint across our value chain. Better understanding the carbon footprint of our NGP.	We have developed site-based opportunities to ensure we deliver against our 2030 science-based carbon reduction targets. We have seen a 12 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year and our target is to reduce by 25 per cent by 2030. We conducted a life cycle analysis of *my*blu which provided comprehensive information about the product's environmental impact.	13 CLIMATE ACTION We are taking action to combat climate change and its impacts.
We are committed to supporting farmers to diversify income streams in order to enhance farming community livelihoods and welfare.	Strengthening the industry-wide Sustainable Tobacco Programme (STP) to measure positive impact. Working together with our tobacco leaf suppliers through our Leaf Partnerships to allocate funds to continually improve access to basic needs and diversification of income.	We are members of the STP Steering Committee and are contributing to the development of STP. We supported farmers in Africa and Asia in diversifying their income from growing complementary crops to tobacco, such as fruit trees, maize, groundnuts and vegetables. We funded projects in Africa, Asia and South America enhancing access to basic needs to over 12,000 people. Case studies are on our website.	8 DECENT WORK AND ECONOMIC GROWTH We are committed to decent work for all and sustainable economic growth.
We are committed to raising awareness and improving processes for identifying modern slavery in our business and supply chains.	Better understanding modern slavery risk across our business and supply chains. Educating the business on the risk of modern slavery. Introducing a robust human rights framework, which includes how we address modern slavery and the issue of child labour in tobacco farming.	We started to implement the recommendations from the Slave Free Alliance (SFA) gap analysis conducted in 2019, although our work was hampered by the impact of COVID-19. Details are available on our website. SFA conducted a workshop for our global procurement team. Our Modern Slavery e-learning module is now available to employees in 12 languages. Specialist training has been provided for key functional representatives.	8 DECENT WORK AND ECONOMIC GROWTH We are committed to decent work for all and sustainable economic growth.
We are committed to minimising the waste associated with our products, packaging and production processes.	Supporting manufacturing sites to achieve the 2030 targets set for waste. Innovating waste solutions for product disposal. Monitoring and responding to EU legislative changes, including the Single-Use Plastics Directive.	Developed the *my*blu recycling playbook to support markets and our product design teams in understanding how to implement recycling and take-back schemes for current *my*blu devices, pods and packaging. We continue to explore opportunities for improving material recycling in our cigarette filters and packaging.	12 RESPONSIBLE CONSUMPTION AND PRODUCTION Ensuring sustainable consumption and production patterns.

2020 PERFORMANCE HIGHLIGHTS

We have developed new Key Performance Indicators to reflect our performance against our priority ESG areas, which will be validated against the new commercial strategy and reported on next year. Below we have presented highlights from our 2020 ESG performance. We measure our environmental performance by comparing results with our 2017 baseline year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.

ENVIRONMENTAL

CLIMATE AND ENERGY PERFORMANCE

Performance indicator		2017	2018	2019	2020	Commentary
Operations with ISO 14001 certification	%	92	91	86	**86**	Our coverage of certifications remains consistent with last year. One of our African sites was due to be recertified this year but this was delayed due to COVID-19.
Absolute energy consumption[1]	GWh	875	842	788	**773**[A]	We have seen a 12 per cent decrease in energy consumption from our 2017 baseline year. Our target is to reduce energy consumption by 25 per cent by 2030. In compliance with the UK streamlined energy and carbon reporting (SECR), requirements, our total UK energy consumption was 14.33 GWh which is 1.85 per cent of the global total (2019: 13.32 GWh and 1.69 per cent).
Relative energy consumption[1]	KWh/£m net revenue	112,801	108,926	98,500	**96,625**[A]	
Absolute Scope 1 CO_2e emissions[1]	Tonnes	118,000	110,896	108,241	**99,577**[A]	Our Scope 1 emissions arise from stationary fuel combustion at our sites, refrigerant gases and from mobile fuel combustion in our fleet of company sales vehicles. We have seen a 8 per cent decrease in Scope 1 emissions since last year.
Absolute Scope 2 CO_2e location-based emissions[1]	Tonnes	161,573	161,020	158,108	**147,039**[A]	Our Scope 2 emissions comprise the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites. We have seen a 7 per cent decrease in Scope 2 emissions since last year. There has been a restatement of 2017 to 2019 data to include emissions from green energy consumption.
Total absolute Scope 1 and 2 CO_2e emissions[1]	Tonnes	279,573	271,916	266,349	**246,616**[A]	We have seen a 12 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year. Our target is to reduce these emissions by 25 per cent by 2030. We have also set a Scope 3 target to minimise our carbon impact beyond our direct operations. In compliance with the UK SECR requirements, our total UK Scope 1 and 2 emissions were 3,289 tonnes CO_2e emissions, which is 1.33 per cent of the global total (2019: 3,210 CO_2e emissions and 1.24 per cent).
Relative Scope 1 and 2 CO_2e emissions[1]	Tonnes/£m net revenue	39.0	35.2	32.4	**30.8**[A]	
Key suppliers by spend with science-based targets	%	–	19	22	**38**	We are committed to ensuring that 50 per cent of our suppliers by spend will have science-based targets by 2023.
Logista absolute Scope 1 and 2 CO_2e emissions	Tonnes	38,554	38,924	38,906	**–**	Logista is managed remotely due to commercial sensitivities and has provided independently assured data for absolute Scope 1, 2 and 3 emissions. Data for 2020 is still undergoing independent assurance. Logista's 2019 relative Scope 1 and 2 emissions comprise 38 tonnes (2018: 39) of CO_2e per £million of 2019 distribution fees (our non-GAAP revenue measure for Logista). Further information on the scope of Logista's GHG reporting is available at www.grupologista.com
Logista absolute Scope 3 CO_2e emissions	Tonnes	193,611	189,980	201,566	**–**	

WASTE AND WATER PERFORMANCE

Performance indicator		2017	2018	2019	2020	Commentary
Total waste[1]	Tonnes	49,141	43,388	41,366	**40,253**[A]	We have seen an 18 per cent decrease in waste from our 2017 baseline year. This is largely driven by the impact of COVID-19 on manufacturing and we will continue to review this indicator in 2021. Our target is to reduce waste by 20 per cent by 2030.
Waste to landfill[1]	Tonnes	6,746	6,769	7,109	**6,431**[A]	We have seen a 5 per cent decline in waste sent to landfill from our 2017 baseline year. Our target is to reduce waste sent to landfill by 50 per cent by 2030.
Absolute water consumption[1]	m^3	1,468,626	1,327,102	1,316,904	**1,198,523**[A]	We have seen an 18 per cent reduction in water use from our 2017 baseline year, which exceeds our target to reduce water consumption by 15 per cent by 2030. However, this decrease is largely driven by the impact of COVID-19 on manufacturing and we will continue to review this indicator in 2021.

STEPPING UP SUPPLIER ENGAGEMENT

Around 75 per cent of our overall carbon footprint comes from activities across our supply chain: our Scope 3 emissions. In order to make meaningful progress in reducing our carbon footprint, we engage with our suppliers to encourage them to measure, monitor, reduce and report their operational carbon emissions.

We have been working with our procurement teams to ensure that all of our key suppliers are invited to report this information to us. This is largely done through the CDP Supply Chain Programme. In 2020 we piloted a programme to directly engage with those key suppliers who do not participate in CDP. With this two-pronged approach we have received information from the majority of our key suppliers. We provide further information on Scope 3 performance and our approach to assessing this in our Sustainability Performance Summary available on our website.

RESPONDING TO THE TCFD

We have reported on our approach to managing and mitigating climate related risks for a number of years, both within our sustainability reporting and CDP disclosures. As we learn to operate with a changing climate, we recognise the importance of increasing climate related impact disclosure and implementing the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

One example of how a climatic event has impacted our business occurred in January 2020. Our operations in Madagascar received extremely heavy rainfall, with 50 per cent of expected seasonal rain in five days, resulting in extensive flooding on the smallholder farms and our commercial operations.

Following a detailed assessment a three-year investment plan was approved by the Executive Committee to strengthen the infrastructure of the site.

▶ **Further details of how we manage climate related risk can be found in our TCFD summary on the website**

*my*blu LCA

In 2020, we conducted a life cycle analysis of our *my*blu starter kit to generate an environmental profile across its entire life cycle. The analysis identified possible improvement areas, including reducing emissions during production and waste management opportunities at disposal stage.

We launched a *my*blu recycling playbook, which guides our markets to implement local takeback and recycling schemes for devices, pods and packaging. In Germany, we have successfully introduced a pod recycling takeback scheme which we hope to roll-out to other markets too.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SCIENCE BASED TARGETS INITIATIVE

Our carbon targets for Scope 1, 2 and 3 (supply chain) have been approved and validated by the Science Based Targets initiative (SBTi).

CDP

CDP HIGHEST AWARD

CDP, the international non-profit organisation that helps companies manage their environmental impact, has awarded us an A rating for climate change and supplier engagement. This is the highest award CDP gives. It recognises the leadership and actions we are taking to cut emissions, mitigate climate risks, contribute to a low-carbon economy and engage with suppliers to manage climate risk and reduce Scope 3 carbon emissions in our supply chain.

SOCIAL

SOCIAL PERFORMANCE

Performance indicator		2017	2018	2019	2020	Commentary
Employee fatalities[2]	number	0	0	2	**3**	We regret to have to report three work-related employee fatalities in 2020. We provided family members and work colleagues with comprehensive support.
Contractor fatalities[2]	number	0	0	0	**0**	Health and safety remains a priority for all our stakeholders.
Members of the public fatalities[2]	number	1	4	1	**0**	Health and safety remains a priority for all our stakeholders.
Lost time accidents (LTA)[2,3]	number	92	118	101	**80**	There has been a 21 per cent decrease in the number of lost time accidents compared to last year.
LTA rate[2,3]	lost time accidents per 200,000 hours worked	0.36	0.46	0.40	**0.32**[A]	There has been a 20 per cent decline in our lost time accident rate compared to last year.
Total number of accidents[2,3]	Number	937	931	850	**720**	We have seen a 15 per cent decrease in total accidents compared to last year.
Accident rate[2,3]	total accidents per 200,000 hours worked	3.66	3.61	3.39	**2.19**	We have seen a 14 per cent decline in our accident rate compared to last year.
Vehicle accident frequency rate[3]	accidents per million kilometres	–	–	5.03	**4.19**	There has been a 17 per cent decrease in our vehicle accident rate compared to last year.
OHSAS 18001 / ISO 45001 certification	%	87	87	79	**79**	2019 data has been restated due to reporting error. One of our African sites was due to be recertified this year but this was delayed due to COVID-19, therefore our coverage remains consistent with last year.
Female employees	%	40	41	42	**42**	Female employee numbers remain the same as last year.
Female Executive Committee members	%	11	13	11	**14**[A]	We are committed to increasing female representation within senior management roles to 30 per cent by 2023.
Female Board members	%	30	33	40	**25**[A]	Following a number of Board changes there has been a 38 per cent reduction in female members since last year.
Employee turnover rate	%	15.0	15.1	13.2	**11.8**	Employee turnover rate has decreased in comparison to last year.

HEALTH AND SAFETY

In these difficult times, the welfare of our people has never been more important.

As of 30 September 2020, 79 per cent of our manufacturing sites were independently certified to the international standard OHSAS 18001. Many facilities were reconfigured during the year to enable social distancing and safe working during the coronavirus.

We were pleased to see a further decline in our Lost Time Accident frequency rate. Details can be found on page 13 of the Key Performance Indicators section.

Despite our relentless focus on health and safety, we operate in some challenging regions that pose risk to our employees. We were deeply shocked and saddened about the work-related deaths of three employees in Africa in separate incidents. One employee died in a road traffic accident and two were murdered. We provided their families and work colleagues with comprehensive support and carried out a thorough review of each incident.

CONSUMER HEALTH

We understand society's concerns about the health risks associated with smoking and recognise the role we have to play in helping reduce the impact of combustible tobacco on consumer health.

We substantiate the harm reduction potential of all our NGP through our Scientific Assessment Framework (SAF), a multi-stage, multi-year testing and research programme. This assessment is done for each NGP type compared to cigarettes to determine the reduced relative risk.

By the end of financial year 2020 we had the following assessment completion rates:

- 71 per cent of the SAF for our vape device, *my*blu (compared to 17 per cent in 2019)
- 34 per cent for our heated tobacco device, Pulze (compared to 12 per cent in 2019)
- 23 per cent for our tobacco-free oral nicotine pouch product, zoneX (compared to 10 per cent in 2019)

Milestones of note include completing pre-clinical work on *my*blu, including demonstrating it contains fewer and substantially lower levels of toxicants of public health concern compared to cigarette smoke. This translates to reductions in toxicity in vitro.

Our clinical studies also reveal rapid, substantial reductions in exposure to harmful chemicals for smokers transitioning to *my*blu. Our focus is now on assessing longer-term behavioural studies and broader population health assessments.

We've also demonstrated that our heated tobacco brand, Pulze, heats but doesn't burn tobacco. This absence of combustion means levels of toxicants are fewer and substantially lower in Pulze's aerosol compared to cigarette smoke. This translates to significant reductions in toxicity in vitro. We have also demonstrated that Pulze doesn't negatively impact indoor air quality for bystanders.

Finally, our ongoing research on tobacco-free oral nicotine pouches encouragingly suggests products like zoneX are likely to be the most harm reduced of all NGP.

We continue to make our research publicly available. This includes publications in peer-reviewed scientific literature, regulatory engagement, conference presentations and regularly updating our dedicated science website.

DRIVE SAFE AWARDS

This year we launched our inaugural Drive Safe Awards.

Focusing on mitigating one of the biggest risk areas across our sales operations, the awards recognise and celebrate the best examples of road and driver safety.

Ranging from simple initiatives that improve driver behaviour, to the wider achievements of having a robust road and driver safety management system, the awards form part of our increasing efforts to improve health and safety in our sales team.

Ultimately, the awards are designed to engage, encourage and empower our global sales force to become better and safer drivers for themselves, their families, colleagues and other road users. The awards are judged by our divisional sales directors, with the winners announced early in the first quarter of the new financial year.

GOVERNANCE

GOVERNANCE PERFORMANCE

Governance education modules are available to our people through a combination of online and offline learning platforms.. All employees are required to complete these modules.

E-Learning Course Title	Commentary
Code of Conduct	This course introduces and explains some of the standards of responsible behaviour that are set out in our Code of Conduct, which is translated into 32 languages.
Code of Conduct Part 2	This course looks at the Code of Conduct and considers the responsibilities of employees to act in ways that promote a culture of mutual trust and respect.
Competition Law: An Overview	This global overview provides guidance to employees on how to be aware of, recognise, and avoid becoming involved in illegal competition.
Give and Get Bribe: An Antibribery Vignette	This course is designed to refresh awareness of laws that make it a crime to bribe officials to gain a business advantage.
Modern Slavery	During the year we translated this e-learning course into a further two languages, This short overview takes a global look at the human rights abuse of modern slavery and explains how employees can raise concerns, and is now available in 12 languages.
Combatting Illicit Trade	An updated version of the original module was launched in October 2020. This course focuses on combatting illicit trade in two ways, through our collective responsibilities and by every employee taking personal responsibility.
Information Security: Phishing	This course focuses on protecting data properly and the consequences following a significant breach or leak.
Share Dealing Code	A module which provides information about Share Dealing and Market Abuse Regulations.
Data Privacy and Protection: GDPR	Aimed at markets inside the EU, focusing on GDPR, compliance obligations, data handling practices and potential financial penalties if companies fail to comply with their obligations.
Data Protection and Privacy	Aimed at markets outside the EU. This course defines personally identifiable information and provides an overview of the responsibilities and steps required to protect it.

High standards of governance are critical to our sustainability. We have a set of governance structures and practices in place designed to ensure that our company is run responsibly in the best interests of all our stakeholders.

MAINTAINING HIGH STANDARDS OF GOVERNANCE

How we conduct ourselves and our business can have wider impacts for society. Doing business in the right way, having integrity and not tolerating poor behaviour, fraud or bribery ensures we behave responsibly towards our stakeholders.

Our Code of Conduct is embedded throughout Imperial Brands and drives our responsible approach. It is aligned with the policies, internal controls and risk management processes that underpin our strategy.

The Code sets out the responsible behaviours we expect from employees in their dealings with colleagues, customers, consumers, suppliers, agents, intermediaries, advisers, governments and competitors. All employees and business partners are expected to act with integrity in accordance with the standards of behaviour set out in the Code.

We refreshed our onboarding process for new employees during the year. Code of Conduct e-learning is now accessible via an onboarding portal and is made available to employees on their first day with the Company.

SUPPLIER CODE OF CONDUCT

We expect our suppliers to conduct their business in an ethical and responsible manner and comply with all applicable laws and regulations. Our Supplier Code, based on our Code of Conduct, sets out the behaviours we expect our suppliers to demonstrate. The Supplier Code of Conduct is embedded into our Procurement Policy and processes which govern how we select and contract with our suppliers.

Our Supplier Code of Conduct is available in 19 languages.

RESPONSIBLE MARKETING AND YOUTH ACCESS PREVENTION

We are committed to marketing and advertising our products responsibly within the laws, codes of practice and voluntary agreements of those countries within which we operate. This year we updated our marketing standards to reflect developments in technology and our NGP portfolio. These standards are available on our website. All Imperial Brands companies and employees, as well as the agencies who work with us, adhere to our standards and local legislation. Where local legislation is stricter than our standards, this takes precedence, and where local legislation may be less stringent, then our own high standards take precedence.

Tobacco and NGP are for adult smokers only. We do not want youths to use any of our products and take youth access prevention (YAP) very seriously. We fully support YAP and minimum age restrictions for the sale or purchase of our products.

▶ **For more information on our Marketing Standards please visit www.imperialbrands.com**

SPEAKING UP

We expect all employees and business partners to act with integrity at all times. If there are ever any concerns they can be raised independently via our Speaking Up service, which is available in 78 countries.

This year we appointed a new partner to manage this service, Got Ethics. Concerns can be quickly and easily reported online and by telephone. The reporting system guarantees security and anonymity for the complainant.

Issues raised during the year included allegations of unprofessional behaviour, pay concerns, breach of company credit policy, inappropriate use of company funds and unauthorised payment of consultants.

Our HR teams were involved in dealing with a number of these issues, whilst others were managed by the Company Secretary, with investigation support and advice provided by members of Finance, Group Security, Group Legal, HR and Internal Audit.

At all times, the anonymity of the individual making the complaint was a key consideration.

RETAILER ENGAGEMENT IN GERMANY

Germany is one of our most important markets. The German Federal Association of Tobacco Industry and Novel Products (BVTE) and its member companies, including Imperial, advocate effective enforcement of the sales age of 18 for nicotine products. To help them achieve this, the BVTE provides an e-learning tool to support our trade partners in effectively addressing youth access prevention.

The content covers age verification and the legal consequences of selling to young people, as well as recommendations for how to behave in a shop situation when dealing with underage customers. More than 2,000 retailers completed the training during the year.

The e-learning tool has been adapted to also cover oral nicotine delivery products.

INVESTOR BENCHMARKS

Our ESG management and performance is evaluated by a wide range of external rating agencies.

We were rated A in August 2020 by MSCI ESG Ratings. In its June 2020 ESG Rating report, Sustainalytics gave us a medium risk rating score and in September 2020, Vigeoeiris gave us a Company Reporting Rate of 86 per cent (sector average reporting rate 78 per cent).

We believe it is important for rating agencies to work together with companies, investors and other stakeholders to improve consistency and transparency in producing robust ESG data and ratings.

Following our climate change submission to CDP in 2019, we were placed on CDP's Climate A List which consists of just 2 per cent of the thousands of companies that have disclosed their data. We await the results of our 2020 submission.

We continue to participate in the CDP Supply Chain Programme, which gathers information from our key suppliers on how they are managing their climate risks and opportunities. We are pleased to report that in 2020, all of our key suppliers invited to complete the submission responded.

We have also completed the investor-backed Workforce Disclosure Initiative since 2019. This benchmark is currently based on disclosure, and performance scores have not been allocated.

Further performance data is available on our corporate website www.imperialbrands.com

INDEPENDENT ASSURANCE

We appointed Ernst & Young LLP to provide limited independent assurance over selected sustainability content within the Annual Report ("the Report"), as at and for the period ended 30 September 2020. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

These procedures were designed to conclude on the accuracy and completeness of selected sustainability indicators, which are indicated in the Report with an A.

An unqualified opinion was issued and is available on imperialbrandsplc.com, along with further details of the scope, respective responsibilities, work performed, limitations and conclusions.

A. Select 2020 data has been independently assured by Ernst and Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. The Assurance Opinion is available on our website.
1. Our 2020 environmental data follows the reporting period Q4 financial year 2019 to Q3 financial year 2020. This is to allow for data collection, validation and external assurance. We use the GHG Protocol Standard to inform our reporting of Scope 1 and 2 emissions. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
2. Our health and safety data is for the full 2020 financial year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
3. Accidents reported do not include commuting to or from work or third parties such as distributors.

OPERATING REVIEW

A CHALLENGING YEAR

COVID-19 has had a significant impact on all our lives with the temporary restrictions and lockdowns across many countries leading to changes in consumer behaviour and in our operating environments.

However, the business has been relatively well positioned to navigate these challenges. Throughout, we have prioritised the health and safety of our people and have always strictly adhered to guidance from governments and public health authorities. It is a credit to our manufacturing and supply chain colleagues that they managed to keep the vast majority of our factories operating throughout the crisis, ensuring that our customers and consumers around the world were able to continue to enjoy their favourite brands.

Lockdowns, the restrictions on travel and the benefit of fiscal stimulus measures in several markets have resulted in some changes in consumer behaviour. These have resulted in slightly better market size trends for the Group overall as a result of several factors.

- It would appear smokers have chosen to allocate more of their discretionary spend towards tobacco. More time spent at home has resulted in consumers reducing expenditure in certain areas, such as holidays or going out;
- Fiscal stimulus measures in several markets have increased consumer discretionary spend;
- Border and other restrictions have reduced the level of illicit trade in certain markets such as the UK, resulting in better volumes in the duty paid market;
- Markets in areas such as Northern Europe have benefited from consumers having to stay at home, leading to a temporary switch in volumes from traditional holiday destinations in Southern Europe; and
- It would also appear COVID-19 has resulted in consumers going to stores less often with increases in bulk buying and greater demand for big box formats.

These positive drivers have offset the negative consumption impacts from COVID-19, which include:

- The temporary closure of certain retail channels, such as duty free and hospitality outlets; and
- Travel restrictions which have led to significantly lower demand in traditional holiday destinations, such as Spain and the Canary Islands.

COVID-19-related restrictions in some of our manufacturing facilities have disrupted production capacity and affected operating efficiencies. We expect that changes in consumer behaviour and our manufacturing operations will be temporary and will reverse once COVID-19 restrictions are relaxed. However, given the rising number of COVID-19 cases in many markets and the greater uncertainty, we have increased provisions, mainly in respect of stock and debtor positions, which has impacted profit delivery.

PERFORMANCE REVIEW

Imperial Brands comprises two distinct businesses: Tobacco & NGP and Distribution. The Tobacco & NGP business is responsible for the manufacture, marketing and sale of tobacco and NGP products, which are managed primarily through three geographic sales and marketing divisions: Europe, Americas and Africa, Asia and Australasia. It is through these three divisions, we manage performance and prioritise the allocation of resources and investment.

OUR BRANDS

TOBACCO & NGP

Tobacco

We delivered +50bps of tobacco share growth but this was largely in markets representing lower value to the Group both in terms of net revenue and profit. As a result, the gross profit contribution from the tobacco category did not grow in line with the growth in net revenue. The top five priority markets by net revenue account for 70% of the operating profit. Whilst we grew tobacco market share in three of these top five markets the growth was principally in brand families with lower net revenue per stick and accordingly less profitable. We achieve optimum growth in profitability where we are able to grow in the higher value markets and in those brands with the higher price points.

JPS

JPS tobacco sales volumes declined as price segments have compressed in many of its markets, squeezing its position as a value brand. However, net brand contribution benefited from increased pricing on fine cut tobacco variants in the UK and Australia. Product innovation remains focused on creating new formats to appeal to adult smokers.

West

We have grown share of West this year, with strong performances across all its ranges. The king size core range performed particularly well in the Middle East following the introduction of plain packaging, aided by low tar and fresh seal variants. West's make your own range has met consumer demand in Central Europe for value, with volumes strengthened by the migration of Fairwind by Players to West in Germany.

Winston

Winston's performance has benefited from a new marketing campaign, centred on the product and lifestyles of its adult consumers. The campaign's message focused around Winston's key ingredients of "tobacco, water and attitude", supported by specialised print media and brand events. This enabled Winston to maintain share within the declining US premium segment.

Davidoff

The brand continues to expand its geographic presence with the more progressive Davidoff Evolve and Reach ranges. The king size variant, Evolve, has now been launched in a total of 22 markets, doubling its volume. The new range has been particularly well received by consumers in the Middle East. Davidoff Reach, the queen size range, has been successful in Eastern Europe, with innovative crushball flavour extensions helping to maintain growth. The premium range has been affected by border closures in the duty free channel as a result of COVID-19.

Parker & Simpson

Parker & Simpson has benefited from sales growth in Australia and Poland, and improving margins in Russia. The brand continues to focus on meeting consumer demand for a more modern range of tobacco product, including sales of a crushball variant, a new flavour launch in Russia and a super-slim product for central Europe.

Next Generation Products (NGP)

During 2020, we pulled back significantly on our investment in the NGP category as we sought to improve returns and reflect on how to prioritise future investments in this segment. Towards the end of 2019, it became clear our investments were significantly underperforming against our plans and that severe corrective measures were necessary. A combination of factors, including US regulatory intervention in the vapour market, competitor behaviour, uncertainty on the part of retailers and a lower than expected take-up of our products by consumers, all contributed to our lack of success.

As a consequence, we have taken disciplined action to stabilise performance by curtailing investment, which significantly reduced the run-rate of operating losses in the second half. We have also assessed the balance sheet implications and have taken write-offs for slow-moving stock and against some intellectual property assets. These, and the reduction in sales, have significantly impacted this year's results.

Our focus has been on improving the performance, returns and capabilities of our NGP activities, while maintaining a range of options across the vapour, heated tobacco and modern oral categories. There are a number of areas where we can improve future performance. For example, by seeking to develop products that are sufficiently differentiated and that are thoroughly tested and qualified with consumers in our launch markets. We can also be more disciplined in how we invest to scale the business over time. These will be a key focus for the future.

Vapour

While the vapour category has been disrupted by regulation and adverse news-flow, our performance has been below expectations. As a result, we have reset investment levels and reduced costs, taking a more disciplined approach in order to improve returns. Despite our reduced investment in several markets, share of blu has held up relatively well and we have renegotiated trade terms to benefit margins.

Regulation and public perception of vaping in the US market has continued to evolve, with the FDA having banned flavoured pods in January and emerging health concerns with vaping products. This reinforces our view that the industry needs a clear regulatory framework that enforces high product standards and responsible sales and marketing. To support this, we submitted our Premarket Tobacco Product Application (PMTA) in the US, seeking authority to continue marketing a range of blu vapour products with various nicotine strengths and flavours.

Heated Tobacco

At the beginning of the year, we expanded distribution of our Pulze heated tobacco product and iD heat sticks in Japan, through two national key accounts. However, the roll-out has fallen short of our expectations so we limited investment and paused further expansion within Japan and to other geographies pending the outcome of the strategic review. Our roll-out in Japan has provided useful consumer feedback on the functionality of the Pulze device, the robustness of the iD stick and preferences for levels of nicotine and menthol in the products. We have also improved our understanding of the category, enhancing our in-house production and product development capabilities.

Modern Oral Nicotine

Modern oral nicotine has a relatively small presence within Europe and we have continued to explore opportunities for its development in a prudent manner while developing our capabilities. We have achieved good initial growth from our new product offerings in the first half in several European markets including Austria, Germany, Norway and Sweden. Although the business is still small, our experience in these markets has enabled us to gain valuable consumer insight and refine our approach to meet consumer needs. We have recently delayed our plans to launch new product variants in Germany, pending clarity around the regulatory landscape for modern oral nicotine following the Bavarian court ruling classifying chew bags as snus.

DISTRIBUTION

Despite the challenges of COVID-19, Logista has continued to distribute products to clients across its footprint with almost all the points of sale, products and services classified as essential by governments adopting lockdown measures.

Distribution fee income increased 0.7 per cent reflecting positive performances in Italy and Spain, offsetting some declines in France. Italy benefited from growth in NGP and a relatively resilient tobacco performance. Good performances in the convenience, pharmaceutical and courier transport segments, helped to offset tobacco declines in Spain. The trading environment in France was more challenging, with weaker tobacco volumes and a poor performance in the convenience channel.

Adjusted operating profit was down 1.9 per cent at constant currency, with ongoing cost management offset by additional cost pressures caused by COVID-19 and the impact from an asset disposal. The adjusted operating profit contribution to the Group increased 10.6 per cent at constant currency, reflecting the reduction in eliminations compared to the 2019 NGP inventory build in support of market launch activity.

In line with other Imperial owned entities, we continue to benefit from an intercompany cash pooling arrangement with Logista. In 2020, the daily average cash balance loaned to the Group by Logista was £1.9 billion, with movements in the cash position during the year varying from a high of £3.9 billion to a low of £0.5 billion. At the year end the loan position was £2.4 billion. The cash benefit was higher than normal due to favourable changes in the timing of excise duty payments.

		Full Year Result		Change	
		2020	2019	Actual	Constant Currency
Distribution fees	£m	**1,015**	1,015	0.0%	+0.7%
Adjusted operating profit	£m	**226**	232	-2.6%	-1.9%
Adjusted operating margin	%	**22.7**	22.9	-20 bps	-20 bps
Eliminations	£m	**13**	(14)	>100%	>100%
Adjusted operating profit contribution	£m	**239**	218	+9.6%	+10.6%

EUROPE DIVISION

POSITIVES

- Strong financial performance in the UK and Germany with better than expected market size
- Share gains in Spain and France for the first time in several years
- blu share holding relatively well, despite lower investment

NEGATIVES

- Despite strong financial performance, we lost market share in the UK and Germany
- Price/mix has been affected by adverse product mix with increased demand for value formats
- Travel bans reduced sales in global duty free and traditional summer holiday destinations

		Full Year Result		Change	
		2020	2019	Actual	Constant Currency
Tobacco volume	bn SE	**130.1**	134.9	-3.5%	
Total net revenue	£m	**3,569**	3,633	-1.8%	-0.8%
Tobacco net revenue	£m	**3,471**	3,505	-1.0%	-0.0%
NGP net revenue	£m	**98**	128	-23.4%	-21.9%
Adjusted operating profit	£m	**1,582**	1,694	-6.6%	-5.9%
Asset Brand % of net revenue	%	**75.2**	74.4	+80 bps	+80 bps

2019 restated to reflect volume movements of Canada and Latin America volumes to Americas (-0.3bn SE) and the inclusion of France cigar sales from the AAA division (+0.1bn SE); Auxly adjustments of £(3)m net revenue and £(5)m operating profit; and Asset Brand net revenue restated for reclassification of brands.

While our performance in Europe was disappointing with lower NGP net revenues and the associated write-downs and our overall tobacco performance was also lower, there were a number of achievements. Most notably we grew tobacco market share in France and Spain for the first time in several years and the share of *my*blu held up relatively well despite reduced investment.

Overall divisional market share declined 10 basis points with share declines in Germany and the UK, although we achieved improvements in the second half in both markets.

Our tobacco volumes declined by 3.5 per cent. This reflects several different factors with better than expected market size trends, particularly in Northern Europe such as the UK, Germany, Scandinavia and France, as consumers stayed at home and appeared to allocate more spend towards tobacco. In addition, border closures helped to reduce the flow of illicit tobacco, also benefiting the duty paid market size in markets such as the UK. Travel restrictions caused weaker volumes in global duty free and traditional summer holiday destinations, such as Spain.

Tobacco net revenue was flat on last year at constant currency, with favourable price/mix of 3.5 per cent. Price/mix was driven by relatively strong pricing in the UK and Germany and partially offset by negative product mix in those markets with increased demand for value brands and formats. Some of this increased demand has been driven by switches from illicit trade to the duty paid market. However, mix was adversely affected by the growth in private label product to customers in Germany.

The European ban on characterising flavours, introduced in May, has so far had a limited impact with the majority of consumers remaining within the cigarette category, but switching to traditional tobacco flavoured variants, and with a limited number moving to next generation products.

PRIORITY MARKETS

Priority Markets Tobacco Share	Performance
GERMANY **-90bps** (20.4%)	**12 per cent of Group net revenue** Duty paid market size benefited from border closures and the repatriation of volumes from neighbouring markets such as the Czech Republic and Poland. The premium cigarette segment held up well and there was increased demand for larger formats. Our market share declined although the sequential trend improved in the second half with Gauloises, the launch of a JPS 50s box and new larger fine cut formats. Industry revenues benefited from temporary VAT changes as part of fiscal stimulus measures. Sales of *my*blu declined as we destocked trade inventories. Our performance in modern oral nicotine was limited by the recent chewing tobacco ban, with the need for clearer category regulation.
UK **-10bps** (40.5%)	**8 per cent of Group net revenue** Financial delivery was strong as industry volumes grew as a result of lower illicit volumes and consumers staying at home. It also benefited from a temporary change in UK anti-forestalling arrangements, allowing for greater stock profits ahead of the excise increase in March. While overall share was down, we achieved improving share trends in the second half driven by Lambert & Butler and Golden Virginia. The share momentum was partly limited by some share loss following the characterising flavours ban. In vapour, consumer demand for blu PLUS and liquids remains stable and we successfully re-negotiated trade terms to the benefit of margins.
SPAIN **+10bps** (29.0%)	**4 per cent of Group net revenue** Market size deteriorated with COVID-related border closures affecting our travel retail business with reduced tourist numbers. The domestic market was also negatively affected by lockdown restrictions and reduced occasions for social smoking. We grew our total tobacco market share in both cigarettes and fine cut tobacco, supported by continued investment behind larger value formats in West, Ducados and Fortuna. In NGP *my*blu retained its market leading share position, despite lower sales as we reduced investment.
FRANCE **+10bps** (18.2%)	**3 per cent of Group net revenue** The domestic duty paid market grew in the second half of the year due to border closures, reducing the inflow from neighbouring markets and the level of illicit product. We grew our overall share of market for the first time driven by News fine cut tobacco formats which offset a decline in Royale following the removal of menthol variants in May. Our blu market share remains resilient despite lower investment levels and a successful renegotiation of trade terms.
ITALY **-10bps** (5.4%)	**1 per cent of Group net revenue** Our tobacco market share declined as we increased on-shelf prices earlier than competitors and our brand activation activities were limited by COVID. Market size was impacted by lockdown restrictions impacting travel retail and the domestic market. To capitalise on consumer demand shifts to economy cigarettes and fine cut, we implemented a range of price repositioning and portfolio initiatives for JPS and West. We remain the market leader in vapour although the category has been impacted by adverse news-flow from the US market and reduced activation activities limited consumer trial.

Our NGP performance for the year was below our original expectations. Following a write-down of inventory and destocking of the supply chain during the first half we have focused on improving trade margins and moderating investment in order to improve category returns. Despite lower activation spend the share performance of blu has remained relatively stable, with operating losses significantly reduced in the second half of the year.

Profitability was also affected by lower duty free and travel retail sales and by increased costs relating to the implementation of EUTPD II regulations for track and trace and some write-offs following the introduction of the characterising flavours ban in May. In addition, we increased provisions in respect of stock and debtor positions, given the ongoing COVID-19 uncertainties, and incurred some additional manufacturing costs arising from COVID-19 restrictions on our supply chain operations.

Adjusted operating profit was down 5.9 per cent at constant currency.

AMERICAS DIVISION

POSITIVES

- Cigarette share growth for second year running
- Tobacco net revenue driven by strong cigarette pricing
- Mass market cigars driven by Backwoods with improved supply and extended distribution

NEGATIVES

- Cigarette share growth driven primarily by discount segment
- Tobacco profitability reduced with increased provisions for COVID-19-related risks and higher manufacturing costs reflecting COVID-19 restrictions
- Disappointing NGP performance with lower vapour sales and inventory write-downs affecting profitability

		Full Year Result		Change	
		2020	2019	Actual	Constant Currency
Tobacco volume	bn SE	**21.3**	22.0	-3.3%	
Total net revenue	£m	**2,480**	2,469	+0.4%	+0.4%
Tobacco net revenue	£m	**2,409**	2,361	+2.0%	+1.9%
NGP net revenue	£m	**71**	108	-34.3%	-34.3%
Adjusted operating profit	£m	**1,032**	1,064	-3.0%	-3.4%
Asset Brand % of net revenue	%	**53.7**	54.2	-50 bps	-60 bps

2019 restated to include Canada & Latin America volumes from Europe (+0.3bn SE); Auxly adjustments of £(3)m net revenue and £(4)m operating profit; and Asset Brand net revenue restated for reclassification of brands.

The USA is our largest single market representing 31 per cent of Group net revenue. Despite tobacco net revenue growth, our overall performance was affected by lower NGP sales and stock write-downs, while our tobacco profitability was reduced by weaker price mix and various COVID-19 related costs.

Our tobacco volume performance declined 3.3 per cent, with US volumes down 2.5 per cent against market size declines of 1.0 per cent. However, this was impacted by year-on-year trade inventory movements of 700 million sticks, which if adjusted for meant our volumes were slightly up, outperforming the market volume decline through share gains. The relatively slower rate of market size decline was driven by increased home working presenting smokers with more occasions to consume, reduced switching to NGP and fiscal support packages supporting consumer expenditure.

We delivered cigarette share growth for the second consecutive year, up 10 basis points to 8.9 per cent. This was driven by good performances from Sonoma and Montclair in the growing deep discount segment and investment in Winston and Kool to maintain their shares in the declining premium segment.

We have benefited from continued strong demand in the mass market cigar segment during the year with market volumes up by around 9 per cent. We grew share by 70 basis points having regained momentum in Backwoods during the second half with improved leaf sourcing and expanded on-shelf availability through a wider network of outlets.

At constant currency, tobacco net revenue was up 1.9 per cent with price/mix of 5.2 per cent driven by continued strong cigarette pricing, partially offset by some adverse product mix from growth in deep discount brands.

Our NGP results were disappointing, with net revenues 34.3 per cent lower at constant currency driven by a destock of trade inventories and reduced promotional activities. We submitted our Premarket Tobacco Product Applications (PMTA) to the Food and Drug Administration, seeking authority to continue the marketing of a range of blu vapour products including *my*blu, blu PLUS and blu Disposable, with various nicotine strengths and flavours.

Adjusted operating profit was 3.4 per cent lower at constant currency, reflecting NGP losses and lower tobacco profit. The NGP losses were driven by a £48 million write-down of flavoured inventory following the FDA ban and lower NGP sales. Tobacco profitability was impacted by increased provisions for COVID-related risks, mainly in respect of stock and debtor positions as we took a more cautious view in light of ongoing uncertainties, and higher overheads as we invested in the tobacco sales force to drive share growth.

AFRICA, ASIA, AUSTRALASIA DIVISION

POSITIVES

- Continued share gains across all priority markets
- Price gains driven by Australia and further supported by Australia stock profits

NEGATIVES

- Adverse mix caused by negative market and product mix
- Lower NGP revenues
- Profit reduced with higher NGP losses and increased tobacco provisions for COVID-related risks and higher manufacturing costs

		Full Year Result		Change	
		2020	**2019**	**Actual**	**Constant Currency**
Tobacco volume	bn SE	**87.7**	87.3	+0.4%	
Total net revenue	£m	**1,936**	1,889	+2.5%	+4.3%
Tobacco net revenue	£m	**1,904**	1,847	+3.1%	+5.0%
NGP net revenue	£m	**32**	42	-23.8%	-23.8%
Adjusted operating profit	£m	**674**	763	-11.7%	-8.7%
Asset Brand % of net revenue	%	**59.9**	58.9	+100 bps	+90 bps

2019 volumes restated for transfer of France cigar sales to Europe from AAA division (-0.1bn SE); Auxly adjustments of £(1)m net revenue and £(1)m operating profit; and Asset Brand net revenue restated for reclassification of brands.

Although revenues benefited from volume growth and price/mix gains, overall profit delivery was impacted by further NGP losses as a result of increased investment to support the launch of our heated tobacco product and higher provisions following a cautious assessment of balance sheet exposure for COVID-19 related risks.

Tobacco volumes were 0.4 per cent up, reflecting a strong performance in lower margin markets in the Middle East, Turkey and Ivory Coast, which more than offset the impact of ongoing market size declines in the higher value market, Australia. These dynamics adversely affected market mix for the Group.

Tobacco net revenue was up 5.0 per cent at constant currency reflecting the volume gains and price mix benefit from the sell-through of inventory in Australia accumulated ahead of the September 2019 excise increase, of which around £50 million will not repeat next year. Otherwise, product and market mix was negative.

NGP performance was disappointing with net revenue down 23.8 per cent at constant currency reflecting lower vapour sales in Japan. In Russia *my*blu has achieved good retail sell out, supported by a launch of coloured devices.

Adjusted operating profit was down 8.7 per cent at constant currency driven primarily by NGP losses. Tobacco profits also declined as we took a cautious approach to the COVID-19 related risks associated with the longer supply chains and the relatively higher customer credit risk in the region. We increased our provisions for stock and debtor positions accordingly.

PRIORITY MARKETS

Priority Markets Tobacco Share	Performance
AUSTRALIA **+20bps** (32.7%)	**5 per cent of Group net revenue** Industry volumes declined by 8.6 per cent with increased illicit trade. Parker & Simpson continues to gain share in the growing 'fifth price tier'. Price increases and the sell-through of duty paid inventory accumulated last year benefited revenue and profit, more than offsetting the negative product mix impact from the growth in the discount segment.
RUSSIA **+50bps** (8.4%)	**2 per cent of Group net revenue** Financial performance benefited from improved market pricing and a reduction in discounting in the key account channel. Market share gains benefited from the launch of new crushball variants of Davidoff and Parker & Simpson meeting consumer demand for modern formats.
JAPAN **+10bps** (1.3%)	**1 per cent of Group net revenue** Following excise related price increases, West continues to benefit from demand for the value segment. Net revenue from vapour was impacted by a reduction in trade inventories, although *my*blu continues to retain market leadership of the relatively small vapour category. Distribution of Pulze was extended through national key accounts, although any further roll-out was paused.
SAUDI ARABIA **+450bps** (18.8%)	**1 per cent of Group net revenue** Sales of Davidoff and West supported market share growth, driven by better field coverage and on-shelf availability following the introduction of plain packaging in November 2019. COVID-19 related border closures led to an increase in domestic duty paid market size, which improved our financial delivery.

STRENGTHENING THE BALANCE SHEET

OLIVER TANT
Chief Financial Officer

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide a better comparison of underlying performance from one period to the next as GAAP measures can include one-off, non-recurring items and recurring items that relate to earlier acquisitions. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures, which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies accompanying our financial statements.

"We will further optimise our cost base and capital discipline to prioritise investment more effectively and deliver growing returns."

Reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements. Percentage growth figures for adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

During 2019 we reviewed the basis for our adjusted measures and committed to making a number of changes around the treatment of certain one-off items in 2020. In the 2020 accounts this impacted the treatment of fair value gains and losses on our investment in Auxly and this is detailed later in the review.

We also committed to reviewing our use of restructuring as an adjusted measure by the end of 2020 in line with the completion of the cost optimisation programmes which were due to conclude this year. However, the COVID-19 pandemic has meant some of these programme's projects have been delayed into 2021 and so we are deferring the review of the use of restructuring as an adjusted measure until the end of that year. In 2020 therefore we have continued to treat restructuring costs as an adjusting item.

PERFORMANCE OVERVIEW

2020 proved to be a challenging year with some disruption from the COVID-19 pandemic and a poor NGP performance.

Our overall financial delivery was disappointing, with adjusted earnings per share down 5.6 per cent at constant currency, with both NGP and tobacco profits down on last year. However, the tobacco performance needs to be seen in context of COVID-19, which has had a small net benefit to the top-line but has impacted profitability as a result of additional costs. For example, we have taken a cautious position in relation to a number of the exposures in our balance sheet at a point of time when the future is uncertain, for example through the increase in inventory and bad debt provisions. These include additional provisioning in respect of our debtor book, reflecting increased credit risks and in respect of finished goods stock where we have seen changing patterns of demand, which have altered stock durations.

Our tobacco business remained resilient with volumes down 2.1 per cent, declining at a slower rate than expected given recent history, and revenue up 1.8 per cent at constant currency against last year. The revenue performance was driven by stronger market size and share albeit this was delivered in some of our lower value markets which led to a weaker than usual price/mix up 3.9 per cent versus last year (2019: up 5.5 per cent). Consequently, the revenue performance was not as high as may have been expected given the headline market size and share positions.

Tobacco operating profit was down 3.1 per cent at constant currency having been impacted by the additional costs relating to COVID-19, regulatory compliance and overheads.

The NGP performance was impacted by new regulation and weaker than expected trading which has led to lower revenue as well as provisions for slow moving stock and asset impairments in the year.

ACTIVE CAPITAL DISCIPLINE

We continue to focus on capital discipline and this year's strong cash performance will be supplemented by the disposal of our Premium Cigar Division, which completed in October 2020, and the decision at the interim results to rebase the dividend.

Our headline adjusted operating cash conversion of 127 per cent benefited from VAT and duty payment date changes in Western Europe as a result of COVID-19, which amounted to c.£0.7 billion or 20 per cent cash conversion, which we expect to reverse next year. Whilst we completed the disposal of our Premium Cigar business after our year end, with the receipt of the majority of the proceeds, we did receive a £83 million non-refundable cash payment in 2020 and have deferred €407 million into 2021. These proceeds will predominantly be used to pay down debt.

At the interim results in May 2020 we announced a rebasing of our 2020 dividend policy by one third. We have adopted a progressive dividend policy, growing annually from the revised level, taking into account underlying business performance.

Effective capital allocation remains at the core of our decision making and we aim to use continued strong cash generation, the shareholder dividend savings and proceeds from the disposal of Premium Cigars to reduce our gearing to the lower end of our 2-2.5 times target range by the end of 2022. As of 30 September 2020, our adjusted net debt to EBITDA was 2.7 times (2019: 2.9 times).

CASH FLOW AND NET DEBT

Our 2020 cash delivery of £1.3 billion was supported by a £1.0 billion working capital inflow driven by c.£0.7 billion of COVID-19 related timing benefits. Excluding these COVID-19 related timing benefits our 2020 underlying cash conversion was c.107 per cent with an underlying net cash inflow of £0.6 billion. The COVID-19 working capital benefits were materially in our Logistics business due to changes in duty payments dates in Italy offsetting accelerated payments in France. In the UK we have also seen a £220 million deferment of VAT due to COVID-19. We expect these to unwind next year, providing a c.£0.7 billion or 20 per cent cash conversion headwind in 2021.

Excluding COVID-19, this year's underlying working capital inflow was strong at c.£300 million, which included a c.£200 million higher working capital position in Australia as the benefit seen last year reversed in line with guidance in last year's results. This cash outflow was offset by improvements in a number of markets, including the US.

Capital expenditure saw a year on year reduction of c.£80 million as we saw a reduction in NGP-related spend and continued tight control of tobacco investments. Restructuring cash costs were in line with last year.

After including £0.3 billion of lease liabilities on the adoption of IFRS 16, reported net debt decreased by £0.8 billion to £11.1 billion and adjusted net debt decreased by £1.1 billion to £10.3 billion at actual rates.

During the year we repaid two bonds totalling £1.6 billion equivalent. The denomination of our closing adjusted net debt was split approximately 68 per cent euro and 32 per cent US dollar.

As at 30 September 2020, the Group had committed financing in place of around £16.2 billion, which comprised 29 per cent bank facilities and 71 per cent raised from capital markets. During the year a new revolving credit facility of €3.5 billion replaced the existing revolving facilities of £3 billion equivalent and bilateral facilities totalling €1.7 billion were arranged whilst one bilateral facility of €300 million was cancelled.

GROUP RESULTS – CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Year ended 30 September 2019	Foreign exchange	Constant currency movement	Year ended 30 September 2020	Change	Constant currency change
Tobacco & NGP Net Revenue						
Europe	3,633	(35)	**(29)**	**3,569**	**-1.8%**	**-0.8%**
Americas	2,469	2	**9**	**2,480**	**+0.4%**	**+0.4%**
Africa, Asia and Australasia	1,889	(35)	**82**	**1,936**	**+2.5%**	**+4.3%**
Total Group	7,991	(68)	**62**	**7,985**	**-0.1%**	**+0.8%**
Tobacco & NGP Adjusted Operating Profit						
Europe	1,694	(12)	**(100)**	**1,582**	**-6.6%**	**-5.9%**
Americas	1,064	4	**(36)**	**1,032**	**-3.0%**	**-3.4%**
Africa, Asia and Australasia	763	(23)	**(66)**	**674**	**-11.7%**	**-8.7%**
Total Group	3,521	(31)	**(202)**	**3,288**	**-6.6%**	**-5.7%**
Distribution						
Distribution fees	1,015	(7)	**7**	**1,015**	**+0.0%**	**+0.7%**
Adjusted operating profit	232	(2)	**(4)**	**226**	**-2.6%**	**-1.9%**
Group Adjusted Results						
Adjusted operating profit	3,739	(33)	**(179)**	**3,527**	**-5.7%**	**-4.8%**
Adjusted net finance costs	(450)	2	**19**	**(429)**	**+4.7%**	**+4.2%**
Adjusted EPS (pence)	272.3	(2.6)	**(15.3)**	**254.4**	**-6.6%**	**-5.6%**

GROUP EARNINGS PERFORMANCE

£ million unless otherwise indicated	Adjusted 2020	Adjusted 2019	Reported 2020	Reported 2019
Operating profit				
Tobacco & NGP	**3,288**	3,521	**2,587**	2,074
Distribution	**226**	232	**135**	137
Eliminations	**13**	(14)	**9**	(14)
Group operating profit	**3,527**	3,739	**2,731**	2,197
Net finance costs	**(429)**	(450)	**(610)**	(562)
Share of profit of investments accounted for using the equity method	**45**	55	**45**	55
Profit before tax	**3,143**	3,344	**2,166**	1,690
Tax	**(642)**	(642)	**(608)**	(609)
Minority interest	**(98)**	(107)	**(63)**	(71)
Earnings	**2,403**	2,595	**1,495**	1,010
Earnings per ordinary share (pence)	**254.4**	272.3	**158.3**	106.0

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	2020	2019 restated	2020	2019	2020	2019 restated
Reported	**2,731**	2,197	**(610)**	(562)	**158.3**	106.0
Acquisition and disposal costs	**26**	22	**–**	–	**2.8**	2.3
Amortisation & impairment of acquired intangibles	**523**	1,118	**–**	–	**49.2**	116.4
Excise tax provision	**(20)**	139	**–**	–	**(1.7)**	13.0
Fair value of loan receivable	**62**	(3)	**–**	–	**6.6**	(0.3)
Sale of intellectual property	**–**	(7)	**–**	–	**–**	(0.7)
Fair value adjustment of acquisition consideration	**–**	129	**–**	–	**–**	13.5
Fair value and exchange movements on derivative financial instruments	**–**	–	**176**	107	**25.3**	8.0
Post-employment benefits net financing costs	**–**	–	**5**	5	**0.4**	0.1
Restructuring costs	**205**	144	**–**	–	**18.4**	11.4
Tax on disposal of Premium Cigar business	**–**	–	**–**	–	**2.0**	–
Previously unrecognised tax credits	**–**	–	**–**	–	**(7.1)**	–
Uncertain tax positions	**–**	–	**–**	–	**8.2**	–
Tax on unrecognised losses	**–**	–	**–**	–	**(4.3)**	6.4
Items above attributable to non-controlling interests	**–**	–	**–**	–	**(3.7)**	(3.8)
Adjusted	**3,527**	3,739	**(429)**	(450)	**254.4**	272.3

2019 restated to include the fair value of loan receivable gain and sale of intellectual property relating to Auxly and the impact of the change to adjusted performance measures.

TOBACCO REVENUES IMPROVE, NGP DISAPPOINTS

Tobacco volumes fell 2.1 per cent, a significant improvement on last year (2019: 4.4 per cent reduction) as we saw better than expected market size across a number of our larger markets as consumers appeared to change behaviours and reprioritise disposable income during the COVID-19 pandemic, combined with a decrease in illicit trade. Whilst we delivered share growth in seven of our 10 priority markets, two of our more valuable markets showed share declines. We experienced a drag on our overall price/mix as a result of the fact that much of our growth was experienced in lower value markets with downtrading also evident. Consequently, the full benefit of good size and share performance did not flow through to the bottom line.

As a result of the impact of market and product mix tobacco price/mix was 3.9 per cent, slightly below the 5.5 per cent delivered in 2019. Overall tobacco net revenue grew by 1.8 per cent at constant currency.

The impacts of a sub optimal market and product mix dynamic led to a lower tobacco gross profit when compared with 2019. In addition, there were a number of other factors this year which have depressed tobacco performance with operating profit down 3.1 per cent in constant currency.

As a result of COVID-19 and its disruption to our ability to operate as planned in certain locations, we experienced some manufacturing inefficiencies. In addition, we have seen a number of changes in the risks to working capital balances, particularly in stock and debtors, reflecting changes in customer and consumer behaviours and we have made some additional provisions to protect against these increased risks.

The impact of these COVID-19 related additional costs amounts to £90 million. We have also seen an increase in costs associated with the implementation of EUTPD Track & Trace, payment of fines (which are being appealed) imposed by the competition authorities on the tobacco industry in the Netherlands and Ukraine, and a tax liability in Spain, which together contributed an additional £50 million of cost this year. We do not expect the majority of these costs to reoccur.

NGP revenues were down by 27 per cent at constant currency, which offset the growth in tobacco revenues reducing Group net revenue growth to 0.8 per cent at constant currency.

NGP operating loss was down 34 per cent at constant currency. The impact of the flavour ban in the US not only disrupted NGP sales in that market but also had a contagion effect into European and Asian markets. Consequently, the vapour category did not develop as we had forecast and sell out was below expectations. This resulted in us making an additional £97 million NGP slow moving stock provision in the year and a £27 million impairment of certain NGP intangible assets.

On a reported basis, Group operating profit increased by 24.3 per cent, materially driven by the lapping of the impairment charge taken last year relating to the disposal of the Premium Cigar business.

Last year's impairment charge was partially reversed by £35 million in the year due to the finalisation of the agreed sales price for the business and the revaluation of assets for foreign exchange differences. It is expected that on completion of the divestment, cumulative foreign exchange gains of approximately £250 million to £350 million, that have historically been recognised in reserves, will be recycled to the income statement.

The restructuring charge for the year of £205 million (2019: £144 million) relates mainly to our second cost optimisation programme announced in 2016. The total restructuring cash flow in the year ended 30 September 2020 was £145 million (2019: £146 million).

Adjusted net finance costs were lower at £429 million (2019: £450 million). This is primarily due to our active management of the debt portfolio to align with our strategic disposal initiatives. Reported net finance costs were £610 million (2019: £562 million), incorporating the impact of the net fair value and exchange losses on financial instruments of £176 million (2019: losses of £107 million) and post-employment benefits net financing costs of £5 million (2019: £5 million).

Our all-in cost of debt decreased to 3.4 per cent (2019: 3.6 per cent) as we continue to optimise our debt portfolio and our interest cover increased to 8.9 times (2019: 8.8 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Our effective adjusted tax rate was 20.7 per cent (2019: 19.1 per cent) and the effective reported tax rate is 28.1 per cent (2019: 36.0 per cent). The increase in the effective adjusted tax rate was due to a less favourable profit mix. The adjusted tax rate is lower than the reported rate due to limited tax relief on adjusting items.

We expect our effective adjusted tax rate for the year ended 30 September 2021 to be around 23 per cent. The increase in rate is due to legislative changes in several jurisdictions and the expiry of certain tax agreements.

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as the USA and lower rates in other markets such as the UK.

The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the OECD's (Organisation for Economic Co-operation and Development) Base Erosion Profit Shifting (BEPS) work. Whilst we seek to mitigate the impact of these changes, we anticipate there will be further upward pressure on the adjusted and reported tax rate in the medium term.

Our UK Tax Strategy is publicly available and can be found in the governance section of our corporate website.

Adjusted earnings per share were 254.4 pence (2019: 272.3 pence), down 5.6 per cent at constant currency and down 6.6 per cent at actual rates, reflecting operating profit weakness as well as a higher effective tax rate.

Reported earnings per share were up 49.4 per cent at 158.3 pence (2019: 106.0 pence), mainly impacted by the one-off accounting adjustments made last year relating to the disposal of Premium Cigars. The strengthening of sterling against the euro, Australian dollar, which delivers lower revenue/profit, and Polish zloty which increases manufacturing costs, has led to lower sterling equivalent profits by around 1 per cent.

COST OPTIMISATION

We optimise our cost base to realise operational efficiencies. Our first optimisation programme announced in January 2013 delivered savings of £305 million per annum from September 2018 at a cash restructuring cost of around £600 million. This first programme has now concluded although there remain some cash costs.

The second cost programme, announced in November 2016, is now expected to deliver c.£320 million of annual savings with £303 million of annual savings still expected from September 2020 and a further c.£16 million of savings from September 2021 as some of the original programme will now be initiated in 2021 due to the impact of the COVID-19 pandemic. The programme is expected to be completed at a cash restructuring cost of c.£650 million, a £100 million reduction against our original estimates.

The second programme continued to focus on reducing product cost and overheads and realised cost savings of £63 million in 2020 which brings the cumulative cost savings from both programmes to £608 million, with £305 million coming from the first and £303 million from the second.

Cash restructuring costs in the year from the first programme were £16 million (2019: £24 million) and £109 million (2019: £108 million) for the second, bringing the cumulative net cash cost of the two programmes to £1,066 million, with a cash cost of £559 million for the first and £507 million for the second.

CAPITAL ALLOCATION

Capital discipline is a key objective, with commercial analysis and hurdle rates underpinning returns. It is again clear that our investments in NGP have not returned at the levels expected.

Consequently, in the year we significantly reduced investment in NGP with underlying operating profit performance in the second half improved. Despite reduced investments, we have maintained a range of options across different markets and NGP categories to allow future strategic choices.

We typically seek an overall internal rate of return in excess of 13 per cent across the investments we make in order to support our investment choices and underpin returns for shareholders.

Despite the drag from NGP, our in year ROIC measure is slightly ahead of this internal rate of return at 13.2 per cent but lower than last year (2019: 14.4 per cent) due to the profit reduction.

DIVIDEND PAYMENTS

The Group has paid two interim dividends totalling 41.70 pence per share in June 2020 and September 2020, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board approved a further interim dividend of 48.00 pence per share and will propose a final dividend of 48.01 pence per share, bringing the total dividend for the year to 137.71 pence per share. The third interim dividend will be paid on 31 December 2020 with an ex-dividend date of 26 November 2020. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2021, with an ex-dividend date of 18 February 2021.

BREXIT

The Group has assessed the potential impacts of the UK not concluding a trade deal with the EU prior to 1 January 2021.

The key risks identified include: the potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling; inventory requirements to ensure supply; impact on consumer confidence; and implications on existing international tax arrangements.

In the event of a no trade deal, we estimate there could be additional costs of around £75 million relating principally to import duties and the impact on existing tax arrangements.

NEW ACCOUNTING STANDARD

We adopted the new accounting standard IFRS 16 "Leases" on 1 October 2019.

Implementation of IFRS 16 has resulted in the recognition of 'right of use assets' which are depreciated over the period that they are leased and a corresponding interest bearing lease liabilities creditor, which are paid down over the life of each lease.

The impact associated with the adoption of this standard is disclosed in note 1 of the accounting policies.

ADJUSTED PERFORMANCE MEASURES

In managing the business, we focus on adjusted performance measures as we believe they provide a better comparison of performance from one period to the next.

As announced last year, we refined our approach to the use of adjusted performance measures by focusing more on the performance drivers of our core activities of the manufacture, sales and marketing of tobacco and NGP products.

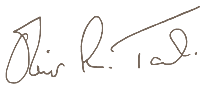
The changes we have made to our adjusted performance measures include the exclusion of one-off gains and losses from asset disposals and other non-recurring activities that do not relate directly to the core activities.

In 2020 valuation losses related to our investment in Auxly of £62 million were excluded from adjusted profit as a result of this change. Income from the sale of intellectual property and a valuation gain of £10 million on Auxly were included in adjusted profit in 2019 and as a consequence of this the 2019 results have been restated to provide more understandable like-for-like comparisons.

The write-down of the convertible debt owed by Auxly reflects the challenges faced by the business due to the slower than anticipated evolution of the Canadian cannabis sector, in part the result of the economic impact of COVID-19, putting into doubt Auxly's ability to repay the debt in full on its due date.

Last year we said that we would undertake a review of the treatment of restructuring costs as an adjusting item, considering whether or not the exclusion of these costs from adjusted profit was appropriate.

In light of certain COVID-19 related delays to the conclusion of the second cost optimisation programme that was previously due to end in 2020, this review has been deferred into the next year.



OLIVER TANT
Chief Financial Officer

MANAGING RISK

The identification, assessment, and appropriate management of our enterprise risks facilitates the achievement of the Group's strategic aims.

Risks represent an articulation of the variability of outcomes that we manage in the achievement of the Group's strategy. We define a risk as anything that could disrupt the achievement of the Group's strategy and objectives.

The current COVID-19 pandemic has highlighted, above any other recent event, the value of an effective risk management approach. This event, unprecedented in modern times, has required reliance upon both existing approaches and new responses to the management of risks across the business.

The uncertainty created by the pandemic, and the unknown severity of future impacts increases the potential for both marketplace disruption and crystallisation of other risks (as detailed in the principal risks and uncertainties on the following pages).

The predictability of potential operational outcomes resulting from these risks varies across our respective product categories. The maturity of tobacco markets and related processes creates a higher level of predictability than the NGP categories, reflected in their relative profile in current plans, with future strategies currently being evaluated.

RISK MANAGEMENT

Our risk management framework ensures accountability for the identification, assessment, and mitigation of risks throughout the business.

Whilst it is accepted that no approach can guarantee the identification and mitigation of all risks, our framework aligns the management of risks and delegated authorities to the Board's defined risk appetite in achieving our strategic objectives, and provides reporting to provide oversight of the effectiveness of the approach.

The diagram (adjacent) shows the key activities within our risk management framework, and the related roles and responsibilities, which ensure an effective and continuous risk management process.

The Board is ultimately accountable for managing the Group's risks and is responsible for setting the Group's risk appetite aligned to achievement of strategic objectives.

RISK APPETITE

The level of risk the Group is willing to take is articulated in our risk appetite statement, which is reviewed and approved by the Board to ensure it remains consistent with the Group's strategy and the environment we operate in.

Our risk appetite considers a number of different dimensions, which balance commercial performance with managing our business in a sustainable and compliant manner. This informs the current strategy of the Group and guides our development of new strategies. Upon approval of the new strategy by the Board, this risk appetite statement will be reviewed by the Board once more to ensure our risk appetite and corporate strategy remain aligned.

During the year this risk appetite has continued to be embedded within our wider risk management framework through the reporting and ongoing development of appropriate leading and lagging risk indicators which measure our exposure to risk and support the ongoing alignment of our risk management and internal control systems to ensure compliance with the agreed risk appetite.

These leading and lagging indicators are embedded within our regular reporting to the Audit Committee, together with explanations of variances against agreed thresholds and mitigating actions being undertaken to ensure risks remain within risk appetite.

ASSESSMENT AND EVALUATION OF RISKS

Our risk management approach focuses on the assessment of current and emerging risks and the effectiveness of related mitigating actions. This clear focus better establishes prioritisation of actions and resources required. This is the principle employed in risk assessment activities undertaken with functions across the business. In completing these assessments we work with the functions themselves, and also draw on a broad spectrum of other relevant inputs enabling cross-functional and second line views to be considered. This better ensures robust evaluation of risks and mitigations, notably in relation to emerging risks.

The risk model continues to use multiple factors in the assessment of risk, as represented in the diagram below.

Our Group Risk team works with functions, strategic business units, and key stakeholders across the business as part of ongoing risk assessment activities. In completing these assessments we adopt a dynamic approach and have moved away from the traditional template self-assessment completion to a conversational approach. The approach obtains richer and more balanced perspectives on risks, with greater insight on mitigations, notably those with cross-functional dependencies, significantly important in a large organisation.

The assessment of risks is aligned with our business planning cycle and strategic objectives. Risks are assigned to both relevant product category and the core business process to which they relate. This provides context over the relative importance to current and future impacts to Group strategy, and ensures appropriate stakeholders are considered in the design of operational process and change initiatives.

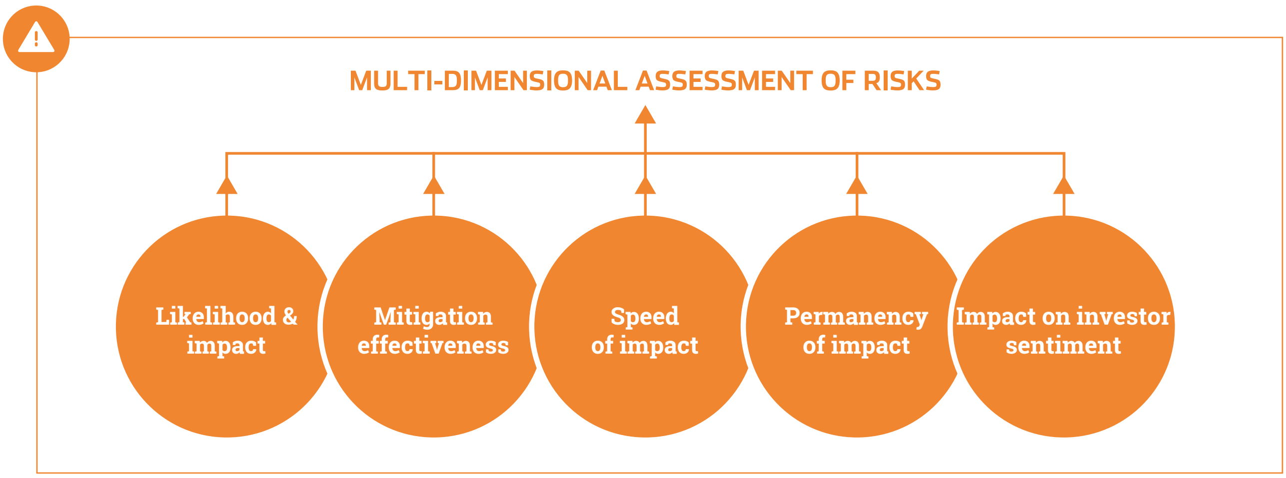
High impact risks identified in functional assessments are consolidated for review by senior management to ensure an effective "top-down" input from both ExCom and the Board, along with consideration of additional or emerging risks on a three-year horizon (aligned to the viability assessment). This provides both operational and strategic perspectives in the assessment of the risks we face as a business, and ensures consideration of these and emerging risks in the development of Group strategy.

In line with the viability statement and our business planning processes, we consider the impact of risks to achieving both the 12-month business plan, and the longer three-year viability horizon to ensure appropriate actions can be taken in the short term to facilitate the appropriate mitigation of current and future risk impacts.

RISK LANDSCAPE

The Group operates in highly competitive (multi-national) markets and so faces general commercial risks associated with a large FMCG business (including the effect of movements in foreign exchange rates).

We constantly assess and evaluate the risks posed by the changing environments in which we operate, whether geo-political, socio-economic or technological. The consideration of the potential impacts and most likely causes ensures a timely, measured and appropriate response.



RISK MANAGEMENT FRAMEWORK

The successful implementation of the risk management approach is reliant upon the effectiveness of the control frameworks in place to both manage the risks, and to seize opportunities that arise. In designing an approach that enables the business to achieve its strategic objectives aligned to the Board's risk appetite the Company's approach to governance, risk management and internal control has been aligned to the "three lines of defence" model:

1st Line of Defence	Local management owns the management of risks and it is their responsibility to identify and mitigate these risks.
2nd Line of Defence	Central functions and committees, employing subject matter experts, develop appropriate policy, process, and control structures in line with the Board's risk appetite and provide support to first line management to best ensure their effective ongoing application
3rd Line of Defence	Our Internal Audit team independently reviews compliance with, and the effectiveness of, our risk management and internal control system.

RISK MANAGEMENT APPROACH

Each identified risk is assigned to a centre of expertise (CoE), predominantly second line functions, to ensure appropriate risk management approaches are defined, and to provide oversight and support to operational management in effectively implementing such approaches across our global footprint.

Our second line of defence plays an active role in the risk management process in a 'player/coach' relationship with the first line of defence. Depending on the nature and size of the risk in question, this relationship may take either a directive form, by setting policies and standards, or a more consultative form to provide guidance and subject matter expertise.

Our Finance function is a good example of a second line function which performs both roles. Finance has responsibility for the financial policies, standards and best practice to be followed by operational finance management across the Group, as documented in our Finance Manual. Additionally, Finance performs a subject matter expert role through Group-wide initiatives (e.g. financial closing process improvements or implementation of standardised management reporting).

Compliance with Group and local reporting requirements is confirmed by finance management across the Group, providing a robust basis for the central Finance team to appropriately manage the Group financial reporting processes and enabling the Board to discharge its reporting responsibilities.

During this financial year we have performed an assessment of the effectiveness of our second line of defence as part of our ongoing evaluation of our risk management framework and to support continuous improvement of our effectiveness in managing risk. No material weaknesses were identified in the oversight provided by the second line of defence of key risks as the result of this exercise. However, it is acknowledged that improvements can always be made and so we will be looking to learn both from experiences over the year and from the assessment itself in order to strengthen both process and behaviour, so as to further underpin our governance, risk and compliance framework.

OPERATIONAL RISK MANAGEMENT

Operational management is held accountable for the management of those risks applicable to it and for ensuring compliance with our Group policies and standards. Our Group Control Matrix (GCM) brings together all the expected minimum controls from these policies and standards, to provide a single source of internal controls expected to be performed in order to mitigate the identified risk in line with the Board's risk appetite.

The operating effectiveness of these GCM controls is assessed on a regular basis by management, as well as through Internal Audit activities. Operational management, at Group and local level, is required to certify its compliance with the Code of Conduct and the Group's policies and standards at both the half-year and full-year.

RISK OVERSIGHT AND SUPPORT

Results of risk assessments and internal control operating effectiveness assessments are shared with relevant second line of defence CoEs for expert insights and to help enhance applicable internal control, as well as the guidance they provide to the business. Additionally, the information is provided to Internal Audit for reference during its audit testing.

ROLE OF AUDIT COMMITTEE

The Audit Committee is responsible for approving the risk management approach on behalf of the Board, and for oversight of its ongoing effectiveness. The role of the Audit Committee and insight into how it has reviewed the risk management approach is described in the section on page 76.

CLIMATE CHANGE

We recognise the importance of disclosing climate related risks and opportunities. We have reported on our approach to managing and mitigating climate related risks for a number of years, both within our sustainability reporting and CDP disclosures.

Whilst we have assessed both the physical (climatic) and transitional (technological) risks that may impact our business, we do not focus on climate change as a principal risk in itself. Instead we find greater value in ensuring that the risks and opportunities are assessed by each risk owner. With the support of subject matter experts, risk owners review the potential cause and likelihood of the risk materialising. For example, how the impact of extreme weather or increased prices may impact on the supply of raw materials.

By ensuring the assessment of the risks and opportunities on an enterprise wide basis, with top-down input and future oversight from our ESG committee, we have created a framework which operationalises the mitigation of climate risk and creates accountability across the organisation.

We consider ourselves well positioned to manage and mitigate climate risks through a number of measures, including: our ongoing commitment to reducing our environmental impact through long-term targets; investment in measurement systems and infrastructure; and working in partnership with our suppliers to manage impacts beyond our direct operations.

We are committed to increasing climate related disclosure and implementing recommendations from the Task Force on Climate-related Financial Disclosure (TCFD), and are pleased to provide related information on our website.

PRINCIPAL RISKS

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the crystallisation of such risks. Not all of these principal risks are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment. The risks are reported at a consolidated Board level with key underlying risks identified.

PRINCIPAL RISK

Market environment

Ensuring our insights provide us with an ability to predict and/or manage effective responses to key market dynamics and related consumer trends prevents the significant impacts caused by a misalignment to consumer demand

Risk profile

CHANGE IN YEAR

COVID-19 related changes

- The potential impacts of the COVID-19 pandemic have had, and will continue to have, a significant impact on the market environment
- The ability to accurately predict the market landscape over a three-year horizon could be further complicated by regulator actions and their unintended consequences including:
  - The response to recent pressures on health services and related costs could increase the potential for further adverse product regulation impacting specifications, restrictions on the places products can be consumed; and
  - Increased risk of excise and other product related taxes as a means of raising additional public revenues
- The wider economic impacts of COVID-19 including recession in markets, increasing unemployment and/or austerity measures could result in pressures on consumer spend and disposable income, impacting the size of the legitimate tobacco market

Other changes

- The speed and severity of product regulatory change in the US could be influenced by the result of the recent US election. A change of administration could result in a furthering of agendas to disrupt the consumption of nicotine products
- In markets where consumer affordability is impacted by high product excise the risk of increased volume of illicit trade is created as the price gap between this non-duty paid product and legitimate product widens. Unintended consequences of tobacco control actions by governments have, and continue to result in opportunities for the sale of illicit product

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
Failure to accurately predict or identify current and emerging consumer trends could result in lost opportunities, and reduced volumes should our products lose consumer relevance Product regulatory change can restrict: product specification (e.g. menthol ban), consumer interaction, product supply, and can place restrictions on consumers' ability to enjoy the product, potentially impacting sales volumes and market size Increases in excise or other related taxes impact consumer choices as governments use tobacco control as a means of raising public funds. Sales may fall because of higher prices driven by excise, with consumers reducing consumption or buying cheaper non-duty paid illicit product • Counterfeit and illicit trade thrive in high excise environments, reducing the size of the legitimate tobacco market, increasing risks to consumers from non-compliant product, and financing organised crime • Inferior, unregulated counterfeit product could result in damage to our brands	• We continually monitor consumer activity at both a local and Group level. This enables an effective means of profiling and predicting changes to best adapt the Group's product portfolio Specific enhanced and repeated consumer insights analytics work in relation to purchase behaviour conducted since beginning of the pandemic, including impacts on cross-border product flows • We engage with authorities to provide informed input to the unintended consequences of disproportionate changes in excise and product regulation, supported by our Regulatory, and Scientific affairs teams • Robust internal policy and procedures exist to best ensure compliance within our own supply chain and maintain strong standards and controls for our business and our first-line customers to prevent diversion of our products • We work alongside and partner with governments and law enforcement agencies around the world to prevent the illicit supply of tobacco products	• The ability to meet consumer needs, and to better inform product innovation is a key potential driver of commercial success • The development of the Group strategy includes analysis of planned and potential changes in product taxation to best identify and ensure investment opportunities across its range of products • The lessons learned from tobacco legislation and the increase in illicit trade as an unintended consequence of regulatory change highlight the opportunity for rational discussion and appropriate sanctions to ensure harm reduction products remain an attractive alternative potential choice for the world's smokers • Periods of regulatory uncertainty, or change, offer opportunities for companies able to meet the evolving requirements • Tailored product portfolio offerings at a local level, within and across categories, allow for any relative commercial advantage from excise mechanisms to be realised

PRINCIPAL RISK

Consumer focus

We continuously seek to ensure our portfolio of products remains relevant and attractive to adult smokers. Failure to ensure that portfolio pricing, brand proposition, and quality are aligned to consumer/market trends and demands could result in lost opportunities and reduced volumes

Risk profile

CHANGE IN YEAR

COVID-19 related changes

- Consumer trends in the period have highlighted both risks and opportunities in the alignment of the Group's product portfolio to changes in consumer choices
- Increased consumer price consciousness, with "down-trading" by consumers from their previous choice to lower cost alternatives. This value proposition also results in choices between products and categories resulting in increasing demand for big-box and fine-cut (roll-your-own) formats
- The channels through which consumers purchase product formed part of changes in consumer trends in market. Restrictions on sales outlets in some countries, and wider changes in consumer shopping choices highlight both short and medium-term requirement to ensure agility to align with these changes in consumer behaviour and to manage and develop ongoing customer relationships

Other changes

- The continued emergence, and acceptance, of NGP products in the market place offers consumers product choice, creating both risks and opportunities for the Group's portfolio

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT

- Misalignment of the Group's product portfolio to consumer preferences will result in lower sales as consumer needs are not satisfied
- Failure to act upon consumer insights in a timely manner prevents opportunities from being seized and impacts growth
- Changes in patterns of consumer purchases, notably the choice of purchase location, create the risk that the Group is not present in the relevant channels. Failure to identify and manage these changes could result in lost sales revenue, and market share
- Brand propositions not aligned to consumer desires could result in reduced attractiveness, negatively impacting sales volumes
- Failure to manage the successful completion of US PMTA process impacts ability to sell current blu portfolio in US market
- Product development and/or launch impacted by IP constraints limiting the ability to respond to competitor offerings
- Failure to accurately predict product demand, notably NGP, could result in excessive stock build and requirement to provide for or write-off slow-moving or obsolete stock impacting profitability

MITIGATION

- Robust consumer analysis and production planning processes are integrated, enabling agile manufacturing to align with changes in consumption patterns
- Specific enhanced and repeated consumer insights analytics work in relation to purchase behaviour conducted since beginning of pandemic
- Product development processes are designed to develop consumer products based upon robust analysis and testing
- Specialist in-house innovation function with expertise in product development
- Alignment of Group Science and Innovation processes, ensuring product development and resultant proposition is supported by robust science to support product benefits
- Group Scientific affairs provide robust fact-based evidence in support of the PMTA process
- IP risks are managed by subject matter experts within the Group, ensuring protection of our own innovations and best enabling the identification of potential issues in relation to third-party IP in the development process

OPPORTUNITY

- The development of products and/or relevant route to market and pricing strategies that meet and drive consumer demands throughout their evolving journey
- Speed and quality of innovation enables the drumbeat of consumer activations that ensure both brand relevance and continued brand loyalty

PRINCIPAL RISK	CHANGE IN YEAR
Legal and regulatory compliance We seek to comply with relevant legal and regulatory requirements. Failure to comply with local and international laws and regulations could result in financial penalty, regulatory censure, and reputational damage **Risk profile**	**COVID-19 related changes** • Requirements put in place by regulators to manage COVID-19 impacts resulted in increased complexity and cost in relation to the continued operation of the Group's factory operations • The costs attributable to this compliance requirement will continue into FY21, with further measures possible should the pandemic not subside • The Group is aware that in periods of recession and austerity the likelihood of litigation may increase due to both public and consumer economic need **Other changes** • The Group, in common with other large multi-national organisations, continues to manage the requirements of increasing legal and regulatory obligations across the business
Product supply A failure in the Group's supply chain could result in a delay or an inability to supply product to market **Risk profile**	**COVID-19 related changes** • The pandemic highlighted the risks that both local and national regulation and related restrictions can have on the business, including the potential for the temporary closure of Group factories impacting production • Similarly, restrictions on supplier ability to manufacture or ship materials has been a key risk during the pandemic, with geographic concentrations of suppliers, and quality requirements managed • The continued availability of appropriate logistics providers in a cross-border supply chain could increase in complexity and cost for both raw materials and finished product if further restrictions are implemented in key geographies **Other changes** • The requirement for compliance in the period with EU product track and trace regulations has increased the level of complexity in manufacturing and related planning processes, and created key reliance throughout the supply chain on the continued availability of core systems. This additional complexity reduces the ability of the Group to reduce costs

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• Failure to comply with regulations could result in investigations and the enforcement of financial or regulatory censure • Criminal investigation resulting from allegations of improper behaviour have the potential for reputational damage regardless of eventual outcome, potentially impacting the Group's relationship and sentiment with external stakeholders including investors and financial institutions • The cost of defending any allegations can be significant, with no guarantee of recovery of these costs in the event of a successful defence • Investigations or allegations of wrongdoing can result in significant requirement for management time, potentially reducing focus on other operational matters	• The Group's Code of Conduct and values articulate the behaviours we expect from all our people, with compliance certified by management across the business • The Group's policies and standards mandate that employees must comply with legislation relevant to both a UK listed company and to local law • Expertise at Group and local level for areas of legal compliance to provide advice and support in the development of policy, process, training, and monitoring, including international sanctions • In the event of an investigation (which may or may not result in actions against us), we cooperate fully with the relevant authority and will continue to do so • The Group supports and promotes the prevention of youth access to its products	• The effective delivery and communication of our ESG strategy (including legal and regulatory compliance) creates an opportunity for external stakeholders, and potential partners/employees to better understand the ethical approaches taken by the Group to ensure that it acts as and is a responsible corporate citizen
• Loss of manufacturing capacity could impact the Group's ability to meet short-term production demands • Failure to supply markets could result in loss of short-term sales volume, with the additional risk of impacts to loss of consumer loyalty potentially impacting longer-term volumes • Product quality issues could impact customer satisfaction, potentially damaging brand equity and future sales where negative media coverage is received • Failure to achieve expected cost saving initiatives could result in reduced margin and profitability • A lack of availability of raw materials could impact the achievement of planned manufacturing capacity, potentially impacting short-term supply to markets • Key ESG related risks exist in our raw material and component supply chains. Failure to manage these risks could cause reputational damage to the Group	• Robust demand planning process, and supply chain management enhanced with increased planning cycle frequency and review aligned to changing market environment • Creation of additional safety stocks for non-leaf materials at the beginning of the pandemic and ongoing management of requirements aligned to sales forecast • Production capacity planning includes continuity measures in the event of machine failure or site issue • Leaf and raw material supply processes are in place covering both continuity risks and ESG related matters including farmer welfare, agronomy, and human rights and child labour issues with continuous improvements on an ongoing basis • Ongoing supplier reviews undertaken to best ensure continuity of supply, with additional review and learnings from COVID-19 experience to date incorporated into business processes • The Group continues to act in accordance with both legal requirements and the principles of being a responsible manufacturer	• Lean manufacturing continues to supply quality, compliant, products whilst improving agility and scalability to cater for demand shifts and opportunities to further contain underlying costs

PRINCIPAL RISK	CHANGE IN YEAR
People and organisation Inability to attract, retain, and develop required capabilities to achieve strategic objectives in a safe working environment and a positive culture aligned to the changing multi-category business and the welfare of its employees **Risk profile**	**COVID-19 related changes** • Throughout the pandemic the Group's priority has been the safety of its people with standards employed across all our operations that exceed local requirements and best ensure the welfare of our people • Additional costs associated with the decision to ensure our people work in an environment that maintains their safety over and above regulatory requirements have been incurred during the current pandemic and these will continue until the risk has resided • The restrictions in place during the pandemic place pressure on the ability to deliver training and development to our people. Steps have been taken to provide extensive online learning and development opportunities to ensure our people remain supported and engaged **Other changes** • The Group values the benefits that diversity of thinking brings to the organisation. In the year the Group has actively promoted diversity initiatives across its global operations and will continue to ensure that society is fairly represented within our business
Financial management Effective financial management is a foundation of our success. Failure to ensure effective financial control and stewardship could result in a failure to manage costs, and customer default **Risk profile**	**COVID-19 related changes** • The impacts of COVID-19 have increased the risk of customer default with many businesses suffering significant short-term reductions in income and cash flow with further future impacts possible • The need to raise public finances following the cost of the COVID-19 pandemic may increase the likelihood of changes in tax legislation, and/or an increased propensity for regulators to investigate large corporates in the hope of achieving additional tax revenues and fines. These challenges may result from differences of opinion or changes in regulator interpretation of tax legislation in place with which the Group considers itself to be compliant

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• The Group fails to achieve operational or strategic objectives as a result of a misalignment of skills and capabilities • Organisational culture and mindset fail to facilitate the requirements of a business operating in new and fast changing categories • Failure to ensure safe working practices, appropriate environment and culture, and the required personal support to ensure the safety and wellbeing of our people and others working with the Group • Loss of life, or serious injury/illness to employee or other individual working with/for IMB • Financial penalty, censure, or prosecution for breach of regulations • Interruption of Group operations (notably manufacturing) resulting from significant incident or failure to comply with regulations	• COVID-19 related safety measures, including employees working from home, social distancing in Group locations, provision of quality PPE protection, employee testing, safe employee transportation, and welfare support measures have been put in place • Capability requirements and gaps identified, with actions taken both locally and at Group level to address short and medium-term requirements • Tailored recruitment approach and remuneration for specific capability requirements to align with external market have proven successful • Cultural change continues to be addressed within Group change programmes to create a fit for the future environment • Changes in structural reporting have brought our people agenda, employee welfare, health and safety, and communications together, facilitating effective cultural change • Health and safety policies, procedures, training, and monitoring in place • Employee wellbeing support in place across the business	• In many of our locations the Group has been recognised as an employer demonstrating the prioritisation of employee welfare in the current pandemic, creating a work environment which is often safer than the relative controls in place outside of our premises • Increased attractiveness of Imperial as an employer of choice for both current and potential employees through promotion of diverse culture, personal development, and wellbeing initiatives • Achievement of Group strategy, and development of multi-category business enhanced by attraction and retention of requisite capabilities and mindset • Continued promotion of our safety culture facilitates the associated benefits of reduced lost working time, and operational effectiveness • Supports attractiveness of Imperial as an employer of choice for both current and potential employees through promotion of a safe and enabling work environment and the provision of wellbeing initiatives
• Incorrect, inaccurate, or misleading financial or management reporting results in poor decision making and/or inability to achieve financial targets • Inability to meet or manage external expectations impacts investor confidence and share price • Write-off of customer debt results in material loss • Lack of appropriate expertise impacts ability to manage financial risks • Management decision process impacted by inaccuracies or misinterpretation of available data • Failure to comply with tax regulations, could result in investigations and the enforcement of financial or regulatory censure. Additionally, reputational damage could occur as a result of investigations, regardless of outcome, impacting the Group's relationship with external stakeholders • Publicity relating to tax investigations could increase the likelihood of further regulators commencing their own investigations further increasing the potential costs of defending accusations	• The Group has a structured financial forecasting and reporting process • Financial reporting extensively reviewed and differences explained • Expenditure managed by delegated authorities, and systemised investment application process • Approval of credit limits by Group Finance and monthly reporting of outstanding balances (further measures implemented from start of pandemic) • Staff aware of Group policy and standards in relation to inside information and public disclosure • Group tax policies, processes and standards include delegated authorities and matters to be reported to the Group. This best assures standards across the Group and ensures the appropriate involvement of Group or external experts in local matters when required	• Effective financial management enables the Group to deliver on cost management, ensure the most effective use of working capital in its allocation of investments, and provide strong oversight to ensure commercial decisions result in the realisation of strong cash flow. • In line with the Board's risk appetite our intention is to ensure compliance with tax legislation. The implementation of effective and appropriate tax controls facilitates the benefits we achieve from being an ethical business

PRINCIPAL RISK	CHANGE IN YEAR
Market execution Continued successful operational execution within our markets is the key driver of business performance. Failure to manage market risks impacts achievement of Group strategy **Risk profile**	**COVID-19 related changes** • Geo-political impacts have been identified during the pandemic. The ability for rational engagement with regulators, both local and national, and the speed of regulatory change is varied across the Group's diverse commercial footprint • The increase in consumer price consciousness during the period has highlighted the value of effective brand management in market. The strength and relevance of our brands is important for retaining existing consumers and attracting new consumers **Other changes** • Should the UK government fail to avoid a no-deal Brexit, the resultant implementation of WTO tariffs has potential impacts on our local operations These impacts would crystallise in the coming year • The activation of NGP products in market, and the related management focus to achieve targets aligned to external expectations, has reduced in the year with the rebalancing of NGP ambition, enabling greater focus on the core tobacco category • The implementation of EU track and trace requirements within markets has added additional complexity and critical dependencies in both internal and external processes and relationship
Innovation Innovation and product development ensure that our portfolio of products continues to be attractive to consumers. Failure to develop products aligned to consumer preferences will result in lower volumes and market share **Risk profile**	**COVID-19 related changes** • In seeking value from their consumption, price conscious customers will increasingly trial alternative nicotine products. The emergence of vape, heated tobacco, and oral nicotine in market offers the Group longer-term opportunities in these categories **Other changes** • The rebalancing of focus between the Group's product categories in line with the current NGP ambition has reduced the short-term pace of product innovation and reduced the profile of related risks • Innovation of NGP products has continued with developments in our oral and heated tobacco categories. Structural changes in our innovation hub have been successfully managed

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

<table>
<tr><th>IMPACT</th><th>MITIGATION</th><th>OPPORTUNITY</th></tr>
<tr><td>
• Failure to comply with EUTPD requirements or related system failure could result in an inability to supply European markets
• The failure of the UK government to negotiate a Brexit deal will result in the adoption of WTO tariffs impacting costs despite robust mitigation plans
• Failure to maintain or grow brand equity could result in reduced attractiveness to consumers and related reduction in sales
• Geo-political risks exist across the Group's diverse footprint. These include political impacts, civil unrest, climate risks, and in the case of the US market the risk that political change increases the pace of regulatory change. These risks can impact ability to supply and execute as planned in markets with the pandemic notably highlighting the impacts local regulators can have on continuity of operations
</td><td>
• Track and trace project team expertise, along with specialist IT resources have been made available to ensure that early implementation issues are resolved in a timely manner
• Management strategy in place to manage short-term Brexit transition risks with ongoing strategic review and local oversight of Group level impacts
• Brand strength is continually monitored, with expert teams in place to develop and drive brand proposition and initiatives
• Local management continually monitor geo-political risk with support from specialist Group functions such as our Security team. The potential impacts arising from these risks have mitigation plans in place, and lessons learned during the recent pandemic have been implemented
</td><td>
• The continuation of our successful market execution strategy is critical to the success of the business. Ensuring brand activation at a local level and satisfying customer needs facilitates the continuation of customer loyalty and the potential for growth in our brands, customer base, and sales volumes
• Our agility enables our markets to proactively identify and react to changes in market dynamics, resolve issues encountered, and ensure the right product portfolio is available for adult smokers
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<tr><td>
• If the Group's product portfolio fails to meet consumer preferences, then reduced demand could result in lower sales volumes and reduced brand equity
• Failure to act upon consumer insights prevents opportunities from being seized and impacts growth
• Failure to identify IP constraints in the innovation of new products could impact development/or launch limiting the ability to respond to competitor offerings
• Potential cost savings arising from innovations may not be realised as planned where product developments are delayed or not completed
• Significant costs can be incurred in the product development process. Failure to realise the benefit of innovation or development, or to obtain revenue streams from IP, could impact Group profits and incur opportunity costs where alternative investments are impacted by capital allocation decisions
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• Innovation processes are designed to develop consumer products based upon robust analysis and testing
• Specialist in-house innovation function with expertise in product development – notably NGP
• Alignment of Group Science and Innovation processes
• IP risks are managed by subject matter experts within the Group, ensuring protection of our own innovations and best enabling the development process
• The rebalancing of short-term innovation goals in line with the Group's current NGP ambition reduces the risks associated with new product development
</td><td>
• The development of innovative products that meet and drive consumer demands throughout their evolving journey
• Speed and quality of innovation enables the drumbeat of consumer activations that ensure both brand relevance and continued brand loyalty
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PRINCIPAL RISK	CHANGE IN YEAR
Financial and other reporting The Group's ability to provide accurate, balanced, and timely reporting, in line with regulatory requirements, increases investor and wider stakeholder confidence in the integrity of the Group and its internal control frameworks **Risk profile**	**COVID-19 related changes** • In line with other organisations the Group has completed reporting periods with our people working from their home environment. Systems, processes, capabilities, and personal effort, along with positive action taken from learnings, have ensured that reporting requirements continue to be delivered
Capital allocation Failure to maintain strong cash flow and liquidity positions could reduce the Group's ability to deliver shareholder returns, invest behind the business, or to repay debt **Risk profile**	**COVID-19 related changes** • In common with other organisations the Group is subject to increasing analysis of its continued viability in more uncertain times. The Group continues to manage its working capital and liquidity in an effective and proactive manner **Changes in year** • Successful fund-raising initiatives were completed ahead of COVID-19, improving the Group's long-term liquidity at a reduced average cost of financing • The potential impacts of Brexit have been assessed and mitigating actions implemented

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• Error or omission in externally reported information, including financial and non-financial reporting, impacts investor and wider market confidence • Errors in consolidation process results in escalation of issues raised by external audit and possible qualification of financial accounts • Failure to comply with reporting requirements (notably external financial reporting requirements including UK Companies Act, UKLA, IFRS) results in penalty, regulatory censure, and reputational damage • Financial accounts impacted by lack of understanding of the statutory reporting impact of business transactions • Failure to accurately record and report foreign exchange rate fluctuations impacts profit • Failure to identify and account for taxation liabilities or incorrect reporting (direct or indirect tax) results in investigation	• Standard instructions, guidelines and timetables are communicated • Procedures in place for key activities including reconciliation and review by subject matter experts across the business (financial and non-financial information) • Group has implemented specific structured processes and controls for financial reporting • The impact of new reporting requirements and impact upon the Group's results is proactively managed • Regular updates and review of financial information discussed between Group Tax, Treasury, and Group Reporting to ensure appropriate and effective treatment of transactions, including derivatives	• Investor confidence in the Group's ability to deliver its strategy is in part influenced by the confidence they have in the integrity and transparency of financial reporting and related communications
• Failure to maintain cash flows could impact the Group's ability to pay down debt, impacting covenants, credit ratings, bank bond, and investor confidence • Reduced ability to invest in initiatives • A fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt • Adverse movements in interest rates could result in higher funding costs and cash outflows • Failure of a financial counterparty (e.g. when holding cash deposits and/or derivatives) is likely to result in a financial and cash impact	• We have a strong focus on cash generation supported by Group guidance and governance processes • Appropriate authority and accountability in place for investments and capital expenditure, including achievement of required return criteria • Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance and expectations to manage future financing needs and optimise cost and availability • The Treasury function operates in accordance with the terms of reference and delegated authorities set out by the Board, with independent oversight from the Treasury Committee • The Group has investment grade credit ratings from the main credit rating agencies, which supports it to access financing in the global debt capital markets	• Maintaining an efficient capital structure allows the Group to maintain an effective cost of capital to support and generate additional returns on investments and capital outlays/expenditure • The Group separates its financing decisions from its interest rate risk management decisions and therefore has flexibility to take advantage of advantageous interest rate movements should it wish to do so • Given the high cash conversion that the Group has delivered/delivers, this provides the Board/management with cash flexibility and optionality

PRINCIPAL RISK	CHANGE IN YEAR
Delivery of transformation projects The ability to deliver organisational change can create significant commercial advantage. Failure to deliver the required change initiatives could result in lost competitive advantage and future inability to meet legal and regulatory requirements **Risk profile**	**COVID-19 related changes** • During the pandemic the Group's need to be agile and adapt to the changing environment, both internal and external, resulted in controlled short-term process changes notably production planning. The lessons learned and the positive impacts of these changes are being evaluated as part of wider process design initiatives **Changes in year** • The delivery of change projects continued during the pandemic to deliver both legal and regulatory requirements, and increased operational effectiveness. Changes in operating model design complemented and facilitated the increased agility required to respond to changing commercial pressures
Litigation Similar to other corporates litigation and other claims are pending against the Group. The interpretation of law (including taxation) and the related judgements taken in relation to these laws can lead to dispute or investigation **Risk profile**	**COVID-19 related changes** • The risk of regulatory disruption increases in periods of recession or deficit of public funds. The Group has taken steps to improve and assure the ongoing design of its control frameworks to maintain its compliance with legal and regulatory requirements **Changes in year** • The risk of litigation in relation to vaping products in the US continues to increase. Significant actions are being taken against competitors which could set precedents that could impact the Group

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• Failure to meet project timelines or key milestones results in reputational damage and/or increased implementation cost and potential penalties • Budgeted savings/returns not achieved in key strategic projects • Non-achievement of strategic objectives, resulting in loss of investor and market confidence • Reporting of incorrect or unsubstantiated benefits realisation • Cost cutting results in inefficiencies (short/medium term) and unintended increasing costs within the business	• Robust business case approval process in place with wide stakeholder input • Appropriate steering committee structure, project reporting, and ExCom reporting in place, with cross-functional involvement • Project benefits realisation verified at key project milestones • Resource requirements constantly reviewed, with specialist project management resource employed on key strategic projects	• Successful delivery of key organisational change projects improves the efficiency and effectiveness of the Group to achieve its strategic goals, and ensures the continued allocation of working capital to value adding initiatives • COVID-19 learnings offer the opportunity to better understand where short-term process changes and rationalisations can be adopted to improve the long-term efficiency of the operating model
• If any claim against the Group was to be successful, it might result in a significant liability for damages and might lead to further claims against us • ESG related risks exist within the Group's supply chain, notably the risks associated with potential human rights abuses within the supply chain (e.g. leaf farming in developing countries). Failure to manage these risks could result in legal proceedings, criminal investigation, financial loss, and significant reputational damage • Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable • A successful claim against a competitor could result in an increased likelihood of similar claims against the Group • The reputational damage arising from investigations or allegations of non-compliance could be of greater impact than the penalties or actions related to the matter itself	• We employ internal and external lawyers specialising in the defence of product liability and other litigation. To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages • Advice is provided to prevent causes of litigation, along with guidance on defence strategies to direct and manage litigation risk and monitor potential claims around the Group • Risk assessments are completed and risk management frameworks implemented across the business to facilitate legal and regulatory compliance and reduce the risk of related litigation	• N/A

LIQUIDITY AND GOING CONCERN

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

The Group's resilience to different potential scenarios has been strengthened by the signing of the Group's new €3.5 billion multi-currency revolving credit facility, the sale of our Premium Cigar business, where the €1.1 billion of proceeds will be used for debt reduction, and the signing of €1.7 billion committed 18 month bank facilities.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios on how COVID-19 and some possible consequences arising from the pandemic may affect the business. These included scenarios which examined the implications of:

- The impact of governments accelerating duty payments as seen in FY20 c.£800 million
- The permanent removal of 15 per cent and 30 per cent of EBITDA from 1 October 2020 because markets become closed to tobacco products or there are sustained closures to our tobacco manufacturing and supply chains
- The loss of 10 per cent of current trade receivable c.£0.2 billion due to the inability of customers to pay
- The loss of factoring facilities c.£0.6 billion due to banks re-prioritising uses of cash
- Various scenarios involving the closure of the entire factory network over a one, two and three-month period from 1 October 2020, with a gradual scaling back to full capacity over the subsequent three months. It also considered factory network shutdowns over longer time periods.

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

Under a worst-case scenario, where the largest envisaged downside scenarios all take place at the same time and taking full use of the capital expenditure and dividend payment reduction mitigating actions as described above, the Group would have sufficient headroom until March 2022. The Group believes this worst-case scenario to be highly unlikely.

Based on the review of future cash flows covering the period through to March 2022, and having assessed the principal risks facing the Group, including the current and forecast future impacts of the COVID-19 pandemic, 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 2022 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

VIABILITY STATEMENT

The Board has reviewed the long-term prospects of the Group in order to assess its viability. This review, which is based on the business plan which was completed in October 2020, incorporated the activities and key risks of the Group together with the factors likely to affect the Group's future development, performance, financial position, cash flows, liquidity position and borrowing facilities as described in the 'Managing risk' section of this Report on pages 42 to 59.

In addition, we describe in notes 20 and 21 the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to market, credit and liquidity risk.

Assessment

In order to report on the long-term viability of the Group, the Board reviewed the overall funding capacity and headroom available to withstand severe events and carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The assessment assumes that any bank debt maturing in the next three years can be re-financed at commercially acceptable terms or via our current standby facility. The Board believes that three years is an appropriate time horizon given the current business portfolio and the limited visibility beyond three years. This assessment also included reviewing and understanding both the impact and the mitigation factors in respect of each of those risks. The viability assessment has two parts:

First, the Board considered the period over which it has a reasonable expectation that the Group will continue to operate and meet its liabilities, taking into account current debt facilities and debt headroom; and

Second, it considered the potential impact of severe but plausible scenarios over this period, including:

- Assessing scenarios for each individual principal risk, for example commercial issues and the impact of regulatory challenges; and
- Assessing scenarios that involve more than one principal risk including multi risk scenarios.

This year the risk scenarios included an assessment of the possible longer-term impact of COVID-19 on the size and shape of the tobacco market. This included assessing the impact on the Global Duty Free and Travel Retail arms of the business and modelling the ability of the organisation to trade through a significant economic downturn materially impacting the level of sales. These incremental COVID-19 risk scenarios can be found in the preceding statement on going concern.

Findings

Viability review period

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2023. This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out below, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

The Group's annual corporate planning processes include completion of a strategic review, preparation of a three-year business plan and a rolling re-forecast of current year business performance and prospects.

The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding, forecast future funding requirements, banking covenants, and other key financial ratios, including those relevant to maintaining our investment grade ratings. These projections represent the Directors' best estimate of the expected future financial prospects of the business, based on all currently available information.

The use of the strategic plan enables a high level of confidence in assessing viability, even in extreme adverse events, due to a number of mitigating factors such as:

- The Group has mature business relationships and operates globally within well established markets;
- The Group's operations are highly cash generative and the Group has access to the external debt markets to raise further funding; and
- Flexibility of cash outflow with respect to promotional marketing programmes, capital expenditure projects planned to take place within the three-year horizon, plus the ability to manage dividend returns to investors.

Risk impact review

For each of our 12 principal risks, plausible risk impact scenarios have been assessed together with a multiple risk scenario. The following table summarises the key scenarios that were considered, both individually and in aggregate:

Risk scenarios modelled	Level of severity reviewed	Principal risk in which underlying impacts assessed
The consequences of adverse commercial pressures, involving volume reduction and/or falls in margin, driven by unforeseen reductions in the size of the legitimate tobacco market or other changes in the level of consumer demand for our products.	The maximum quantifiable impact of all envisaged business risks, including the impact of a loss of market size and share. The value of these combined risks total £160 million per year or £480 million in total over the three-year period under review.	• Market environment • Consumer focus • Market execution • Financial management • Product supply • Innovation
The possible costs associated with legal and other regulatory challenges, including competition enquiries and tax audits.	Failure to successfully defend all existing and reasonably foreseeable future legal and regulatory challenges. The value of these combined risks is c.£420 million.	• Legal and regulatory • Litigation • Market environment • People and organisation
Failure to deliver on key strategic initiatives, including growth within our NGP business.	Significant competition, technological or regulatory challenge resulting in no future growth in the NGP business. The value of these risks is c.£50 million per year.	• Delivery of transformation projects • Product supply • People and organisation • Market environment • Market execution

None of the scenarios reviewed, either individually or in aggregate, would cause Imperial Brands to cease to be viable with the lowest level of headroom available over the three-year period under review, in the case that all risks materialise at the same time and at their highest assessed levels and with all possible mitigating actions taken, being £1.2 billion

CONCLUSION

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, 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 and described above, 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 2023.

A YEAR OF CHALLENGE AND CHANGE

DEAR SHAREHOLDER

This Corporate Governance Report details our approach to governance and the responsible way we run our business.

My first year as Chair has seen a mix of challenge and change for Imperial Brands. I would like to thank our previous Chair, Mark Williamson, for his contribution to the development of the Company since his appointment as a Non-Executive Director in 2007.

"Our primary focus, along with that of people all around the world, was the safety of our people, their families and our communities during the COVID-19 pandemic."

For many months of 2020, our primary focus, along with that of people all around the world, was the safety of our people, their families and our communities during the COVID-19 pandemic.

We have also been focused on building a Board with the skills and experience to meet these challenges. We welcomed Stefan Bomhard as our new Chief Executive Officer in July; Stefan took on the Chief Executive role at a significant point in Imperial's development and the Board is confident that his experience and expertise will drive the business forward. As part of this development the Board recognises that the new strategy needs to be underpinned by a renewed culture focused on the consumer and ensuring we deliver the products they want.

Sue Clark became our Senior Independent Director when I was appointed Chair in January, and after six and a half years on the Board, Karen Witts stepped down in June. She left with our thanks for her service and best wishes for the future. Jon Stanton replaced Karen as Chair of the Audit Committee. In July we welcomed Pierre-Jean Sivignon and in November Bob Kunze-Concewitz to the Board as Non-Executive Directors. Read about our Board members' skills and experience on pages 64, 65 and 71.

We have completed our first year with new external auditors EY. You can read more about the audit process on pages 83 to 85.

This is our first Annual Report under the 2018 UK Corporate Governance Code, which we have complied with in all but two provisions – that of an external Board evaluation and our former Chair being in post for more than nine years from the date of his first appointment to the Board. We set out details on page 86.

Details of the Company's governance framework and how it contributes to the delivery of our strategy are set out in the following sections.

Thérèse Esperdy

THÉRÈSE ESPERDY
Chair

STATEMENT OF COMPLIANCE WITH PROVISIONS AND PRINCIPLES OF THE CODE

This is the first Annual Report under the revised 2018 UK Corporate Governance Code. As mentioned in the Chair's introduction, the Company has complied with all requirements of the Code apart from Provision 21 regarding an external evaluation of the Board's effectiveness. See page 86 for our explanation. The Company was also not compliant with Provision 19 as former Chair, Mark Williamson, had served as a Director for more than nine years prior to his retirement in December 2019. Further detail regarding how we have complied with the Code is set out below and included in the individual Board Committee reports on pages 74 to 85 and pages 96 to 123.

1

BOARD LEADERSHIP AND PURPOSE

Details of:

- Board leadership and Company purpose are set out on pages 66 to 68
- Division of responsibilities below and page 70
- Board skills matrix page 71
- Engaging stakeholders pages 68 and 69
- Celebrating our people pages 16-19

2

DIVISION OF RESPONSIBILITIES

Our Chair and Chief Executive have clearly defined and separate responsibilities divided between the leadership and effectiveness of the Board and the running of the business respectively. Working together with the Board, they are responsible to our stakeholders for the successful delivery of our strategy. They communicate regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making. See Division of responsibilities on pages 70 to 71 and 'Conflicts of Interest' on page 86 regarding independence.

MATTERS RESERVED

In order to retain control of key decisions the Board has adopted a schedule of matters on which it must make the final decision. During the year such decisions included approval of Stefan Bomhard's appointment as Chief Executive, the appointments of Pierre-Jean Sivignon and Bob Kunze-Concewitz as Non-Executive Directors, the Group's financial statements, its business plan, major capital expenditure, material investments or disposals including the sale of the Premium Cigar Division, capital allocation and returns, and material changes to the Group's principal policies (including treasury and tax).

3

COMPOSITION, SUCCESSION AND EVALUATION

We set out our Board composition and biographies of the members on pages 64 and 65 and a skills matrix of the Board can be found on page 71. Details of succession and Board evaluation can be found on pages 74 to 75 and 86.

We are mindful of our diversity obligations, including the Parker review, and incorporate these into our search criteria.

4

AUDIT, RISK AND INTERNAL CONTROL

Details of how the Audit Committee has discharged its responsibilities can be found on pages 76 to 85. How we manage risk is included on pages 42 to 59 and our viability and going concern statements can be found on pages 60 and 61. The external auditor's report begins on page 125.

5

REMUNERATION

The Remuneration Policy is to be brought before shareholders at the 2021 AGM, in accordance with the Companies Act 2006. The revised Policy, which, in accordance with Code provision 36, includes a post-employment shareholding requirement, is set out on pages 100 to 109 The Board believes that the Policy has been appropriately designed to attract, retain and motivate the talent required for a successful Company producing sustainable returns for investors, and that the Policy is aligned with the purpose and values of the Group as a whole.

THÉRÈSE ESPERDY
Chair of the Board

D R N Chair

Skills 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.

Appointment
Appointed Chair in January 2020, having joined the Board in July 2016. Thérèse was appointed Senior Independent Director in May 2019.

External appointments
Non-Executive Director and Chair of the Finance Committee of National Grid Plc[1]; Non-Executive Director of Moody's Corporation[1].

STEFAN BOMHARD
Chief Executive Officer

E

Skills and experience
Stefan joined Imperial in July 2020 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 his role at Inchcape, Stefan was President of Bacardi Limited's European region and was also responsible for Bacardi's Global commercial organisation and Global Travel Retail.

Stefan has a PhD in marketing and has accrued significant experience in the consumer and retail sectors during his career. 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.

Appointment
Appointed to the Board as Chief Executive Officer in July 2020.

External appointments
Non-Executive Director of Compass Group Plc[1].

OLIVER TANT, BSC, CA (SCOTLAND)
Chief Financial Officer

E

Skills and experience
Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director Financial Advisory and Private Equity Division and Head of UK Audit.

He was also a member of both the UK and German boards of KPMG. He brings to Imperial international experience in change management, organisational restructuring, corporate finance and mergers and acquisitions.

In his current role he is responsible for finance, treasury, investor relations, procurement and information technology.

Appointment
Appointed to the Board of Directors in October 2013 and became Chief Financial Officer in November 2013.

External appointments
No external Director appointments.

SUE CLARK
Senior Independent Director

D A N R Chair

Skills 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.

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

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Britvic plc[1], Non-Executive Director and member of the Audit and Remuneration Committees of Bakkavor Group plc[1] and a member of the Supervisory Board and Remuneration Committee of AkzoNobel N.V[1]. Sue is also a Non-Executive Director of Tulchan Communications LLP[2].

ROBERT (BOB) KUNZE-CONCEWITZ
Non-Executive Director

D R N

Skills and experience
Bob is an experienced marketing professional and has held a number of senior roles at leading FMCG companies. He has been Chief Executive Officer at Campari Group since May 2007 having joined the business in 2005 as Group Marketing Director. Prior to his time at Campari Group, he held positions of increasing responsibility at Procter & Gamble, including Global Prestige Products Corporate Marketing Director.

Appointment
Appointed Non-Executive Director on 1 November 2020.

Committee membership
Member of the Remuneration Committee and the Succession and Nominations Committee.

External appointments
Director of Davide Campari-Milano N.V. incorporated under Dutch law and listed on the Mercato Telematico Azionario of Borsa Italiana (MTA) and a Non-Executive Director of Luigi Lavazza S.p.A.

SIMON LANGLIER
Non-Executive Director

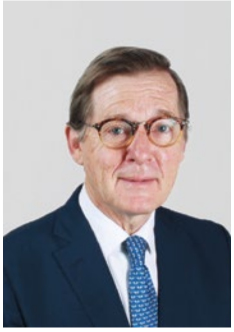
D A N

Skills 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, Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses.

Appointment
Appointed Non-Executive Director in June 2017.

External appointments
Chair of PharmaCielo Limited[1].

Patron and Honorary Professorial Fellow at Lancaster University, and a member of the Deans Council of the university's Management School[2].



PIERRE-JEAN SIVIGNON
Non-Executive Director

D A N

Skills and experience
Pierre-Jean is an experienced finance professional, having held Chief Financial Officer positions at Faurecia S.A., a global leader in automotive technology, Philips, the global health technology company, and most recently Groupe Carrefour, the global retailer, where he was also deputy Chief Executive Officer. Having stepped down from executive duties in 2017, he was adviser to the Carrefour Chair and CEO until the end of 2018. He has previously held Non-Executive directorships with Imerys S.A. and Technip S.A.

Appointment
Appointed Non-Executive Director in July 2020.

External appointments
Non-Executive Director of Vista Oil & Gas SAB[1].

STEVEN STANBROOK
Non-Executive Director

D R N

Skills and experience
Steven brings considerable international executive experience to the Board, gained in a number of FMCG companies. This includes 18 years at SC Johnson & Sons Inc., most recently as Chief Operating Officer, where he was responsible for managing their international operations. Previously, he held senior positions at Sara Lee Corporation, including as Chief Executive Officer of Sara Lee Bakery, and at CompuServe Corp. He is also a former Non-Executive Director of Chiquita Brands International, Inc. and Hewitt Associates.

Appointment
Appointed Workforce Engagement Director in 2019, having joined the Board as a Non-Executive Director in February 2016.

External appointments
Non-Executive Director of Primo Water Corporation[1] and Group[1] Automotive Inc[1]. Steven is also a Partner of Wind Point Partners[2].

JON STANTON
Non-Executive Director

D A Chair R N

Skills 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 their London office.

Jon is a Chartered Accountant and member of the ICAEW.

Appointment
Appointed Non-Executive Director in May 2019 and Chair of the Audit Committee in June 2020.

External appointments
Chief Executive of The Weir Group PLC[1].

JOHN DOWNING
Company Secretary

S

Skills and experience
John is a qualified solicitor. He 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 Altadis acquisition 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 also has responsibility for the Group's governance, Code of Conduct, security, anti-illicit trade initiatives and information security.

Appointment
Appointed Company Secretary in June 2012.

Key

E Executive Director	D Non-Executive Director	S Company Secretary
N Succession and Nominations Committee	A Audit Committee	R Remuneration Committee

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

1. Public listed company
2. Private organisation

THE BOARD

FOCUS IN 2020

- Response to the COVID-19 pandemic – the wellbeing of our people and maintaining business stability.
- Chief Executive Officer recruitment and on-boarding.
- Delivery from priority tobacco markets.
- Right sizing investment behind our Next Generation Products.
- Delivery against our sustainability agenda.

LOOKING AHEAD TO 2021

- The wellbeing of our people and continuing business stability during the ongoing COVID-19 pandemic.
- Strategic review for growth and sustainability.
- Board succession including Chief Financial Officer recruitment and on-boarding.

BOARD AND COMMITTEE MEMBERSHIP AS AT 30 SEPTEMBER 2020

*Denotes Chair	Board	Audit Committee	Remuneration Committee	Succession and Nominations Committee
Non-Executive Directors				
Thérèse Esperdy (Chair)	X*		X	X*
Sue Clark (SID)	X	X	X*	X
Simon Langelier	X	X		X
Steven Stanbrook	X		X	X
Jon Stanton	X	X*	X	X
Pierre-Jean Sivignon	X	X		X
Executive Directors				
Stefan Bomhard (CEO)	X			
Oliver Tant (CFO)	X			

OVERVIEW

The Board's role is to provide leadership and direction to the Group. Supported by its Committees, it has established a strong governance framework which, together with our values and high ethical standards, supports the long-term sustainable success of the Group.

The Directors have a key role in setting our strategy and ensuring it is implemented responsibly within this governance framework. They are mindful of their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, whilst having regard to the interests of all stakeholders.

As part of the governance framework the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group's strategy, business plans, dividends and major financial announcements. The Board is also responsible for approving the acquisition or disposal of assets exceeding defined thresholds.

As part of our ongoing enhancement to the Group's control environment in line with the evolution of our business and its operating environment we reviewed our internal controls including for the impact of COVID-19 and determined that this had no significant impact on current controls. We also expanded our Group Internal Control function.

The Board discharges its responsibilities through an annual programme of meetings. In addition to these formal scheduled meetings the Board convenes as required to consider matters of a time sensitive nature. It also delegates responsibility for developing and implementing strategy and for day-to-day management to our Chief Executive, Stefan Bomhard, who is supported by the Chief Financial Officer and by the Executive Committee (ExCom), which he chairs. The Board also delegates matters to Board Committees. Clearly defined terms of reference and written limits support these delegations and ensure that decisions are made with the appropriate authority. These terms of reference have been updated this year to reflect developing best practice and the latest guidance from the Chartered Governance Institute. These updated terms of reference and other key governance documents, including our Code of Conduct and values, can be found at www.imperialbrandsplc.com.

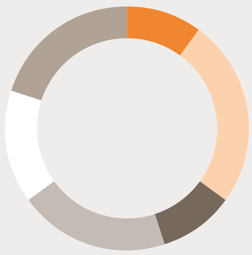
The ExCom comprises senior executives from across the business. It oversees operational execution and implementation of our strategic and financial plans. The ExCom and Audit Committee also ensure that, within the risk framework set by the Board, appropriate and effective internal controls are in place, and effective risk identification and management processes, including those discussed on pages 46 to 59, operate throughout the Group.

BOARD PROGRAMME IN 2020

Six scheduled Board meetings were held during the year. The Board also convened between these meetings to discuss specific time sensitive matters, for example the sale of the Premium Cigar business and succession and nomination matters.

In the context of COVID-19 the safety of our people was a key theme of meetings and was a priority for Board engagement outside of formal meetings during the year. Other standard agenda items included business performance, corporate development updates and general corporate housekeeping. In addition to these, the following principal agenda items were covered in the financial year:

HOW THE BOARD SPENT ITS TIME (%)



Corporate development	10%
Strategy and business plans	25%
Governance and risk framework	10%
Operational	20%
People	15%
Financial	20%

Corporate development

- The sale of the Premium Cigar business.
- Divestment programme update.
- Acquisition opportunities update.

Strategy and business plans

- Consideration of business plan.
- Review of divisional plans.
- Commencing the strategic review.
- Capital allocation including dividend policy.

Governance and risk framework

- Effectiveness of internal controls.
- Risk appetite.
- Regulatory and legislation development updates.
- Sustainability and ESG issues.
- Directors' independence.
- Board evaluation.

Operational

- Market deep dives.
- Competitor updates.
- NGP performance.
- Manufacturing and supply chain updates.

People

- Health and safety of our people.
- CEO and CFO succession.
- NED succession.
- Workforce engagement.

Financial

- Funding, going concern and viability.
- Half year and final results.
- Cash and debt metrics.
- Investor engagement.

ATTENDANCE AT MEETINGS OF THE BOARD, BOARD COMMITTEES AND AGM

	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in financial year	9	5	4	7	1
Number of meetings attended in financial year					
Executive Directors					
Stefan Bomhard[1]	2/2	–	–	–	–
Oliver Tant[2]	8/8	–	–	–	1/1
Alison Cooper[3]	2/2	–	–	–	–
Matthew Phillips[3]	2/2	–	–	–	–
Joerg Biebernick[4]	3/3	–	–	–	1/1
Dominic Brisby[4]	3/3	–	–	–	1/1
Non-Executive Directors					
Thérèse Esperdy	9/9	5/5	1/1	5/5	1/1
Sue Clark	9/9	5/5	3/3	7/7	1/1
Simon Langelier	9/9	5/5	4/4	–	1/1
Pierre-Jean Sivignon[5]	0/2	0/2	0/1	–	–
Steven Stanbrook	9/9	5/5	–	7/7	1/1
Jon Stanton[6]	9/9	5/5	3/4	5/5	1/1
Mark Williamson[7]	2/2	–	–	–	–
Karen Witts[8]	5/6	3/3	3/3	2/2	1/1

1. Stefan Bomhard joined the Board on 1 July 2020.
2. Oliver Tant did not attend the Board meeting held to discuss his retirement.
3. Alison Cooper and Matthew Phillips stepped down from the Board on 1 February 2020.
4. Joerg Biebernick and Dominic Brisby acted as joint interim CEOs between 1 February 2020 and 30 June 2020.
5. Pierre-Jean Sivignon joined the Board on 1 July 2020 but was unable to attend meetings prior to the year-end for health related reasons which are now resolved.
6. Jon Stanton was unable to attend one Audit Committee meeting due to a family bereavement/funeral.
7. Mark Williamson stepped down from the Board on 31 December 2019.
8. Karen Witts stepped down from the Board on 15 June 2020.

CONSIDERING STAKEHOLDERS

Consumers

The Board is briefed regularly on our product portfolio in both NGP and tobacco and how these meet adult consumer expectations. Together with market deep dives these assist the Board in understanding how its decisions impact consumer satisfaction and post purchase experiences.

Employees

Despite the challenges of COVID-19 the Board has increased its engagement with employees during the year. Further details are provided opposite and on pages 16 to 19.

Governments & wider society

The Board and Audit Committee receive regular updates covering anti-illicit trade activities, the status of engagement with taxation authorities, excise matters, litigation and evolving product regulation in respect of both tobacco and NGP.

Customers

The impact of COVID-19 on retailers and the Group's ability to safely service them and actions to ensure responsible partnerships with customers and distributors had been the subject of Board briefings during the year. As part of his induction Stefan visited a number of retailers to increase his understanding and feed this into the strategic review.

Shareholders

The ExCom and the Board receive regular updates on shareholder relations to ensure that the views and any concerns of major shareholders are understood and, where appropriate, addressed, for example reviewing our capital allocation and dividend policy.

Suppliers

The Board reviews our supply chain strategies, including actions to mitigate supply disruption. The Board reviews the Modern Slavery Statement and activities to eliminate child labour to address the risk of human rights issues across our supply chain.

▶ **Further information regarding the impact of this engagement on Board decisions can be found on pages 14 to 15**

ENGAGEMENT WITH INVESTORS

We aim to provide balanced, clear and transparent communications enabling shareholders to understand how we see our prospects and the market environments in which we operate. Given the performance challenges and the level of change during the year, we stepped up our shareholder engagement to ensure the Board was fully aware of shareholder concerns and to ensure shareholders were informed on the steps being taken to improve performance and on the progress with senior management changes.

In addition our AGM provided an opportunity for the Board to meet with shareholders. We are committed to maintaining an active dialogue with our key financial stakeholders, including institutional shareholders, potential investors, holders of our bonds and sell-side research analysts. We encourage an open, two-way engagement with investors and other stakeholders through our programme of investor relations activities.

A full programme of international engagement is undertaken each year by our investor relations team, who are regularly accompanied by one or more of the Executive Directors. Although the COVID-19 pandemic curtailed our ability to hold meetings in person, meetings were successfully enabled through video and telephone conferencing, which we expect will continue to help facilitate broad and efficient communications going forward. Over the course of the year our teams held around 590 meetings with investors and research analysts.

Given the level of change during the year, Thérèse Esperdy stepped up her engagement by regularly meeting investors to hear their views directly and to update and consult with them on several areas. The topics discussed included the actions taken to improve performance, progress with Executive and Non-Executive recruitment and capital allocation including the Board's decision to cut the dividend this year.

Sue Clark also met with shareholders following her appointment as Senior Independent Director. She led the constructive shareholder consultation on the revised Directors' Remuneration Policy and the Remuneration Committee carefully considered the feedback and made changes to its initial proposals. For example continuing with the existing mechanism of awarding LTIP shares as a percentage of salary rather than a fixed number of shares.

Stefan Bomhard also met with investors in his first week within the business to gain an understanding of their views and expectations.

As well as our results presentations, senior management presented at various industry conferences, including the Consumer Analyst Group of New York (CAGNY) Conference in February 2020. In January, we held our inaugural ESG webinar on the topic of farmer livelihoods and welfare which was attended by c. 150 investors and analysts.

Employee engagement statement

It is our people that enable us to create long-term value for our shareholders. Therefore, creating a supportive and engaging workplace for our workforce is critical. During the year the Board has, through its workforce engagement plan, assured itself that the Company's culture promotes integrity and openness, values diversity and is responsive to the views of all stakeholders, including its employees.

Q&A WITH OUR WORKFORCE ENGAGEMENT DIRECTOR, STEVEN STANBROOK

1. In this your first year as Workforce Engagement Director what were your priorities?

My initial priorities were to understand existing workforce engagement initiatives and assess these against what other progressive organisations are doing to identify gaps and areas for improvement. Once I had built this understanding my next priority was to work with the Company to design a programme of activities which built on the existing framework to reach and engage with the broader workforce. These plans included making use of Board visits to speak to employees, town-hall-style meetings and meetings with works councils. Unfortunately COVID-19 has limited the amount of face to face engagement but we have continued with virtual town-hall-style meetings, a video to support the launch of our engagement activities in the year and an employee engagement survey.

2. How do you ensure that the employee voice is heard by your colleagues on the Board?

A significant part of my role is having the opportunity to hear from employees about what is important to them. The results of the #haveyoursay survey allowed us to establish a base-line measure of engagement, and were shared with the Board. The themes from the survey included: the desire for increased and more informal communications, including the reasons behind business decisions; enhancement to the physical working environment and wellbeing initiatives; greater communication around learning support and other career and leadership development opportunities; and enhanced recognition via non financial rewards. We also had a session at the September Board meeting to review feedback from workforce engagement activities during the year and start to develop our engagement programme for the year ahead.

3. How have you engaged with the wider workforce?

I launched a video in January describing my role as Workforce Engagement Director and our plans to strengthen the connection between employees and the Board by further building on the existing strong platform of communication and providing an employee voice at Board level. It is important to remember that this is a whole Board activity and prior to the COVID-19 restrictions Board members visited a number of our sites and used the opportunity to engage with the workforce and provided feedback to me and the rest of the Board. I have also held a number of virtual focus group sessions, for example with our MBA cohort and members of our divisional talent programme. I was due to hold a question and answer session with our European Works Council, but the meeting had to be cancelled due to COVID-19 restrictions and therefore I wrote to each member to solicit their views and input.

4. What areas do you want to focus on in the future?

There are many good examples of employee engagement activities we already undertake at both local and Group level. In the coming year, I want to build on these, ensuring we act on the feedback we get, for example from the #haveyoursay survey, and Director site visits. I am hopeful that the COVID-19 situation will improve and there will be more opportunities for face to face engagement activities throughout the year. In addition we are planning on continuing regular pulse surveys which we can compare to the base-line established this year.

▶ **Please read more on employee engagement on page 18**

PROTECTING OUR EMPLOYEES DURING COVID-19

Our first priority is the health, safety and wellbeing of our 32,500 people around the world. They are doing a tremendous job in dealing with the challenges posed by COVID-19 and we would like to thank them all for their exceptional efforts.

We have strengthened our IT infrastructure and accelerated the roll-out of software to facilitate team-working to support employees working from home. Our sales teams have done an outstanding job in maintaining relationships with retailers and they have started to slowly, and safely, return to the field.

It is a credit to our manufacturing colleagues that they managed to keep the vast majority of our factories operating throughout the crisis, while ensuring appropriate infection controls and social distancing, by reconfiguring factory layouts and amending shift patterns.

We advocate flexible working and have encouraged our people to find a routine that works best for them and their families. We communicate regularly with them and have initiated a number of surveys to check-in on their wellbeing. Feedback tells us that overall, employees continue to feel positive despite the challenging circumstances.

THE BOARD AND ITS COMMITTEES

Each of our Board Committees has specific written terms of reference issued by the Board, adopted by the relevant Committee and published on our website at www.imperialbrandsplc.com/about-us/governance. 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. In addition, minutes of Committee meetings are circulated to all Board members.

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

GOVERNANCE FRAMEWORK KEY ROLES AND RESPONSIBILITIES

BOARD OF DIRECTORS:

Supported by its Committees the Board provides leadership and direction to the Group. The Directors have a key role in developing our strategy and overseeing its implementation within our strong governance framework and in a manner that is most likely to promote the Group's success for the benefit of shareholders, having regard to the interests of other stakeholders.

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

Chair

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

CEO

With the Chief Financial Officer has day to day management responsibility for the Group, for the recommendation of the Group's strategy to the Board and, once agreed, its implementation.

Executive Director

Supports the CEO in devising and implementing our strategy and overseeing the finances, operation and development of the Group.

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 our Directors should they have any concerns not appropriate to raise with the Chair.

NED

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

PRINCIPAL BOARD COMMITTEES:

Audit Committee

Assists the Board in fulfilling its corporate governance responsibilities. This includes oversight of the Group's internal control systems, risk management process and framework, the internal audit department and the external audit.

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

Succession and Nominations Committee

Reviews and evaluates the composition and succession plans of the Board and its Committees to maintain the appropriate balance of skills, knowledge and experience. Retains oversight of the development plans for ExCom members together with the Company's wider organisational structure and talent management processes.

Remuneration Committee

Sets remuneration aimed at aligning the interests of management with those of our shareholders, ensuring our ability to attract and retain high performing executives whilst incentivising the delivery of our strategic objectives and sustained returns for investors.

Executive Committee

The Executive Committee comprises senior executives from across the Group. It oversees operational execution and delivery of our strategic and financial plans. The Executive Committee and Audit Committee also ensure that, within the risk appetite framework set by our Board, appropriate internal controls, which function effectively, are in place, and effective risk identification and a management process operate throughout the Group including those discussed on pages 46 to 59.

ESG STEERING COMMITTEE:

As we committed to last year, an ESG Steering Committee has been established, chaired by Board Chair Thérèse Esperdy. The committee has a remit to oversee the management of our priority ESG responsibilities and to ensure the successful delivery of our sustainability strategy. The committee membership includes senior managers from our sustainability team, leaf sustainability, procurement, legal, HR, manufacturing and supply chain, finance, science and corporate affairs.

Two meetings were held during the year, focused on developing robust KPIs to allow enhanced monitoring of ESG performance and increased alignment with stakeholder expectations. The committee has also considered risks and opportunities afforded by the current and future ESG landscape and how these are mitigated or realised within the respective business functions.

See pages 20 to 28 for detail of our ESG work.

BOARD SKILLS MATRIX

Committees	Committee membership	Other current NED or executive roles	FTSE 100/NYSE experience	UK Corporate Governance background	Financial qualification	FMCG sector experience	Marketing & Digital	Product Development	Strategy	International operations	Change management / HR
Non-Executive Directors											
Thérèse Esperdy (Chair)	R S&N*	✓	✓	✓	✓					✓	✓
Sue Clark (SID)	R* A S&N	✓	✓	✓		✓			✓	✓	✓
Robert (Bob) Kunze-Concewitz	R S&N	✓				✓	✓		✓		
Simon Langelier	A S&N	✓	✓			✓		✓		✓	✓
Pierre-Jean Sivignon	A S&N	✓			✓	✓			✓	✓	
Steven Stanbrook	R S&N	✓	✓			✓	✓	✓	✓	✓	
Jon Stanton	R A* S&N	✓	✓	✓	✓				✓	✓	
Executive Directors											
Stefan Bomhard (CEO)		✓	✓	✓		✓	✓	✓	✓	✓	✓
Oliver Tant (CFO)			✓	✓	✓				✓		

A – Audit
R – Remuneration
S&N – Succession and Nominations

* Denotes Committee Chair

NEW SKILLS ON THE BOARD

STEFAN BOMHARD

Stefan has a PhD in marketing and brings significant experience in the consumer and retail sectors including five years as Chief Executive for Inchcape plc.

Stefan also brings significant experience in brand building and consumer-led sales and marketing. He has strong strategic and operational leadership and a track record of delivering successful transformational change at Inchcape.

PIERRE-JEAN SIVIGNON

Pierre-Jean is an experienced finance professional, having held Chief Financial Officer positions at Faurecia S.A., a global leader in automotive technology, Philips, the global health technology company, and most recently Groupe Carrefour, the global retailer, where he was also deputy Chief Executive Officer. He also brings a wealth of Non-Executive Director experience.

BOB KUNZE-CONCEWITZ

Bob joined the Board on 1 November 2020 and brings to the Board a wealth of international business experience particularly in marketing, having held a number of senior roles at leading FMCG companies. Bob is currently Chief Executive Officer of Campari Group and a former Global Prestige Products Corporate Marketing Director at Procter & Gamble.

BOARD STATEMENTS

Compliance with the UK Corporate Governance Code 2018

The Company has complied with the principles of the UK Corporate Governance Code 2018 (Code) for the financial year ended 30 September 2020 apart from Provision 21 regarding an external evaluation of the Board's effectiveness. See page 86 for our explanation. The Company was also not compliant with Provision 19 as former Chair, Mark Williamson, had served as a Director for more than nine years prior to his retirement in December 2019.

▶ Read more on pages 63 and 100

Section 172 of the Companies Act 2006

The Board seeks to consider the interests of all relevant stakeholders when making decisions. The formal statement is disclosed on page 3 and throughout this Annual Report we have included information on how your Board operates and considers the interest of stakeholders when making its decisions.

▶ Read more on pages 3, 14, 15, 68 and 69

Viability statement

On the basis of a robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed on page 42, 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 2023.

▶ Read more on pages 60 and 61

Going concern basis

Having assessed the principal risks facing the Group, including the current and forecast future impacts of the COVID-19 pandemic, 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 2022 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

▶ Read more on page 60

Principal risks and uncertainties

The processes and related reporting, described in the Principal Risks and Uncertainties section on pages 42 to 59, and page 82 of our Governance Report enable 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 42-59 and 82

Fair, balanced and understandable

The Directors confirm that they consider, taken as a whole, that 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 81

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 and our e-learning module is now translated into 11 languages and rolled out to employees.

▶ Read more on our website www.imperialbrandsplc.com

SPEAKING UP

The 2018 UK Corporate Governance Code shifted the focus on speaking up about concerns from largely financial impropriety sitting with the Audit Committee to a full Board responsibility covering all concerns across the workforce.

In response, this year with the support of the Board, we refreshed our overall approach to Speaking Up, which included tendering for a third party supplier and revisiting and revising our concerns reporting processes across not just employees, but other stakeholders including suppliers and farmers.

One objective of the tender was to conduct a full review of the marketplace, ensuring we were maximising best practice and the opportunities presented by new technologies to make reporting more accessible for our stakeholders and to strengthen the investigations process. Another objective was to find an innovative and supportive partner with whom we could work collaboratively.

After a thorough evaluation we chose a partner that we are confident can help us ensure stakeholders across all our jurisdictions are able to raise concerns as easily as possible, across a range of reporting mechanisms, and anonymously if preferred, in the knowledge that their concern will be addressed effectively and efficiently.

BOARD DIVERSITY POLICY

As a global business, diversity is an integral part of how we do business. As set out in our strategy review on pages 18 and 19, the Board recognises the value of gender diversity to the Group and is committed to increasing the representation of females within senior management roles to 33 per cent by 2023.

At Board level, women, including our Chair, make up 22 per cent of our Directors. Any search for Board candidates and any subsequent appointments will primarily be driven by merit and the strategic needs of the organisation, whilst looking to ensure we have the appropriate balance of skills, diversity of experience, demographics, professional and geographic and, mindful of the Parker review, ethnic backgrounds on our Board.

In the wider Imperial organisation and particularly senior management, we are committed to ensuring that all employees have an equal chance of developing their careers within the Group.

We are making significant changes to how we approach diversity and inclusion and creating initiatives to raise awareness of processes and behaviours within the business that could exclude women and other marginalised groups.

We are establishing an Inclusion Diagnostic programme to help us quantitatively define and understand the levels of inclusion within our business, and so enable us to create long-term solutions. Regular global engagement surveys are undertaken and our #haveyoursay survey is championed by the Workforce Engagement Director.

Targeted learning programmes are being embedded at all levels to help us work towards creating an inclusive culture. We are rolling out an Unconscious Bias module as a starting point in our learning series of awareness raising interventions.

We have created a new Flexible Working programme (WORKFLEX) for our UK business, to encourage a more diverse range of candidates into the business and increase flexibility in our current ways of working.

We are reviewing our recruitment practices, with a view to implementing initiatives to drive change in our interview processes and practices, enhancing our talent pool, and have also enhanced practices such as exit interviews so we can better understand why employees (especially our female talent) want to leave, and put processes in place to remedy any issues identified.

SUCCESSION AND NOMINATIONS COMMITTEE

MEMBERS

- Thérèse Esperdy (Chair)
- Sue Clark
- Simon Langelier
- Steven Stanbrook
- Jon Stanton
- Pierre-Jean Sivignon
- John Downing (Company Secretary)

FOCUS IN 2020

- Chair and CEO succession.
- Non-Executive Director succession.
- Senior management succession and talent development including enhancing the ExCom.

LOOKING AHEAD TO 2021

- CFO succession.
- Ongoing executive and senior management succession planning.
- Non-Executive Director succession.
- Talent development.
- Further building organisational capability.

OVERVIEW

Role of the Committee

The Succession and Nominations Committee reviews and evaluates the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence. It leads the process for appointments, through external search consultants. Succession plans for the Chair, Non-Executive Directors (NEDs), Executive Directors and the Group's senior management, in particular the ExCom, are kept under review.

The Succession and Nominations Committee also oversees the development of a diverse pipeline for succession for ExCom members together with the Company's wider organisational structure and talent management processes. This allows the Committee to ensure the Company is developing the right capabilities and has appropriate succession plans in place to sustainably deliver our strategy. During the year we strengthened our ExCom with the appointment of Alison Clarke and Murray McGowan; see page 9.

The Succession and Nominations Committee's terms of reference are available on our website.

Election and re-election of Directors

All Directors are appointed following a rigorous selection process led by the Succession and Nominations Committee and supported by the Group HR function, with recommendation by the Succession and Nominations Committee to the Board. See opposite for details of the appointment process for our new CEO and NED.

In accordance with the Code and with the Company's Articles of Association, all Directors put themselves up for re-election annually at the AGM; at our forthcoming AGM Stefan Bomhard, Pierre-Jean Sivignon and Bob Kunze-Concewitz will be standing for the first time. The Board recommends the election or re-election of all Directors who are standing at our 2021 AGM. Read more about the skills and experience of our Board on pages 64, 65 and 71.

Refreshing the Board and its Committees

Following consideration of a number of candidates identified by Russell Reynolds[1] for the new Chair, we appointed Thérèse Esperdy, previously the Senior Independent Director (SID). Sue Clark, who joined the Board in December 2018, was subsequently appointed SID.

We are mindful of our diversity obligations, including the Parker review, and incorporate these into our search criteria for Board members and senior management. During the year we also welcomed Pierre-Jean Sivignon as a Non-Executive Director and member of the Audit Committee. Pierre-Jean Sivignon was selected from a number of candidates identified by Heidrick & Struggles[1]. Karen Witts stepped down after six and a half years' service on the Board and the Directors would like to thank her for her significant contribution during that time. Jon Stanton replaced Karen as Chair of the Audit Committee in June 2020.

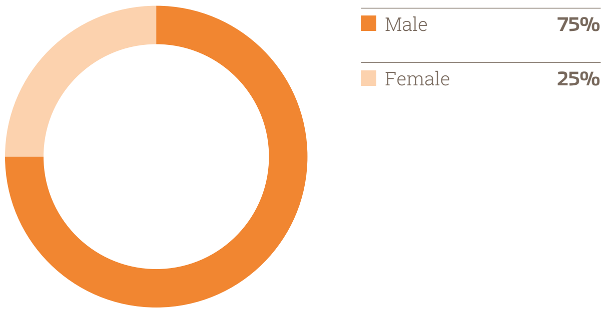
Following the announcement in October 2019 that Alison Cooper would step down, a key focus for the Committee was CEO succession. We initiated an extensive process to identify the best internal and external candidates. Egon Zehnder[1] was selected to provide the Committee with advice, assessment and support throughout this process. Stefan Bomhard was selected as being the best fit with our criteria with the skill set needed to build and deliver the Company's strategy, having delivered transformational change at Inchcape. Stefan is the first external CEO we have appointed and brings a fresh perspective at a pivotal time for the business.

We announced in September 2020 that, having been identified by Heads! International[1] as meeting the required skill set, Bob Kunze-Concewitz will join the Board on 1 November 2020.

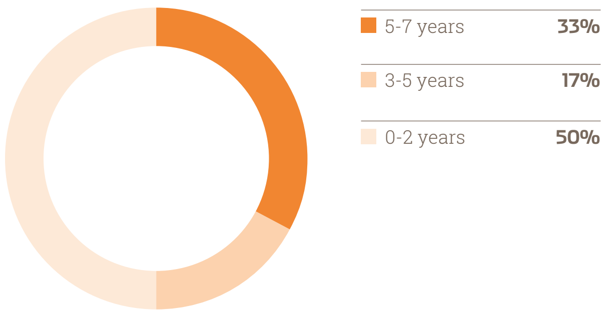
THÉRÈSE ESPERDY
Chair of the Succession and Nominations Committee

1. Other than recruitment at Board and senior management level they do not have any other connection with the Company or its Directors.

BOARD GENDER BALANCE AT 30 SEPTEMBER 2020



TENURE OF NON-EXECUTIVE DIRECTORS AT 30 SEPTEMBER 2020



CEO INDUCTION PROGRAMME FOR STEFAN BOMHARD

Stefan visited physically or virtually all 12 of our Cluster operations and all major functions in the business, gathering authentic insights into how Imperial works, how our brands are perceived by consumers and the importance of retailer partnerships.

As well as meeting with employees, consumers and retailers, Stefan also met with shareholders and our auditors and remuneration advisers. The output of all this engagement was fed back to the Board and is informing the strategic review.

In total, Stefan held over 300 virtual or physical meetings with thousands of employees around the world, answering hundreds of questions in the process.

Key themes from employee questions included Stefan's leadership style, his priorities for his first 100 days, his view on tobacco and harm reduction and the role NGP will play in the business going forward.

COMPOSITION AND SUCCESSION

During the financial year, the Board was composed as follows:

Board composition and roles

Chair • Thérèse Esperdy (from 1 January 2020) • (Mark Williamson until 31 December 2019)	• Leads the Board and creates an environment that ensures there are strong links between the Board, our stakeholders and management. • Thérèse met the independence criteria of the Code on appointment and there have been no significant changes to her external commitments subsequent to her appointment.
Chief Executive • Stefan Bomhard (from 1 July 2020) • (Alison Cooper until 1 February 2020) • (Joerg Biebernick and Dominic Brisby acting joint interim CEOs 1 February until 30 June 2020)	• Supported by the Chief Financial Officer and the ExCom, the CEO has day-to-day management responsibility for the Group, and the development of its strategy. • The CEO and the CFO actively promote the Group's culture and high standards of conduct and behaviour, which underpin our reputation and support our purpose of creating something better for the world's smokers.
Executive Director • Oliver Tant • (Matthew Phillips until 1 February 2020)	• Supports the Chief Executive in developing our strategy and overseeing the operations and development of the entire Group, in addition to specific responsibility for the Group's Finance function. Oliver has announced he will retire in 2021 and we are actively recruiting his successor.
Senior Independent Director • Sue Clark (from 1 January 2020) • (Thérèse Esperdy until 31 December 2019)	• Is responsible for assisting the Chair with effective shareholder communication and is available to shareholders should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. • Sue is available to our NEDs should they have any concerns which are not appropriate to raise with the Chair or which have not been satisfactorily resolved by the Chair. • She also acts as a sounding board for the Chair and carries out the Chair's performance evaluation, to be carried out in 2021.
Independent Non-Executive Directors • Simon Langelier • Pierre-Jean Sivignon (from 1 July 2020) • Steven Stanbrook • Jon Stanton	• The NEDs evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse range of business and financial expertise which complements and supplements the experience of the Executive Directors.

AUDIT COMMITTEE

MEMBERS[1]

- Jon Stanton (Chair)[2]
- Sue Clark
- Simon Langelier
- Pierre-Jean Sivignon

OTHER REGULAR ATTENDEES

- Board Chair
- Chief Financial Officer
- Company Secretary
- Deputy Chief Financial Officer
- Group Financial Controller
- Director of Assurance and Risk[3]
- Deputy Company Secretary
- Representatives from EY, our external auditors[3]

FOCUS IN 2020

- Evaluating critical judgements and estimates around asset carrying values including NGP.
- Review of going concern and viability statement in light of COVID-19.
- Reviewing the reasonableness of provisions and disclosure on material uncertain tax positions.
- Ensuring transparency of reporting around risk disclosures, adjusting items and performance value drivers.
- Overseeing the transition in external auditor from PwC to EY.

LOOKING AHEAD TO 2021

- Oversight and strengthening of internal control and assurance during a period of change for the Group.
- Evaluating the outcome of the strategic review on critical judgements, estimates and disclosures.
- Ongoing focus on fair, balanced and understandable reporting and disclosures.
- Monitoring the ongoing impact of COVID-19 and an uncertain macro environment on critical judgements.

1. All members are independent Non-Executive Directors.
2. Jon Stanton meets the Code's requirement of having recent and relevant financial experience. The Audit Committee and Board are satisfied that he, and the Audit Committee as a whole, have the appropriate competence relevant to the sector in which the Company operates.
3. At each meeting, both the Director of Assurance and Risk and EY have the opportunity to meet with the Audit Committee without management present.

Other Directors are invited to attend each meeting.

DEAR SHAREHOLDER

I am pleased to present the Audit Committee's report to shareholders for the year ended 30 September 2020, my first as Chair of the Audit Committee. I would like to thank the previous Chair, Karen Witts, for her leadership in developing the Audit Committee since her appointment in February 2014.

The year has been one of significant change at Imperial Brands PLC. In 2020, Imperial transitioned to new auditors in EY against a backdrop of the COVID-19 pandemic, the reset of the NGP business, the enactment of Board succession plans and the disposal of the Premium Cigar business. This has brought significant focus to the role of the Audit Committee in providing oversight for the Board on the effectiveness of the Group's financial controls, reporting and risk management frameworks and on the relationship with external audit and the remit of internal audit.

As a result, a number of areas have come under close scrutiny when assessing critical judgements and estimates made by management and in ensuring support for a robust financial close. These included:

- Evaluating the appropriateness of NGP tangible and intangible asset values in light of the investment reset in FY20 and the onset of a broader strategic review by the incoming CEO. This area was subject to extensive review in light of recent management changes and a reduction in estimates for the category.
- The challenge and review of scenarios supporting going concern and viability statements with a particular emphasis on stress testing additional management scenarios for material uncertainties including a permanent reduction in profitability and cash flows. This work was further supported by additional audit procedures adopted by EY in response to COVID-19.
- Ongoing scrutiny and review of provisions for uncertain tax positions linked to tax audits reflecting the Group's multi-jurisdictional nature and an evolving tax regulatory framework.
- Review of the accounting presentation of the PCD transaction.
- Audit transition and contingency planning for remote working through COVID-19.

The Audit Committee has continued to focus on ensuring the Annual Report is fair, balanced and understandable, with an emphasis on transparency of underlying performance drivers and confirming that adjusting items are in accordance with the framework approved in FY19 and that disclosures are enhanced where necessary to help users understand the accounts. This focus was supported by the decision to extend the Interim and Preliminary reporting timetables by two weeks to provide more time to consider the results and their presentation.

The Financial Reporting Council ("FRC") reviewed the FY19 Annual Report and Accounts, raising specific queries on the assessment of impairment risks in NGP and on acquisition accounting for Von Erl. Both questions were addressed to the satisfaction of the FRC and their suggestions for further reporting enhancements have been adopted in the FY20 Annual Report and Accounts. The Committee also considered the results of the Financial Reporting Council's Audit Quality Review of the FY19 external audit conducted by PwC and noted the satisfactory report.

The transition of the external audit to EY has progressed smoothly, assisted by transition support from the outgoing auditors and management, and has brought the opportunity for a fresh perspective on internal controls, assurance and disclosures. The role of external auditor remains under considerable regulatory scrutiny and as a Committee we are kept updated on progress and consultations such that these are reflected in the scope of our agenda as a Committee. This agenda included a review of the impact of the audit being conducted remotely due to COVID-19 to ensure there had been no loss of quality.

The Committee has also regularly reviewed key risk areas of the business and a case study of one of these reviews, "COVID-19 internal control impact", is set out on page 84.

Both external and internal auditors continue to present feedback on key financial controls and risks and provide objective and appropriate challenge to management in addressing these areas. Both auditors took advantage of private meetings with myself, Karen 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 2020 financial year supported by a fuller list of all key matters considered by the Audit Committee set out on pages 78 to 81.

FINANCIAL EXPERT ON THE AUDIT COMMITTEE

For the purposes of the Code, the Board has designated Jon Stanton as the financial expert on the Audit Committee, in view of his being a qualified accountant and his previous experience as Chief Financial Officer at Weir Group PLC between 2010 and 2016.

JON STANTON
Chair of the Audit Committee

MAIN OBJECTIVE

The main objective of the Audit Committee is to assist 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, Speaking Up arrangements, and each of the internal and external audit processes. As the Group's risk profile has increased, in part due to the impact of COVID-19, the Audit Committee has increased its scrutiny of relevant risk areas and key judgements including going concern, viability. working capital valuations and the impairment of intangibles. The oversight also involves ensuring the integrity of the Group's financial statements and related announcements. During this year the Audit Committee achieved this by:

- maintaining appropriate oversight over the work and effectiveness of the internal audit department, including confirming it is appropriately resourced, reviewing its audit findings and monitoring management's responses;
- monitoring and evaluating the effectiveness of Imperial's risk management and internal control systems, including obtaining assurance that they are designed and continue to be implemented effectively;
- assessing the medium-term viability of the Group;
- assisting 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 81);
- scrutinising the independence, approach, objectivity, effectiveness, compliance and remuneration of the external auditor; and
- reviewing and challenging 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 78 to 81.

The Audit Committee's terms of reference are available on our website.

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, as set out below:

Focus area	Why this area is significant	How we as an Audit Committee addressed this area
1 NGP inventory provisioning	There is a risk that the carrying value of NGP inventory is overstated as the category evolves and applicable, relevant regulatory frameworks change.	The Audit Committee reviewed management's judgement on the impact of two structural changes to the NGP sector on inventory valuations alongside the routine assessment of inventory levels against forecast sell out rates. These two judgement areas covered the impact of the ban of flavoured e-vape products in the US in February and emerging science around the lifespan of both e-vape pods and batteries in both e-vape and heated tobacco devices. The Audit Committee reviewed details of both the provisioning calculation, the impact and reasonableness of mitigating activity and the opinion of the external auditor in forming its view that the level of provisioning for slow moving NGP inventory is sufficient.
2 NGP intangible asset carrying values	The Group capitalises certain costs in relation to intellectual property created in support of NGP technology advancements. The ability to continue to hold these balances as assets is dependent on continued plans for the technology to be commercialised and deliver sufficient cash flows to cover carrying value.	The arrival of a new CEO and the performance to date of the NGP business has led to a strategic review of all NGP categories. The output of this review will recommend how these categories will be advanced and as a result will provide an insight as to the continuing value to the Group of certain types of intellectual property. The Audit Committee has reviewed the detailed list of NGP intellectual property held by the Group and has assessed management's judgement as to whether these asset valuations remain reasonable pending the outcome of a new NGP strategy. The Audit Committee has also reviewed and agreed those assets deemed at risk of impairment. The Audit Committee has received feedback from the external auditors as to the level of rigour and robustness of management's view.
3 Going concern and viability statement	The COVID-19 pandemic has had a material impact on the global economy and the pandemic's impact on the Group's free cash flows needs to be properly understood to enable the continued preparation of the accounts on a going concern basis and for the Directors to sign off on the Group's viability statement.	Management performed a comprehensive series of tests to confirm that the going concern basis and viability statement remain appropriate. These tests are described in the going concern statement on page 60. 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 COVID-19 pandemic as well as realisation of other key risks. The Audit Committee reviewed these tests on operating cash flows and considered the impact on free cash flows of: the reduction of the annual dividend; and the impact of receiving disposal proceeds from the sale of the Premium Cigar business. In addition the Committee noted the Group's ability to raise new bilateral facilities and renew the revolving credit facility in April after the start of the pandemic as a sign of external confidence in the Group from debt markets. 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 Report through to March 2022 and make its recommendation to the Board. In addition, the Audit Committee also reviewed management's view of the Group's ability to remain viable following the forecast realisation of a number of key risks and concluded that it is appropriate to sign off the Group's viability statement.

Focus area	Why this area is significant	How we as an Audit Committee addressed this area
4 **Taxation** See notes 8 and 23 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. 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, being transfer pricing audits in the UK, Germany and France; a French Tax Authority challenge in respect of an intra-Group disposal; 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 enquiries 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 extent of third party counsel received in developing estimates. In addition, the Audit Committee discussed material positions with external audit in support of developing an independent perspective on the positions presented. The Committee received specific progress reports on UK CFC, French tax litigation and the status of the transfer pricing audits and in light of these considered the reasonableness of provisions and reporting disclosures. The Committee further considered the appropriateness of items treated as adjusting, including provisions in respect of transfer pricing issues, tax credits on audit settlements and the tax treatment of a US reorganisation and concluded that the items satisfied adjusting item criteria on the basis of materiality and nature. The Audit Committee reviewed the status of each material tax judgement, including a range of possible outcomes, noted that third party support had been obtained for each judgement and agreed that the level of tax provisions and disclosures was appropriate.
5 **The sale of the Premium Cigar business**	The Group agreed to sell the Premium Cigar business during the year and the sale was completed on 29 October 2020. This is a significant transaction for the Group with a high degree of complexity from a financial reporting perspective.	The disposal of the Premium Cigar business led to the continued reclassification of the assets of the business under "held for sale" accounting from the 2019 Annual Report and Accounts. This resulted in an impairment of goodwill and intangibles in relation to this business, with the net assets of the business being written down to the amount of the expected sales proceeds. On completion of the disposal a reversal of foreign exchange movements will be taken through reserves from the time the original acquisition of the Premium Cigar business took place, recognising those historic gains within the profit and loss account. The Audit Committee has reviewed the level of impairments taken in relation to the expected sales proceeds in advance of completion and the amount of foreign exchange gains recycled from reserves and is satisfied that any associated judgements are reasonable and accurately reflected in the accounts, a position supported by the external auditors. In addition the Committee reviewed the mechanism for sale proceeds being received which includes deferred consideration of €250 million and is satisfied that this is fully recoverable given a review of both its short-term tenure and the level of security attached to it. The deferred consideration has not been reflected in the 2020 financial statements.

Focus area		Why this area is significant	How we as an Audit Committee addressed this area
6	**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. Additionally, the COVID-19 pandemic has changed the credit risk profile of a number of the Group's customers, increasing the risk that trade debtor balances may be overstated through customer default.	Discussions were held with management and EY which satisfied the Audit Committee that the Group's criteria for revenue recognition were 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 Committee and where applicable, disclosed externally. No breaches were found during the year. In response to the impact the COVID-19 pandemic may have on certain categories of customer, management changed the process for monitoring credit risk to reflect a rapidly changing environment and ensure the Group could react and respond appropriately as trade debt default risk levels changed. The Audit Committee reviewed this change in process and is satisfied that the level of trade debt has been appropriately valued and that any potential bad debt has been adequately provided for.
7	**Goodwill and intangible asset impairment reviews** See note 12 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.	The Audit Committee has reviewed cash forecasts for the Cash Generating Unit Groupings (CGUGs) that are used to support the Group's goodwill and intangible assets balances and has recognised that there is significant headroom from the discounted cash flows for each CGUG above the valuation of the goodwill allocated to it. The Audit Committee also considered detailed reporting from, and held discussions with, EY. Resulting from the above, the Audit Committee concluded that management's assertion that goodwill and intangible assets should not be impaired, with the exception of the instances mentioned in the NGP intangible impairment and PCD disposal sections, was reasonable and that appropriate disclosure of sensitivities has been given. As a result of this, the Audit Committee approved the disclosures in the financial statements.
8	**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.	At the end of last year the Board made the commitment to revisit the continued treatment of restructuring as an adjusting item once the COPII programme finished on its anticipated date in 2020. Since that announcement was made, a number of significant events have taken place: the arrival of a new CEO; the commissioning of a new Group strategy exercise; and the COVID-19 pandemic which impacted the ability of the Group to conclude its 2020 COPII programme as planned. 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 to continue to treat restructuring as an adjusting item until the end of financial year 2021. The Committee also reviewed the treatment of the Auxly loan revaluation as an adjusting item along with the restatement of 2019 and agreed that this treatment was appropriate.

Focus area		Why this area is significant	How we as an Audit Committee addressed this area
9	**Product litigation and competition matters**	The Group is exposed to litigation arising from claimants alleging smoking related health effects as well as regional Competition Authority cases due to only a small number of major tobacco suppliers.	The Audit Committee considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings and concluded that risks in respect of tobacco & NGP related litigation along with any Competition Authority cases are appropriately disclosed or provided for in the Annual Report and Accounts.
10	**Adoption of IFRS 16**	The adoption of IFRS 16 has a material impact on the balance sheet of the Group. The standard itself is reasonably complex in nature and so it is important that local component teams are reporting accurately post adoption.	The Audit Committee has reviewed regular updates from management as to the process required to adopt the standard properly and the anticipated impact on the Group's results upon adoption. The Committee has then reviewed the opinion of auditors at key reporting periods and has satisfied itself that any changes to process or disclosure required by management as a result of the audit reviews have been acted upon in a comprehensive manner.

ENSURING OUR ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

A number of long-established and embedded processes consisting of multiple levels of review underpin the key compliance requirement for our Annual Report to be fair, balanced and understandable. These reviews consider the following criteria in fulfilling this requirement:

Is the Annual Report fair?

- Has equal weight been given to all messages and has any sensitive material been omitted which should have been included?
- Is the narrative reporting consistent with the financial reporting, with key messages reflected in both?
- Is the description of the business, principal risks and uncertainties, strategy and objectives consistent with the Board's understanding?

Is the Annual Report balanced?

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the Annual Report and does the messaging reflected in each remain consistent when read independently of each other?
- Are the key judgements referred to in the narrative reporting and the key financial and internal control matters reported in the Audit Committee report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?
- How do these compare with the risks the external auditor EY includes in its report?

Is the Annual Report understandable?

- Is there a clear and understandable framework to the Annual Report with the important messages highlighted appropriately throughout?
- Is the layout clear with good linkage throughout in a manner which reflects the whole story?

After consideration of the Annual Report against these criteria the Directors confirm that they consider, taken as a whole, that the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Assessing and managing risk is fundamental to achieving our strategic objectives, safeguarding our shareholders' 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 UK Corporate Governance 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 42 to 59 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.

Monitoring the effectiveness of risk management

The Board and Audit Committee received regular updates during the year on the continued development of our risk management and internal control systems as well as on the results of risk assessments and internal control effectiveness assessments.

Throughout the course of the financial year, the Audit Committee has invited first and second line of defence 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 Financial Reporting Council's (FRC's) UK Corporate Governance Code.

INTERNAL AUDIT

Internal Audit (IA) has continued to evolve and develop its practices to further improve its independent challenge to the Group's activities, as required by the Audit Committee and management. Due to the COVID-19 pandemic a specific focus was on enhancing the remote auditing capabilities.

During the year IA performed a risk-based audit programme aligned to the Group's strategic priorities, resulting in relevant individual and theme-based recommendations and insights to further strengthen the Group's control framework. Audits continued remotely throughout the pandemic period.

The Audit Committee reviews the annual IA plan, and reviews reports from IA at each Audit Committee meeting in order to monitor the ongoing effectiveness of the control framework. The Audit Committee considered the effectiveness and results of the audits undertaken by IA and monitored management responses to the audit matters raised. IA post audit surveys are completed by relevant management, with feedback on IA's performance over the year being positive, reflecting the value-add delivered. The Audit Committee has reviewed the FY21 IA plan, including its scope and extent, and confirmed appropriate resources exist to deliver the plan.

EXTERNAL AUDIT

2020 represents EY's first year as the Group's external auditor and at the Audit Committee's February 2020 meeting EY set out its external audit plan for the year. As foundational support for the plan EY provided the Committee with the assurance that as auditor they understood the Group to a level that would enable a proper assessment of the risks facing the Group. EY then demonstrated how this assessment of risk has been incorporated into the audit approach. The Committee noted this approach and was satisfied that the plan would allow for a comprehensive first year audit.

In determining materiality for the audit work, whilst EY used a similar methodology as PwC by taking a percentage of forecast Profit before Tax, EY explained to the Committee that they have chosen to include the amortisation of intangibles in this calculation and as a result this has reduced the level of materiality for the audit from that previously used.

The successful transition of auditor was a key area of focus for the Committee and through regular review meetings with both management and EY the Committee is satisfied that a comprehensive transition programme has been undertaken which has ensured that EY has had the appropriate access to Group people and systems to both conduct adequate levels of testing and facilitate the review and challenge of accounting estimates and judgements. Both of these measures are in support of attaining a quality first year audit, conducted on the Group's timetable and minimising disruption.

The Audit Committee also noted a difference in audit approach which places more reliance on data analytics used to review all transactions rather than the controls-based sample testing that the Group has previously experienced.

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

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

Independence of our external auditors

As part of the onboarding process of EY as the Group's new auditors the Committee reviewed reports from both EY and management attesting that independence had been achieved in July 2019 ahead of any formal audit planning work. As part of the continual requirement to ensure the independence and objectivity of EY, the Audit Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that the external auditors may and may not provide as determined by the FRC's Revised Ethical Standard published in December 2019, a copy of which can be found on our website.

EY has just completed its first year as auditor and our Auditor Independence Policy requires the Group Audit Partner to rotate after a maximum of five years (seven years for subsidiary companies). Andrew Walton, our signing audit partner, has just completed his first 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 the tendering for individual non-audit services expected to generate fees in excess of £250,000, and prior approval by the Audit Committee for allowable non-audit work that EY may perform. 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. This non-audit work was awarded to EY due to its prior knowledge of the Group and it being deemed best placed to provide effectively the services required. The non-audit work included the completion of in flight projects that EY were allowed to complete following a review by the Audit Committee.

In the current year non-audit fees were 3 per cent (2019 PwC: 3 per cent) of total audit fees (see note 4). 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 this policy, during the year the Audit Committee carried out two 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

We place great importance on ensuring that we receive a high-standard and effective external audit. Whilst 2019 represented the final year of PwC as auditors the Audit Committee still reviewed the output of the annual audit effectiveness questionnaires, covering the audit scope and planning, quality and delivery, challenge and communication, and independence, which were completed by members of both the Audit Committee and Logista's Audit Committee as well as by senior managers and finance executives from across the Group. The findings of the questionnaires were shared with both PwC and EY.

During the year we also received a letter from the Financial Reporting Council (FRC) requesting further information on our reporting and associated disclosures on the 2019 Annual Report and Accounts. The explanations we provided to the FRC were duly accepted and we have taken on board observations to further improve disclosures in this year's publication.

COVID-19 INTERNAL CONTROL IMPACT

From the outset of the COVID-19 pandemic we have taken a number of actions to verify the impact on our internal control environment and to ensure our internal controls continue to operate effectively.

Our COVID-19 response was managed by the Group's crisis committee with senior representation from across the business enabling timely and effective escalation of issues arising, confirmation of operational effectiveness, and an holistic approach to issue resolution.

We performed an assessment of our crisis management planning process to review whether current and future material risks relating to this pandemic have been identified / continue to be identified, and the extent to which actions to manage potential impacts have been implemented.

In addition, we reviewed the continued effectiveness of Imperial's key processes and controls (including Finance Shared Services), with a focus on fraud risk (specifically misappropriation of assets), in light of any changes to ways of working resulting from the impact of the COVID-19 pandemic.

Neither review identified any major design or operating effectiveness weaknesses, demonstrating the resilience of our operations given these circumstances.

In addition to these reviews, further attention is being placed on the tightening of controls around receivables and the collection of overdues above and beyond our normal procedures within this area.

The FRC Audit Quality review team also carried out a review of PwC's audit of our consolidated financial statements for 2019 as part of their routine review process. The Audit Committee has received a full copy of the findings and recognises that there were no significant findings resulting from the review and that a number of areas of good practice were highlighted. To ensure continuity the report has been shared with EY.

Audit tender

The audit was last tendered in 2019, with EY being 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 Committee continues to review the independence and the quality of the external audit to assess if a tender should happen in advance of the regulatory requirement.

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

Non-audit services

In the current year non-audit fees were 3 per cent (2019 PwC: 3 per cent) of total audit fees (see note 4).

Audit fees

In the current year audit fees were £7.0 million (2019 PwC: £7.6 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 on EY's opinions start on page 125.

Auditors and 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 himself/herself aware of any relevant audit information and to establish EY is aware of that information.

Jon Stanton

JON STANTON
Chair of the Audit Committee

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 30 September 2020. This Directors' Report forms part of the management report as required under the Disclosure Guidance and Transparency Rules.

CONFLICTS OF INTEREST

Our Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interest, and 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.

As part of our annual review process, all situations entered in the Conflicts Register are reviewed and reconsidered. 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.

Details of the Directors' share interests are shown in the Directors' Remuneration Report on page 119.

EXTERNAL APPOINTMENTS

NEDs, including the Chair, may serve on a number of other boards provided they continue to demonstrate the requisite commitment to discharge their duties effectively. The Succession and Nominations Committee reviews the extent of the NEDs' other interests throughout the year. In accordance with the provisions of the 2018 Code, all NEDs are required to obtain approval of the Board prior to accepting any new office or employment. The Board is satisfied that each of the NEDs commits sufficient time to their duties in relation to the Company. The Chair and each of the NEDs has confirmed they have sufficient time to fulfil their obligations to the Company.

The Board is supportive of Executive Directors and members of the ExCom accepting non-executive directorships of other companies 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 ExCom are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment. At the time of publication of this report, Stefan Bomhard held one non-executive directorship, and no ExCom members had an external appointment.

INDUCTION AND TRAINING

Following their appointment to the Board, new Directors receive a tailored induction programme which includes industry-specific training, visits to the Group's businesses and meetings with senior management. They 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. See page 75 for details of the induction programme of Stefan Bomhard.

The Company is committed to the continuing development of its NEDs in order that they may build on their expertise and develop their understanding of our business. Briefings are given by our advisers on matters of legislative change and corporate governance developments as well as focused Committee topics such as executive remuneration and environmental issues. Periodic 'deep dives' into various areas of the business are presented to the Board in the regular meeting schedule.

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.

BOARD EVALUATION

The performance of each Director is considered as part of the annual Board evaluation process. The Code requires that an external evaluation is carried out every three years, with an internal evaluation in the intervening years. However, the Chair considered it appropriate to defer such an externally facilitated Board evaluation for one year, to take place during 2021, by which time both the Chair and the SID will have completed a full year in office and Stefan Bomhard will have started to set out his strategic direction. Further, any Committee membership changes required as a result of further NED appointments will have been implemented. By deferring the process to 2021, it is anticipated that the external review will give a more robust assessment and insight into the overall effectiveness of the refreshed Board and its Committees. A tender process for the external evaluation in 2021 was initiated in September 2020.

During its June 2020 meeting the Board held a NED-only session to discuss its ways of working with a view to identifying enhancements to the effectiveness of the Board and how those enhancements would support business performance. Items considered included:

- Improved balance of operational and strategic items considered by the Board, with an enhanced forward looking focus, including more business and strategic insight, for example customer and competitor developments;
- Renew focus on risks and opportunities including ongoing discussion of emerging operational risk; and
- Enhanced external orientation – for example discussions with analysts on perceptions of the Company, its competitors and the tobacco and NGP sectors.

The areas raised for consideration in last year's evaluation have been addressed this year as follows:

Area for consideration	How we addressed this
Frequency of Board meetings to reflect dynamics of NGP business	An additional scheduled Board meeting introduced and three additional meetings held in the year
Further enhancing risk management including in the context of the evolving NGP business	Focus on risk management reporting to both the Board and Audit Committee enhanced
Succession planning and talent development	Appointments of Chair, SID, a NED and CEO concluded and the recruitment of a successor to the CFO commenced

INSURANCE & INDEMNITIES

During the year the Company purchased and maintained appropriate insurance cover in respect of directors' and officers' liabilities. 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 (the Act), were in force throughout the year and up to the date of this Annual Report.

STATEMENT ON EMPLOYMENT OF DISABLED PERSONS

We aim to create a work environment that allows equal opportunities so our 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, 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 & 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. Further information can be found within the case studies on our website. In addition, a number of our subsidiaries donate to charitable and community endeavours from local budgets.

This year the COVID-19 crisis had a profound impact on all our lives. We are very proud of the way our business supported local communities during this time. During the crisis we have made donations both on a national level and to the local community in a number of countries, including in Morocco to support the special fund established to fight coronavirus; Germany to support homeless charities; in Poland to local hospitals; in the USA to support virus relief funds; and in the Congo to support the local community.

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

No political donations were made to EU political parties, organisations or candidates (2019: Nil). This approach is aligned with our Group Policy and Code of Conduct.

OTHER INFORMATION

In accordance with the Act 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 Chief Executive's Q&A;
- information relating to our people, including employee engagement, is included in the Celebrating our People section on pages 16 to 19 and on pages 68 and 69 in our Governance Report;
- our principal risks are detailed on pages 46 to 59;
- information relating to our sustainability approach that supports our environmental, social and governance agenda is included on pages 20 to 28;
- responsibilities to a broader stakeholder group, including our suppliers and customers, are included on pages 14, 15 and 68;
- information on our greenhouse gas emissions is included on page 13; and
- the Directors of the Company are listed on pages 64 and 65.

Our report under the Streamlined Energy and Carbon Reporting requirements can be found on page 22.

SHARE CAPITAL & INTEREST IN VOTING RIGHTS

Details of our share capital are shown in note 26 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 2020 we held 74,289,137 shares in treasury, which represented 7.28 per cent of issued share capital and had an aggregate nominal value of £7,428,914.

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.

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 been notified of the following interest since the year end and up to 16 November 2020 being a date not more than one month prior to the date of the AGM Notice of Meeting, in accordance with DTR 5.

	Number of ordinary shares at the date of notification	Percentage of issued share capital at the date of notification
BlackRock Inc	53	5.59[1]
Fidelity International Limited	47	5.01[1]
The Capital Group Companies, Inc.	46	4.95
Notifications received post year end		
The Capital Group Companies, Inc.[2]	48	5.03[1]

1. Indirect holding.
2. Notified 21 October 2020.

INFORMATION ON ACQUISITION OF OWN SHARES

As reported last year, the Company obtained shareholder authorisation for the buyback of up to 95,370,000 shares. This buyback programme was completed in December 2019, with 5,098,508 shares purchased at a cost of £91,606,155 during the year. These share purchases represent approximately 0.5 per cent of issued share capital.

RESULTS & DIVIDENDS

We include a review of our operational and financial performance in our Strategic Report on pages 12 and 13.

The profit attributable to equity holders of the Company for the financial year was £1,558 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 2020 were paid on 30 June 2020 and 30 September 2020 respectively. The third dividend will be paid on 31 December 2020 and, subject to AGM approval, the final dividend will be paid in March 2021 to our shareholders on the Register of Members at the close of business on 19 February 2021. The associated ex-dividend date will be 18 February 2021.

Following a review by the Audit Committee, at its meeting in November 2020, which confirmed the accounts showed distributable reserves sufficient to support the expected third interim and final dividends and the interim dividends in financial year 2021, the Directors have declared and, propose dividends as follows:

Ordinary shares	2020 £ million	2019 £ million
Interim paid – June 2020, 20.85p per share	**197**	298
Interim paid – September 2020, 20.85p per share	**197**	298
Proposed interim – December 2020, 48.00p per share	**453**	683
Proposed final – March 2021, 48.01p per share	**454**	683
Total ordinary dividends, 137.7p per share (2019: 206.57p)	**1,301**	1,962

PENSION FUND

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 THAT TAKE EFFECT, ALTER OR TERMINATE ON CHANGE OF CONTROL

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

The Group has seven credit facility agreements that provide 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 respective facility agreement and the total commitments under that facility agreement will be cancelled.

The seven credit agreements are:

- 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 committed credit facilities of €3,500 million for a period of up to three years with bi-annual six month auto-extensions;
- Six credit facility agreements dated April 2020 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited committed credit facilities of €1,700 million for a period of up to October 2021.

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) acquire the right to exercise more than 50 per cent 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 (the Issuer) has issued bonds under a Euro Medium Term Notes (EMTN) Debt Issuance Programme (as noted below). 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 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 per cent 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 per cent 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 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 €1,000 million 2.25 per cent guaranteed notes due 2021;
- 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 0.5 per cent guaranteed notes due 2021;
- 27 January 2017 €500 million 1.375 per cent guaranteed notes due 2025;
- 12 February 2019 €750 million 1.125 per cent guaranteed notes due 2023; and
- 12 February 2019 €750 million 2.125 per cent guaranteed notes due 2027.

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;
- 21 July 2015 $1,250 million 3.75 per cent guaranteed notes due 2022;
- 26 July 2019 $1,000 million 3.125 per cent guaranteed notes due 2024;
- 26 July 2019 $750 million 3.5 per cent guaranteed notes due 2026; and
- 26 July 2019 $1,000 million 3.875 per cent guaranteed notes due 2029.

UPDATE ON TOBACCO-RELATED LITIGATION

Italy

A claim has been brought in the Court of Messina against Imperial Tobacco Italia S.r.l. and Reemtsma Cigarettenfabriken Gmbh by two individuals claiming €800,000 in total for alleged smoking related health effects. We have denied liability. The parties have filed their pleadings. We await the judge's decision on the parties' requests for oral and expert evidence, which is not expected until after the next hearing on 16 December 2020.

Poland

In October 2017, Imperial Tobacco Polska S.A. (Imperial Polska) received notice that a claim has been filed against it in the Regional Court in Poznan by an individual claiming PLN 1,000,000 by way of compensation for alleged smoking related health effects. Imperial Polska denied the claim. At a hearing in May 2018, the Court dismissed the claim in full. In July 2018, the claimant filed an appeal. The Appellate Court dismissed the appeal following a hearing in September 2019. The claimant sought to take steps to appeal to the Supreme Court. However, the claimant missed the deadline for obtaining a copy of the written reasons for the decision from the Court of Appeal (being the precursor to a substantive appeal), it refused to reinstate the deadline. The claimant filed an appeal against this decision with the Supreme Court. On 2 October 2020, the Supreme Court dismissed the claimant's appeal. This decision is final and there can be no further appeals. The case is closed.

Argentina

Our subsidiary, Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA), has been notified of a claim filed in the Court of Buenos Aires against Nobleza Piccardo, a subsidiary of British American Tobacco (BAT) by an individual smoker. SEITA is not a party to the court claim. BAT has denied liability. Historically, BAT manufactured and distributed two brands of cigarettes owned by SEITA in Argentina under the terms of a Licence Agreement. BAT has sought to invoke an indemnity contained in the Licence Agreement, pursuant to which SEITA is responsible for any product liability to third parties. The amount claimed is AR$8,980,200. The parties filed their final written arguments in October 2019. The parties are awaiting the final judgment, which has been delayed due to COVID-19 related Court closures.

France

On 16 January 2018, the French National Committee against Tobacco (the CNCT) filed a criminal complaint against the four main tobacco manufacturers, including a French subsidiary of Imperial Brands named Imperial Brand Finance France (the Subsidiary), on grounds of 'reckless life endangerment'. Neither the Subsidiary nor any of its employees or managers have been charged or placed under formal investigation in any ongoing proceedings, as a result of such a complaint. Imperial Brands strongly denies the allegations made by the CNCT and is monitoring developments.

US

A number of smoking and health-related claims have been brought against ITG Brands (ITGB) in the state courts of Massachusetts. ITGB has the benefit of an indemnity from another manufacturer in respect of each of these claims. As a result, ITGB either has been dismissed, or is expected to be dismissed, without prejudice from each of the claims. To date, no action has been successful or settled in favour of any individual claimant in any tobacco-related litigation against Imperial Brands or any of its subsidiaries.

Update on USA state settlement agreements

In November 1998, the major US cigarette manufacturers, including Reynolds and Philip Morris, entered into the Master Settlement Agreement ("MSA") with 52 US states and territories and possessions. These cigarette manufacturers previously settled four other cases, brought by Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively with the MSA, the "State Settlement Agreements"). These State Settlement Agreements settled all health care cost recovery actions brought by, or on behalf of, the settling jurisdictions against the defendants (the major US cigarette manufacturers); released the defendants from various additional present and potential future claims; imposed future payment obligations based on market share in the US; and significantly restricted their ability to market and sell cigarettes.

ITGB and its affiliates were not defendants in the litigations that led to the State Settlement Agreements. However, the MSA contained a provision allowing manufacturers that were not defendants to become parties. Under that provision ITGB and certain affiliates (including its US affiliate Commonwealth Brands, Inc.) became parties to the MSA. They make substantial annual MSA payments based on market share in the US and other factors, and are subject to the MSA's restrictions on their ability to market and sell cigarettes.

On 12 June 2015, ITGB acquired four cigarette brands (Winston, Salem, Kool and Maverick, referred to as the "Acquired Brands") from Reynolds and Lorillard Tobacco, in connection with Reynolds' parent's acquisition of the stock of Lorillard Tobacco's parent. Because the MSA requires a purchaser of a brand to assume settlement liability, the Asset Purchase Agreement ("APA") between Reynolds and ITGB required ITGB to assume MSA settlement payments on the Acquired Brands. There is no similar mechanism permitting companies that were not defendants to join the settlements with the four states that are not parties to the MSA (Florida, Minnesota, Mississippi, and Texas, collectively called the "Previously Settled States" or "PSS"). For those settlements, the APA required ITGB to use reasonable best efforts, with the assistance and cooperation of Reynolds and Lorillard Tobacco, to reach agreement with the PSS to make settlement payments on the Acquired Brands on certain terms and conditions.

Effective 12 June 2015 ITGB became a party to the Mississippi settlement as to the Acquired Brands. ITGB has not become a party to the settlements with Florida, Minnesota, or Texas. Two of those states, Minnesota, and Texas, have statutes imposing fees on distributors' sales of products manufactured by companies that are not parties to the settlements, and fees are paid on sales of ITGB and affiliates' products in those states under those statutes.

Claims have been made against ITGB in connection with the acquisition of the Acquired Brands:

Florida v American Tobacco Company, et al., No. 95-1466 AH (Cir. Ct. Palm Beach Cty, FL). On 18 January 2017 Florida and Philip Morris filed motions with the Florida court with jurisdiction over the settlement claiming that Reynolds and/or ITGB must make payments on the Acquired Brands under the Florida settlement. Florida and Philip Morris alleged that ITGB was a "successor" or "assign" to Reynolds' settlement obligations. On 27 December 2017 the court ruled that Reynolds was liable for settlement payments on the Acquired Brands, but ITGB was not because it was not a "successor" or "assign" to Reynolds. On 29 July 2020 the intermediate Florida appellate court affirmed. Reynolds asked that court for reconsideration and for permission to appeal to the Florida Supreme Court. On 18 September 2020, the intermediate appellate court denied that motion. On 18 October 2020, Reynolds asked the Florida Supreme Court directly to permit it to appeal, and it filed a brief in support of that request on 26 October 2020. Opposition briefs are due on 25 November 2020. No decision has been issued. Florida is seeking settlement payments on the Acquired Brands of approximately $127 million plus interest, plus future annual payments based on market share of approximately $26 million.

In re Petition of Minnesota for an Order Compelling Payments of Settlement Proceeds Related to ITG Brands LLC, Court File No. 62-CV-18-1912 (Ramsey Cty. Dist. Ct, MN). On 23 March 2018 Minnesota filed a complaint and motion and Philip Morris filed a motion with the Minnesota state court with jurisdiction over the settlement claiming that Reynolds and/or ITGB must make payments on the Acquired Brands under the Minnesota settlement. Minnesota and Philip Morris alleged that ITGB was a "successor" or "assign" to Reynolds' settlement obligations. On 24 September 2019 the court ruled that Reynolds was liable for settlement payments on the Acquired Brands. The court held that whether ITGB was a "successor" or "assign" under the Minnesota settlement would be determined by whether ITGB had breached its duty under the APA with Reynolds to use reasonable best efforts to reach agreement with Minnesota to join that settlement. On 19 February 2020 the Minnesota court denied ITGB's motion seeking an immediate interlocutory appeal. The Minnesota court held a trial on whether ITG used its reasonable best efforts to reach agreement with Minnesota to join the settlement on 31 August and 1-2 and 9 September 2020. Post-trial briefing and proposed findings of fact and conclusions of law were submitted on 13 November 2020. No decision has yet been entered. Minnesota is seeking settlement payments on the Acquired Brands of approximately $58 million plus interest, plus future annual payments based on market share of approximately $13 million. Minnesota has indicated those amounts should be reduced by statutory fees already paid.

Texas v. American Tobacco Company, et al., Court File No. 5:96-cv-00091 (E.D. Tex.). On 28 January 2019 Texas and Philip Morris filed motions with the Texas court with jurisdiction over the settlement claiming that Reynolds and/or ITGB must make payments with respect to the Acquired Brands under the Texas settlement. Texas and Philip Morris alleged that ITGB was a "successor" or "assign" to Reynolds' obligations under the settlement. On 25 February 2020 the court determined that Reynolds was liable for settlement payments on the Acquired Brands. The court held that ITGB was not directly liable as a successor or assign, and referred further questions regarding ITGB's liability to Reynolds or Texas to the Delaware litigation described below.

On 5 May 2020, the court entered a judgment. The judgment further held that Reynolds' settlement payments on the Acquired Brands would be reduced by an offset for statutory fees under TEX. HEALTH & SAFETY CODE § 161.601, et seq. paid by or for ITGB. The statutory fee has been collected from ITGB's distributors since June 2015 when ITGB acquired the Brands, with ITGB reimbursing distributors for most of the fees paid. Effective 1 April 2019, Texas increased the fee amount from the lower rate paid for brands sold by Subsequent Participating Manufacturers to the MSA to the higher rate paid on other brands. Texas further demanded payment of the fee at the higher rate for the period between June 2015 and April 2019 plus penalties and interest, in the total amount of $173 million. Texas has stated in court filings that if the Acquired Brands are subject to settlement payments paid by either Reynolds or ITGB, no statutory fee will be owed, but has further stated it will not stop collecting the fee until there is a final non-appealable judgment. Reynolds has indicated in court filings that it believes the statutory fee must be collected on the Acquired Brands even if Reynolds makes settlement payments.

Both Texas and ITGB asked the court to remove the portion of its judgment reducing Reynolds' settlement payments by the statutory payments. The court denied those motions on 14 August 2020. The court further held that the judgment regarding Reynolds was final and appealable, but that the holding regarding ITGB's liability was yet final until further actions from the Delaware and/or Texas courts. Reynolds has appealed the judgment against it. ITGB and Texas both also appealed, noting disagreement with the offset for statutory fees. On 5 October 2020, Reynolds moved to dismiss ITGB's appeal (but not Texas') on the basis that the judgment is not final as to ITGB and does not injure it. ITGB opposed the motion on 15 October 2020. No decision has been issued. Initial briefs on the merits were filed on 2 November 2020.

Texas is seeking settlement payments on the Acquired Brands of approximately $167 million plus interest, plus future annual payments based on market share of approximately $36 million. Texas' claim for statutory fees will likely be affected by the outcome of the settlement proceedings, and may be addressed in a separate proceeding.

ITG Brands, LLC, v. Reynolds American Inc., Court File No. 2017-0129-AGB (Del. Chanc. Ct.). ITGB and Reynolds are also engaged in litigation in the Delaware court with respect to whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlements with Florida, Minnesota and Texas under the asset purchase agreement (APA) through which ITGB purchased the Acquired Brands and whether ITGB is required to indemnify Reynolds for amounts other courts may require Reynolds to pay. On 30 November 2017, on cross-motions by Reynolds and ITGB, the Delaware court held that the "reasonable best efforts" provision did not automatically terminate due to the transaction closing, but determined further that the duty of reasonable best efforts was not perpetual and that whether ITGB complied with that obligation is a question of fact that the court has not decided. On 23 September 2019, the Delaware court denied a motion by Reynolds to hold ITGB liable under other indemnity provisions of the APA for Reynolds' liability under the Florida decision irrespective of whether ITGB breached a duty of reasonable best efforts, finding a fact question on that argument. On 31 October 2019, the trial court denied ITGB's motion for immediate appeal, with the Delaware Supreme Court denying the same motion on 7 November 2019. There are no further proceedings currently set in Delaware. Reynolds is seeking indemnification for all amounts it may be required to pay in settlement for the Acquired Brands in the Florida, Minnesota, and Texas litigations, described above.

In re Jim Hood, ex rel. State of Mississippi Tobacco Litigation, No. 94-1429 (Chanc. Ct. Jackson Cty. MS). Effective June 12, 2015, ITGB joined the Mississippi settlement with respect to the Acquired Brands. On 18 June 2015, the Mississippi court administering the settlement approved the joinder. On 2 July 2015, Philip Morris filed a motion to vacate the joinder, but the trial court denied that motion on 4 December 2015. Philip Morris appealed, but then dismissed its appeal under a settlement with Mississippi on 2 June 2017. On 26 December 2018, Philip Morris filed a new motion in Mississippi, challenging the basis on which Reynolds and ITGB had allocated the "base year" profit for the Acquired Brands between them on the basis that it adversely affects Philip Morris. The base year affects a calculation for a downward "profit adjustment" to payments under the Mississippi (and other) State Settlements. Philip Morris claims that adjustment of the base year should lower its payments under the profit adjustment and increase Reynolds' payments. A trial is set for 3-6 May 2021. ITGB is indemnified by Reynolds for profit adjustment payments to the extent that its annual profits do not exceed a specified amount.

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

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

US Helms-Burton litigation

Imperial has been named as a defendant in a civil action in federal court in Miami, Florida under Title III of the Cuban Liberty and Democratic Solidarity Act of 1996 ("Helms-Burton") filed on 6 August 2020. Title III provides US nationals with a cause of action and a claim for treble damages against persons who have "trafficked" in property expropriated by the Cuban government. Title III is largely untested because it did not come into effect until May 2019. Treble damages are automatically available under Helms-Burton. Although the filed claim is for unquantified damages, we understand the claim could potentially reach approximately $365 million, based on the claimants' claim to own 90% of the property, which they value at $135 million (and then treble). The claim is based on allegations that Imperial, through Corporación Habanos S.A. (a joint venture between one of Imperial's now former subsidiaries and the Cuban government), has "trafficked" in a factory in Havana, Cuba that the Cuban government confiscated from the claimants' ancestor in the early 1960s, by using the factory to manufacture, market, sell, and distribute Habanos cigars.

Imperial is subject to an EU law known as the EU Blocking Statute (Regulation (EC) No. 2271/96), which conflicts with Helms-Burton, protects Imperial against the impact of Title III, and impacts how Imperial may respond to the threatened litigation. The EU Blocking Statute continues to apply in the UK during the Brexit "transition period" in place until 31 December 2020. After 31 December 2020, the substance of the law is likely to stay the same in the UK, at least in the near future. On 23 September 2020 the US court granted a stay of the action until 9 February 2021 or until further order of the court, while Imperial awaits the European Commission's response to its request for authorisation to defend the action.

Separately, two other groups of prospective claimants have indicated that they intend to file a lawsuit against Imperial in federal court in Miami, Florida. Neither claim has been filed. The threatened claims relate to other properties in Cuba, which the prospective claimants claim were confiscated from their ancestors by the Cuban government in the 1960s and which they claim are now used by Corporación Habanos S.A for commercial activities. The prospective claimants claim to be entitled to treble damages from Imperial.

UPDATE ON E-VAPOUR RELATED LITIGATION

We are defending a case in the USA filed in the California state with the court against Fontem U.S. (Fontem). The original complaint named 17 defendants in addition to Fontem. This case seeks the recovery of unquantified monetary damages, including punitive damages, against all defendants based on the claim that the principal plaintiff was injured as a result of the use of e-cigarettes and vaping devices, including e-cigarettes manufactured by Fontem. Fontem has successfully moved to dismiss three of the purported causes of action asserted against it. We intend to file Fontem's answer to the remainder of the second amended complaint. Fontem's answer to the remainder of the second amended complaint was filed in October 2019. At a case management conference in November 2019, the Court set a trial date of 1 February 2021.

OTHER INFORMATION – LISTING RULES

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	99, 102, and 111, to 117.
(5)	Waiver of emoluments by a director	N/A
(6)	Waiver of future emoluments by a director	100 to 103, 105, 113 and 114.
(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	89 and 90
(11)	Provision of services by a controlling shareholder	N/A
(12)	Shareholder waivers of dividends	See below
(13)	Shareholder waivers of future dividends	See below
(14)	Agreements with controlling shareholders	N/A

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.

Post year-end events

On 29 October 2020 the Group completed the sale of the Premium Cigar Division. For more details see note 11.

Annual General Meeting

This year's AGM will be held at 123 Winterstoke Road, Bristol, BS3 2LL on 3 February 2021 at 2.30 pm. In light of COVID-19 and the safety of our shareholders we are encouraging those wishing to attend to do so virtually.

The Notice of Meeting, instruction for joining and details of the resolutions to be put to the meeting are included in the Circular to all shareholders and can be found on our website.

2020 AGM vote

At the AGM in 2020, the Company received strong support for all its resolutions. However, the Company was included on the Investment Association Register with respect to withdrawing Resolutions 5 and 8 (the re-election of Alison Cooper and Matthew Phillips who had both left the Company by the date of the AGM).

The Company appreciates that withdrawing resolutions prior to the AGM is normally undesirable. However, these changes to the Board occurred after the AGM notice had been circulated to shareholders and prior to the meeting date, and therefore the withdrawal of the resolutions was unavoidable.

We thank our shareholders for their support during the recent period of Board changes. We do not anticipate withdrawing any resolutions in respect of the 2021 AGM.

STATEMENT OF RESPONSIBILITIES

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising 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 for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 and enable them to ensure that the financial statements and the Directors’ Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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.

DIRECTORS’ CONFIRMATIONS

Each of the Directors, whose names and functions are listed on pages 64 and 65, confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors’ Report include a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

The Directors’ responsibilities in relation to the disclosure of information to auditors is disclosed in the Audit Committee report on page 85.

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

JOHN DOWNING
Company Secretary

17 November 2020

Imperial Brands PLC
Incorporated and domiciled in England and Wales No: 3236483

REMUNERATION IN A YEAR OF CHANGE

MEMBERS

- Sue Clark (Chair)
- Thérèse Esperdy (from 6 February 2020)
- Steven Stanbrook
- Jon Stanton (from 6 February 2020)
- Karen Witts (to 6 February 2020)
- Trevor Williams (Remuneration Committee Secretary)

OTHER REGULAR ATTENDEES

- Chief Executive[1]
- Company Secretary
- Group Human Resources Director
- Group Reward Director
- FIT Remuneration Consultants LLP, the Remuneration Committee's principal adviser[2]

FOCUS IN 2020

- 2021 Directors' Remuneration Policy review including consideration of the UK Corporate Governance Code and engagement with shareholders.
- Remuneration and terms of appointment for the Interim CEOs.
- Remuneration and terms of appointment for the CEO.

LOOKING AHEAD TO 2021

- Finalisation of Directors' Remuneration Policy, renewal of the Group's share plans.
- Supporting the implementation of the Company's revised strategy.
- Remaining sensitive to impacts of COVID-19 and the implications for the business.

1. Specifically excluded when their own remuneration or conditions of service are under discussion.
2. Appointed by the Remuneration Committee.

DEAR SHAREHOLDER

The Remuneration Committee was extremely active during the year, given the significant senior leadership changes in the business and the engagement with shareholders on our proposed new Remuneration Policy.

The role of the Remuneration Committee is to ensure that the Company's remuneration structures and arrangements encourage our Executive Directors and broader senior leadership team to implement the business plan and deliver our strategy in a responsible and sustainable way that creates value for our stakeholders.

With that in mind, a considerable amount of our time was spent assessing the Remuneration Policy in advance of its renewal at our 2021 AGM.

We are proposing slight adjustments to the Policy, having taken the view that it is still largely appropriate for incentivising management, irrespective of the change in senior leadership and the subsequent future change to our strategy.

We have actively engaged with shareholders on the proposed new Policy, which is set out in detail on pages 100 to 109, and believe the changes also bring it into line with the requirements of the revised Corporate Governance Code.

While performance this year has been challenging, particularly in the light of COVID-19, we have taken steps to strengthen results in tobacco and our cash conversion also remained strong.

In the light of the disappointing trading performance of NGP during the year and the recommendation of the newly-appointed CEO that no bonus should be payable against the NGP strategic measures, the Remuneration Committee reduced the total bonus outcome by 8.4 per cent of maximum to 40 per cent of maximum. In doing so the Committee was mindful of Imperial Brands' performance in the round, the experience of its stakeholders in the current environment and returns to shareholders including the reduction to the dividend. At the same time, the Remuneration Committee also took into account the need to reward performance where this is merited. This is the second consecutive year in which the bonus outcome has been revised downwards.

The LTIP award due to vest in February 2021 will vest in part with growth in net revenue resulting in 12.5 per cent of the total award vesting.

Board changes

The departure of Chief Executive Alison Cooper and Chief Development Officer Matthew Phillips in February was followed by a period of interim leadership, with divisional directors Joerg Biebernick and Dominic Brisby appointed as joint interim CEOs. As a result of their enhanced responsibilities, we appropriately and temporarily adjusted their pay.

On 1 July, we welcomed Stefan Bomhard to the business as CEO. Stefan has considerable experience across a wide range of industries and the Remuneration Committee believes that his remuneration is appropriate to secure the services of such a high calibre individual.

During his first months, Stefan has prioritised driving Imperial's performance through the final quarter of the year, whilst leading a review of our strategy, business model and culture. The results of this review will be communicated in the first quarter of calendar year 2021.

In August, we announced that Chief Financial Officer Oliver Tant would be retiring once a suitable successor had been found. The arrangements on leaving for Oliver, Alison and Matthew are in line with our Remuneration Policy and are set out in detail on pages 117 and 118.

POLICY RENEWAL

The current Directors' Remuneration Policy was approved by shareholders at the AGM in 2018 and therefore is due for renewal at the AGM in 2021.

Over the last 18 months, the Remuneration Committee has considered a number of potential alternative remuneration approaches and concluded that the current structure is still appropriate to incentivise performance.

The new Policy is therefore broadly a renewal of the existing one, albeit with some updated features to reflect developments in corporate governance, market practice and investor expectations.

The proposed changes were subject to a comprehensive consultation process with our major shareholders and proxy agencies.

Our original proposal also included a mechanism which fixed the number of shares granted under the LTIP in subsequent years but following mixed shareholder feedback the Remuneration Committee decided to retain its current practice of granting LTIP awards as a percentage of salary.

The final Policy changes are set out in more detail on pages 100 to 109, but in summary are:

- Pension alignment – we had already provided a commitment to align any future Executive Directors' pension provision with that of employees (currently 14 per cent of salary). This will now be formally included within the new Policy. With the announcement of Oliver's retirement during the course of the year, the Executive Directors will be fully aligned with the workforce by the end of our 2021 financial year.
- Annual Bonus deferral – under the current Policy, Executive Directors use their Annual Bonus to purchase shares to the value of 50 per cent of their bonus. These shares are not released for three years but are not forfeitable on cessation of employment. The new Policy will instead grant 50 per cent of the Annual Bonus in deferred shares, which vest after three years, with no acceleration in vesting on cessation of employment (except in exceptional circumstances). These awards are forfeitable if the Executive Director resigns voluntarily or is dismissed for cause.
- Post-cessation shareholding requirement – the Remuneration Committee proposes the introduction of an additional requirement for Executive Directors to hold shares to the value of the shareholding guideline for a period of a year post-cessation, with the requirement reducing to half the shareholding guideline for the second year post-cessation.
- Performance measures – we propose to update our Policy wording so that it is more in line with market practice and allows for the use of a range of performance measures, including both financial and non-financial metrics. In practice, this does not change our approach in selecting the measures which are best suited to the strategy at that time, but will clarify how we can operate our incentive plans in the future (e.g. such as incorporating the use of ESG measures for a minority of the Annual Bonus/LTIP if that is felt appropriate).
- Clawback and malus – our existing provisions are considered to be effective, but to reflect updates in market practice, we will extend the "triggers" to include corporate failure (e.g. administration or insolvency) material downturn of operational, financial or business performance, or material risk failure. This will apply to awards granted from financial year 2021 onwards.

The Remuneration Committee is confident that the changes set out above are the best way to support our current strategic aims at this time, whilst motivating our management and giving us the tools to attract new talent into the Company and are, therefore, in the interests of our shareholders.

To the extent that the strategic direction of the business materially changes during the next three years, the Remuneration Committee will consider whether it is necessary to revisit the Policy. Any changes would be subject to shareholder consultation and final approval.

Renewal of Company's share plans

The Company's existing LTIP is due to come to the end of its 10 year life in January 2023.

To align with the new Directors' Remuneration Policy which is being put to shareholders for approval at the AGM in 2021, the Remuneration Committee has also decided to seek shareholder approval for a new LTIP and a new Deferred Share Bonus Plan which, if approved, will become the Company's primary arrangement for the delivery of share incentive awards to Executive Directors and senior management.

The Remuneration Committee has also decided to ask shareholders to approve a new Sharesave Plan, which is an all-employee arrangement for the benefit of the Company's worldwide employees.

Implementation for FY21

Given the current environment there will be no salary or fee increases for Directors or wider management for FY21. There are no plans for general salary increases across the business although there will be some exceptions to meet regulatory requirements.

The Annual Bonus will continue to operate on a similar basis to FY20, using a basket of measures to assess performance. For FY21, the Remuneration Committee decided to amend these measures to better reflect the current strategic priorities of the business. The full terms are set out on page 110, but in summary the measures will be Adjusted Operating Profit (40 per cent weighting), cash conversion (20 per cent weighting), market share growth (20 per cent weighting) and individual/strategic objectives (20 per cent weighting).

The metrics are considered to provide a better direct link to our strategy and the areas the business needs to focus on over the next year. The Remuneration Committee did consider the specific use of a separate ESG measure within the Annual Bonus but felt it was too soon to set a robust target, given the ongoing strategic review. However, the Remuneration Committee has agreed that ESG measures will be introduced into our incentive plans during the course of this Policy period.

The intention is to grant the FY21 LTIP as normal in February 2021. The award will be subject to a combination of measures which include Adjusted EPS (40 per cent weighting), Net debt/EBITDA (20 per cent weighting), Return on Invested Capital (20 per cent weighting) and relative TSR (20 per cent weighting).

Again, the Remuneration Committee believes these measures will provide a more balanced view of performance over the next performance cycle. Given the volatility in the global economy, the Remuneration Committee has decided to delay setting the target ranges until nearer to the date of grant.

The specific targets will be communicated to shareholders via an RNS as soon as practically possible and will be disclosed in full in next year's Directors' Remuneration Report. When granting the LTIP award the Remuneration Committee will be mindful of the share price at the time.

The Remuneration Committee retains broad discretions in relation to the operation and ultimate vesting of the LTIP and will take into account any perceived windfalls over the vesting period when approving the final outcome.

CONTINUED ENGAGEMENT

We continue to engage with our shareholders and other stakeholders on an ongoing basis and have found their input, particularly in the development of the new Policy, to be valuable. We wish to thank all those who participated in the Policy renewal process for their time and valuable input.

As a Remuneration Committee, we benefit from the membership of Steven Stanbrook as the Workforce Engagement Director and the input he provides in terms of the wider employee experience.

As ever, we continue to strive for greater clarity in our presentation and disclosure to enhance the experience for the reader. I would welcome any feedback or comments on the Directors' Remuneration Report more generally.

Sue Clark.

SUE CLARK
Chair of the Remuneration Committee

KEY SECTIONS OF THIS REPORT ARE AS FOLLOWS:

- Remuneration at a glance
- Directors' Remuneration Policy
- Annual report on remuneration
- Implementation of Remuneration Policy for FY21
- Single total figure table
- Annual Bonus
- Long-Term Incentive Plan
- Statutory and regulatory reporting requirements
- Governance

REMUNERATION AT A GLANCE

REMUNERATION OUTCOME IN 2020 (£,000)

	Fixed pay	Annual Bonus	Long-Term Incentive Plan
Stefan Bomhard	850	254	0
Alison Cooper	448	0	0
Oliver Tant	962	600	152
Matthew Phillips	246	0	0
Joerg Biebernick	668	295	0
Dominic Brisby	640	303	0

SUMMARY OF EXECUTIVE DIRECTORS' VARIABLE REMUNERATION

		Maximum % of bonus/LTIP	Formulaic out-turn	Out-turn post discretion	% of weighting achieved
Annual Bonus	Adjusted EPS	20%	0%	0%	0%
	Cash conversion	20%	20%	20%	100%
	Total net revenue growth	20%	0%	0%	0%
	Core market share	20%	20%	20%	100%
	NGP Strategic Metrics	20%	8.4%	0%	0%
Long-Term Incentive Plan	Adjusted EPS	30%	0%	0%	0%
	Net revenue growth	30%	12.5%	12.5%	42%
	NGP net revenue growth	20%	0%	0%	0%
	TSR	20%	0%	0%	0%

OUR DIRECTORS' REMUNERATION POLICY

Fixed pay (salary, pension and benefits)

Link to strategy:

Recruit, retain and motivate high calibre executives.

- Salary reviews and increases consider market positioning against peer groups, Company and individual performance, broader increases across the UK and global workforce.
- Each Executive Director received an increase of around 2 per cent of salary with an effective date of 1 October 2019. In line with the majority of the Group's employees, none of the Directors will receive an increase in respect of the financial year commencing 1 October 2020.

Annual Bonus

Link to strategy:

Drives delivery of annual objectives. Deferred element rewards sustained performance aligned to shareholder interests.

- The bonus plan currently uses five financial metrics, aligned to the Company's annual objectives, each equally weighted.
- Subject to the Remuneration Committee's discretion, each metric begins to pay-out once threshold performance has been delivered, rising to full pay-out if stretching maximum targets are met. The formulaic out-turn for the financial year 2020 Annual Bonus was 48.3 per cent of maximum. In the light of disappointing NGP performance the Remuneration Committee accepted the CEO's recommendation that no bonus should be payable against the NGP Strategic Metrics. Hence the final bonus out-turn was 40 per cent.

Long-Term Incentive Plan

Link to strategy:

Aligns Directors' and stakeholders' interests by incentivising delivery of long-term strategic objectives and retaining high calibre executives.

- The LTIP vesting shown in the single total figure table is based on performance between financial years 2018-20 which used four metrics with vesting opportunity at threshold beginning at 25 per cent of the award up to 100 per cent of the award.
- This award is due to vest, in part, in February 2021 with growth in net revenue resulting in a 12.5 per cent pay-out. None of the other performance conditions were met.
- The LTIP granted during the year is based on performance between financial year 2020-22 and will be assessed against four metrics covering financial and shareholder value measures.

POLICY RENEWAL

Over the last 18 months, in conjunction with a working group comprising the Remuneration Committee Chair, representatives from Company Secretariat and Group HR together with its external adviser, FIT, the Remuneration Committee considered a number of potential alternative remuneration approaches. However, the Remuneration Committee concluded that the current structure remains the most appropriate. The proposed new Policy is broadly a renewal of the existing Policy, albeit with some updated features to reflect developments in corporate governance, market practice and investor expectations. The Remuneration Committee led the review process throughout and whilst input was collected from management and our external advisers, it was the Remuneration Committee which approved the final Policy that is presented.

The Remuneration Committee believes that the updated Policy relating to performance measures, which removes the limitations on the use of non-financial measures, will better future proof the Policy by providing it with the flexibility to set performance measures to support the reset strategy and, for example, to introduce ESG measures before the end of the Policy period.

The Remuneration Committee intends that the new Policy will operate for three years. If, however, more radical changes are needed following the strategic review these would be proposed out of cycle at the 2022 or 2023 AGM or if felt more appropriate at a separate General Meeting.

How the revised Policy addresses the factors set out in the UK Corporate Governance Code 2018

Whilst reviewing the Directors' Remuneration Policy the Remuneration Committee was cognisant of the remuneration factors set out in provision 40 of the 2018 UK Corporate Governance Code. The table below shows how the Policy addresses each of these factors.

Clarity	The proposed Policy is an update of the existing Policy, reflecting developments in corporate governance, market practice and investor expectations. It is therefore already understood by participants and shareholders. The Policy sets out clearly each element of remuneration limits in terms of quantum and the discretions the Remuneration Committee can apply. The Remuneration Committee Chair consulted with shareholders representing approximately 55 per cent of our issued share capital in relation to the proposed Policy.
Simplicity	For a number of years the Company has simplified its long-term incentive arrangements, progressively removing the share matching scheme and where appropriate replacing it with a single LTIP.
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 incentive plans; • Deferral of remuneration and holding periods; • Remuneration Committee discretion to override formulaic outturns to ensure incentive pay-outs reflect underlying business performance and shareholder experience; • Limits on awards specified within the policy and plan rules; • Regular interaction with the Audit Committee.
Predictability	The performance scenarios on page 106 provide an illustration of the potential pay outcomes. The Remuneration Committee regularly reviews the performance of inflight awards so it understands the likely outcomes.
Proportionality	The Remuneration 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 to culture	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 Remuneration Committee reviews the Policy, taking into account the feedback received from shareholders and the impact on the wider workforce. The Remuneration Committee benefits from the membership of Steven Stanbrook as the Workforce Engagement Director and the input he provides in terms of the wider employee experience; further details in respect of workforce engagement can be found on pages 16 to 19 and 69.

PROPOSED 2021 REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	Operation	Maximum opportunity	Change
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 Remuneration Committee taking into account Company performance as well as each Executive Director's performance together with changes in role and responsibility. Salary increases, if any, are generally effective from 1 October. The Remuneration 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 Remuneration 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 Remuneration Committee would only set a salary which exceeded the top quartile of salaries of the comparator group in unforeseen and exceptional circumstances.	Consideration of wider workforce, with a focus on increases in the country in which the Executive Director is based rather than UK management.
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, including expatriate or relocation arrangements, benefits 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. Reasonable business related expenses will be reimbursed (including any tax payable thereon).	The level of benefit provision is fixed although the value may vary depending on the cost of providing such provisions.	Closer linkage to wider workforce by including other benefits and reimbursement of expenses.

PROPOSED 2021 REMUNERATION POLICY FOR EXECUTIVE DIRECTORS CONTINUED

Element	Purpose and link to strategy	Operation	Maximum opportunity	Change for existing policy
Annual Bonus Plan	Incentivise delivery of Group strategic objectives and enhance performance, including against the indicators we use to measure our performance as detailed on pages 12 and 13.	The Annual Bonus will be subject to the relevant performance measures set by the Remuneration 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. Performance below the threshold results in zero payment. Payments rise from zero to 100 per cent of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any Annual Bonus earned is deferred into an award over shares which vest 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. 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. Malus and clawback provisions are in place. The deferred shares are not subject to performance conditions.	200 per cent of base salary or such lower sum as determined by the Remuneration Committee.	Removal of restrictions in weighting of personal performance and increased flexibility to use other alternative measures (e.g. ESG). Upon leaving deferred shares will ordinarily be required to be held to the end of deferral period and will be forfeitable if the Executive Director resigns voluntarily or is dismissed for cause.
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 as detailed on pages 12 and 13, and long-term shareholder returns. 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 Remuneration Committee normally before each grant to align with the strategic priorities of the business at that time. In normal circumstances, at least 70 per cent of the LTIP award will be subject to financial and/or value creation measures. Malus and clawback provisions are in place. 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.	Chief Executive Officer: 350 per cent of base salary. Other Executive Directors: 250 per cent of base salary or such lower sum as determined by the Remuneration Committee. LTIP awards may include additional shares (or, exceptionally, cash) equivalent to the value of the dividend roll-up, and which may assume dividend reinvestment.	Removal of restrictions in terms of TSR weighting and to allow the use of other alternative measures (e.g. ESG).

Element	Purpose and link to strategy	Operation	Maximum opportunity	Change
Pensions	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. The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service. The Remuneration 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.	Any new Executive Director will be appointed on a workforce aligned pension rate (currently 14 per cent of salary). The current CEO was appointed on a workforce aligned pension. The current policy maximum is for a defined contribution and/or cash supplement limit of 26 per cent of salary. This only applies to the current Chief Financial Officer until his retirement, expected to be prior to the end of the 2021 financial year.	Inclusion of alignment of new Executive Directors with workforce pension (previously an undertaking).
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. 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.	No changes are proposed.

PROPOSED 2021 REMUNERATION POLICY FOR EXECUTIVE DIRECTORS CONTINUED

Element	Purpose and link to strategy	Operation	Maximum opportunity	Change
Shareholding guideline	Align Executive Directors' interests with those of 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 per cent of gross base salary. Other management are expected to build a holding to between 50 per cent and 200 per cent of gross base salary, dependent upon grade. 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 per cent 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 Remuneration 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 per cent of gross base salary.	Introduction of post cessation shareholding requirement.

REMUNERATION COMMITTEE DISCRETIONS RELATING TO VARIABLE PAY SCHEMES

The Remuneration Committee operates each of the Company's incentive plans for which it has responsibility according to their respective rules and, where relevant, in accordance with the Listing Rules. The Remuneration Committee has discretion, consistent with market practice and the framework of this Policy, in respect of:

- participants;
- the timing of grant of an award and/or payment;
- the size of an award (subject to the maxima set out in our Policy);
- the performance measures and targets;
- the determination of vesting and confirmation that the calculation of performance is made in an appropriate manner, with due consideration of shareholder experience, Company performance and whether and, if so, how adjustments should be made (subject to the provision that any adjustments to targets set should result in the revised target being no less challenging than the original target); the Remuneration Committee has discretion under the rules of the 2021 LTIP (subject to shareholder approval) 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;
- discretion required when dealing with a change of control (including the testing of any performance conditions on the occurrence of such events and the 'roll-over' of awards) and any adjustments required in special circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- determination of a good/bad leaver for plan purposes based on the rules of the plan and the appropriate treatment chosen, including the timing of vesting of awards held by good leavers, the application of time pro-rating and any additional conditions applying to good leavers' awards;
- whether, and on what basis, dividend roll-up may apply to any award;
- whether recoupment (or 'malus' and/or 'clawback') shall apply to awards and, if so, the amount that shall be subject to recoupment and the method by which it will be applied;
- the method by which awards will be settled in shares (e.g. newly-issued, treasury or market-purchased shares) or (exceptionally) in cash;
- the method by which any post-vesting holding period and post-cessation holding period shall apply; and
- amendments to the terms of the incentive plans, subject to any regulatory requirements to obtain shareholder approval for such amendments.

- In relation to the Annual Bonus and LTIP awards, the Remuneration Committee retains the ability to adjust the targets set if events occur which cause it to determine that the conditions are no longer appropriate and amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy than was intended. Adjustment may also be made for any changes to accounting policy or accounting standards over the performance period. Any use of discretion beyond the normal operation of the plan would be justified in the Annual report on remuneration and, if appropriate, be subject to consultation with the Company's major shareholders. The use of discretion in relation to the Company's Sharesave Plan is as permitted under HMRC rules.

RECOUPMENT (MALUS AND CLAWBACK)

The Remuneration Committee believes that it is appropriate for all variable pay awards made by the Company to be subject to provisions that allow it to recover any value delivered (or which would otherwise be delivered) in connection with any variable award including Annual Bonus and LTIP awards in exceptional circumstances, and where it believes that the value of those variable pay awards is no longer appropriate.

Malus provisions apply before payment and clawback provisions are in place following payment of the Annual Bonus (or vesting of any element of Annual Bonus deferred into an award over shares) or vesting of any LTIP award.

The malus and clawback provisions can be used in the following circumstances:

- There has been a material misstatement of financial results;
- There has been an error of calculation in the grant or vesting of any award;
- The award holder has committed fraud or gross misconduct; and
- The award holder has (by act or omission) contributed to:
  - serious reputational damage to the Imperial Brands group;
  - an instance of corporate failure (e.g. the appointment of a liquidator);
  - a material failure of risk management; or
  - a material downturn of operational, financial or business performance.

PAYMENTS FROM EXISTING AWARDS

Subject to the achievement of applicable performance measures, Executive Directors are eligible to receive payment, and existing awards may vest, in accordance with the terms of any such award made prior to the approval and implementation of the 2021 Remuneration Policy detailed in this Report. Any employee appointed to the Board as an Executive Director will remain eligible to receive payments, and existing awards may vest, in accordance with the terms of any such payment or award under any of the Group's share plans made prior to such appointment.

PERFORMANCE MEASURE SELECTION

The measures used under the variable reward elements are reviewed annually to ensure they support the Group's strategy.

Performance targets are set to be stretching yet achievable, taking into account the Company's strategic priorities and the economic environment at the time. Further information on the measures and targets for 2021 can be found on pages 110 to 111.

DIFFERENCES IN REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND THE POLICY FOR OTHER EMPLOYEES

The Remuneration Policy for Executive Directors is designed having regard to the remuneration policy for employees across the Group. The structure of the Remuneration Policy for Executive Directors and other senior employees is closely aligned. The key differentiator is the increased emphasis on long-term performance in respect of Executive Directors, with a greater percentage of their total remuneration being performance related. This includes mandatory three-year deferral of 50 per cent of bonus and an additional two-year holding period on vested LTIPs, neither of which apply to other managers. There are also variations in the performance metrics which the Remuneration Committee believes are necessary to reflect the different levels of responsibility.

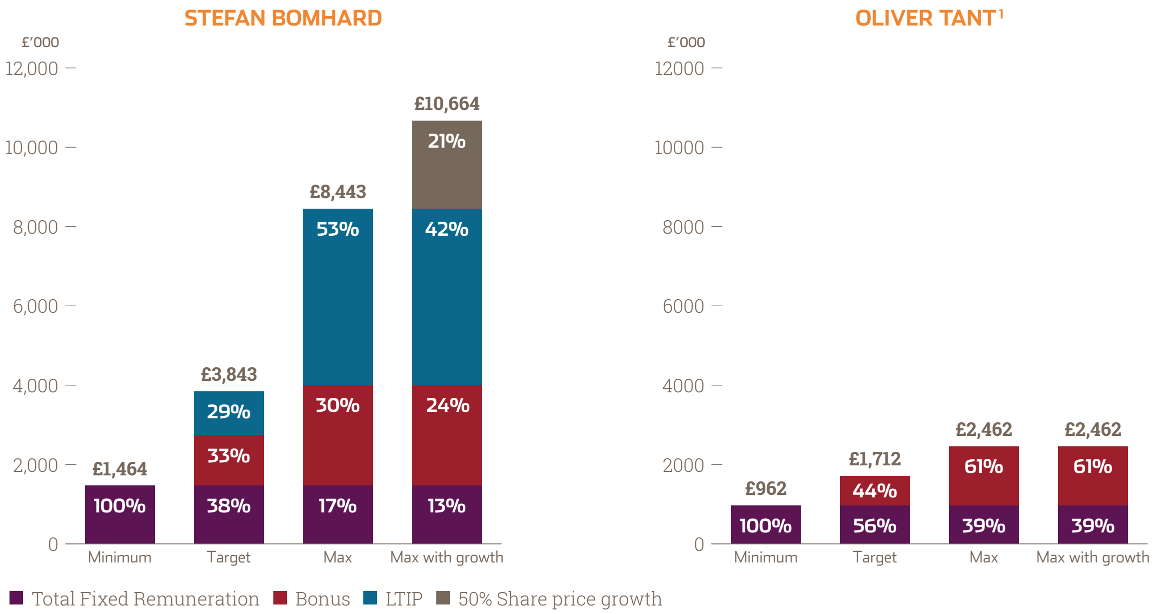
The Company's approach to annual salary reviews is consistent across the Group, with consideration given to Company performance, the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

All managers are eligible to participate in an Annual Bonus plan with similar metrics to those used for the Executive Directors.

Senior managers are eligible to participate in the LTIP (c.500 individuals). Where possible, all employees are encouraged to become shareholders by participating in our Sharesave Plan on the same terms as Executive Directors. Approximately 30 per cent of eligible employees have taken the opportunity to participate in the Sharesave Plan. Certain managers (c.300 individuals) are eligible to participate in the legacy Share Matching Scheme although this is closed to new participants. Executive Directors may not participate in the Share Matching Scheme.

Retirement benefit, typically in the form of a pension, is provided based on local market practice. Other benefits provided reflect local market practice and legislation.

TOTAL REMUNERATION BY PERFORMANCE SCENARIO FOR 2020/21 FINANCIAL YEAR



1. Oliver Tant has announced his retirement and will not receive an LTIP award in 2021.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS AND LOSS OF OFFICE PAYMENTS

The Company's policy is that Executive Directors' service agreements normally continue until their agreed retirement date or such other date as the parties agree, are terminable on no more than one year's notice and contain no liquidated damages provisions nor any other entitlement to the payment of a predetermined amount on termination of employment in any circumstances. In addition, in some limited cases career counselling may be provided after the cessation of employment for a defined period and contribution towards an individual's legal fees. The Remuneration Committee has the authority to enter into settlement agreements with Executive Directors and to pay compensation to settle potential legal claims where considered in the best interests of all parties. Under the terms of our Articles of Association, all Executive Directors are subject to annual re-election by shareholders and copies of their service agreements are available for viewing at the Company's registered office during normal business hours and both prior to and at the AGM.

Executive Directors' service agreements contain provisions for payment in lieu of notice in respect of base salary, pension contributions and a percentage of base salary in respect of other benefits, but these are at the Remuneration Committee's sole discretion. The Company is unequivocally against rewards for failure. The circumstances of any termination (including performance) and an individual's duty and opportunity to mitigate losses would be taken into account in every case; our policy is to stop or reduce compensatory payments to former Executive Directors to the extent that they receive remuneration from other employment during the compensation period and so any such payments would be paid monthly in arrears.

For Executive Directors leaving employment for specified reasons (including death, ill health and disability, the business or company in which they are employed ceasing to be part of the Group) or in other circumstances and where the Remuneration Committee permits Annual Bonus awards will be based on performance, adjusted for time served, and paid at the same time as for other employees. The Remuneration Committee has discretion to treat any Executive Director leaving for a reason other than the specified reasons above to be permitted to retain their Annual Bonuses, to adjust the timing and pro-rating to take account of any prevailing exceptional circumstances.

Under the rules of the LTIP, outstanding awards remain capable of vesting in accordance with their terms if a participant leaves for the specified reasons as detailed above, or in any other circumstances where permitted by the Remuneration Committee. In these circumstances awards vest as the Remuneration Committee determines, having regard to the time the award has been held and the achievement of the performance criteria. Awards will normally vest at the normal vesting date. If the termination of employment is not for one of the specified reasons and the Remuneration Committee does not exercise its discretion to allow an award to vest, awards lapse entirely.

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
Oliver Tant	1 October 2013	Terminable on 12 months' notice	No provisions

1. Service agreement dated 31 January 2020 with a start date of 1 July 2020.

RECRUITMENT OF EXECUTIVE DIRECTORS

The remuneration package for any new Executive Director is set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. Base salary will be set at an appropriate level, taking into account the experience of the individual being appointed and the nature of the role. This may include setting the initial base salary below market but with an expectation that subsequent increases will bring this into line with the desired market rate, in line with their development in the role. The pension provision offered will be no more than that offered to the wider workforce at the time of appointment. Depending on the timing of such an appointment within the financial year, it may be necessary for the Remuneration Committee to use alternative performance measures for the first performance period.

The Remuneration Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and, therefore, shareholders. Buyout awards will be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash, shares or options), time horizons and performance requirements attaching to that remuneration where possible. Shareholders will be informed of any such awards at the time of appointment. Ordinarily, any such buyout awards would be delivered as 'recruitment awards' under the 2021 LTIP rules but the Remuneration Committee may need to avail itself of the current Listing Rule 9.4.2 R, if required, in order to facilitate the recruitment or retention of the relevant individual. The Remuneration Committee confirms that this provision would only be used to compensate for remuneration lost.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay-out according to its terms on grant. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the Remuneration Committee.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

The Workforce Engagement Director is a member of the Remuneration Committee and is well placed to keep the Committee informed on employees' views and, where required, engage on executive remuneration. We did not consult with employees as part of the process of developing the new Policy. However, in addition to the employee engagement detailed on pages 16 to 19 and 69 we have shared our gender pay report and the CEO pay ratio with employees. As part of our #haveyoursay survey, we also received feedback on what employees value in terms of their reward package and where we can improve at the local level.

The Remuneration Committee ensures that it is fully briefed on pay practices across the Company generally. The Remuneration Committee usually reviews external market data annually and this is the primary source of remuneration comparison.

CONSIDERATION OF SHAREHOLDER VIEWS

The Remuneration Committee understands that shareholders have diverse views in respect of remuneration, and therefore engages with the Company's largest shareholders to ensure it understands the range of views which exist on remuneration issues. When any material changes are proposed to be made to the Remuneration Policy the Remuneration Committee Chair will inform and, where appropriate, consult with major shareholders in advance, and will offer a meeting to discuss these.

In addition to reviewing the shareholder feedback received in respect of the 2020 AGM and in line with this Policy, prior to proposing the revised Directors' Remuneration Policy at its 2021 AGM, the Remuneration Committee actively engaged with shareholders. Outline proposals were sent to shareholders, who together own approximately 55 per cent of the Company. Meetings were held with the shareholders who wanted to discuss the proposals. Meetings were also held with The Investment Association and ISS and we corresponded with Glass Lewis.

The Remuneration Committee also seeks ongoing advice from its external advisers on wider shareholder views, to ensure that it is kept up to date with any changes in market practice and shareholder sentiment.

Following the consultation and consideration of the feedback received, the Remuneration Committee is proposing limited changes to its existing Policy as it strongly believes that this is the best approach to support the Company's strategic aims, motivate management and provide the tools to attract high calibre new talent to the Company and is therefore in the best interests of shareholders and other stakeholders.

POLICY IN RESPECT OF EXTERNAL BOARD APPOINTMENTS

The Remuneration 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 £19,249 fee received from this position in the financial year.

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. Fee increases, if applicable, are normally effective from 1 October. The Board considers fee data at comparator companies of similar scale. The Senior Independent Director, the chairs of the Audit and Remuneration Committees and the Workforce Engagement Director receive additional fees. Additional fees are paid for Remuneration and Audit Committee memberships. An allowance is paid when regular intercontinental travel is required. Higher fees may be paid to a Non-Executive Director should they be required to assume executive duties on a temporary basis. No eligibility for Annual Bonus, retirement benefits or to participate in the Group's employee share plans.	No prescribed maximum annual increase. 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. To the extent that any other reasonable business related expenses are recognised as a taxable benefit, these will be reimbursed at cost (including any tax thereon). 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 5 February 2020. 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.

ANNUAL REPORT ON REMUNERATION

HOW THE REMUNERATION COMMITTEE IMPLEMENTED THE REMUNERATION POLICY FOR FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

Implementing executive policy and practice

Salary

The Remuneration Committee sets base salaries having regard to Company and individual performance, changes to the individual's role, awards to other employees and market data for each position which reflect the Company's size, sector and global reach. Consideration is given to the effect any amendment to an individual's base salary would have on their total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

The Remuneration Committee decided in September 2020 that, in line with the majority of the Group's employees, no increase in salary or fees would be awarded to any Director.

Annual Bonus

The Remuneration Committee thinks it continues to be appropriate that a significant portion of Executive Directors' remuneration is linked to and incentivises the delivery of the Company's annual objectives through performance against key targets. The maximum Annual Bonus opportunity for all Executive Directors remained unchanged at 200 per cent of salary.

The proposed changes outlined in the Policy are more in-line with current market practice and to allow for the use of a range of performance measures including both financial and non-financial metrics. In practice, this does not change the Remuneration Committee's approach in selecting the measures which the Remuneration Committee feels are best suited to the strategy at the time and provides us with flexibility on how we operate our bonus, for example, to allow the Remuneration Committee to incorporate the use of ESG measures when the Remuneration Committee feels it is appropriate. It is anticipated that, in normal circumstances, at least 60 per cent of the Annual Bonus will be subject to financial measures. Any material changes in the performance metrics would be subject to prior consultation with our major shareholders.

While the Remuneration Committee acknowledges that Stefan Bomhard requires a period of familiarisation before articulating any material changes in strategy or approach, which may necessitate amendments to our performance measures, the Remuneration Committee has approved the following metrics for use in the 2021 bonus:

	Performance target	Maximum percentage (%) of bonus
Adjusted Operating Profit	Commercially confidential	40
Cash Conversion	Commercially confidential	20
Market Share Growth	Commercially confidential	20
Individual/Strategic Objectives	Commercially confidential	20

At this point, the performance targets are considered commercially confidential, but to the extent that any bonuses are paid, further details will be provided retrospectively in our 2021 Annual Report.

Under the proposed Directors' Remuneration Policy, the Remuneration Committee retains the ability to make any necessary adjustments on how best to assess the achievement of the Annual Bonus measures and targets if any significant divestment occurs during the performance period. When using its judgement, the Remuneration Committee will consider the particular circumstances of the event and prioritise an approach which promotes the principles of fairness and consistency in outcomes. The Remuneration Committee retains wide discretion to amend or adjust a bonus measure and/or target if an event occurs which means it no longer achieves its original purpose.

The new Policy provides that 50 per cent of the Annual Bonus will be deferred into shares, vesting after three years but unlike the current Policy there will be no acceleration of vesting on cessation of employment, other than in exceptional circumstances. These awards may also be forfeitable at the Remuneration Committee's discretion.

SHARE PLAN AWARDS

February 2021 LTIP grant

Subject to shareholder approval, the financial year 2021 LTIP award will be granted under the new Policy, which does not propose any changes to the headline quantum and will therefore be subject to a maximum of 350 per cent of salary for the CEO and 250 per cent of salary for other Executive Directors. Given his announced retirement, Oliver Tant will not be eligible for a 2021 LTIP award. The following metrics are proposed for the 2021 award: Adjusted EPS with a 40 per cent weighting; Net debt/EBITDA with a 20 per cent weighting; Return on Invested Capital (ROIC) with a 20 per cent weighing; and relative TSR which will be applied to 20 per cent of the LTIP award and be based on the following peer group, the same as in 2020:

The companies in the TSR peer group remain:

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'Oreal
Monster Beverage	Pernod Ricard	PepsiCo	Philip Morris International	Procter & Gamble
Reckitt Benckiser Group	Swedish Match	UniCharm	Unilever	

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Given the current environment, the Remuneration Committee will take time to consider the appropriate target range for the EPS, Net debt/EBITDA and ROIC measures. The Remuneration Committee would expect to be in a position to disclose the target range by way of a regulatory announcement at the time the award is made in February 2021, but in any case not later than six months after the award is granted. Full disclosure of the target ranges will be provided in next year's Report.

The Remuneration Committee retains the ability to make any necessary judgements on how best to assess the achievement of the LTIP measures and targets if any significant divestment occurs during the performance period. When using its judgement, the Remuneration Committee will consider the particular circumstances of the event and prioritise an approach which promotes the principles of fairness and consistency in outcomes. The Remuneration Committee retains wider discretion to amend or adjust an LTIP measure and/or target if an event occurs which means it no longer achieves its original purpose.

When granting the LTIP award the Remuneration Committee will be mindful of the share price at the time. The Remuneration Committee also retains broad discretions in relation to the operation and ultimate vesting of the LTIP and will take into account any perceived windfalls over the vesting period when approving the final outcome.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED)

Joerg Biebernick and Dominic Brisby were appointed on a temporary basis as Joint Interim CEOs between 1 February 2020 and 30 June 2020. In accordance with relevant reporting regulations, their remuneration for fulfilling their role as Joint Interim CEOs in the relevant period is disclosed in the table below. They each received a temporary salary supplement to ensure that their salary for the period was commensurate with the leadership role they fulfilled. Their bonus maximum was also higher at 200 per cent of salary on a temporary basis.

	Salary and fees		Taxable benefits[1]		Annual Bonus[2]		LTIP vesting[3]		Pension benefits[4]		Total		Total fixed		Total variable		Effect of share price on value of LTIP vesting[5]	
£'000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Executive Directors																		
Stefan Bomhard[6]	**800**	–	**6**	–	**254**	–	**–**	–	**44**	–	**1,104**	–	**850**	–	**254**	–	**–**	–
Alison Cooper[7]	**375**	1,104	**6**	17	**–**	684	**–**	–	**67**	332	**448**	2,137	**448**	1,453	**–**	684	**–**	–
Oliver Tant	**750**	736	**17**	16	**600**	456	**152**	–	**195**	191	**1,714**	1,399	**962**	943	**752**	456	**(142)**	–
Matthew Phillips[7]	**206**	605	**6**	17	**–**	375	**–**	–	**34**	93	**246**	1,090	**246**	715	**–**	375	**–**	–
	2,131	2,445	**35**	50	**854**	1,515	**152**	–	**340**	616	**3,512**	4,626	**2,506**	3,111	**1,006**	1,515	**(142)**	
Interim Executive Directors																		
Joerg Biebernick	**602**	–	**13**	–	**295**	–	**–**	–	**53**	–	**963**	–	**668**	–	**295**	–	**–**	–
Dominic Brisby	**617**	–	**6**	–	**303**	–	**–**	–	**17**	–	**943**	–	**640**	–	**303**	–	**–**	–
	1,219	–	**19**	**–**	**598**	**–**	**–**	–	**70**	**–**	**1,906**	–	**1,308**	–	**598**	–	**–**	–
Non-Executive Directors																		
Thérèse Esperdy[8]	**485**	107	**27**	46	**–**	–	**–**	–	**–**	–	**512**	153	**512**	153	**–**	–	**–**	–
Mark Williamson[9]	**138**	550	**3**	8	**–**	–	**–**	–	**–**	–	**141**	558	**141**	558	**–**	–	**–**	–
Sue Clark[10]	**129**	83	**1**	2	**–**	–	**–**	–	**–**	–	**130**	85	**130**	85	**–**	–	**–**	–
Simon Langelier	**85**	83	**3**	5	**–**	–	**–**	–	**–**	–	**88**	88	**88**	88	**–**	–	**–**	–
Pierre-Jean Sivignon[11]	**21**	–	–	–	**–**	–	**–**	–	**–**	–	**21**	–	**21**	–	**–**	–	**–**	–
Steven Stanbrook[12]	**103**	95	**1**	3	**–**	–	**–**	–	**–**	–	**104**	98	**104**	98	**–**	–	**–**	–
Jon Stanton[13]	**95**	33	**1**	1	**–**	–	**–**	–	**–**	–	**96**	34	**96**	34	**–**	–	**–**	–
Karen Witts[14]	**77**	109	**1**	3	**–**	–	**–**	–	**–**	–	**78**	112	**78**	112	**–**	–	**–**	–
	1,133	1,060	**37**	68	**–**	–	**–**	–	**–**	–	**1,170**	1,128	**1,170**	1,128	**–**	–	**–**	–

1. Taxable benefits principally include an allowance of £15,000 in lieu of the provision of a company car, fuel, health insurance and July accommodation for Stefan Bomhard. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.
2. Annual Bonus earned for performance over the financial year ending 30 September 2020. In line with policy half of the net value is deferred in shares for three years; no further performance conditions apply.
3. Share plans vesting represent the value of LTIP awards where the performance period ends in the year and are based on a share price of £13.55659, being the three-month average to 30 September 2020 and an estimate of the dividend roll-up based on announced dividend payable on 31 December 2020 and same share price. No Sharesave options were exercised in the year.
4. Further details are contained in the Executive Directors' pension section on pages 114 and 115.
5. Reflects the difference between the LTIP value at vesting and the value of the number of shares vested at date of grant (£26.24 per share) and is not included in the total columns.
6. Stefan Bomhard was appointed to the Board on 1 July 2020. He was compensated for the loss of his Inchcape PLC 2019 annual bonus of £483,015 and this figure is included within his salary for 2020. His starting salary was £1,269,000 which is 12.7% higher than that of his predecessor and took account of his experience and credentials.
7. Alison Cooper and Matthew Phillips stepped down from the Board on 1 February 2020.
8. Thérèse Esperdy was appointed Chair on 1 January 2020.
9. Mark Williamson stepped down from the Board on 31 December 2019.
10. Includes payment in respect of Senior Independent Director fees of £26,500 per annum and chairmanship of the Remuneration Committee at an annual rate of £26,500.
11. Pierre-Jean Sivignon was appointed to the Board on 1 July 2020.
12. Steven Stanbrook received a non-European travel allowance of £12,000 in recognition of the extra time commitment required for travel.
13. Includes payment in respect of chairmanship of the Audit Committee at an annual rate of £26,500.
14. Karen Witts retired from the Board on 15 June 2020.

Determination of 2020 Annual Bonus (Audited)

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS Growth	Performance is measured based on EPS at constant currency. Despite a resilient performance from our tobacco business, EPS was disappointing, declining 5.6%. This performance delivered a 0% achievement against a threshold of 1% and a maximum of 3%.	20	0
Cash Conversion	Performance is measured as cash flow as a percentage of adjusted operating profit. Group Cash Conversion of 127% was above maximum. Excluding any COVID-19 related benefits to working capital, cash conversion was 107%, above the maximum. This delivered a 100% achievement against a threshold of 90% and a maximum of 100%	20	20
Total Net Revenue Growth[1]	Performance is measured based on total net revenue growth. Our tobacco business remained resilient but our NGP revenues were disappointing, resulting in an increase of 0.8% delivering a zero pay-out against a threshold of 1% and a maximum of 4%.	20	0
Core Market Share	Performance is measured based on the number of core markets delivering share growth. Seven of our core markets achieved share growth, delivering a 100% achievement. This was against a threshold of one and a maximum of seven of these markets achieving share growth.	20	20
NGP Strategic Metrics	Performance is assessed against two equally-weighted measures based on market share growth in our top markets and profitable growth in NGP globally.	20	8.4
Formulaic achievement of Annual Bonus for 2020		100	48.4
Actual Annual Bonus for 2020 following application of discretion.	In the light of disappointing NGP performance, the Remuneration Committee accepted the CEO's recommendation that no bonus should be payable against the NGP Strategic Metrics. This reduced the total bonus from 48.4% of maximum to 40% of maximum. In considering overall bonus payment the Remuneration Committee took into account not only shareholders and stakeholders experience more broadly but also the need to reward performance where this was merited. This is the second consecutive year in which the bonus outcome has been revised downwards.	**100**	**40**

1. Underpinned by requirement that growth from Asset Brands in Tobmax is higher than growth of the overall Tobmax portfolio, in order for the metric to pay out.

Individual Annual Bonus achievement:

Executive Directors	Total achievement £'000 Maximum	Actual	Cash portion of actual	Deferred shares portion of actual
Stefan Bomhard	**635**	254	127	127
Alison Cooper	**0**	0	0	0
Oliver Tant	**1,500**	600	300	300
Matthew Phillips	**0**	0	0	0
Joerg Biebernick	**738**	295	147	148
Dominic Brisby	**758**	303	151	152

Long-Term Incentive Plan (Audited)

LTIP awards made to Oliver Tant in February 2018 will vest, in part, in February 2021, based on performance conditions measured over the three-year period ended 30 September 2020, as set out below.

	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Percentage of award vesting
Adjusted EPS[KPI]	3% – 8% average annual growth	(0.9%)	7.5%	30%	0%
Net revenue growth[KPI]	1% – 4% average annual growth	1.7%	7.5%	30%	12.5%
NGP net revenue growth	35% – 150% average annual growth	19.3%	5%	20%	0%
TSR against comparator group	Threshold at median of peer group Pro rata between median and upper quartile Maximum above upper quartile	29th out of 37 companies	5%	20%	0%
Achievement					12.5%

The companies comprising the comparator group were:

Altria Group Inc	Anheuser-Busch InBev NV	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithKline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc	Pernod Ricard SA
Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rolls-Royce PLC	J Sainsbury PLC	Smith & Nephew PLC
Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC
WM Morrison Supermarkets PLC				

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 12 and 13.

The TSR calculations, performed independently by Alithos Limited, use the share prices of each comparator group company, averaged over a period of three months, to determine the initial and closing prices. Dividend payments are recognised on the date shares are declared ex-dividend. The Remuneration Committee considers this method gives a fairer and less volatile result as improved performance has to be sustained for several weeks before it effectively impacts on the TSR calculations. EY performs agreed upon procedures in respect of the EPS and net revenue growth performance conditions for the LTIP performance assessments.

Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our long-term shareholders. Annually we offer as many employees as practicable, including Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent of the closing mid-market price of our shares on the day prior to invitation (usually following our Half Year results). The Sharesave Plan allows participants to save up to £250 per month over a period of three years and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2020, none of the Executive Directors had Sharesave Plans vesting. Approximately 61 per cent of eligible UK employees and around 27 per cent of eligible overseas employees participate in the Sharesave Plan.

Total pension entitlements (Audited)

The Executive Directors who served during the financial year are members of the Imperial Tobacco Pension Fund (the Fund), which is the principal retirement benefit scheme operated by the Group in the UK, or receive an additional salary supplement (pension allowance).

Stefan Bomhard, Oliver Tant and Joerg Biebernick have opted-out of contributory membership of the defined contribution section of the Fund. Instead the Company has paid them an additional salary supplement that was agreed with them when they joined the Company and is part of their contractual entitlement. The pension allowance for Stefan Bomhard is 14 per cent of his salary and is at the same level that is provided to the majority of other UK-based employees and any new Executive Directors that join the Company. Oliver Tant and Joerg Biebernick are paid an additional salary supplement of 26 per cent of salary.

Members who joined before 1 October 2010 are included in the defined benefit section of the Fund. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. It applied to all UK employees who joined the Company at that time. New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis, in the defined contribution section of the Fund.

Alison Cooper, Matthew Phillips and Dominic Brisby are, like all other employees who joined at the same time, members of the pre-April 2002 section of the defined benefit section of the Fund. Prior to 6 April 2006 they accrued a non-contributory pension at the rate of 1/47th of their pensionable salary limited by the effect of HMRC's earnings cap. Although HMRC removed this cap from 6 April 2006, the Fund did not dis-apply it in respect of past pensionable service and maintained its own earnings cap going forward. For pensionable service from 6 April 2006 onwards Alison Cooper and Matthew Phillips accrue an additional pension at a rate of 1/60th of their pensionable salary in excess of the Fund's earnings cap. They pay member contributions at the rate of 5 per cent of their pensionable salary in excess of the Fund's earnings cap. Both Alison Cooper and Matthew Phillips receive a salary supplement of 12 per cent of their pensionable salary in excess of the Fund's earnings cap.

With effect from 1 September 2017, the Company introduced a cap on pensionable salary for active members such that pensionable pay will in future be limited to £75,000 or, if higher, the member's pensionable salary at 1 September 2017. Alison Cooper, Matthew Phillips and Dominic Brisby received a salary supplement of 14 per cent on the difference between their capped pensionable salary and their actual salary. All UK employees whose salaries are in excess of the Fund's earnings cap receive a cash allowance of 14 per cent of the difference in the same way.

The salary supplements have been calculated by the independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable.

For Executive Directors who are members of the defined benefit section of the Fund, in accordance with the rules of the Fund and practice for all pre-2002 members, there would be no reduction to the accrued pension on early retirement if the reason for leaving the Company's employment is as a result of redundancy after the age of 50 or for the reason of business efficiency after the age of 55 or ill health at any age.

Executive Directors' pension disclosures (Audited)

			Accrued annual pension		Single figure numbers				Extra information to be disclosed under 2013 Directors' Remuneration Regulations	
	Age at 30/09/2020	Pensionable service at 30/09/2020	01/10/2019 or date became a Director	30/9/2020 or date ceased to be a Director	Payment in lieu of retirement benefits (i.e. pension supplement) £'000	Value x 20 over year (net of Director's contributions) £'000	Total pension benefits £'000	Normal retirement age	Value x 20 at start of year £'000	Value x 20 at end of period £'000
Stefan Bomhard[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Alison Cooper	54	21	282	289	37	30	67	60	5,640	5,780
Oliver Tant[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Matthew Phillips	49	20	141	144	16	18	34	60	2,820	2,880
Joerg Biebernick[3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dominic Brisby	42	21	119	122	4	13	17	60	2,380	2,440

1. Stefan Bomhard opted-out of membership of the Imperial Tobacco Pension Fund. He receives a 14 per cent salary supplement and an amount of £44,415 was paid to him in the year ended 30 September 2020.
2. Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He registered for Fixed Protection 2016 and as a result opted-out of contributory membership of the Fund and ceased pension contributions with effect from 01/04/2016. Since this date a salary supplement equal to 26 per cent of Oliver Tant's basic salary has been paid to him and in the year to 30 September 2020 this amounted to £195,000.
3. Joerg Biebernick opted-out of membership of the Imperial Tobacco Pension Fund. He receives a 26 per cent salary supplement and an amount of £126,100 was paid to him the year ended 30 September 2020 which includes an amount of £52,542 paid to him during his service as acting CEO.
4. For Alison Cooper and Matthew Phillips the single figure numbers are based on their period of service as Directors. Their accrued pension at 30 September 2020 was £301,421 and £148,418 per annum respectively. Alison Cooper subsequently left the payroll on 8 October 2020 and her accrued pension at this date was £301,811 per annum.
5. For Dominic Brisby the single figure numbers are based on his service as interim CEO from 01 February 2020 to 30 June 2020. His accrued pension as at 30 September 2020 was £124,085 pa.

Variable award grants made during the year LTIP (Audited)

	Number of nil-cost options	Face value[1]	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance criteria[2,3]
Oliver Tant	102,739	£1,875,000	250%	30 September 2022	25%	40%	3-year adjusted EPS growth
					25%	40%	3-year total net revenue growth
					25%	20%	TSR relative to bespoke comparator group

1. Valued using the closing share price the trading day prior to grant (14 February 2020) being £18.25 per share.
2. Vesting occurs as per the vesting schedule below.
3. Key performance indicators used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 12 and 13.

The Remuneration Committee was mindful of the share price performance prior to the 2020 LTIP award being granted and the number of shares which would be granted as a result. Taking into account the situation at the time of the grant, including the transition to a new management team and the uncertainty that this can create and that the measures and targets used were considered to be very challenging in the current environment, the Remuneration Committee decided not to reduce the awards granted at that time. The Remuneration Committee retains overarching discretion to scale back vesting outcomes if it is felt appropriate at the time and the Remuneration Committee, if taking any action, will be cognisant that no reduction in grant size was made at the outset. The Remuneration Committee is also mindful that in practice the number of shares, if any, vesting will, following Oliver Tant's decision to retire, be heavily discounted as a result of time pro-rating.

EPS element

This criterion is used for 40 per cent of the award with the following vesting schedule:

Compound annual adjusted EPS growth[1]	Shares vesting (as a percentage of element)
Less than 2% per annum	nil
2% per annum	25%
2% to 6% per annum	Between 25% and 100% (pro rata)
6% per annum or higher	100%

1. As per the Remuneration Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

Total net revenue growth element

The net revenue growth criterion is used for 40 per cent of the award with the following vesting schedule:

Compound annual growth in tobacco revenue[1]	Shares vesting (as a percentage of element)
Less than 1% per annum	nil
1% per annum	25%
1% to 4% per annum	Between 25% and 100% (pro rata)
4% per annum or higher	100%

1. As per the Remuneration Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

TSR element

The relative total shareholder return (TSR) criterion is used for 20 per cent of the award. The peer group used for the assessment of relative TSR now reflects a relevant group of companies in the consumer goods sector. The companies in the peer group are detailed on page 111:

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Under the rules of the LTIP, should the Company be acquired, the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro-rata basis subject to the achievement of the applicable performance criteria.

Variable award grants made during the year – Recruitment Award made under Listing Rule 9.4.2 (Audited)

In July 2020, and in accordance with the Directors' Remuneration Policy, Stefan Bomhard was granted a nil-cost option award (the Recruitment Award) in reliance on Listing Rule 9.4.2 which is limited to settlement with market purchase shares or shares transferred from treasury.

The Recruitment Award was granted to facilitate Stefan Bomhard's recruitment as Chief Executive Officer of the Company, and to replace certain outstanding share awards granted to him by his former employer, Inchcape, and which he forfeited on joining the Company. He was also compensated for the loss of his 2019 Annual Bonus award equal to the amount that Inchcape would otherwise have paid being £483,015.

The Recruitment Award was granted over 116,921 shares, set by reference to the value of the forfeited awards (£1,793,568) as time pro-rated to his leaving date and the average mid-market closing price of the shares over the period of three dealing days immediately prior to his appointment on 1 July 2020.

In order to replicate the terms of Stefan Bomhard's forfeited awards, the Recruitment Award is split into four tranches as follows:

Award type	Number of Imperial Brands shares	Expected vesting date	Original Inchcape award replaced
Nil-cost option	44,820	10 April 2021	Award of performance shares granted under the Inchcape Performance Share Plan granted on 10 April 2018
Nil-cost option	24,202	10 April 2021	Award of matching shares granted under the Inchcape Co-Investment Plan granted on 10 April 2018
Nil-cost option	30,792	11 April 2022	Award of performance shares granted under the Inchcape Performance Share Plan granted on 11 April 2019
Nil-cost option	17,107	11 April 2022	Award of matching shares granted under the Inchcape Co-Investment Plan granted on 11 April 2019

The 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 forfeited awards were subject to equally-weighted performance conditions measuring Inchcape plc's relative total shareholder return and earnings per share. The Remuneration Committee intends to assess the level of vesting by reference to these performance conditions, based on information disclosed by Inchcape plc at the end of the original performance period.

The vesting of the Recruitment Award (and each tranche thereof) is also subject to Stefan Bomhard's continued service with the Company.

In accordance with the terms of his appointment Stefan Bomhard was also awarded shares under the Company's LTIP as detailed below with the same performance criteria as the award granted to Oliver Tant as detailed on pages 115 to 116.

Number of nil-cost options	Face value[1]	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance criteria[2,3]
348,489	£4,441,500	350%	30 September 2022	25%	40%	3-year adjusted EPS growth
				25%	40%	3-year total net revenue growth
				25%	20%	TSR relative to bespoke comparator group

1. Valued using the closing share price on the day prior to grant (14 August 2020) being £12.745 per share.
2. Vesting occurs as per the vesting schedule on pages 115 to 116.
3. Key performance indicators used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 12 and 13.

STATUTORY AND REGULATORY REPORTING REQUIREMENTS

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

When agreeing termination arrangements, the Committee will be guided by the individual's service agreement, the provisions of the approved Directors' Remuneration Policy and the rules of the respective share plans. The Committee will take into account the specific circumstances of any termination and an individual's duty and opportunity to mitigate losses as necessary.

Alison Cooper stood down from the Board of the Company and the role of Chief Executive Officer on 1 February 2020. She served her notice period until 8 October 2020.

Alison received the payments set out below (less any required tax withholdings):

- Base salary and pension benefits paid in the normal way up to 8 October 2020 being the end of her 12 month notice period totalling £1,068,258;
- Legal fees and outplacement support up to the maximum value of £70,000 will be reimbursed as necessary; and
- A payment of £90,000 in full and final settlement of all claims in relation to the termination of employment.

Matthew Phillips stood down from the Board of the Company and the role of Chief Development Officer on 1 February 2020. and continues to serve his notice period. As such, Matthew received base salary and pension benefits paid in the normal way up to the end of the financial year totalling £518,333. Payment made to Matthew in FY21 will be disclosed in the FY21 report.

Alison and Matthew did not receive a bonus for the financial year ending September 2020 and all unvested LTIP awards have now lapsed and all deferred bonus awards have now been released.

Oliver Tant remuneration on retirement

Oliver Tant will continue to receive his base salary, pension and benefits through to his retirement which was announced during the existing Directors' Remuneration Policy period. Thereafter, any remaining balance of his notice period will be paid on a monthly basis, subject to mitigation.

He remained eligible for a bonus for FY2020, which was assessed on the same performance criteria as other participants at the year end. It will continue to be paid 50 per cent in cash and 50 per cent in deferred shares. To the extent he works through FY2021 he will remain eligible for a bonus, subject to performance criteria assessed at the end of the year and pro-rated for the period of service rendered.

As per the LTIP rules, Oliver Tant's outstanding LTIP awards will continue to vest on their normal vesting dates and remain subject to their original performance conditions, subject to Remuneration Committee discretion. To the extent the performance conditions are met, awards will be pro-rated to reflect the period of service rendered.

On retirement his outstanding deferred bonus awards will be released. Oliver Tant will not be granted any further LTIP awards even if he is still in post at the grant date.

VOTING ON THE REMUNERATION REPORT AT THE 2020 AGM

At the 2020 AGM we received a vote in favour of our Remuneration Report, with over 87 per cent of votes in favour. We received a strong vote in favour of our Directors' Remuneration Policy at our 2018 AGM.

Votes cast by proxy and at the meeting in respect of the Directors' annual remuneration were as follows:

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 (2020 AGM)	656,269,587	87.37	94,881,744	12.63	751,151,331	348,146	751,499,477
Directors' Remuneration Policy (2018 AGM)	728,923,965	95.66	33,080,528	4.34	762,004,493	570,488	762,574,981

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

ADVICE PROVIDED TO THE REMUNERATION COMMITTEE

The Remuneration Committee appointed FIT Remuneration Consultants LLP (FIT) as principal adviser with effect from 1 November 2017. FIT advised on all aspects of our Directors' Remuneration Policy and practice and reviewed our structures against corporate governance requirements. FIT also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Remuneration Committee members up-to-date with new developments and evolving best practice.

FIT is a member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. FIT carries out no other work for Imperial Brands or its subsidiaries.

The Remuneration Committee is satisfied that the advice is objective taking into account that during the year FIT was paid time-based fees of £179,026 .

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

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR related matters. During the year it was paid a fixed fee of £19,500. Alithos Limited provided no other services to the Company; and
- Willis Towers Watson provided market pay data to ensure the consistent application of our Remuneration Policy for Executives. During the year it was paid time-based fees of £14,100 for these services. Willis Towers Watson also provided actuarial services to the Company.

All of these advisers were appointed by the Remuneration 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.

SHARE INTERESTS AND INCENTIVES (AUDITED)

	Shares held		Conditional awards and options held		
	Owned outright	Subject to a holding period	Awards unvested and subject to performance conditions	Options unvested and subject to continued employment	Vested but not exercised
Executive Directors					
Stefan Bomhard	**3,200**	–	**465,410**	–	–
Oliver Tant	**64,941**	**27,427**	**241,014**	**515**	–
Non-Executive Directors					
Thérèse Esperdy[1]	**34,033**	–	–	–	–
Sue Clark	**5,692**	–	–	–	–
Simon Langelier	**25,193**	–	–	–	–
Pierre-Jean Sivignon	**44**	–	–	–	–
Steven Stanbrook[1]	**19,178**	–	–	–	–
Jon Stanton	**2,034**	–	–	–	–

1. Thérèse Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.

There have been no changes to the above holdings since the year-end.

Our middle market share price at the close of business on 30 September 2020, being the last trading day of the financial year, was £13.675 and the range of the middle market price during the year was £12.460 to £20.455.

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

ALIGNMENT OF REMUNERATION AND EQUITY HOLDING WITH SHAREHOLDER INTERESTS (AUDITED)

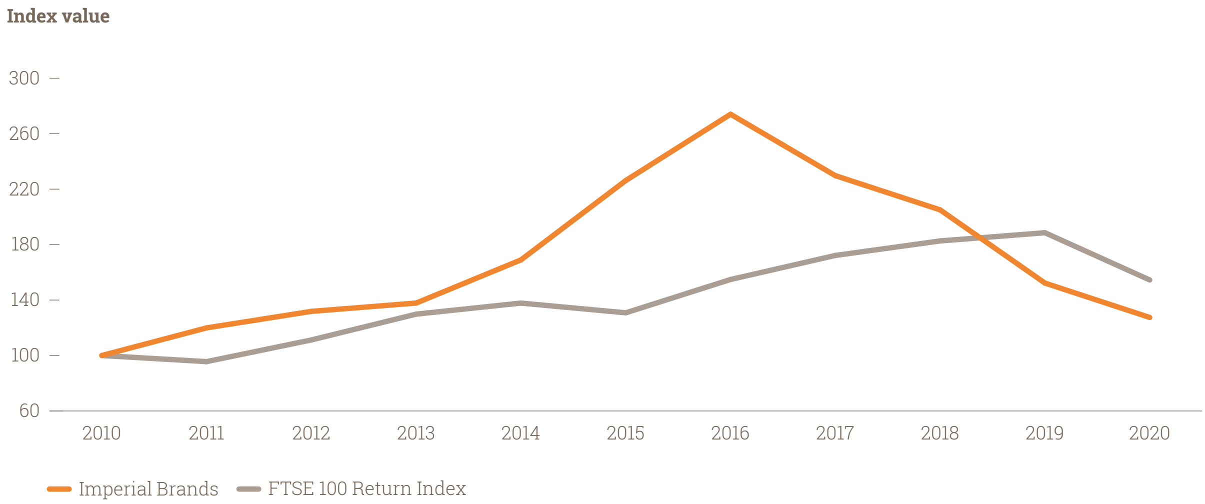
	Shares held at start of year[1]	Shares held at end of year	Increase in shares held during year	Value of shares held at start of year[1] £'000	Value of shares held at end of year[2] £'000	Difference in value £'000	Shareholding required (% salary)	Current shareholding (% salary/ fees)[2]	Requirement met[2]
Executive Directors									
Stefan Bomhard[3]	–	**3,200**	**3,200**	–	**44**	**44**	**300**	**3**	**Yes**
Oliver Tant[4]	**83,456**	**92,368**	**8,912**	**1,526**	**1,263**	**(263)**	**300**	**168**	**No**
Non-Executive Directors[5]									
Thérèse Esperdy	**8,207**	**34,033**	**25,826**	**150**	**465**	**315**	–	–	**N/A**
Sue Clark	**217**	**5,692**	**5,475**	**4**	**78**	**74**	–	–	**N/A**
Simon Langelier	**24,661**	**25,193**	**532**	**451**	**345**	**(106)**	–	–	**N/A**
Pierre-Jean Sivignon	–	**44**	**44**	–	**1**	**1**	–	–	**N/A**
Steven Stanbrook	**18,736**	**19,178**	**442**	**343**	**262**	**(81)**	–	–	**N/A**
Jon Stanton	**75**	**2,034**	**1,959**	**1**	**28**	**27**	–	–	**N/A**

1. Based on a share price of £18.282, being the closing price on 30 September 2019, and includes the value of shares owned outright and those vested but subject to a holding period, being the deferred element of the bonus.
2. Based on a share price of £13.675, being the closing price on 30 September 2020.
3. Stefan Bomhard joined the Board on 1 July 2020 and has five years to build to his shareholding requirement.
4. Oliver Tant reached his five-year anniversary on the Board on 1 October 2018. At its meeting in September 2018, the Remuneration Committee discussed and agreed with him an approach to meet the 300 per cent guideline. This included the purchase of £213,000 worth of shares prior to the financial year 2018 year-end and the purchase of a further £130,000 worth of shares from the cash element of his financial year 2018 bonus. The Remuneration Committee agreed that once these additional purchases were made and taking into account the deferred element of his financial year 2018 Annual Bonus and the vesting of his financial year 16-18 LTIP, his shareholding guideline would be deemed to have been met. Following the vesting of the LTIP in February 2019, the value of Oliver Tant's shareholding exceeded the guideline. However, the fall in the Company's share price resulted in a shortfall at the year-end. The Remuneration Committee will continue to actively monitor progress towards the guideline through to his retirement announced on 6 August 2020.
5. 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.

REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2010 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year-ends to 30 September 2020. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a ten-year period.

TOTAL RETURN INDICES – IMPERIAL BRANDS AND FTSE 100



CHANGE IN CHIEF EXECUTIVE REMUNERATION

	2020 Dominic Brisby	2020 Joerg Biebernick	2020 Stefan Bomhard	2020 Alison Cooper	2019 Alison Cooper	2018 Alison Cooper	2017 Alison Cooper	2016 Alison Cooper	2015 Alison Cooper	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper[1]	2011 Alison Cooper[1]
Total remuneration £'000	**943**	**963**	**1,104**	**448**	2,137	3,935	4,657	5,404	3,637	2,686	2,011	2,793	2,737
Annual bonus as a percentage of maximum	**40**[2]	**40**[2]	**40**[2]	**40**[2]	31[3]	87	60	72	80	69	34	51.2	33.1
Shares vesting as a percentage of maximum	**nil**	**nil**	**nil**	**nil**	nil	20	44.4	45.7	15.8	5.8	nil	58.0	71.6

1. Total remuneration includes value of share plans vesting that were granted prior to appointment as Chief Executive.
2. 48.4 per cent was the formulaic out-turn; however, the Remuneration Committee accepted the CEO's recommendation and used its discretion to reduce this to 40 per cent.
3. 51 per cent was the formulaic out-turn; however, the Remuneration Committee used its discretion and reduced this to 31 per cent.

STATEMENT OF ANNUAL CHANGE IN DIRECTORS' REMUNERATION COMPARED WITH OTHER EMPLOYEES

The table below shows the percentage change in the salary, benefits and Annual Bonus for the Directors, between the financial years 2019 and 2020.

	Salary	Benefits	Annual Bonus
Executive Director			
Stefan Bomhard	Stefan was appointed to the Board on 1 July 2020[1]		
Oliver Tant	1.90%	6.25%	31.49%
Non-Executive Directors			
Thérèse Esperdy[2]	353.27%	-41.30%	N/A
Sue Clark[3]	55.42%	-50.00%	N/A
Simon Langelier	2.41%	-40.00%	N/A
Pierre-Jean Sivignon	Pierre-Jean was appointed to the Board on 1 July 2020[1]		
Steven Stanbrook[4]	8.42%	-66.67%	N/A
Jon Stanton[5]	187.88%	N/A	N/A
All employees	6.69%	-5.72%	32.44%

1. A year-on-year comparison is not possible in these circumstances.
2. Thérèse Esperdy was appointed Chair on 1 January 2020.
3. Sue Clark was appointed Senior Independent Director on 1 January 2020.
4. Steven Stanbrook was appointed as Workforce Engagement Director in September 2019.
5. Jon Stanton was appointed to the Board on 8 May 2019 and as Chair of the Audit Committee on 15 June 2020.

CHIEF EXECUTIVE OFFICER TOTAL REMUNERATION AND SALARY ONLY PAY RATIOS

The Company has used Option A as defined by the regulations and calculated the pay and benefits of all UK employees on a full-time equivalent basis. We sought to ensure that the comparisons are made on a consistent basis so the total remuneration data for all UK employees has been calculated on the same basis as the single total figure for the CEO .This should also allow a comparable basis for year-on-year comparisons although this year is highly unusual as the base pay and the single total remuneration figure of £1,299,875 and £2,585,428 respectively used to calculate the ratios is an amalgam of the four incumbents during the year namely, Alison Cooper for four months, Dominic Brisby and Joerg Biebernick as joint CEOs for five months and Stefan Bomhard for three months. For the period Dominic Brisby and Joerg Biebernick were joint CEOs they are accounted for as 0.5 FTE each and then prorated for the period in role. This approach reflects one full-time equivalent role across the year and ensures a basis for year on year comparison.

The pay levels shown for the percentiles show remuneration for the 12 months to 30 September 2020.

We shall, as we disclose the ratio of the CEO's pay over time and on as consistent a basis as possible, seek to explain any changes from year to year excepting that the financial year 2020 has been unusual in that Imperial Brands has had four incumbents in the role.

Even in a more usual year, where the same individual has served as CEO for the year, the ratio of the CEO's pay to that of all employees is likely to be a volatile number, partly resulting from the CEO having a larger proportion of their total remuneration linked to business performance than other employees in the UK workforce and hence it may not shed any light on the alignment or otherwise with regard to pay, reward and progression for the UK workforce. This alignment is, however, something that the Remuneration Committee is keen to ensure.

	Percentile		
Financial year 2020	**25th**	**50th**	**75th**
Total remuneration	50.2	38.7	24.4
Value £	51,515	66,793	106,149
Full-time equivalent salary	33.4	26.9	18.7
Value £	38,904	48,332	69,643

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	2020	2019	Percentage change
Executive Directors' total remuneration[1,2]	**5**	5	17
Overall expenditure on pay[1]	**812**	826	(1.7)
Dividend paid in the year	**1,753**	1,844	(4.9)

1. Excludes employer's social security costs.
2. 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.

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 2020, we held 74,289,137 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 01/10/2019	Acquired during year	Distributed during year	Balance at 30/09/2020	Ordinary shares under award at 30/09/2020	Surplus/ (shortfall)
Executive Trust	595,554	–	–	595,554	1,338,518	(742,964)
2001 Trust	2,221,139	70,000	783,613	1,507,526	7,403,796	(5,896,270)

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 per cent of 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 per cent of issued share capital over the same 10 year period). Currently, an aggregate total of 0.9 per cent 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	2.1	0.4
5% in 5 years	1.3	0.4
5% in 10 years (executive plans)	1.6	0.3

GOVERNANCE

The role of the Remuneration Committee

The Board is ultimately accountable for executive remuneration, but has delegated this responsibility to the Remuneration Committee, at least three of whose members are independent Non-Executive Directors. The Chair, who is a member of the Remuneration Committee, was independent on appointment. We consider this independence fundamental in ensuring 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 Remuneration Committee meeting allows the members to meet without any Executive Director or other manager being present.

The Remuneration Committee considers its key responsibility as being to support the Company's strategy and short and long-term sustainable success by ensuring the Directors' Remuneration Policy attracts, retains and incentivises the high calibre executives required to ensure delivery. It also determines the specific remuneration package, including service agreements and pension arrangements, for the Chair, each Executive Director and our most senior managers. When setting the policy for Executive Director remuneration the Remuneration Committee reviews workforce remuneration and related policies to ensure the alignment of incentives and rewards across the Group.

The Remuneration 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 whilst ensuring that remuneration is fair but not excessive;
- 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 Remuneration Committee.

The Remuneration Committee's full terms of reference provide further details of its role and responsibilities and are available on our website.

This Report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations).

It also meets the requirements of the UK Listing Authority's Listing Rules.

In this Report we describe how the principles of good governance relating to Directors' remuneration, as set out in the UK Corporate Governance Code 2018 (the Code), are applied in practice. The Remuneration Committee confirms that, throughout the financial year, the Company has complied with these governance rules and provisions.

The Regulations require our auditor to report to shareholders on the audited information within this Report and to state whether, in its opinion, the relevant sections have been prepared in accordance with the Act. The auditor's opinion begins on page 125 and we have clearly marked the audited sections of the Report.

REMUNERATION COMMITTEE MEETINGS 2019/20

The Remuneration Committee met for three scheduled meetings during the year. It also held four additional meetings as a result of the CEO transition, the renewal of the Remuneration Policy and the CFO's retirement.

Key matters the Remuneration Committee considered during the year included the out-turn of the FY19 bonus and LTIP, the structure of and performance metrics for the FY20 bonus and LTIP award, the Remuneration Policy, the CFO's retirement, and review and consideration of both the interim and incoming CEOs' remuneration packages.

The Remuneration Committee also considered feedback from shareholders and other stakeholders in respect of the operation of the current Policy and during the consultation in respect of the proposed Policy.

For the Board

SUE CLARK
Chair of the Remuneration Committee

Group Financial Statements

Notes to the Financial Statements

Parent Company Financial Statements

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

Opinion

In our opinion:

- Imperial Brands plc's consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2020 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Imperial Brands plc, which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2020	Balance sheet as at 30 September 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes I to IX to the financial statements, including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 36 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and IFRSs as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 *'Reduced Disclosure Framework'* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained during the planning, execution and conclusion of our audit is sufficient and appropriate to provide a suitable basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report and accounts, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report and accounts, set out on pages 42 to 59, that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 60 in the annual report and accounts, that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 60 in the annual report and accounts, about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 60 in the annual report and accounts, as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition, including management override of controls • Impact of COVID-19 on the Group's going concern assessment • Accounting and reporting of NGP • Uncertain tax positions • Sale of Premium Cigar division • Litigation
Audit scope	• We performed an audit of the complete financial information of 7 components and audit procedures on specific balances for a further 21 components. • The components where we performed full or specific audit procedures accounted for 82% of profit before tax, 84% of revenue and 83% of total assets.
Materiality	• Overall Group materiality of £111m which represents 5% of profit before tax, adjusted for one-off, non-recurring items.
First year audit transition	The year ended 30 September 2020 is our first as auditor of the Group. We commenced transition at the start of the audit professional engagement period on 1 July 2019 including shadowing the previous auditor through the 30 September 2019 audit, such as attendance at certain close meetings and the Audit Committee meeting. Subsequently, audit transition activities focussed on the following areas: **Mobilisation of the global audit team:** • We held an onboarding and transition event in London, attended by senior members of the Group audit team, Finance Shared Service Centre audit team, and all full scope and specific scope audit teams. • Over two days approximately 40 audit colleagues attended sessions on several topics relating to audit planning, including Group audit strategy, key audit risks, deployment of technologies, our approach to testing through shared service centres, and division of responsibilities between teams for centralised audit procedures and our approach to ensuring a consistently high quality audit. • Prior to the half year interim review, the Group audit team interacted regularly with all full and specific scope audit teams to obtain a better understanding of the business, evaluate the audit transition progress of component audit teams and provide early direction of the audit strategy at key locations. **Establishing our audit base prior to reaching our interim review conclusion for the six months ended 31 March 2020:** • We evaluated all key accounting judgement papers and the Group's accounting policies. • We undertook reviews of the predecessor auditor files to consider working papers in relation to significant audit risk matters, to identify and assess the judgements exercised over these risks and to assess the nature, timing and extent of audit procedures performed in forming the prior year auditor opinion. • We understood and walked through the key processes at Group and in the full scope audit locations which were significant in size.

Key audit matters

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

Risk	Our response to the risk
Revenue recognition, including management override of controls (2020: £32,562m, 2019: £31,594m) Tobacco revenue is an area of focus for stakeholders interested in the performance of the company against an industry backdrop of declining global sales volumes.	We obtained an understanding of the revenue process and understood how Imperial's revenue recognition policies are applied. We reviewed the Group revenue recognition policies, as documented in the Group Accounting Manual, for compliance with IFRS 15 'Revenue from contracts with customers'.. We discussed and reviewed key contractual arrangements with management and obtained relevant documentation, including in respect of rebate arrangements. Where rebate arrangements existed, on a sample basis, we obtained third-party confirmations or performed appropriate alternative procedures, including reviewing contracts and recalculating rebates. We also performed hindsight analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias.

Risk	Our response to the risk
Most of the Group's sales arrangements require little judgement to be exercised, with revenue being recognised on the delivery of goods. However, there is a risk that management may override controls to intentionally misstate revenue transactions, either through deliberately pushing sales into the channel at period ends (trade loading) or by recording fictitious manual journals to revenue (e.g. by inappropriate accounting relating to rebates). Refer to the audit committee report (page 80); accounting policies (note 1); accounting estimates and judgements (note 2); and segmental information (note 3 of the consolidated financial statements).	As part of our overall revenue recognition testing for five full and eight specific scope components, we used data analytics techniques. This included testing the occurrence of revenue by analysing the correlation of 100% of journal entries posted to revenue with journals posted as cash receipts. We validated cash receipt postings by tracing to bank statements on a sample basis. This provided us with a high level of assurance over £17.6 billion (54%) of revenue recognised by the Group. For those in-scope components where we did not use data analysis techniques, we performed appropriate alternative procedures. Our procedures, applicable to all full and specific scope components included the following: • Detailed, disaggregated analytical review to identify unusual trends and inventory positions which could indicate that inventory was being 'pushed' into the channel; • Inquiries of management outside of finance, to identify instances of late or unusual requests for shipments or extensions of credit terms; • Cut-off testing for a sample of revenue transactions near the period end to check that they were recognised in the appropriate period; • Obtaining and reviewing of direct customer confirmations of trade terms, as appropriate; • Targeted manual journal entry testing in response to the risk of fraud; and, • Review of disclosures against the requirements of IFRS 15. The audit procedures performed to address this risk were performed by component teams and reviewed by the Group team.

Key observations communicated to the Audit Committee

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

Risk	Our response to the risk
Accounting and reporting of NGP Against the industry backdrop of long term volume decline in global tobacco sales, there is increased stakeholder focus on NGP as a potential source of sustainable future growth. Therefore, NGP performance has a disproportionate impact on stakeholder's perceptions of the Group. Despite making up only a small proportion of Group income, failure to achieve expected results may lead to significant share price erosion. There is therefore a risk that NGP performance is overstated. We consider that this risk manifests itself in three principal ways: **Recognition of NGP net revenue (2020: £201m, 2019: £278m)** NGP net revenue is a non-GAAP measure intended to provide the users of the accounts with an estimate of sales to third parties by removing the impact of stock accumulation at Logista. (Refer to the "Other non-GAAP measures used by management" section of the Group Accounting Policies for fuller definition) In calculating NGP net revenue, management adjust reported NGP revenue to eliminate inventory build at Logista. This requires the application of judgement in determining an appropriate inventory holding period at Logista and in forecasting future sales. This results in a risk that NGP net revenue is misstated.	**NGP net revenue** We understood the methodology applied by management in performing the calculation of NGP net revenue and walked through the controls over this process. We performed detailed testing, including consideration of contradictory evidence, to critically assess the key inputs to the calculation, including: • analysing the historical accuracy of forecasts to actual results to determine whether forecast sales are reliable based on experience; • assessing the appropriateness of the Logista inventory holding period relative to that which would be used by a distributor on an arms-length terms; • performing sensitivity analysis and evaluating the likelihood of inputs varying; and • reading the 'Net Revenue' accounting policy in the Annual Report to assess the adequacy of disclosure of how the metric is derived and why it is used. **Carrying value of NGP inventory** We understood the methodology applied by management in estimating the NGP inventory provision and walked through the controls over the provisioning process. We performed detailed testing, including consideration of contradictory evidence, to critically assess the key inputs to the valuations, including: • analysing the historical accuracy of sales forecasts to actual results to determine whether forecasts are reliable based on experience; • assessing the useful life of inventories by meeting with Imperial Science and benchmarking against analogous competitor products; and • performing sensitivity and reverse stress testing and evaluating the probability of inputs varying.

Risk	Our response to the risk
Carrying value of NGP inventory (Inventory provision – 2020: £86m, 2019: £34m) Sales trends in the NGP category have seen significant volatility caused by regulatory changes and adverse media coverage. There is a risk that NGP inventory will not be sold before it reaches expiry. The assessment of the level of inventory provisioning requires the application of judgement in determining the useful life of devices and consumables, and in forecasting future sales. **Carrying value of NGP intangible assets (Impairment charge - 2020: £27 million, 2019: £10 million)** The rapid evolution of technology and changes in consumer preferences in the NGP category results in a risk that intangible assets under development become obsolete before they reach commercial production. There is also a risk that anticipated performance may not be achieved for assets that are being or to be used in the NGP category. These circumstances could lead to an impairment that has not been recognised by management. Refer to the audit committee report (pages 78 and 80); accounting policies (note 1); and accounting estimates and judgements (note 2) of the consolidated financial statements.	**Carrying value of NGP intangibles** We understood the methodology applied in management's impairment testing and walked through the controls over the process. For assets where there were indicators of impairment, such as paused or slowed development activity, or were not yet being amortised, we critically assessed management's assertions and key input assumptions by: • assessing a sample of assets against the IAS 38 criteria to determine whether it remains appropriate to continue to hold these assets, focusing on management's intention to bring assets into commercial use; • analysing the historical accuracy of forecasts to actual results to determine whether forecast cash flows are reliable based on experience; • in conjunction with our valuation specialists, assessing the discount rate used by benchmarking it against market data and comparable organisations; • evaluating the growth rates assumed by comparison to industry forecasts; • performing sensitivity and reverse stress testing and evaluating the probability of inputs varying; and, • assessing the integrity of management's value-in-use (VIU) model by independently performing VIU calculations and comparing our outputs to those prepared by management. We evaluated the disclosures in the Annual Report for consistency with the findings of our audit procedures, including signposting the potential impact of the strategic review. The audit procedures performed to address this risk were performed by the Group audit team.

Key observations communicated to the Audit Committee

For NGP net revenue, we consider the accounting policy presented in the Annual Report and Accounts transparently discloses how the metric is derived and why it is used.

We are satisfied that the carrying value of NGP inventory is materially correct.

For NGP intangible assets, we consider that the commentary in the Annual Report is appropriate, including disclosure of the £27m impairment and signposting to users that the strategic review is ongoing. We are satisfied that the carrying value of NGP intangible assets is materially correct.

Risk	Our response to the risk
Uncertain tax positions (Provision for uncertain tax positions – 2020: £273m, 2019: £204m) The global nature of the Group's operations results in complexities in the payment of and accounting for tax. Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.	We understood: • the Group's process for determining the completeness and measurement of provisions for tax; • the methodology for the calculation of the tax charge; and • management's controls over tax reporting. The Group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our assessment included consideration of the past outcome of comparable cases and look-back analysis on management's historic rates of successfully defending tax positions. Our work utilised additional support from country tax specialists in France, Germany, the Netherlands, Spain and the USA.

Risk	Our response to the risk
Given this judgement, there is a risk that tax provisions are misstated. Refer to the audit committee report (page 79); accounting policies (note 1); accounting estimates and judgements (note 2); and note 8 of the consolidated financial statements.	We assessed the Group's transfer pricing judgements, considering the way in which we observed the Group's businesses operating and the correspondence and agreements reached with tax authorities. We developed our own independent range of potential provisions for the Group's transfer pricing tax exposures, based on the evidence we obtained, and compared management's provision to our range. We assessed whether the Group's disclosures, detailing the year-end status of material open tax inquiries, adequately disclose relevant facts and circumstances and potential liabilities of the Group. The audit procedures were designed and led by the Group audit team, with support from component teams whose work was reviewed by the Group audit team.

Key observations communicated to the Audit Committee

Based on the procedures performed, we consider the amounts provided are reasonable. We consider the Group's disclosures are also appropriate.

Risk	Our response to the risk
Impact of COVID-19 on the Group's going concern assessment In assessing whether the financial statements should be prepared on a going concern basis, the directors are required to consider all available information about the future for a period of at least 12 months from the date of approval of the financial statements. The directors have considered a going concern period through to the end of March 2022. In conducting their assessment, the directors concluded that there are no material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern. Further description of this assessment is included in note 1 to the financial statements. The potential impact of COVID-19 on the Group, resulted in increased consideration of the risks to the going concern basis of preparation compared with previous periods. Refer to the audit committee report (page 78) and accounting policies (note 1) of the consolidated financial statements.	We understood the process undertaken by management to perform the going concern assessment, including the evaluation of any operational and economic impacts of COVID-19 on the Group. We tested the clerical accuracy of the model used to prepare the Group's going concern assessment. We assessed the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy. We evaluated the key assumptions underpinning the Group's forecasts by proposing alternatives, reflecting the uncertainties arising from COVID-19, and challenging management's position. We also considered whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including goodwill impairment. We considered, based on our own independent analysis, what reverse stress testing scenarios could lead either to a loss of liquidity or a covenant breach and whether these scenarios were plausible. Our assessment included consideration of the impact and likelihood of: • accelerated duty payments • settlement of litigation and uncertain tax exposures • default of significant customers • prolonged factory closures Our analysis also considered the mitigating actions that management could undertake in an extreme downside scenario. We also confirmed the availability of debt facilities, and reviewed their underlying terms, including covenants, by examination of executed documentation. We assessed the appropriateness of the Group's disclosure concerning the going concern basis of preparation. The audit procedures performed to address this risk were performed by the Group audit team.

Key observations communicated to the Audit Committee

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with accounting standards and the UK Corporate Governance Code.

Risk	Our response to the risk
Sale of Premium Cigar division (Asset held for sale – 2020: £1,024m, 2019: £1,066m) Management continued to treat the disposal group (the Premium Cigar Division) as held for sale at year-end, with the transaction formally completing on 29 October 2020. During the year updates were made to the carrying value of the disposal Group reflecting the deferral of the disposal of the La Romana assets to 2022 and adjustments to the proceeds expected to be received. The timing of the transaction resulted in the application of judgement in determining the appropriate accounting treatment. These include: • the probability of the sale occurring, • the impairment of the disposal Group, and • the estimation of the value of exchange translation reserve which is disclosed in the Annual Report and will be recycled through the income statement in FY21. Refer to the audit committee report (page 79); accounting policies (note 1); accounting estimates and judgements (note 2); and note 11 of the consolidated financial statements.	To assess the probability of sale occurring and the timeframe over which this may happen we read vendor correspondence, including the Sale and Purchase Agreement and subsequent amendments, and considered the evidence upon which management based its judgement, including the cash receipt in September 2020, the satisfaction of conditions precedent as required by the SPA, the formal completion of the transaction and further cash receipts in October 2020. To assess the valuation of the asset held for sale we: • assessed management's calculation of expected proceeds and estimation of transaction costs, from which the carrying value of the disposal Group is derived • assessed the allocation of the impairment charge to asset classes against the IFRS 5 criteria • performed integrity checks over management's carve-out model • Performed procedures to test the value of the carve-out Group, including physical verification of buildings, inventory counts, verification of balances held with the carve-out Group, verification of the elimination of intra-Group balances held between carve-out Group and other Group entities. To assess the valuation of the cumulative exchange translation reserve recycled to the income statement in FY21, as disclosed in the Annual Report, we independently calculated a range of potential values where alternative methodologies are available under IAS 21, comparing management's estimate to our range. The audit procedures were designed and led by the Group audit team, with support from component teams whose work was reviewed by the Group audit team.

Key observations communicated to the Audit Committee

We concluded that the impact of the sale has been appropriately reflected in the financial statements.

Risk	Our response to the risk
Litigation Refer to pages 90 to 94 of the Directors' Report and note 30 of the consolidated financial statements 'contingent liabilities'. The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking, vaping and health-related effects. Judgement is involved in determining the likelihood of a probable outflow occurring from a legal case, together with the estimate of the likely financial cost. In the US, tobacco-related litigation is managed separately by the Master Settlement Agreement ("MSA"). Four states are not parties to this agreement and claims have been raised by these states (Previously Settled States) against the Group's US business, ITG Brands, in respect of whether annual payments are required following the acquisition of certain US brands in June 2015. The Group continues to receive legal advice in relation to these claims that supports management's assessment that, at present, it is possible but not probable that the Group will incur an outflow of resources and therefore a contingent liability is disclosed.	We assessed the processes and controls over litigation operated by management at Group and local level, by walking through the process from identification of potential litigation to the evaluation of probability of outcome and the recording of a provision or disclosure of a contingent liability. We inspected Imperial's litigation log and communications to the Executive Committee and met with Group Finance, Group General Legal Counsel and the Group's external legal counsel to discuss the developments in significant cases. We requested, received and read letters received directly from the management's external legal counsel that evaluated the current status of legal proceedings and quantified the estimate of any economic outflow arising from settlement of the litigation.

Risk	Our response to the risk
Separately, the Group, and other companies in the tobacco sector, are facing inquiries by competition authorities in a number of markets. The Group is receiving legal advice in relation to these matters. The accounts reflect the probability of any outflow arising. The Group has received a lawsuit under the Helms-Burton legislation relating to use of property confiscated from the US by the Cuban state. The Group is currently protected by the EU Council Regulation Blocking Statute which would prevent the recognition and enforcement of any US Courts judgement based on Helms-Burton in any EU Member state court. However, this also limits the ability of the Group to defend themselves in the US Courts. Consequently, management have determined that an outflow of resources is possible and therefore disclosed this matter as a contingent liability. Refer to the audit committee report (page 81); accounting policies accounting policies (note 1); accounting estimates and judgements (note 2) of the consolidated financial statements.	We assessed whether the Group's disclosures detailing contingent liabilities and financial commitments adequately disclose relevant facts and circumstances and potential liabilities of the Group. The audit procedures were designed and led by the Group audit team, with support from component teams whose work was reviewed by the Group audit team.

Key observations communicated to the Audit Committee

Having met with internal Legal Counsel and evaluated the status of cases, considering responses from external lawyers, we consider legal matters have been adequately provided for or disclosed in the annual report. Following our recommendation, additional disclosure was included in the Annual Report to quantity the contingent liability relating to Previously Settled States (PSS).

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 377 reporting components of the Group, we selected 28 components.

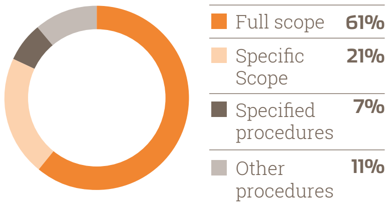
Of the 28 components selected, we performed an audit of the complete financial information of 7 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 21 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed full and specific scope procedures accounted for 82% of the Group's profit before tax and 84% of the Group's revenue. For the current year, the full scope components contributed 61% of the Group's profit before tax, 62% of the Group's revenue and 41% of the Group's total assets. The specific scope components contributed 21% of the Group's profit before tax and 22% of the Group's revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. In addition, we conducted specified procedures over a number of account balances relating to 37 reporting units, representing 7% of the Group's profit before tax, 13% of the Group's revenue and 9% of the Group's total assets, in response to the specific risks associated with these.

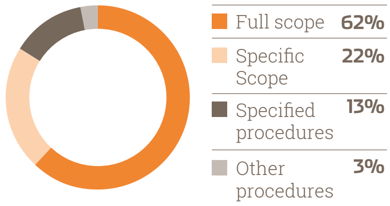
Of the remaining components that together represent 11% of the Group's profit before tax, none are individually greater than 1% of the Group's profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts illustrate the coverage obtained from the work performed by our audit teams.

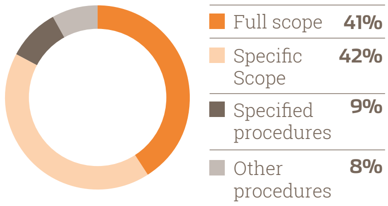
Profit before tax



Revenue



Total assets



Impact of the COVID-19 pandemic – audit logistics

We worked proactively with Imperial to agree a revised timetable to provide sufficient time for the judgements arising from COVID-19 to be considered fully, disclosures adequately assessed, and to reflect the extended time taken for management to complete the financial statement close process and to reflect the incremental time impact on completing our year end external audit fully remotely. This resulted in a two week extension to the publication of results and the finalisation of our audit.

We had already completed our audit planning procedures and some early substantive audit testing in advance of the year end for a number of in-scope locations on site with the Imperial teams. The Group audit team performed the year-end audit fully remotely, starting from 12 October 2020. We engaged with Imperial throughout the audit, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required.

We were alert to instances requiring physical verification of original documents and where not addressed through our pre-year end audit work we used secure encrypted data exchanges. In instances when physical access to sites was restricted due to social distancing measures, we conducted inventory counts remotely using mobile video technology. All key meetings, such as the closing meetings and Audit Committees, were performed via video conference calls.

We have refined our methods of interaction to ensure direction by the Partner in Charge throughout the audit, ensuring involvement in key calls throughout the audit both internally and with Imperial management. We held weekly senior stakeholder escalation calls with the Group CFO and Partner in Charge to ensure progress was assessed robustly and audit matters arising were discussed at each meeting. Additional calls were held with the Chair of the Audit Committee to consider audit progress, timetable and matters arising.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components, as the Group audit team, or by component auditors from other EY global network firms operating under our instruction. Of the 7 full scope components, audit procedures were performed on 6 of these directly by the Group audit team and 6 by component audit teams. For the 21 specific scope components, audit procedures were performed on 4 of these directly by the Group audit team and 17 by component auditors. Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

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

During the period the Senior Statutory Auditor visited the USA which is a full scope component. All full and specific scope component audit partners and a number of other members of these component teams visited the Group team in December 2019 to attend an initial Group planning meeting to increase their understanding of the business.

Impact of the COVID-19 pandemic – direction, supervision and review of component teams

The physical visits to component teams planned for the remainder of 2020 had to be adjusted and replaced by virtual meetings due to the travel restrictions imposed by the COVID-19 outbreak.

These visits and virtual meetings involved meeting with our component teams to discuss and direct their audit approach, reviewing key working papers and understanding the significant audit findings in response to the risk areas including revenue recognition and uncertain tax positions, holding meetings with local management, obtaining updates on local regulatory matters including tax, pensions and legal.

The Group audit team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

OUR APPLICATION OF MATERIALITY

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

Materiality

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

We determined materiality for the Group to be £111m (2019: £130m), which is 5% of profit before tax, adjusted for one-off, non-recurring items (2019: 4% of adjusted profit before tax). We consider that this basis provides the most relevant performance measure to the stakeholders of the Group

We determined materiality for the Parent Company to be £123m (2019: £141m), which is 2% of net assets (2019: 1% of total assets). The materiality was capped at the Group allocated materiality of £25m (2019: £10m).

Performance materiality

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

We have set performance materiality at 50% of our planning materiality, calculated as £55m (2019: £97.5m). This percentage was based upon a combination of risk factors including this being our first year of audit, significant corporate transactions and the level of adjustments identified by the predecessor auditor in the prior period.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £6m to £30m (2019: £10m to £40m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £5.5m (2019: £5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

OTHER INFORMATION

The other information comprises the information included in the annual report and accounts set out on pages 1 to 123, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable**, set out on page 81 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting**, set out on pages 76 to 85 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code**, set out on page 63 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRSs as adopted by the EU, United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax laws and regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters and country-specific regulations on tobacco control.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and attendance at meetings of the Audit Committee, as well as consideration of the results of our audit procedures across the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: enquiries of Group management and those charged with governance, legal counsel and the Group security team; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; and challenging the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates as referred to in the key audit matters section above. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including in respect of the key audit matter of revenue recognition. We also leveraged our data analytics platform in performing our work on the order to cash and purchase to pay processes to assist in identifying higher risk transactions for testing.
- Where we identified potential non-compliance with laws and regulations, we developed an appropriate audit response and communicated directly with components impacted. Our procedures involved: understanding the process and controls to identify non-compliance, inquiring of internal and external legal counsel, performing an analysis of press reporting on these matters, understanding the fact patterns in each case and documenting the positions taken by management, and using specialists to support us in concluding on the matters identified.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following the recommendation of the Audit Committee, we signed an engagement letter on 15 January 2020. We were appointed by the shareholders at the AGM on 5 February 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ending 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

USE OF OUR REPORT

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

Ernst & Young LLP

ANDREW WALTON (SENIOR STATUTORY AUDITOR)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
17 November 2020

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

£ million unless otherwise indicated	Notes	2020	2019
Revenue	3	**32,562**	31,594
Duty and similar items		**(15,962)**	(15,394)
Other cost of sales		**(10,420)**	(9,960)
Cost of sales		**(26,382)**	(25,354)
Gross profit		**6,180**	6,240
Distribution, advertising and selling costs		**(2,329)**	(2,295)
Acquisition and disposal costs	11	**(26)**	(22)
Amortisation and impairment of acquired intangibles	11/12/15	**(523)**	(1,118)
Excise tax provision	8	**20**	(139)
Fair value adjustment of loan receivable		**(62)**	3
Fair value adjustment of acquisition consideration	12	**–**	(129)
Restructuring costs	5	**(205)**	(144)
Other expenses		**(324)**	(199)
Administrative and other expenses		**(1,120)**	(1,748)
Operating profit	4	**2,731**	2,197
Investment income		**770**	890
Finance costs		**(1,380)**	(1,452)
Net finance costs	6	**(610)**	(562)
Share of profit of investments accounted for using the equity method	15	**45**	55
Profit before tax	4	**2,166**	1,690
Tax	8	**(608)**	(609)
Profit for the year		**1,558**	1,081
Attributable to:			
Owners of the parent		**1,495**	1,010
Non-controlling interests		**63**	71
Earnings per ordinary share (pence)			
• Basic	10	**158.3**	106.0
• Diluted	10	**158.1**	105.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Notes	2020	2019
Profit for the year		**1,558**	1,081
Other comprehensive income			
Exchange movements		**151**	270
Current tax on hedge of net investments		**(10)**	–
Deferred tax on hedge of net investments		**(80)**	–
Items that may be reclassified to profit and loss		**61**	270
Net actuarial gains/(losses) on retirement benefits	24	**277**	(248)
Deferred tax relating to net actuarial (losses)/gains on retirement benefits		**(53)**	52
Items that will not be reclassified to profit and loss		**224**	(196)
Other comprehensive income for the year, net of tax		**285**	74
Total comprehensive income for the year		**1,843**	1,155
Attributable to:			
Owners of the parent		**1,762**	1,086
Non-controlling interests		**81**	69
Total comprehensive income for the year		**1,843**	1,155

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2020	Reclassified 2019
Non-current assets			
Intangible assets	12	**18,160**	18,596
Property, plant and equipment	13	**1,899**	1,979
Right of use assets	14	**293**	–
Investments accounted for using the equity method	15	**117**	81
Retirement benefit assets	24	**940**	595
Trade and other receivables	17	**57**	119
Derivative financial instruments	22	**813**	677
Deferred tax assets	23	**381**	370
		22,660	22,417
Current assets			
Inventories	16	**4,065**	4,082
Trade and other receivables	17	**2,638**	2,854
Current tax assets	8	**206**	195
Cash and cash equivalents	18/22	**1,626**	2,286
Derivative financial instruments	22	**53**	137
Current assets held for disposal	11	**1,062**	1,103
		9,650	10,657
Total assets		**32,310**	33,074
Current liabilities			
Borrowings	20	**(1,442)**	(1,937)
Derivative financial instruments	22	**(41)**	(28)
Lease liabilities	21	**(64)**	–
Trade and other payables	19	**(10,170)**	(9,352)
Current tax liabilities	8	**(350)**	(313)
Provisions	25	**(220)**	(284)
Current liabilities held for disposal	11	**(38)**	(37)
		(12,325)	(11,951)
Non-current liabilities			
Borrowings	20	**(10,210)**	(11,697)
Derivative financial instruments	22	**(1,641)**	(1,408)
Lease liabilities	20/21	**(235)**	–
Trade and other payables	19	**(5)**	(7)
Deferred tax liabilities	23	**(924)**	(931)
Retirement benefit liabilities	24	**(1,256)**	(1,249)
Provisions	25	**(196)**	(247)
		(14,467)	(15,539)
Total liabilities		**(26,792)**	(27,490)
Net assets		**5,518**	5,584
Equity			
Share capital	26	**103**	103
Share premium and capital redemption		**5,837**	5,837
Retained earnings		**(2,364)**	(2,255)
Exchange translation reserve		**1,295**	1,252
Equity attributable to owners of the parent		**4,871**	4,937
Non-controlling interests		**647**	647
Total equity		**5,518**	5,584

The financial statements on pages 136 to 190 were approved by the Board of Directors on 17 November 2020 and signed on its behalf by:

THÉRÈSE ESPERDY
Chairman

OLIVER TANT
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2019	**103**	**5,837**	**(2,255)**	**1,252**	**4,937**	**647**	**5,584**
Profit for the year	**–**	**–**	**1,495**	**–**	**1,495**	**63**	**1,558**
Exchange movements on overseas net assets	**–**	**–**	**–**	**(130)**	**(130)**	**18**	**(112)**
Exchange movements on net investment hedges	**–**	**–**	**–**	**12**	**12**	**–**	**12**
Exchange movements on quasi-equity loans	**–**	**–**	**–**	**251**	**251**	**–**	**251**
Current tax on quasi-equity loans	**–**	**–**	**–**	**(10)**	**(10)**	**–**	**(10)**
Deferred tax on quasi-equity loans	**–**	**–**	**–**	**(80)**	**(80)**	**–**	**(80)**
Net actuarial gains on retirement benefits	**–**	**–**	**277**	**–**	**277**	**–**	**277**
Deferred tax relating to net actuarial gains on retirement benefits	**–**	**–**	**(53)**	**–**	**(53)**	**–**	**(53)**
Other comprehensive income	**–**	**–**	**224**	**43**	**267**	**18**	**285**
Total comprehensive income	**–**	**–**	**1,719**	**43**	**1,762**	**81**	**1,843**
Transactions with owners							
Costs of employees' services compensated by share schemes	**–**	**–**	**20**	**–**	**20**	**–**	**20**
Current tax on share-based payments	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Repurchase of shares	**–**	**–**	**(92)**	**–**	**(92)**	**–**	**(92)**
Changes in non-controlling interests (note 12)	**–**	**–**	**(4)**	**–**	**(4)**	**4**	**–**
Dividends paid	**–**	**–**	**(1,753)**	**–**	**(1,753)**	**(85)**	**(1,838)**
At 30 September 2020	**103**	**5,837**	**(2,364)**	**1,295**	**4,871**	**647**	**5,518**

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2018	103	5,837	(1,155)	980	5,765	675	6,440
Profit for the year	–	–	1,010	–	1,010	71	1,081
Exchange movements on overseas net assets	–	–	–	232	232	(2)	230
Exchange movements on net investment hedges	–	–	–	(228)	(228)	–	(228)
Exchange movements on quasi-equity loans	–	–	–	268	268	–	268
Net actuarial losses on retirement benefits	–	–	(248)	–	(248)	–	(248)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	52	–	52	–	52
Other comprehensive income	–	–	(196)	272	76	(2)	74
Total comprehensive income	–	–	814	272	1,086	69	1,155
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	1	–	1	–	1
Costs of employees' services compensated by share schemes	–	–	23	–	23	–	23
Current tax on share-based payments	–	–	1	–	1	–	1
Repurchase of shares	–	–	(108)	–	(108)	–	(108)
Changes in non-controlling interests	–	–	13	–	13	(13)	–
Dividends paid	–	–	(1,844)	–	(1,844)	(84)	(1,928)
At 30 September 2019	103	5,837	(2,255)	1,252	4,937	647	5,584

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

£ million	2020	2019
Cash flows from operating activities		
Operating profit	**2,731**	2,197
Dividends received from investments accounted for under the equity method	**43**	54
Depreciation, amortisation and impairment	**910**	1,316
Profit on disposal of non-current assets	**(2)**	(19)
Post-employment benefits	**(88)**	(72)
Costs of employees' services compensated by share schemes	**20**	23
Fair value adjustment of acquisition consideration (note 12)	**–**	129
Fair value adjustment of loan receivable	**63**	–
Movement in provisions	**(121)**	80
Operating cash flows before movement in working capital	**3,556**	3,708
Decrease/(increase) in inventories	**67**	(560)
Decrease/(increase) in trade and other receivables	**241**	(267)
Increase in trade and other payables	**734**	877
Movement in working capital	**1,042**	50
Tax paid	**(568)**	(522)
Net cash generated from operating activities	**4,030**	3,236
Cash flows from investing activities		
Interest received	**9**	15
Loan to joint ventures	**–**	4
Loan to third parties (note 21)	**(3)**	(75)
Proceeds from the sale of non-current assets	**28**	57
Deposit received from sale of asset held for sale	**83**	–
Purchase of non-current assets	**(302)**	(409)
Purchase of brands and operations (note 12)	**(146)**	(17)
Net cash used in investing activities	**(331)**	(425)
Cash flows from financing activities		
Interest paid	**(429)**	(488)
Cash from employees on maturity/exercise of share schemes	**–**	1
Lease liabilities paid	**(72)**	–
Increase in borrowings	**1,240**	3,699
Repayment of borrowings	**(3,096)**	(2,330)
Cash flows relating to derivative financial instruments	**(23)**	(117)
Repurchase of shares	**(92)**	(108)
Dividends paid to non-controlling interests	**(85)**	(84)
Dividends paid to owners of the parent	**(1,753)**	(1,844)
Net cash used in financing activities	**(4,310)**	(1,271)
Net (decrease)/increase in cash and cash equivalents	**(611)**	1,540
Cash and cash equivalents at start of year	**2,286**	775
Effect of foreign exchange rates on cash and cash equivalents	**13**	(15)
Transferred to held for disposal (note 11)	**(62)**	(14)
Cash and cash equivalents at end of year	**1,626**	2,286

1. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as published by the International Accounting Standards Board and adopted by the EU. In addition, the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current year, certain items related to 2019 have been represented in the balance sheet as follows:

i. Taxes – See notes 8 and 23 for details;
ii. Pensions – See note 24 for details; and
iii. Assets Held for Sale – Due to better information regarding the structure of the sale of the Premium Cigar business being available, intercompany debt has been netted off in the normal way on consolidation, which has required a restatement of 2019 where the grossing up of intercompany balances in trade receivables and payables with an offsetting entry in Assets Held for Sale was disclosed.

These changes had no impact on previously reported financial performance.

Basis for going concern

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis. The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

The Group's resilience to different potential scenarios has been strengthened by the signing of the Group's new €3.5 billion multi-currency revolving credit facility, the sale of our Premium Cigar business, where the €1.1 billion of proceeds will be used for debt reduction, and the signing of €1.7 billion committed 18 month bank facilities.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios on how COVID-19 and some possible consequences arising from the pandemic may affect the business. These included scenarios which examined the implications of:

- The impact of governments accelerating duty payments as seen in FY20 c.£800 million
- The permanent removal of 15% and 30% of EBITDA from 1 October 2020 because markets become closed to tobacco products or there are sustained closures to our tobacco manufacturing and supply chains
- The loss of 10% of current trade receivable c.£0.2 billion due to the inability of customers to pay
- The loss of factoring facilities c.£0.6 billion due to banks re-prioritising uses of cash
- Various scenarios involving the closure of the entire factory network over a one, two and three-month period from 1 October 2020, with a gradual scaling back to full capacity over the subsequent three months. It also considered factory network shutdowns over longer time periods.

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

Under a worst-case scenario, where the largest envisaged downside scenarios all take place at the same time and taking full use of the capital expenditure and dividend payment reduction mitigating actions as described above, the Group would have sufficient headroom until March 2022. The Group believes this worst-case scenario to be highly unlikely.

Based on the review of future cashflows covering the period through to March 2022, and having assessed the principal risks facing the Group, including the current and forecast future impacts of the COVID-19 pandemic, 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 2022 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and judgements. This could affect future financial statements as the original estimates and judgements are modified, as appropriate, in the year in which the circumstances change.

The Company provides guarantees to the following subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2020:

- Imperial Tobacco Holdings (2007) Limited
- Sinclair Collis Limited
- Imperial Tobacco Ventures Limited
- Rizla UK Limited

- Imperial Tobacco Overseas (Polska) Limited
- La Flor de Copan UK Limited
- Tabacalera de Garcia UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited
- Nerudia Compliance Limited

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

Basis of consolidation

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

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

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

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

Joint ventures

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

Foreign currency

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

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

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

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

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

	2020		2019	
Foreign exchange rate versus GBP	**Closing rate**	**Average rate**	**Closing rate**	**Average rate**
Euro	**1.0960**	**1.1393**	1.1291	1.1315
US Dollar	**1.2832**	**1.2753**	1.2294	1.2766

Revenue recognition

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

The Group also recognises income arising from the licencing or sale of intellectual property, occurring in the ordinary course of business, which is treated as revenue. Licencing revenue will be recognised over the period of the licence while revenue is recognised immediately on the sale of intellectual property where that represents a long-term right to use the asset.

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

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

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

Duty and similar items

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

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

Payments made in the USA under the Master Settlement Agreement are recognised in other cost of sales, for further disclosure see note 30 contingent liabilities.

Taxes

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

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

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

Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

Intangible assets – goodwill

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. If any negative goodwill arises this is recognised immediately in the income statements. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible assets – other

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

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

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

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

Property, plant and equipment

Property, plant and equipment are shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

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

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

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

Financial Instruments and Hedging

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

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

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

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

All hedge accounting relationships are considered to be continuing hedge relationships following the adoption of IFRS 9.

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

Inventories

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

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

Provisions

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

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

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

Assets held for sale

Assets held for sale arise once a disposal process has advanced sufficiently to meet the requirements of IFRS 5. Assets identified as held for sale are considered for impairment of their carrying value against expected proceeds. The assets and liabilities are presented separately on the balance sheet as assets held for sale and liabilities held for sale.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group. In the event that the outflow of resources associated with a contingent liability is assessed as probable, and if the size of the outflow can be reliably estimated, a provision is recognised in the financial statements.

Retirement benefit schemes

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

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

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

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

Share-based payments

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

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

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

Treasury shares

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

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

Use of adjusted measures

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

Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, tax, attributable earnings and earnings per share exclude, where applicable, acquisition and disposal costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and tax matters. Reconciliations between adjusted and reported operating profit are included within note 6 to the financial statements, adjusted and reported net finance costs in note 6, adjusted and reported tax in note 8, and adjusted and reported earnings per share in note 10.

The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

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

The principal adjustments made to reported profits are as follows:

Acquisition and disposal costs

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

Intangible assets

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

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

Fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings

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

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

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

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

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

Presentation of Auxly

In view of the increasing significance of the movement in the fair value of loan receivables associated with the Auxly investment, from 1 October 2020 the Group has disclosed a fair value loss of £62 million separately on the face of the income statement. Comparative amounts have been restated accordingly, with the gain of £3 million in 2019 being reclassified.

Restructuring costs

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

Post-employment benefits net financing cost

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

Tax matters

Tax matters are significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or

- newly enacted taxes in the year; or
- are tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

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

Other non-GAAP measures used by management

Net revenue

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

The Group recognises revenue on sales to Logista, a Group company, within its reported Tobacco & NGP revenue figure. As the revenue calculation includes sales made to Logista from other Group companies but excludes Logista's external sales, this metric differs from revenue calculated under IFRS accounting standards. For the purposes of Adjusted Performance Measures on Net Revenue we treat Logista as an arms length distributor on the basis that contractual rights are in line with other Third Party suppliers to Logista. Variations in the amount of inventory held by Logista results in a different level of revenue compared to that which is included within the income statement. For tobacco product sales, inventory level variations are normally not significant. However, during the current year there has been a significant increase in the level of sales of NGP products into Logista. This has resulted in significant increases in the level of associated inventory as a proportion of sales. In order to avoid a distortion in the reported Tobacco & NGP revenue figure the calculation has been adjusted to reflect a normalised level of inventory.

Distribution fees

Distribution fees comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations. The eliminations in note 3 all relate to sales to Distribution.

Adjusted operating cash

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

Adjusted net debt

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

Cash conversion

The Group uses cash conversion as a key metric for assessing underlying cash performance. Cash conversion is calculated as cash flow from operations pre-restructuring and before interest and tax payments, less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit.

New accounting standards and interpretations

With effect from 1 October 2019, the Group has adopted IFRS 16 Leases to contracts which are, or contain, leases of assets. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

IFRS 16 'Leases'

IFRS 16 replaced IAS 17 'Leases'. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on their balance sheets as lease liabilities with corresponding right of use assets. Lease costs are recognised in the income statement as depreciation and interest, rather than entirely as an operating cost.

IFRS 16 was applied using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. There was no restatement of prior periods.

Impact of IFRS 16 'Leases'

The impact on adoption of IFRS 16 to the Group's balance sheet at 1 October 2019 was the recognition of £327 million right of use assets, a reduction in lease prepayments of £1 million, and lease liabilities included within borrowings of £326 million. There was no impact on retained earnings.

£ million	As reported at 30 September 2019	IFRS 16 Adjustment	On adoption at 1 October 2019
Right of use assets	–	327	327
Current assets			
Trade and other receivables	**2,993**	(1)	2,992
Current liabilities			
Borrowings	**(1,937)**	(65)	(2,002)
Non-current liabilities			
Borrowings	**(11,697)**	(261)	(11,958)
Other net assets	**16,225**	–	16,225
Net assets	**5,584**	**–**	**5,584**

The Group has lease contracts relating to property and other (which predominantly relates to motor vehicles). Before the adoption of IFRS 16, the Group, as lessee, classified each of its leases at the inception date as either a finance lease or an operating lease. All leases within the Group were previously classified as operating leases; no finance leases were held. In prior periods, for the operating leases, the leased assets were not capitalised and the lease payments were recognised either in the cost of sales or distribution, advertising and selling costs line items of the consolidated income statement on a straight-line basis over the lease term. Upon adoption of IFRS 16, the Group, as a lessee, applied a single recognition and measurement approach for all leases, except for short term leases, low value assets and other elections mentioned below in the practical expedients section. The Group recognised lease liabilities for future lease payments and right of use assets which represented the right of use of the underlying leased assets.

The impact of IFRS 16 to the Group results for the year ending 30 September 2020 increased depreciation by £72 million relating to the depreciation on the new right of use assets and increased finance costs by £7 million relating to the interest expense on the lease liabilities recognised. Lease expense recognised in the cost of sales and distribution, advertising and selling costs expenses line items in the consolidated income statement reduced by approximately £72 million. There was no overall impact to cash outflows from operating activities and cash outflows from financing activities increased by £7 million.

The Group's new accounting policies upon adoption of IFRS 16 are detailed below. The weighted average incremental borrowing rate applied in discounting lease commitments was 2.1%.

Right of use assets

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

Lease liabilities

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

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

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

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

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

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

In addition, on initial application, the Group has elected to;

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

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

Reconciliation between minimum lease commitments as at 30 September 2019:

£ million unless otherwise indicated	
Minimum lease commitments at 30 September 2019	(351)
Additional commitments on the exercise of options	(40)
Low value leases and short-term leases excluded	20
Discounted to present value	45
Capitalised as lease liabilities at 1 October 2019	(326)
Prepaid leases reclassified from receivables	(1)
Capitalised as right of use assets at 1 October 2019	327

IFRIC 23 'Uncertainty over Income Tax Treatments'

IFRIC 23 'Uncertainty over income tax treatments' was adopted on 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation has not had a material effect on the Group's net assets or results.

New accounting standards and interpretations not yet in issue

A number of the current net investment hedges held by the Group are potentially impacted by the impending reforms to the calculation of the Interbank Offered Rates (IBOR). The amendments to IFRS 9, IAS 39 and IAS 7 – Interest Rate Benchmark Reform, effective for the year commencing 1 October 2020, give relief which will allow these hedges to continue to be treated as effective, with no changes to the hedged positions.

Following the announcement of the potential discontinuation of LIBOR after the end of 2021, the Company has commenced an evaluation of the valuation of its floating rate debt and derivative positions maturing after that date. The evaluation project is ongoing and has not yet concluded. The Company currently expects that an appropriate alternative basis for the calculation of interest will be available in the event LIBOR is no longer used.

There are no other standards or interpretations, issued not effective, that are expected to have a material effect on the Group's net assets or results.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Intangible assets

Judgements typically include determining both the existence and valuation of these type of assets when they are acquired, particularly where they arise as part of a business acquisition. Assets are only recognised when it is judged that the Group has a beneficial right to the use of the assets as guided by applicable Accounting Standards. The valuation of these assets requires estimates of initial current and future carrying values. Estimation is also required in the assessment of the future life of these assets.

Determination of useful economic life

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

Amortisation and impairment

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

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

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions materially change it is likely that materially different amounts could be reported in the Group's financial statements. Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are long term uncertainties associated with estimating the valuation of the recoverable amount, particularly with regard to long term cash flow growth rates which are influenced by the future size and shape of the tobacco sector. While long term growth rates currently used in impairment assessments are based on current best estimates of future performance, there may be changes in these assumptions when conducting impairment tests in subsequent years. Details of goodwill and intangible asset impairment assessments are included in note 12.

Income taxes

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. Where liabilities exist, estimation is often required to determine the potential future tax payments. The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the judgements surrounding certain tax positions that are applicable to the Group and consideration of the valuation estimates related to tax provisions are given in note 8 to these financial statements.

Legal proceedings and disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment. Judgement is required as to whether a liability exists. Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of judgement include consideration as to whether certain claims associated with the acquisition of certain brands specifically in respect of three of the four US states that are not parties to the Master Settlement Agreement (MSA) are likely to succeed, and the likely outcome of a number of product liability claims. More detail as to the considered position on these claims is given in both note 30 of the financial statements and within the Directors' Report – update on Tobacco and e-vapour related litigation. To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

Provisions

Provision accounting involves judgement as to whether a liability should be recognised and requires estimates of the quantum of any such liability. The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity and excise tax, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate. The main area of estimation risk relates to the estimation of restructuring provisions associated with various plans to transform the business. These include the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 25.

Inventory provisions

Provisions for excess or slow-moving inventory are calculated with reference to the levels of inventory carried, the expected useful life of the product and forecast future product sales. In the year, the slow-moving NGP inventory provision increased to £86 million (2019: £34 million) with an in year charge of £97 million being offset partially by provision utilisation of £45 million. This charge is calculated using expected product ageing and future sell-out rates as the key assumptions for this judgement. Sell-out rates, which are judgemental, take into account the impact of planned trade promotions and pricing decisions, which in turn influence the level of inventory usage. Ageing takes into account expected product shelf life and any other factors which may result in the product not being sold, such as packaging or regulatory changes. The current estimate fully reflects the changes to the US regulatory environment. The provision has been estimated with the assumption that there will be no increase to current sell-out rates for this category. The provision would increase to £104 million (2019: £57 million) if no growth was applied to future sell-out rates for this category.

A further inventory provision for tobacco products has been created for COVID-19 related inventory risks where stock levels were increased to mitigate supply constraints.

Assets held for sale

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. Judgement has been required as to whether the disposal process has advanced sufficiently to meet the requirements of IFRS 5 and therefore the assets presented as assets held for sale. As at 30 September 2020 these assets have been judged to meet the criteria and have been presented accordingly. See note 11 for further details.

Control of Logista

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01 per cent of the voting shares. The Group has reviewed its control of Logista and that it is appropriate to consolidate this entity in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group continues to have Director presence on the Board of Logista, representing 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

3. SEGMENT INFORMATION

Imperial Brands comprises two distinct businesses – Tobacco & NGP and Distribution. The Tobacco & NGP business comprises the manufacture, marketing and sale of Tobacco & NGP and Tobacco & NGP-related products, including sales to (but not by) the Distribution business. The Distribution business comprises the distribution of Tobacco & NGP products for Tobacco & NGP product manufacturers, including Imperial Brands, as well as a wide range of non-Tobacco & NGP products and services. The Distribution business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco & NGP and Distribution businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

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

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

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

Americas – United States and Canada.

AAA – Australia, Japan, Russia, Saudi Arabia, Taiwan and our African markets including Algeria and Morocco (also includes Premium Cigar, which is run as a separate business within AAA. Premium Cigar primarily manufacturers within the AAA geography but does make sales in countries outside of this area).

Tobacco & NGP

£ million unless otherwise indicated	2020	Restated 2019
Revenue	**23,973**	23,418
Net revenue	**7,985**	7,991
Operating profit	**2,587**	2,074
Adjusted operating profit	**3,288**	3,521
Adjusted operating margin %	**41.2**	44.1

Distribution

£ million unless otherwise indicated	2020	2019
Revenue	**9,268**	8,969
Net revenue	**1,015**	1,015
Operating profit	**131**	137
Adjusted operating profit	**226**	232
Adjusted operating margin %	**22.3**	22.9

Revenue

£ million	2020 Total revenue	2020 External revenue	2019 Total revenue	2019 External revenue
Tobacco & NGP				
Europe	**14,395**	**13,716**	14,152	13,359
Americas	**3,371**	**3,371**	3,358	3,358
Africa, Asia & Australasia	**6,207**	**6,207**	5,908	5,908
Total Tobacco & NGP	**23,973**	**23,294**	23,418	22,625
Distribution	**9,268**	**9,268**	8,969	8,969
Eliminations	**(679)**	**–**	(793)	–
Total Group	**32,562**	**32,562**	31,594	31,594

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

£ million	2020	Restated 2019
Revenue	**23,973**	23,418
Duty and similar items	**(15,962)**	(15,394)
Sale of peripheral products	**(26)**	(26)
Sale of intellectual property income	**–**	(7)
Net Revenue	**7,985**	7,991

Tobacco & NGP net revenue

£ million	2020	Restated 2019
Europe	**3,569**	3,633
Americas	**2,480**	2,469
Africa, Asia & Australasia	**1,936**	1,889
Total Tobacco & NGP	**7,985**	7,991

Adjusted operating profit and reconciliation to profit before tax

£ million unless otherwise indicated	2020	Restated 2019
Tobacco & NGP		
Europe	**1,582**	1,694
Americas	**1,032**	1,064
Africa, Asia & Australasia	**674**	763
Total Tobacco & NGP	**3,288**	3,521
Distribution	**226**	232
Eliminations	**13**	(14)
Adjusted operating profit	**3,527**	3,739
Acquisition and disposal costs – Tobacco & NGP	**(26)**	(22)
Amortisation and impairment of acquired intangibles – Tobacco & NGP	**(438)**	(1,033)
Amortisation of acquired intangibles – Distribution	**(85)**	(85)
Excise tax provision – Tobacco & NGP	**20**	(139)
Fair value adjustment of acquisition consideration – Tobacco & NGP	**–**	(129)
Fair value adjustment of loan receivable	**(62)**	3
Sale of intellectual property income	**–**	7
Restructuring costs	**(205)**	(144)
Operating profit	**2,731**	2,197
Net finance costs	**(610)**	(562)
Share of profit of investments accounted for using the equity method	**45**	55
Profit before tax	**2,166**	1,690

See note 8 for details of the excise tax provision and note 5 for the fair value adjustment of acquisition consideration. See notes 11 and 12 for details on amortisation and impairment, note 11 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

The Group has adopted a new treatment of adjusted performance measures which has had the impact of removing a fair value adjustment on loan receivables and sale of intellectual property income as an adjusting item. To create a more understandable year on year comparison the change has been made with effect from 1 October 2019 and therefore the fair value gain on the same instrument has been restated in the 2019 comparative.

Other information

£ million	2020 Additions to property, plant and equipment	2020 Depreciation and software amortisation	2019 Additions to property, plant and equipment	2019 Depreciation and software amortisation
Tobacco & NGP				
Europe	**77**	**101**	156	93
Americas	**30**	**31**	48	33
Africa, Asia & Australasia	**46**	**34**	60	39
Total Tobacco & NGP	**153**	**166**	264	165
Distribution	**21**	**36**	36	35
Total Group	**174**	**202**	300	200

Additional geographic analysis

External revenue and non-current assets are presented for the UK and for individually significant countries. The geographical analysis is based on country of origin. The Group's products are sold in over 160 countries.

£ million	2020 External revenue	2020 Non-current assets	2019 External revenue	2019 Non-current assets
UK	**4,498**	**104**	3,939	110
Germany	**4,637**	**3,465**	3,675	3,383
France	**3,772**	**2,564**	3,599	2,532
USA	**3,575**	**6,143**	3,427	7,061
Other	**16,080**	**7,900**	16,954	7,570
Total Group	**32,562**	**20,176**	31,594	20,656

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

4. PROFIT BEFORE TAX

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

£ million unless otherwise indicated	2020	2019
Raw materials and consumables used	**947**	964
Changes in inventories of finished goods – Tobacco & NGP	**2,781**	2,679
Changes in inventories of finished goods – Distribution	**6,798**	6,180
Depreciation and impairment of fixed assets	**205**	183
Amortisation and impairment of intangible assets	**628**	1,162
Acquisition and disposal costs	**26**	22
Expenses relating to short-term leases	**4**	–
Expenses relating to low value asset leases	**2**	–
Depreciation of right of use assets	**72**	–
Operating lease charges	**–**	53
Net foreign exchange losses/(gains)	**258**	(68)
Write down of inventories	**126**	52
Profit on disposal of non-current assets	**(2)**	(19)
Impairment of trade receivables	**44**	9

Analysis of fees payable to Ernst & Young LLP and its associates 2020 & PricewaterhouseCoopers LLP and its associates 2019

£ million unless otherwise indicated	2020	2019
Audit of Parent Company and consolidated financial statements	**1.9**	2.0
Audit of the Company's subsidiaries	**4.7**	4.4
Audit of joint venture entities	**–**	0.4
Audit related assurance services	**0.4**	0.8
	7.0	7.6
Other services	**0.2**	0.2
	7.2	7.8

Ernst & Young LLP was appointed the Group's auditor for the year ended 30 September 2020. Accordingly, comparative figures in the table above for the year ended 30 September 2019 are in respect of remuneration paid to Group's previous auditor, PricewaterhouseCoopers LLP and other member firms of PricewaterhouseCoopers International.

In 2020, PwC provided services to Logista relating to preparation of their consolidation financial statements amounting to £0.2 million.

5. RESTRUCTURING COSTS

£ million unless otherwise indicated	2020	2019
Employment related	**103**	96
Asset impairments	**58**	29
Other charges	**44**	19
	205	144

Restructuring costs analysed by workstream:

£ million unless otherwise indicated	2020	2019
Cost optimisation programme	**187**	144
Other restructuring activities	**18**	–
	205	144

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in the current strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is due to complete in 2021.

Costs of implementing cost savings that do not arise from the change in the current strategic direction are excluded from restructuring costs.

The charge for the year of £205 million (2019: £144 million) predominantly relates to our two cost optimisation programmes announced in 2013 and 2016.

In 2020 the cash cost of Phase I of the programme was £16 million (2019: £24 million) and £107 million (2019: £108 million) for Phase II, bringing the cumulative net cash cost of the programme to £1,066 million (Phase I £559 million, Phase II £507 million).

Cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million in respect of the savings of £300 million per annum that the programme has generated by 2018 , and Phase II is expected to have a cash implementation cost in the region of £650 million, generating savings of a further £305 million per annum by 2021.

The total restructuring cash spend in the year was £145 million (2019: £146 million).

Restructuring costs are included within administrative and other expenses in the consolidated income statement.

These projects differ from everyday initiatives that are undertaken to improve the efficiency and effectiveness of the ongoing operations business. These costs are required in order to address structural issues involved with operating within the Tobacco sector that require action to both modernise and right-size the organisation, ultimately delivering an operating model suitable for the future of the business. Cost optimisation programme Phase 1 completed in 2018 and Phase 2 is due to complete in 2021.

6. ALTERNATIVE PERFORMANCE MEASURES

Reconciliation from operating profit to adjusted operating profit

£ million unless otherwise indicated	Notes	2020	2019
Operating profit		**2,731**	2,197
Acquisition and disposal costs	11	**26**	22
Amortisation and impairment of acquired intangibles	11 / 12 / 15	**523**	1,118
Excise tax provision		**(20)**	139
Fair value adjustment of loan receivable	21	**62**	(3)
Sale of intellectual property income		**–**	(7)
Fair value adjustment of acquisition consideration	12	**–**	129
Restructuring costs	5	**205**	144
Adjusted operating profit		**3,527**	3,739

Amortisation and impairment of acquired intangibles, acquisition and disposal costs and restructuring costs are discussed in further detail in the above referenced notes.

The Group has adopted a new treatment of adjusted performance measures which has had the impact of removing a fair value adjustment on loan receivables and sale of intellectual property income as an adjusting item. To create a more understandable year on year comparison the change has been made with effect from 1 October 2019 and therefore the fair value gain on the same instrument has been restated in the 2019 comparative.

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2020	2019
Reported net finance costs	**610**	562
Fair value gains on derivative financial instruments	**661**	665
Fair value losses on derivative financial instruments	**(581)**	(839)
Exchange (gains)/losses on financing activities	**(256)**	67
Net fair value and exchange losses on financial instruments	**(176)**	(107)
Interest income on net defined benefit assets	**99**	142
Interest cost on net defined benefit liabilities	**(104)**	(147)
Post-employment benefits net financing cost	**(5)**	(5)
Adjusted net finance costs	**429**	450
Comprising		
Interest on bank deposits	**(10)**	(16)
Interest on lease liabilities	**7**	–
Interest on bank and other loans	**432**	466
Adjusted net finance costs	**429**	450

Cash conversion calculation

£ million	2020	2019
Net cash flow from operating activities	**4,030**	3,236
Tax	**568**	522
Net capital expenditure	**(274)**	(352)
Restructuring spend	**145**	146
Cash flow post capital expenditure pre interest and tax	**4,469**	3,552
Adjusted operating profit	**3,527**	3,739
Cash conversion	**127%**	95%

7. DIRECTORS AND EMPLOYEES

Employment costs

£ million	2020	2019
Wages and salaries	**812**	826
Social security costs	**184**	178
Other pension costs (note 24)	**68**	81
Share-based payments (note 27)	**20**	23
	1,084	1,108

Operating Executive (excluding Executive Directors)

£ million	2020	2019
Base salary	**2.0**	2.8
Benefits	**–**	0.2
Pension salary supplement	**–**	0.4
Bonus	**1.6**	1.8
Termination payments	**–**	1.4
LTIP annual vesting[1]	**–**	–
SMS annual vesting[1]	**0.1**	0.5
	3.7	7.1

1. Share plans vesting represent the value of SMS and LTIP awards where the performance periods ends in the year. The SMS has no performance conditions and is valued at the time of vesting being 15 February at a share price of £18.2500.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges was £9,239,049 (2019: £14,473,806).

Key management compensation[1]

£ million	2020	2019
Short term employee benefits	**9.2**	10.6
Post-employment benefits	**2.0**	1.5
Other long-term benefits	**–**	–
Termination payments	**–**	–
Share based payments (in accordance with IAS 24)	**0.2**	2.4
	11.4	14.5

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

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors' Remuneration Report, on pages 96-123, includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2020		2019	
£ million	At 30 September	Average	At 30 September	Average
Tobacco & NGP	**26,300**	**25,900**	26,400	26,000
Distribution	**6,200**	**6,200**	6,300	6,300
	32,500	**32,100**	32,700	32,300

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

	2020		2019	
£ million	At 30 September	Average	At 30 September	Average
European Union	**14,900**	**15,100**	15,600	15,500
Americas	**8,900**	**8,400**	8,400	8,200
Rest of the World	**8,700**	**8,600**	8,700	8,600
	32,500	**32,100**	32,700	32,300

8. TAX

The Group has reclassified certain current tax assets and liabilities on the balance sheet which were previously stated gross, but which in line with IAS 12 'Income Taxes' shall be stated net where there is a legally enforceable right of offset.

The major components of income tax expense for the years ended 30 September 2020 and 2019 are:

£ million	2020	2019
UK current tax		
Current year	**97**	79
Adjustments in respect of prior years	**26**	22
Overseas current tax		
Current year	**458**	454
Adjustments in respect of prior years	**12**	(34)
Total current tax	**593**	521
Deferred tax		
Relating to origination and reversal of temporary differences	**15**	88
Total tax charged to the consolidated income statement	**608**	609

£ million	2020	2019
Tax related to items recognised in consolidated other comprehensive income during the year:		
Current tax on hedge of net investment	**(10)**	–
Deferred tax on hedge of net investment	**(80)**	–
Deferred tax on actuarial gains and losses	**53**	(52)
Total tax charged to consolidated other comprehensive income	**(37)**	(52)

Reconciliation from reported tax to adjusted tax

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2020	2019
Reported tax	**608**	609
Deferred tax on amortisation of acquired intangibles	**57**	9
Current tax on excise tax provision	**(4)**	15
Tax on net fair value gains and losses on financial instruments	**(63)**	31
Tax on post-employment benefits net financing cost	**1**	4
Tax on restructuring costs	**31**	35
Tax on disposal of Premium Cigar Division	**(19)**	–
Previously unrecognised tax credits	**67**	–
Uncertain tax positions	**(77)**	–
Tax on unrecognised losses	**41**	(61)
Adjusted tax charge	**642**	642

The use of adjusted measures is explained in note 1, Accounting Policies (Use of Adjusted Measures).

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 19.0 per cent (2019: 19.0 per cent) as follows:

£ million	2020	Reclassified 2019
Profit before tax	**2,166**	1,690
Tax at the UK corporation tax rate of 19.0% (2019: 19.0%)	**411**	321
Tax effects of:		
Differences in effective tax rates on overseas earnings	**100**	(45)
Movement in provision for uncertain tax positions	**61**	16
Remeasurement of deferred tax balances arising from changes in tax rates	**9**	–
Remeasurement of deferred tax assets – derecognition/(recognition)	**(81)**	38
Increase in previously unrecognised deferred tax assets	**30**	49
Deferred tax on unremitted earnings	**(19)**	15
Share of profit of investments accounted for using the equity method	**(8)**	(10)
Permanent differences	**76**	232
Adjustments in respect of prior years	**29**	(7)
Total tax charged to the consolidated income statement	**608**	609

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

Remeasurement of deferred tax assets includes £18 million recognition (2019: £35 million de-recognition) in relation to deferred tax assets for tax losses in the Group's Dutch business, £15 million recognition (2019: nil) in relation to deferred tax assets for tax credits and losses in the Group's Spanish business and £45 million recognition (2019: nil) in relation to deferred tax assets for tax losses in the Group's US business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the Group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £9 million (2019: nil).

During the year the Group has decreased the provision for deferred tax on unremitted earnings by £19 million (2019: £15 million increase). The tax will arise on the distribution of profits through the Group and on planned Group simplification.

Permanent differences include £80 million (2019: £4 million) in respect of non-deductible exchange losses/(non-taxable exchange gains), £nil (2019: £32 million) in respect of non-deductible contingent consideration and £nil (2019: £147 million) in respect of an impairment of goodwill and equity investments in the Premium Cigar Division.

Movement on the current tax account

£ million	2020	2019
At 1 October	**(118)**	(122)
Charged to the consolidated income statement	**(593)**	(521)
Credited to other comprehensive income	**10**	–
Credited to equity	**1**	1
Cash paid	**568**	522
Exchange movements	**(13)**	3
Other movements	**1**	(1)
At 30 September	**(144)**	(118)

The cash tax paid in the year is £25 million lower than the current tax charge (2019: £1 million higher). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

Analysis of current tax account

£ million	2020	Reclassified 2019
Current tax assets	**206**	195
Current tax liabilities	**(350)**	(313)
	(144)	(118)

The Group has reclassified certain current tax assets and liabilities on the balance sheet which were previously stated gross, but which in line with IAS 12 'Income Taxes' shall be stated net where there is a legally enforceable right of offset.

Uncertain tax positions

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2020 the total value of these provisions, including foreign exchange movements, was £273 million (2019: £204 million). The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice. Until matters are finally concluded it is possible that amounts ultimately paid will be different from the amounts provided.

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

French tax litigation

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £248 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In October 2018 the Commission Nationale, an independent adjudication body, whose decision is advisory only, issued a report supportive of the Group's arguments for no adjustment. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed (£248 million). In January 2019 the Group appealed against the assessment. In August 2020, the French tax authorities rejected the Group's appeal and the matter will now proceed to litigation. Given there are no substantive developments in the case it is appropriate to maintain the £44 million (2019: £42 million) provision for uncertain tax positions in respect of this matter.

State Aid UK CFC

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, along with a number of UK corporates, has made a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process. Although the Group believes that it has no liability in respect of this issue, under a range of different interpretations of the EU Commission's decision the Group has previously disclosed that preliminary calculations indicated a range of potential liabilities depending on the basis of calculation of up to £300 million.

In December 2019 HMRC issued guidance on the quantification of any potential State Aid, and subsequently requested the Group, in line with other corporates, submit an assessment of potential State Aid. Whilst the Group's position remains that no State Aid has been received, based on its submission to HMRC a potential liability of c. £100 million was reported. Based on HMRC accepting our assessment, it is expected they will seek recovery of the £100 million. On the basis the Group believes no State Aid arises, no provision has been made at this time. If payment is required, based on current advice a receivable in the same amount would be recorded. Interest would be chargeable on any recovery.

Based upon current advice the Group does not consider any provision is required in relation to any other EU State Aid investigation.

Transfer Pricing

The Group has tax audits in progress, relating to transfer pricing matters in a number of jurisdictions, principally UK, France and Germany. The Group estimates the potential gross level of exposure relating to transfer pricing issues is approximately £800 million (2019: £530 million). The Group holds a provision of £207 million (2019: £155 million) in respect of these items.

In August 2020 the Group notified HMRC of a potential Diverted Profits Tax (DPT) issue relating to brand rewards. On 25 September 2020, HMRC issued a preliminary notice under the DPT regime in respect of the year ended 30 September 2016 indicating a potential liability of c. £6 million. Collaborative discussions on the issue continue and it is the Group's belief the issue is a transfer pricing one, and will be resolved as such. If the transfer pricing discussions are not concluded by end of December 2020, HMRC will issue a final DPT notice, which the Group will be required to pay within 30 days. On conclusion of the transfer pricing discussions, an appropriate refund would be anticipated. Whilst the issues discussed affects all subsequent periods, no further DPT notices are anticipated.

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

9. DIVIDENDS

Distributions to ordinary equity holders

£ million	2020	2019	2018
Paid interim of 41.70 pence per share (2019: 62.56 pence, 2018: 122.33 pence)			
• Paid June 2018	–	–	271
• Paid September 2018	–	–	271
• Paid December 2018	–	–	624
• Paid June 2019	–	298	–
• Paid September 2019	–	298	–
• Paid December 2019	–	679	–
• Paid June 2020	**197**	–	–
• Paid September 2020	**197**	–	–
Interim dividend paid	**394**	1,275	1,166
Proposed interim of 48.00 pence per share (2019: 72.00 pence, 2018: nil)			
• To be paid December 2020	**453**	–	–
Interim dividend proposed	**453**	–	–
Proposed final of 48.01 pence per share (2019: 72.01 pence, 2018: 65.46 pence)			
• Paid March 2019	–	–	624
• Paid March 2020	–	680	–
• To be paid March 2021	**454**	–	–
Final dividend	**454**	680	624
Total ordinary share dividends of 137.71 pence per share (2019: 206.57 pence, 2018: 187.79 pence)	**1,301**	1,955	1,790

The third interim dividend for the year ended 30 September 2020 of 48.00 pence per share amounts to a proposed dividend of £453 million, which will be paid in December 2020.

The proposed final dividend for the year ended 30 September 2020 of 48.01 pence per share amounts to a proposed dividend payment of £454 million in March 2021 based on the number of shares ranking for dividend at 30 September 2020, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2020 will be £1,301 million (2019: £1,955 million). The dividend paid during 2020 is £1,753 million (2019: £1,844 million).

10. EARNINGS PER ORDINARY SHARE

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

£ million	2020	2019
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,495**	1,010

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**944.4**	953.0
Potentially dilutive share options	**1.4**	1.9
Shares for diluted earnings per share	**945.8**	954.9

Pence		
Basic earnings per share	**158.3**	106.0
Diluted earnings per share	**158.1**	105.8

Reconciliation from reported to adjusted earnings and earnings per share

	2020		2019	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	**158.3**	**1,495**	106.0	1,010
Acquisition and disposal costs	**2.8**	**26**	2.3	22
Amortisation and impairment of acquired intangibles	**49.2**	**466**	116.4	1,109
Excise tax provision	**(1.7)**	**(16)**	13.0	124
Fair value adjustment of loan receivable	**6.6**	**62**	(0.3)	(3)
Sale of intellectual property income	**–**	**–**	(0.7)	(7)
Fair value adjustment of acquisition consideration	**–**	**–**	13.5	129
Net fair value and exchange movements on financial instruments	**25.3**	**239**	8.0	76
Post-employment benefits net financing cost	**0.4**	**4**	0.1	1
Restructuring costs	**18.4**	**174**	11.4	109
Tax on disposal of Premium Cigar Division	**2.0**	**19**	–	–
Previously unrecognised tax credits	**(7.1)**	**(67)**	–	–
Uncertain tax positions	**8.2**	**77**	–	–
Tax on unrecognised losses	**(4.3)**	**(41)**	6.4	61
Adjustments above attributable to non-controlling interests	**(3.7)**	**(35)**	(3.8)	(36)
Adjusted	**254.4**	**2,403**	272.3	2,595
Adjusted diluted	**254.1**	**2,403**	271.8	2,595

From the 1 October 2020 the Group has adopted a new treatment of adjusted performance measures which has had the impact of removing a fair value loss on loan receivables as an adjusting item. To create a more understandable year on year comparison the fair value gain on the same instrument has been restated in the 2019 comparative.

11. ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division ("the Division") and at 30 September 2019 the Group presented the assets and liabilities of the business as held for sale. On 27 April 2020 the Group announced that it had agreed the sale of the Division. The total actual cash flows received and currently expected to be received total €1,198 million, a slight reduction from the €1,225 million previously announced due to the true up of cross perimeter inter company loans and other small customary closing adjustments. A non-refundable deposit of €92 million was received on 28 September 2020 and a further non-refundable deposit of €86 million was received on 6 October 2020. The share sale element of the sale of the Division completed on 29 October 2020 and €607 million was received on that date including the impact of a true up in respect of cross perimeter inter company loan balances. An additional €256 million is due to be received on 29 April 2021 and a further €88 million is due to be received on 29 October 2021. The sale of the La Romana factory in the Dominican Republic is due to complete in the first half of our 2022 financial year when it is expected that €69 million will be received subject to a true up in respect of inventory values.

Although the period which the Group has classified these assets as 'held for sale' exceeded 1 year, the Group completed the sale on 29 October 2020 and therefore the IFRS 5 criteria for an asset held for sale presentation continue to be met as at 30 September 2020.

Carrying value of asset held for sale

When the Premium Cigar Division was reclassified as held for disposal at 30 September 2019 an impairment test was undertaken, and an impairment was identified with net assets being written down to their estimated recoverable amount on a fair value less costs of sale basis. The test involved an assessment of the level of proceeds expected to be achieved on completion of the disposal, less transaction tax and costs with a comparison of this figure to the carrying value of the net assets. Since bid offers are an observable input not based on a quoted price the fair value is based on a level 2 valuation under IFRS 13.

At 27 April 2020, the sale was agreed giving certainty as to the actual level of sale proceeds expected to be achieved and this amount was a decrease on the previous estimate. For the year ended 30 September 2020 foreign exchange losses arising on the retranslation of the carrying value associated assets, net of impairment provisions of £23 million were recognised within the foreign change reserve account and a net profit of £11 million was recognised in the income statement as a result of impairment provision reversals due to changes in the estimated amount of the sale consideration offset by foreign exchange gains. (2019: £500 million impairment charge).

The cumulative impairments recognised have been used to fully write down the carrying value of goodwill and have then been allocated pro-rata against other non-current assets, within the current assets held for disposal category on the balance sheet. The net assets relating to the La Romana site were transferred from assets held for sale at 31 March 2020 and recognised elsewhere within the balance sheet due to the deferral of its sale completion date. This comprised assets of £43 million being £38 million of inventory, £3 million of property, plant and equipment, and £2 million of other assets. In addition £10 million of payables related to La Romana were also transferred out of assets held for sale. Total net assets held for disposal are now £1,024 million, comprised of £979 million for the purchase consideration and £45 million for the repayment of net amounts due to Imperial group undertakings.

2019 comparatives have been restated due to the sale of the Premium Cigar business. Please see note 1 for more detail.

Profits arising on disposal

As the disposal completed after the balance sheet date it is treated as a non-adjusting post balance sheet event. The profit on disposal will be recognised in the 2021 financial year. The profit arising on disposal will be calculated factoring in the recycling of foreign exchange gains previously recorded in reserves and any variation between the asset held for sale carrying value and sale proceeds, net of tax and disposal costs. We currently estimate the cumulative foreign exchange gains at 30 September 2020 to be in the region of £250 million – £350 million.

The assets and liabilities classified as held for disposal are as follows:

£ million	2020	2019
Non-current assets		
Intangible assets	**101**	138
Property, plant and equipment	**17**	26
Investments accounted for using the equity method	**584**	574
Trade and other receivables	**35**	52
Right of use leased assets	**7**	–
Deferred tax assets	**10**	11
	754	801
Current assets		
Inventories	**166**	228
Trade and other receivables	**67**	60
Cash and cash equivalents	**75**	14
	308	302
Total assets	**1,062**	1,103
Current liabilities		
Trade and other payables	**(35)**	(33)
Provisions	**(3)**	(4)
	(38)	(37)
Total liabilities	**(38)**	(37)
Net assets	**1,024**	1,066

12. INTANGIBLE ASSETS

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
					2020
Cost					
At 1 October 2019	**14,232**	**13,021**	**1,423**	**421**	**29,097**
Additions	**–**	**74**	**–**	**38**	**112**
Disposals	**–**	**(1)**	**–**	**(7)**	**(8)**
Reclassifications	**(1)**	**–**	**–**	**7**	**6**
Transferred from held for disposal (note 11)	**–**	**7**	**2**	**–**	**9**
Exchange movements	**204**	**(107)**	**38**	**6**	**141**
At 30 September 2020	**14,435**	**12,994**	**1,463**	**465**	**29,357**
Amortisation and impairment					
At 1 October 2019	**1,847**	**7,169**	**1,220**	**265**	**10,501**
Amortisation charge for the year[1]	**–**	**466**	**85**	**33**	**584**
Impairment	**12**	**29**	**–**	**2**	**43**
Disposals	**–**	**–**	**–**	**(6)**	**(6)**
Reclassifications	**(1)**	**–**	**–**	**–**	**(1)**
Exchange movements	**37**	**(1)**	**36**	**4**	**76**
Accumulated amortisation	**–**	**7,242**	**1,341**	**296**	**8,879**
Accumulated impairment	**1,895**	**421**	**–**	**2**	**2,318**
At 30 September 2020	**1,895**	**7,663**	**1,341**	**298**	**11,197**
Net book value					
At 30 September 2020	**12,540**	**5,331**	**122**	**167**	**18,160**

1. Amortisation of acquired intangibles excluded from adjusted operating profit comprises amortisation on intellectual property of £466 million (2019: £515 million), impairment on intellectual property of £14 million (2019: £8 million) and amortisation on supply agreements of £85 million (2019: £85 million). An adjustment is made for impairment on internally generated intellectual property of £15 million (2019: £10 million).

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
					2019
Cost					
At 1 October 2018	14,040	12,701	1,421	378	28,540
Additions	31	66	2	52	151
Disposals	–	(1)	–	(15)	(16)
Reclassifications	–	–	(2)	4	2
Transferred from held for disposal (note 11)	–	(136)	(2)	–	(138)
Exchange movements	161	391	4	2	558
At 30 September 2019	14,232	13,021	1,423	421	29,097
Amortisation and impairment					
At 1 October 2018	1,577	6,472	1,131	243	9,423
Amortisation charge for the year[1]	–	515	85	34	634
Impairment	273	18	–	–	291
Disposals	–	(1)	–	(13)	(14)
Exchange movements	(3)	165	4	1	167
Accumulated amortisation	–	6,777	1,220	265	8,262
Accumulated impairment	1,847	392	–	–	2,239
At 30 September 2019	1,847	7,169	1,220	265	10,501
Net book value					
At 30 September 2019	12,385	5,852	203	156	18,596

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

Supply agreements include Distribution customer relationships. All were acquired as part of the Altadis purchase.

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

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit.

Acquisitions

For each acquisition, an exercise to value the net assets and apportion the consideration has taken place and the values have been recognised in the year end accounts. We engaged external consultants to assist in the valuation of the intangible assets, which make up the most significant element of the assets acquired and have been valued using the income method.

Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions to contingent consideration or asset values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

Von Erl

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million plus an estimated contingent consideration of £15 million payable on performance measures being achieved. In August 2018 and August 2019 total payments of £20 million were made to purchase an additional share capital, taking the total shareholding to 70 per cent. On 2 October 2019 a final agreement to pay £123 million was made to purchase the remaining equity in Von Erl, making it a fully owned subsidiary.

Nerudia

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for an estimated total cash consideration of £86 million, comprised of an initial consideration of £64 million plus an estimated contingent consideration of £22 million. This contingent consideration was paid in November 2019.

The remaining contingent consideration of £20 million for the purchase of Nerudia is determined by the meeting of certain related pre-conditions. The assessment of these pre-conditions to payment is ongoing with the likely outcome that they have not been met.

Goodwill and intangible asset impairment review

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

		2020		2019
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Europe	**4,645**	**353**	4,602	342
Americas	**4,265**	**–**	4,225	–
Africa, Asia & Australasia	**1,836**	**140**	1,819	136
Tobacco & NGP	**10,746**	**493**	10,646	478
Distribution	**1,794**	**–**	1,739	–
	12,540	**493**	12,385	478

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

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a Cash Generating Unit Grouping (CGUG) is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans of our Tobacco business which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

An impairment of £13 million was recognised after Fontem Canada Limited ceased trading.

Growth rates and discount rates used

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

			2020			2019
%	Pre-tax discount rate	Initial growth rate	Long-term growth rate	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Europe	**9.6**	**2.6**	**1.0**	9.6	1.1	0.2
Americas	**8.8**	**1.3**	**1.9**	8.9	3.9	2.5
Africa, Asia & Australasia	**12.9**	**0.4**	**2.1**	10.3	1.6	0.1
Distribution	**13.0**	**0.8**	**1.6**	9.3	2.5	1.6

Cash flows from the business plan period are used for year 1 and 2, then extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. On certain markets, the extrapolated growth rate can exceed the long term growth rate based on the business plan being a better reflection of the anticipated growth. Estimated long term weighted average compound growth rates are used beyond year five.

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

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Europe has seen an increase in initial growth rates driven by improved cashflow expectations in Year 1 and Year 2 for certain markets. Americas shows a reduced initial growth rate driven by increased product costs plus long term growth rates have been revised downward based on changes in the macroeconomic outlook. Africa, Asia & Australasia (AAA) discount rates have increased to reflect the uncertainties within the economic climate, including the impact of COVID. Initial AAA growth rates have been lowered primarily due to changes in the Australian market, where future cash flows do not benefit from the same level of margin on duty paid inventory that was achieved in FY20. The long term growth rates for AAA are based on published external data, adjusted downwards where appropriate, with adjustments for the non-Australian markets being lower this year than last. The Distribution discount rate has increased to reflect the greater uncertainties within the economic climate and the initial growth rates changes are based on revised business plan projections.

Our impairment testing confirms there are sufficient cashflows to support the current carrying values of the goodwill held at 30 September 2020. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions materially change it is likely that materially different amounts could be reported in the Group's financial statements. There are uncertainties associated with estimating the valuation of the recoverable amount.

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

The valuation of the recoverable amount is sensitive to assumptions made as to future growth rates and the discount rates.

Other intangible assets

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cashflows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cashflows. £2 million of impairments were recognised in the period (2019: nil).

13. PROPERTY, PLANT AND EQUIPMENT

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total 2020
Cost				
At 1 October 2019	**909**	**2,193**	**440**	**3,542**
Additions	**11**	**122**	**41**	**174**
Disposals	**(16)**	**(65)**	**(30)**	**(111)**
Reclassifications	**3**	**1**	**(13)**	**(9)**
Exchange movements	**(2)**	**(35)**	**–**	**(37)**
At 30 September 2020	**905**	**2,216**	**438**	**3,559**
Depreciation and impairment				
At 1 October 2019	**181**	**1,104**	**278**	**1,563**
Depreciation charge for the year	**18**	**117**	**34**	**169**
(Impairment write back)/impairment	**(2)**	**38**	**–**	**36**
Disposals	**(6)**	**(49)**	**(28)**	**(83)**
Reclassifications	**(1)**	**(2)**	**(2)**	**(5)**
Exchange movements	**(2)**	**(18)**	**–**	**(20)**
At 30 September 2020	**188**	**1,190**	**282**	**1,660**
Net book value				
At 30 September 2020	**717**	**1,026**	**156**	**1,899**

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total 2019
Cost				
At 1 October 2018	909	2,013	432	3,354
Additions	10	226	64	300
Disposals	(7)	(80)	(36)	(123)
Reclassifications	4	15	(21)	(2)
Transferred to held for disposal (note 11)	(22)	(14)	(4)	(40)
Exchange movements	15	33	5	53
At 30 September 2019	909	2,193	440	3,542
Depreciation and impairment				
At 1 October 2018	169	1,016	278	1,463
Depreciation charge for the year	20	113	33	166
(Impairment write back)/impairment	(6)	23	–	17
Disposals	(2)	(52)	(33)	(87)
Reclassifications	2	(1)	(1)	–
Transferred to held for disposal (note 11)	(4)	(8)	(2)	(14)
Exchange movements	2	13	3	18
At 30 September 2019	181	1,104	278	1,563
Net book value				
At 30 September 2019	728	1,089	162	1,979

14. RIGHT OF USE ASSETS AND LEASE LIABILITY

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2020
Net book value				
At 1 October 2019 (on adoption of IFRS 16)	279	7	41	327
Additions	24	4	11	39
Terminations & modifications	(2)	–	(4)	(6)
Depreciation	(52)	(3)	(17)	(72)
Exchange movements	5	–	–	5
At 30 September 2020	254	8	31	293

Future minimum lease payments liabilities are analysed as below:

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2020
Due in less than one year	53	3	14	70
Due between one and five years	151	5	19	175
Due in more than five years	87	–	–	87
Total future minimum lease payments payable	291	8	33	332
Effect of discounting				(33)
Lease liability				299

There were no lease liabilities held as at 30 September 2019.

For further disclosures regarding leases please see the following notes

Note 4. Profit before tax	Expenses relating to short-term leases and low value asset leases
See above Note, with ROU movement table	Depreciation expense of ROU assets
Note 6. Net finance costs	Interest on lease liabilities
Note 20. Borrowings	Maturity profile of the carrying amount of the Group's non-current lease liabilities
Note 21. Financial risk factors	Maturity profile of the undiscounted contractual cash flows of the Group's lease liabilities
Note 31. Net Debt	Movements in lease liabilities in the year

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the joint venture entities, which are accounted for by the Group under the equity method, is shown below:

£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others	Total
					2020
Revenue	188	322	10	61	581
Profit after tax	43	52	1	10	106
Non-current assets	458	27	–	11	496
Current assets	99	233	41	82	455
Total assets	557	260	41	93	951
Current liabilities	(147)	(40)	(2)	(16)	(205)
Non-current liabilities	(28)	(5)	–	(45)	(78)
Total liabilities	(175)	(45)	(2)	(61)	(283)
Net assets	382	215	39	32	668

£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others	Total
					2019
Revenue	208	329	16	69	622
Profit after tax	44	60	10	11	125
Non-current assets	482	27	24	13	546
Current assets	95	219	47	65	426
Total assets	577	246	71	78	972
Current liabilities	(132)	(60)	(3)	(42)	(237)
Non-current liabilities	(26)	(5)	–	(6)	(37)
Total liabilities	(158)	(65)	(3)	(48)	(274)
Net assets	419	181	68	30	698

Transactions and balances with joint ventures

£ million	2020	2019
Sales to	**163**	99
Purchases from	**111**	115
Accounts receivable from	**–**	54
Accounts payable to	**(24)**	(26)

Movement on investments accounted for using the equity method

£ million	2020	2019
At 1 October	**81**	845
Profit for the year from joint ventures and associates	**45**	55
Increase in investment in associates	**5**	11
Impairment of investment in joint ventures	**(1)**	(232)
Impairment of investment in associates	**–**	(5)
Dividends	**(27)**	(45)
Transferred from/(to) held for disposal (note 11)	**50**	(574)
Foreign exchange (losses)/gains	**(36)**	26
At 30 September	**117**	81

16. INVENTORIES

£ million	2020	2019
Raw materials	**1,001**	1,012
Work in progress	**74**	67
Finished inventories	**2,781**	2,829
Other inventories	**209**	174
	4,065	4,082

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,781 million (2019: £2,829 million) there is excise duty of £1,312 million (2019: £1,406 million).

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £179 million (2019: £156 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

17. TRADE AND OTHER RECEIVABLES

	2020		2019	
£ million	Current	Non-current	Current	Non-current
Trade receivables	2,410	4	2,599	5
Less: loss allowance	(112)	(4)	(72)	(5)
Net trade receivables	2,298	–	2,527	–
Other receivables	178	48	176	108
Prepayments	162	9	151	11
	2,638	57	2,854	119

2019 comparatives have been restated due to the sale of the Premium Cigar business. Please see note 1 for more detail.

Trade receivables may be analysed as follows:

	2020		2019	
£ million	Current	Non-current	Current	Non-current
Within credit terms	2,138	–	2,363	–
Past due by less than 3 months	77	–	100	–
Past due by more than 3 months	83	–	64	–
Amounts that are impaired	112	4	72	5
	2,410	4	2,599	5

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

£ million	2020	2019
At 1 October previously stated	77	66
IFRS 9 Transition	–	5
At 1 October restated	77	71
Net increase in provision	39	6
At 30 September	116	77

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. Expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach. Trade receivables are all repayable within 12 months and therefore the ECL provision represents all expected losses within this term.

18. CASH AND CASH EQUIVALENTS

£ million	2020	2019
Cash at bank and in hand	791	835
Short-term deposits and other liquid assets	835	1,451
	1,626	2,286

£154 million (2019: £176 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

19. TRADE AND OTHER PAYABLES

	2020		2019	
£ million	Current	Non-current	Current	Non-current
Trade payables	1,191	–	1,775	–
Duties payable	6,129	–	4,919	–
Other taxes and social security contributions	1,603	–	1,358	–
Other payables	464	–	400	–
Accruals	783	5	900	7
	10,170	5	9,352	7

2019 comparatives have been restated due to the sale of the Premium Cigar business. Please see note 1 for more detail.

20. BORROWINGS

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

£ million	2020	2019
Current borrowings		
Bank loans and overdrafts	**61**	46
Capital market issuance:		
European commercial paper (ECP)	**–**	177
€750m 5.0% notes due December 2019	**–**	692
$1,250m 2.95% notes due July 2020	**–**	1,022
€1,000m 2.25% notes due February 2021	**925**	–
€500m 0.5% notes due July 2021	**456**	–
Total current borrowings	**1,442**	1,937
Non-current borrowings		
Bank loans	**1**	–
Capital market issuance:		
€1,000m 2.25% notes due February 2021	**–**	897
€500m 0.5% notes due July 2021	**–**	443
£1,000m 9.0% notes due February 2022	**1,056**	1,055
$1,250m 3.75% notes due July 2022	**980**	1,023
$1,000m 3.5% notes due February 2023	**782**	815
€750m 1.25% notes due August 2023	**684**	664
£600m 8.125% notes due March 2024	**626**	626
$1,000m 3.125% notes due July 2024	**782**	816
€500m 1.375% notes due January 2025	**460**	446
$1,500m 4.25% notes due July 2025	**1,172**	1,222
€650m 3.375% notes due February 2026	**604**	587
$750m 3.5% notes due July 2026	**586**	612
£500m 5.5% notes due September 2026	**500**	500
€750m 2.125% notes due February 2027	**692**	671
$1,000m 3.875% notes due July 2029	**781**	816
£500m 4.875% notes due June 2032	**504**	504
Total non-current borrowings	**10,210**	11,697
Total borrowings	**11,652**	13,634
Analysed as:		
Capital market issuance	**11,590**	13,588
Bank loans and overdrafts	**62**	46

Current and non-current borrowings include interest payable of £13 million (2019: £33 million) and £151 million (2019: £164 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 2 December 2019, €750 million 5.0 per cent notes were repaid. On 21 July 2020, $1,250 million 2.95 per cent notes were repaid.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2019: no defaults).

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2020 (including net derivative financial instruments detailed in note 22) is as follows:

	2020				2019		
£ million	Borrowings	Lease liabilities	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:							
Between one and two years	**2,037**	**54**	**17**	**2,108**	1,340	(16)	1,324
Between two and five years	**4,506**	**106**	**(37)**	**4,575**	4,999	14	5,013
In five years or more	**3,667**	**75**	**848**	**4,590**	5,358	733	6,091
	10,210	**235**	**828**	**11,273**	11,697	731	12,428

Carrying amount of the Group's lease liabilities as at 30 September 2020 is £299 million (£64 million current liabilities and £235 million non–current liabilities). A breakdown of non-current liabilities of £235 million has been presented along with other non-current financial liabilities in the above table.

Fair value of borrowings

The fair value of borrowings as at 30 September 2020 is estimated to be £12,496 million (2019: £14,320 million). £12,434 million (2019: £14,274 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

	2020		2019	
£ million	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	**2,686**	**3,054**	2,685	3,168
EUR	**3,821**	**3,943**	4,577	4,681
USD	**5,083**	**5,437**	6,326	6,425
Total capital market issuance	**11,590**	**12,434**	13,588	14,274

Undrawn revolving credit facilities

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

£ million	2020	2019
Amounts maturing:		
In less than one year	**–**	266
Between one and two years	**1,551**	3,011
Between two and five years	**3,193**	–
	4,744	3,277

During the year syndicated revolving credit facilities for €2,835 million and £500 million were cancelled and a new syndicated revolving credit facility for €3,500 million was arranged.

During the year one bilateral facility for €300 million was cancelled and six new bilateral facilities for a total €1,700 million were arranged.

21. FINANCIAL RISK FACTORS

Financial risk management

Overview

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group wide insurance programs. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

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

The Board reviews and approves all major treasury decisions.

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

(A) Market risk

Price risk

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 24 and the investment in convertible debentures issued by Auxly Cannabis Group Inc. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

Foreign exchange risk

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

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

Transaction risk

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

Translation risk

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

Foreign exchange sensitivity analysis

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2020. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

£ million	2020 Increase in income	2019 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2019: 10%)	**544**	184
10% appreciation of US dollar (2019: 10%)	**8**	43

An equivalent depreciation in the above currencies would cause a decrease in income of £665 million and £10 million for euro and US dollar exchange rates respectively (2019: £225 million and £53 million).

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

£ million	2020 Change in equity	2019 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2019: 10%)	**405**	453
10% appreciation of US dollar (2019: 10%)	**(134)**	(47)

An equivalent depreciation in the above currencies would result in a change in equity of (£494) million and £163 million for euro and US dollar exchange rates respectively (2019: (£554) million and £57 million).

At 30 September 2020, after the effect of derivative financial instruments, approximately 70 per cent of the Group's net debt was denominated in euro and non US Dollar currencies (2019: 74 per cent), 30 per cent in US dollars (2019: 26 per cent)

Interest rate risk

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

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

As at 30 September 2020, after adjusting for the effect of derivative financial instruments detailed in note 20, approximately 71 per cent (2019: 63 per cent) of net debt was at fixed rates of interest and 29 per cent (2019: 37 per cent) was at floating rates of interest.

Interest rate sensitivity analysis

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2020, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2019: £nil)

£ million	2020 Change in income	2019 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2019: 1%)	**28**	31
+/- 1% increase in US dollar interest rates (2019: 1%)	**8**	14

(B) Credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, on cash deposits and derivatives. The maximum aggregate credit risk to these sources was £4,902 million at 30 September 2020 (2019: £5,699 million).

Trade and other receivables

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers, and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2020 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £686 million (2019: £827 million). The total value of trade receivables reclassified as fair value was £22 million at 30 September 2020 (2019: £23 million). There was no valuation difference between amortised cost and fair value. Analysis of trade and other receivables is provided in note 17.

Financial instruments

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with one collateral appendix the Group had placed £47 million as at 30 September 2020 (2019: £38 million) as collateral with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2020. At the balance sheet date management does not expect these counterparties to default on their current obligations.

	2020		2019	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**A+**	**14**	A+	20
2nd highest	**A**	**11**	AA-	19
3rd highest	**A+**	**5**	A	12
4th highest	**A+**	**2**	A	8
5th highest	**–**	**–**	A	8

(C) Liquidity risk

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

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2020, the Group held liquid assets of £1,626 million (2019: £2,286 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2020. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 22.

						2020
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	**62**	**62**	**61**	**1**	**–**	**–**
Capital market issuance	**11,590**	**13,302**	**1,806**	**2,339**	**5,165**	**3,992**
Trade payables	**1,191**	**1,191**	**1,191**	**–**	**–**	**–**
Lease liabilities	**299**	**332**	**70**	**65**	**110**	**87**
Total non-derivative financial liabilities	**13,142**	**14,887**	**3,128**	**2,405**	**5,275**	**4,079**

						2019
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	46	56	56	–	–	–
Capital market issuance	13,588	15,787	2,345	1,773	5,806	5,863
Trade payables	1,775	1,775	1,775	–	–	–
Total non-derivative financial liabilities	15,409	17,618	4,176	1,773	5,806	5,863

Capital management

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

The Group continues to manage its capital structure to maintain investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in on-going discussions with the relevant rating agencies.

As at 30 September 2020 the Group was rated Baa3/stable outlook by Moody's Investors Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/negative outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	2020	2019
Adjusted net debt (note 31)	**10,299**	11,376
Equity attributable to the owners of the parent	**4,871**	4,937
Total capital	**15,170**	16,313

Hedge accounting

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

The Group only designates the undiscounted spot element of the cross currency swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line – These amounts are, therefore, not included in the hedge effectiveness assessment.

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

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

All net investment hedges were fully effective at 30 September 2020.

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

	2020				
	Total	Maturity			
£ million	notional balance	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	**(6,709)**	**(1,369)**	**(974)**	**(3,089)**	**(1,277)**
Cross-currency swaps	**(2,950)**	**–**	**(1,088)**	**(704)**	**(1,158)**
	(9,659)	**(1,369)**	**(2,062)**	**(3,793)**	**(2,435)**

	2019				
	Total	Maturity			
£ million	notional balance	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(8,407)	(1,681)	(1,328)	(2,494)	(2,904)
Cross-currency swaps	(2,863)	–	–	(1,739)	(1,124)
	(11,270)	(1,681)	(1,328)	(4,233)	(4,028)

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

2020

£ million	Notional balance	Carrying amount Assets	Carrying amount Liabilities	Balance sheet line item	Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	**6,709**	**–**	**6,755**	**Borrowings**	**75**
Cross-currency swaps	**2,950**	**–**	**410**	**Derivative financial instruments**	**(86)**
Hedged item:					
Investment in a foreign operation	**n/a**	**9,659**			**(11)**

2019

£ million	Notional balance	Carrying amount Assets	Carrying amount Liabilities	Balance sheet line item	Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	8,407	–	8,482	Borrowings	(228)
Cross-currency swaps	2,863	–	341	Derivative financial instruments	5
Hedged item:					
Investment in a foreign operation	n/a	11,270			(223)

Reconciliation of changes in the value of net investment hedges:

2020

	At the beginning of the year	Income Statement	Other Comprehensive Income	Repayments/ (Borrowings)	At the end of the year
Derivatives in net investment hedges of foreign operations	**(341)**	**17**	**(86)**	**–**	**(410)**
Bonds in net investment hedges of foreign operations	**(8,482)**	**87**	**17**	**1,623**	**(6,755)**
Total	**(8,823)**	**104**	**(69)**	**1,623**	**(7,165)**

2019

	At the beginning of the year	Income Statement	Other Comprehensive Income	Repayments/ (Borrowings)	At the end of the year
Derivatives in net investment hedges of foreign operations	(473)	132	–	–	(341)
Bonds in net investment hedges of foreign operations	(6,913)	(25)	(228)	(1,316)	(8,482)
Total	(7,386)	107	(228)	(1,316)	(8,823)

The Group also treats certain permanent intercompany loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intercompany loans with a notional value of €2,506 million (2019 €2,506 million) and US dollar loans with a notional value of $5,636 million (2019: $5,636 million) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments and the investment in Auxly Cannabis Group which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves, foreign exchange rates and credit default swap prices as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 22. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance and the Auxly investment, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 20.

Auxly Cannabis Group inc.

On 25 July 2019 the Company announced that it would invest CAD 123 million by way of a debenture convertible into 19.9 per cent ownership of Auxly at a conversion price of $0.81 per share. The transaction was completed on 25 September 2019. At 30 September 2019 this investment was classified as a financial asset at fair value through profit and loss and sits in Level 3 on the fair value hierarchy using inputs not based upon observable market data, with the option component being valued using a Black Scholes model factoring in a closing share price of $0.78 and the loan component being valued by discounting associated cash flows a rate of 19%, a rate which allowed the fair value to align to the initial investment. A 1% change in the discount rate would have moved the fair value by approximately £4 million. At 30 September 2019 the fair value of the investment was £82 million. At 30 September 2020 the investment in Auxly has been revalued as a loan receivable. A total fair value loss of £60 million has been recognised relating to the remeasurement of expected cash flows from the loan receivable discounted at a rate of 14%, which reduced the carrying value by £24 million, plus the application of an expected credit loss provision of £36 million. As at 30 September 2020 the fair value of the receivable was estimated to be £22 million. The fair value represents the expected recoverable amount factoring in possible future credit losses. There continues to be credit risk exposure on the whole of this financial asset.

On 16 December 2019 the Group made a further investment in the Auxly cannabis business, purchasing 6 million equity shares for a consideration of £3 million. As at 30 September 2020 this equity investment has been revalued to £0.3 million, based on the open market price for the shares.

Netting arrangements of financial instruments

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's Balance Sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments under collateral appendix. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

					2020
£ million	Gross financial assets/ liabilities	Gross collateral assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	913	(47)	866	(858)	8
Cash and cash equivalents	1,626	–	1,626	–	1,626
	2,539	(47)	2,492	(858)	1,634
Liabilities					
Derivative financial instruments	(1,729)	47	(1,682)	858	(824)
Bank loans and overdrafts	(62)	–	(62)	–	(62)
	(1,791)	47	(1,744)	858	(886)

					2019
£ million	Gross financial assets/ liabilities	Gross collateral assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	852	(38)	814	(740)	74
Cash and cash equivalents	2,286	–	2,286	–	2,286
	3,138	(38)	3,100	(740)	2,360
Liabilities					
Derivative financial instruments	(1,474)	38	(1,436)	740	(696)
Bank loans and overdrafts	(46)	–	(46)	–	(46)
	(1,520)	38	(1,482)	740	(742)

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

						2020
£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	22	–	2,502	2,524	2,476	48
Cash and cash equivalents	–	–	1,626	1,626	1,626	–
Derivatives	866	–	–	866	53	813
Total financial assets	888	–	4,128	5,016	4,155	861
Borrowings	–	–	(11,652)	(11,652)	(1,442)	(10,210)
Trade and other payables	–	–	(9,387)	(9,387)	(9,387)	–
Derivatives	(1,272)	(410)	–	(1,682)	(41)	(1,641)
Lease liabilities	–	–	(299)	(299)	(64)	(235)
Total financial liabilities	(1,272)	(410)	(21,338)	(23,020)	(10,934)	(12,086)
Total net financial (liabilities)	(384)	(410)	(17,210)	(18,004)	(6,779)	(11,225)

£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
						2019
Trade and other receivables	23	–	2,788	2,811	2,703	108
Cash and cash equivalents	–	–	2,286	2,286	2,286	–
Derivatives	814	–	–	814	137	677
Total financial assets	837	–	5,074	5,911	5,126	785
Borrowings	–	–	(13,634)	(13,634)	(1,937)	(11,697)
Trade and other payables	–	–	(8,452)	(8,452)	(8,452)	–
Derivatives	(1,095)	(341)	–	(1,436)	(28)	(1,408)
Total financial liabilities	(1,095)	(341)	(22,086)	(23,522)	(10,417)	(13,105)
Total net financial (liabilities)	(258)	(341)	(17,012)	(17,611)	(5,291)	(12,320)

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of the cross currency swaps and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised in the income statement. The Group also designates certain bonds as hedges of foreign currency denominated net investments and the foreign exchange revaluation of those bonds is recognised in other comprehensive income. The carrying value at 30 September 2020 of those bonds included in the above table is £6,755 million (2019: £8,482 million). All of the Group's net investment hedges remain effective.

22. DERIVATIVE FINANCIAL INSTRUMENTS

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

£ million	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
			2020			2019
Current derivative financial instruments						
Interest rate swaps	**41**	**(31)**	**10**	24	(26)	(2)
Foreign exchange contracts	**9**	**(10)**	**(1)**	104	(2)	102
Cross-currency swaps	**3**	**–**	**3**	9	–	9
Total current derivatives	**53**	**(41)**	**12**	137	(28)	109
Collateral[1]	**–**	**–**	**–**	–	–	–
	53	**(41)**	**12**	137	(28)	109
Non-current derivative financial instruments						
Interest rate swaps	**813**	**(1,204)**	**(391)**	645	(1,079)	(434)
Cross-currency swaps	**–**	**(484)**	**(484)**	32	(367)	(335)
Total non-current derivatives	**813**	**(1,688)**	**(875)**	677	(1,446)	(769)
Collateral[1]	**–**	**47**	**47**	–	38	38
	813	**(1,641)**	**(828)**	677	(1,408)	(731)
Total carrying value of derivative financial instruments	**866**	**(1,682)**	**(816)**	814	(1,436)	(622)
Analysed as:						
Interest rate swaps	**854**	**(1,235)**	**(381)**	669	(1,105)	(436)
Foreign exchange contracts	**9**	**(10)**	**(1)**	104	(2)	102
Cross-currency swaps	**3**	**(484)**	**(481)**	41	(367)	(326)
Collateral[1]	**–**	**47**	**47**	–	38	38
Total carrying value of derivative financial instruments	**866**	**(1,682)**	**(816)**	814	(1,436)	(622)

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

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £27 million and would have been a £75 million reduction without considering the early termination options. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 21.

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2020. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2020. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non derivative financial instruments are detailed in note 21.

						2020
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	**(335)**	**(479)**	**62**	**19**	**(104)**	**(456)**
Gross settled derivatives	**(481)**					
• receipts		**6,530**	**2,240**	**1,084**	**1,528**	**1,678**
• payments		**(6,858)**	**(2,221)**	**(1,153)**	**(1,633)**	**(1,851)**
	(816)	**(807)**	**81**	**(50)**	**(209)**	**(629)**

						2019
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(398)	(616)	(30)	(37)	(210)	(339)
Gross settled derivatives	(224)					
• receipts		6,852	2,151	165	2,738	1,798
• payments		(6,833)	(2,199)	(100)	(2,701)	(1,833)
	(622)	(597)	(78)	28	(173)	(374)

Derivatives as hedging instruments

As outlined in note 21, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Foreign exchange contracts are used to manage the Group's short term liquidity requirements in line with short term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IFRS 9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

The Group has considered the impending requirements to re-base LIBOR based interest rates to new risk-free based rates. The Group will be undertaking an exercise, over the course of the 2021 fiscal year, to re-base to risk-free rates all its interest rate derivative contracts that mature after the end of September 2021. At present, it is not anticipated that these changes will impact the Group's commercial hedging strategy, nor should they have a material financial impact.

Interest rate swaps

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

As at 30 September 2020, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £11,656 million equivalent (2019: £13,448 million equivalent) with a fair value of £854 million asset (2019: £657 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2019: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2020, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £10,311 million equivalent (2019: £10,024 million equivalent) with a fair value of £1,189 million liability (2019: £1,055 million liability). The fixed interest rates vary from 0.5 per cent to 4.4 per cent (2019: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,519 million equivalent (2019: £2,412 million equivalent) with tenors between 4 and 12 years, starting between October 2020 and October 2024.

Cross-currency swaps

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

As at 30 September 2020, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,600 million (2019: £2,600 million) and the fair value of these swaps was £409 million net liability (2019: £364 million net liability); the notional amount of cross currency swaps entered into to convert floating rate US Dollar debt into the desired currency at floating rates of interest was $1,750 million (2019: $1,750 million) and the fair value of these swaps was £71 million net liability (2019: £38 million net asset).

Hedges of net investments in foreign operations

As at 30 September 2020, cross currency swaps with a notional amount of €3,233 million (2019: €3,233 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £86.5 million (2019: £0.3 million gains) were recognised within exchange movements in other comprehensive income in respect of cross currency swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2019: £nil) and there were no transfers out of other comprehensive income (2019: £nil).

All of the Group's cross currency swaps will be impacted by the changes to the use of LIBOR interest rates. However, this will not impact the effectiveness of the contracts in their net investment hedge relationship and the calculation of the amounts recognised in other comprehensive income will be unaffected.

Foreign exchange contracts

The Group enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2020, the notional amount of these contracts was £2,126 million equivalent (2019: £1,087 million equivalent) and the fair value of these contracts was a net liability of £0.7 million (2019: £6 million net asset).

23. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

£ million	Consolidated income statement 2020	Consolidated income statement 2019	Consolidated balance sheet 2020	Reclassified Consolidated balance sheet 2019
Accelerated depreciation and amortisation	**34**	(9)	**(871)**	(914)
Retirement benefits	**(17)**	(19)	**88**	154
Other temporary differences	**(32)**	(60)	**240**	199
Deferred tax (expense)/benefit	**(15)**	(88)		
Net deferred tax liabilities			**(543)**	(561)

Reflected in the consolidated balance sheet as follows

£ million	2020	Reclassified 2019
Deferred tax assets	**381**	370
Deferred tax liabilities	**(924)**	(931)
	(543)	(561)

The Group has reclassified certain deferred tax assets and liabilities on the balance sheet which were previously stated gross, but which in line with IAS 12 'Income Taxes' shall be stated net where there is a legally enforceable right of offset. The Group has also reclassified certain deferred tax assets and liabilities to more closely align temporary difference classifications with the related accounting classifications.

Reconciliation of net deferred tax liabilities

£ million	2020	Reclassified 2019
As at 1 October	**(561)**	(513)
Charged to the income statement	**(15)**	(88)
Credited to other comprehensive income	**27**	52
Transferred to held for disposal	**1**	(11)
Exchange movements	**10**	(1)
Other movements	**(5)**	–
As at 30 September	**(543)**	(561)

Within Other temporary differences, deferred tax assets of £84 million (2019: £129 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at the balance sheet date, deferred tax assets of £152 million (2019: £205 million) have not been recognised due to the potential uncertainty of the utilisation of the tax losses in certain jurisdictions. Of these unrecognised deferred tax assets £30 million (2019: £31 million) are expected to expire within 1 year and £9 million (2019: £46 million) are expected to expire within 5 years. The remaining £113 million (2019: £128 million) has no time expiry.

Also within Other temporary differences, deferred tax assets of £42 million (2019: £17 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £63 million (2019: £145 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £63 million (2019: £51 million) are expected to expire between 2021 and 2027.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2020 we recognised deferred tax assets of £51 million (2019: derecognised £87 million) that were previously recognised on the basis that it is more likely than not that these are recoverable (2019: irrecoverable).

A deferred tax liability of £111 million (2019: £130 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £7 billion (2019: £6 billion).

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised in the periods presented, aggregate to £16 million (2019: nil). No liability has been recognised because the Group is in a position to control the timing of the reversal of those temporary differences and it is probable that such differences will not reverse in the foreseeable future.

24. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 62 per cent, 13 per cent and 8 per cent of the Group's total defined benefit obligations and 36 per cent, 32 per cent and 7 per cent of the current service cost respectively.

Imperial Tobacco Pension Fund

The UK scheme, the Imperial Tobacco Pension Fund (or 'ITPF' or 'Fund'), is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF was offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 17 years. Effective from 1 September 2017, members' pensionable pay was capped at the higher of £75,000 or their pensionable pay at 1 September 2017. By number, the population as at the most recent funding valuation comprises 72 per cent in respect of pensioners and dependants, 26 per cent in respect of deferred members and 2 per cent in respect of current employees. New employees in the UK are now offered a defined contribution scheme. In certain circumstances, surplus funds in the defined benefit section, may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

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

The main risk for the Group in respect of the ITPF is that additional contributions are required if the assets are not expected to be sufficient to pay for the benefits. The investment portfolio is subject to a range of risks typical of the asset classes held, such as credit risk on bonds, and exposure to the property market.

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

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

The latest valuation of the ITPF was carried out as at 31 March 2019 when the market value of the invested assets was £4,137 million. Based on the ongoing funding target the total assets were sufficient to cover 110 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 106 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, ITL and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly.

Following the valuation, the level of the ITL's annual contributions to the Fund reduced from £85 million per year to £65 million per year for the year to 31 March 2021. A dynamic contribution schedule has also been agreed, such that the ITL's contributions will reduce or increase depending upon the Fund's valuation going forward. Further contributions were agreed to be paid by ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees that were provided with a total value of £600 million have been reduced to £225 million following the latest valuation and a parental guarantee from Imperial Brands PLC remains have been put in place.

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

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

The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan, though a small group of members has final salary benefits. It has a weighted average maturity of 19 years. The scheme population comprises 51 per cent in respect of pensioners, 19 per cent in respect of deferred members and 30 per cent in respect of current employees. It was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits in the plan.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £24 million in respect of benefits.

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

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

ITG scheme

The main USA pension scheme, held by ITG Brands is the ITG Scheme, is a defined benefit pension plan that is closed to new entrants. It has a weighted average maturity of 11 years. The population comprises 76 per cent in respect of pensioners, 11 per cent in respect of deferred members and 13 per cent in respect of current employees.

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

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

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

Other plans

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

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2020 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

			2020			Restated 2019
£ million	DBO	Assets	Total	DBO	Assets	Total
At 1 October	**(5,877)**	**5,223**	**(654)**	(5,143)	4,680	(463)
Consolidated income statement expense						
Current service cost	**(49)**	**–**	**(49)**	(44)	–	(44)
Settlements gains/(losses)	**–**	**–**	**–**	3	(3)	–
Past service (losses)	**–**	**–**	**–**	(1)	–	(1)
Cost of termination benefits	**(2)**	**–**	**(2)**	(19)	–	(19)
Net interest (expense)/income on net defined benefit (liability)/asset	**(104)**	**99**	**(5)**	(147)	142	(5)
Administration costs paid from plan assets	**–**	**(6)**	**(6)**	–	(6)	(6)
Cost recognised in the income statement			**(62)**			(75)
Remeasurements						
Actuarial gain due to liability experience	**36**	**–**	**36**	73	–	73
Actuarial gain/(loss) due to financial assumption changes	**22**	**–**	**22**	(814)	–	(814)
Actuarial gain/(loss) due to demographic assumption changes	**228**	**–**	**228**	(14)	–	(14)
Return on plan assets excluding amounts included in net interest (expense)/income above	**–**	**(9)**	**(9)**	–	507	507
Remeasurement effects recognised in other comprehensive income			**277**			(248)
Cash						
Employer contributions	**–**	**145**	**145**	–	142	142
Employee contributions	**(1)**	**1**	**–**	(1)	1	–
Benefits paid directly by the company	**266**	**(266)**	**–**	218	(218)	–
Benefits paid from plan assets	**–**	**–**	**–**	48	(48)	–
Net cash			**145**			142
Other						
Exchange movements	**(17)**	**(5)**	**(22)**	(36)	26	(10)
Total other			**(22)**			(10)
At 30 September	**(5,498)**	**5,182**	**(316)**	(5,877)	5,223	(654)

The cost of termination benefits in the year ended 30 September 2020 and 30 September 2019 mainly relate to restructuring activity in Germany.

The 2019 pension scheme assets and liabilities, actuarial gain/(loss) due to financial assumption and return on plan assets excluding amounts included in net interest income (expense) have been restated and reduced by £199 million (2018: £199 million) following the closure of the Netherlands scheme in 2017.

Retirement benefit scheme costs charged to operating profit

£ million	2020	2019
Defined benefit expense in operating profit	**57**	70
Defined contribution expense in operating profit	**17**	17
Total retirement benefit scheme cost in operating profit	**74**	87

Split as follows in the consolidated income statement:

£ million	2020	2019
Cost of sales	**24**	27
Distribution, advertising and selling costs	**31**	37
Administrative and other expenses	**19**	23
Total retirement benefit scheme costs in operating profit	**74**	87

Assets and liabilities recognised in the consolidated balance sheet

£ million	2020	2019
Retirement benefit assets	**940**	595
Retirement benefit liabilities	**(1,256)**	(1,249)
Net retirement benefit liability	**(316)**	(654)

Key figures and assumptions used for major plans

£ million unless otherwise indicated	2020 ITPF	2020 RCPP	2020 ITGBH	2019 ITPF	2019 RCPP	2019 ITGBH
Defined benefit obligation (DBO)	**3,516**	**764**	**434**	3,880	758	453
Fair value of scheme assets	**(4,395)**	**–**	**(398)**	(4,416)	–	(418)
Net defined benefit (asset)/liability	**(879)**	**764**	**36**	(536)	758	35
Current service cost	**18**	**16**	**4**	16	12	3
Employer contributions	**85**	**–**	**–**	85	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	**1.7**	**0.9**	**2.8**	1.8	0.9	3.2
Future salary increases	**2.9**	**2.4**	**n/a**	3.1	2.6	n/a
Future pension increases	**2.9**	**1.3**	**n/a**	3.1	1.5	n/a
Inflation	**2.9**	**1.3**	**2.5**	3.1	1.5	2.5

2020	ITPF Male	ITPF Female	RCPP Male	RCPP Female	ITGBH Male	ITGBH Female
Life expectancy at age 65 years:						
Member currently aged 65	**21.1**	**22.7**	**20.3**	**23.8**	**19.7**	**21.7**
Member currently aged 50	**22.0**	**23.8**	**22.4**	**25.5**	**20.9**	**22.9**

2019	ITPF Male	ITPF Female	RCPP Male	RCPP Female	ITGBH Male	ITGBH Female
Life expectancy at age 65 years:						
Member currently aged 65	22.1	23.7	20.2	23.7	19.6	22.1
Member currently aged 50	23.3	25.5	22.3	25.4	20.9	23.3

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S3 (2019: SAPS S2) tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S3 All Pensioner Male Amounts table with a 101 per cent multiplier. An allowance for improvements in longevity is made using the 2018 (2019: 2015) CMI improvement rates with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for key assumptions at the end of the year

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

% increase in DBO	2020 ITPF	2020 RCPP	2020 ITGBH	2019 ITPF	2019 RCPP	2019 ITGBH
Discount rate: 0.5% decrease	**8.7**	**10.3**	**6.0**	9.3	10.4	5.7
Rate of inflation: 0.5% decrease	**7.0**	**6.7**	**n/a**	7.7	6.8	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	**4.9**	**4.8**	**5.0**	4.9	4.9	4.5

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

We estimate that a 0.5 per cent decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £14 million.

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

£ million unless otherwise indicated	2020 Fair value	2020 Percentage of ITPF scheme assets	2019 Fair value	2019 Percentage of ITPF scheme assets
Equities	**1**	**–**	497	11
Bonds – index linked government	**2,344**	**53**	1,912	43
Bonds – corporate and other	**693**	**16**	666	15
Property	**533**	**12**	563	13
Absolute return	**809**	**18**	732	17
Other – including derivatives, commodities and cash	**15**	**1**	46	1
	4,395	**100**	4,416	100

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

The majority of the assets are quoted. The ITPF holds £nil of self-invested assets (2019: £0.3 million). As in previous years, the value of ground leases have been allocated to the property asset class.

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

£ million unless otherwise indicated	2020 Fair value	2020 Percentage of ITGBH scheme assets	2019 Fair value	2019 Percentage of ITGBH scheme assets
Investment funds	**224**	**56**	279	67
Bonds – fixed government	**45**	**11**	47	11
Bonds – corporate and other	**121**	**31**	71	17
Other – including derivatives, commodities and cash	**8**	**2**	21	5
	398	**100**	418	100

The majority of the assets are non-quoted.

25. PROVISIONS

£ million	2020 Restructuring	2020 Other	2020 Total
At 1 October 2019	**245**	**286**	**531**
Additional provisions charged to the consolidated income statement	**114**	**61**	**175**
Amounts used	**(101)**	**(148)**	**(249)**
Unused amounts reversed	**(6)**	**(40)**	**(46)**
Transferred (to)/from held for disposal (note 11)	**(3)**	**4**	**1**
Exchange movements	**4**	**–**	**4**
At 30 September 2020	**253**	**163**	**416**

Analysed as:

£ million	2020	2019
Current	**220**	284
Non-current	**196**	247
	416	531

Restructuring provisions relate mainly to our cost optimisation programme (see note 5). The restructuring provision is split between Cost Optimisation Programme 2 of £157 million, Cost Optimisation Programme 1 of £79 million and other restructuring programmes of £17 million. Within the Cost Optimisation Programme provisions there is £124 million related to costs of consolidating the manufacturing capacity within the Group and £26 million relating to site specific factory closures. It is expected that the restructuring provisions will be predominantly utilised over the next 2 years.

Other provisions include £46 million relating to local employment requirements including holiday pay and £28 million to various local tax or duty requirements. The provisions are spread throughout the Group and payment will be dependent on local statutory requirements. Most provisions will be utilised within the next two years, though certain employee related provisions may be required to be held for a period of up to 10 years.

26. SHARE CAPITAL

£ million	2020	2019
Authorised, issued and fully paid		
1,020,697,238 ordinary shares of 10p each (2019: 1,025,795,746)	**103**	103

During the year 5,098,508 shares (2019: 5,230,338 shares) were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

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

27. SHARE SCHEMES

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

Share Matching Scheme

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

Long Term Incentive Plan (LTIP)

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

Sharesave plan

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

Discretionary Share Awards Plan (DSAP)

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

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

Analysis of charge to the consolidated income statement

£ million	2020	2019
Share Matching Scheme	**4**	9
Long Term Incentive Plan	**13**	12
Sharesave Plan	**2**	1
Discretionary Share Awards Plan	**1**	1
	20	23

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2020 was £1.2 million (2019 £0.9 million).

Reconciliation of movements in awards/options

					2020
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2019	**783**	**4,313**	**1,559**	**94**	**21.21**
Granted	**297**	**3,187**	**1,386**	**2**	**12.39**
Lapsed/cancelled	**(19)**	**(782)**	**(939)**	**(5)**	**20.81**
Exercised	**(600)**	**(123)**	**–**	**(21)**	**25.01**
Outstanding at 30 September 2020	**461**	**6,595**	**2,006**	**70**	**15.31**
Exercisable at 30 September 2020	**–**	**–**	**147**	**–**	**29.62**

					2019
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2018	1,307	3,014	1,324	71	25.03
Granted	243	2,132	883	45	17.45
Lapsed/cancelled	(66)	(677)	(633)	(5)	24.02
Exercised	(701)	(156)	(15)	(17)	25.05
Outstanding at 30 September 2019	783	4,313	1,559	94	21.21
Exercisable at 30 September 2019	–	–	168	–	29.68

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £19.34 (2019: £26.06). The weighted average fair value of Sharesave options granted during the year was £2.37 (2019: £3.32).

Summary of awards/options outstanding at 30 September 2020

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2018	**140**	**5**	**n/a**
2019	**140**	**17**	**n/a**
2020	**181**	**29**	**n/a**
Total awards outstanding	**461**		
Long Term Incentive Plan			
2018	**1,694**	**5**	**n/a**
2019	**1,896**	**17**	**n/a**
2020	**3,005**	**29**	**n/a**
Total awards outstanding	**6,595**		
Sharesave Plan			
2017	**147**	**–**	**29.62**
2018	**188**	**10**	**22.24**
2019	**296**	**22**	**17.45**
2020	**1,375**	**34**	**12.37**
Total options outstanding	**2,006**		
Discretionary Share Awards Plan			
2017	**2**	**–**	**n/a**
2018	**24**	**11**	**n/a**
2019	**41**	**17**	**n/a**
2019	**3**	**17**	**n/a**
Total options outstanding	**70**		

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

Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan, Discretionary Shares Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2020 and 2019 is as follows

	2020	
	Share matching	Sharesave
Risk-free interest rate %	**0.7**	**0.2-(0.4)**
Volatility (based on 3 or 5 year history) %	**29.0**	**33.8-33.9**
Expected lives of options granted years	**3.00**	**3.00**
Dividend yield %	**8.85**	**8.84**
Fair value £	**14.00**	**2.39-2.45**
Share price used to determine exercise price £	**18.25**	**15.20-15.26**
Exercise price £	**n/a**	**12.37**

	2019		
	Share matching	Sharesave	DSAP
Risk-free interest rate %	1.1	(1.4)	0.7-1.1
Volatility (based on 3 or 5 year history) %	25.0	24.5-26.1	24.7-26.3
Expected lives of options granted years	3.00	3.00	2.58-3
Dividend yield %	6.65	6.65	6.65
Fair value £	21.72	2.37-3.54	15.65-21.72
Share price used to determine exercise price £	26.52	19.77-21.81	18.69-26.52
Exercise price £	n/a	17.45	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2020 and 2019 are given in the following table.

%	2020	2019
Future Imperial Brands share price volatility	**20.0**	20.0
Future Imperial Brands dividend yield	**–**	–
Share price volatility of the tobacco and alcohol comparator group	**14.7-28.3**	14.9-65.6
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**22.1**	27.0

Employee share ownership trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2020. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

Shares held by employee share ownership trusts

Millions of shares	2020	2019
At 1 October	**2.8**	0.7
Gift of shares from Treasury	**–**	3.0
Distribution of shares held by Employee Share Ownership Trusts	**(0.7)**	(0.9)
At 30 September	**2.1**	2.8

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2019: nil) and 2.1 million (2019: 2.8 million) treasury shares gifted to the Trusts by the Group. There were nil (2019: 3 million) shares gifted in the financial year 2020.

28. TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 5,098,508 shares at a cost of £92 million (2019: 5,230,338 shares at a cost of £108 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2020		2019	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	**74.3**	**2,183**	77.3	2,183
Purchase of shares	**5.1**	**92**	5.2	108
Cancellation of shares	**(5.1)**	**(92)**	(5.2)	(108)
Gifted to Employee Share Ownership Trusts	**–**	**–**	(3.0)	–
At 30 September	**74.3**	**2,183**	74.3	2,183
Percentage of issued share capital	**7.3**	**n/a**	7.2	n/a

29. COMMITMENTS

Capital commitments

£ million	2020	2019
Contracted but not provided for:		
Property, plant and equipment and software	**187**	179

30. CONTINGENT LIABILITIES

Where contingent liabilities are disclosed and not quantified this is because it is not practicable to do so.

Legal proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. This assessment of the probability of economic outflows at the year-end is a judgement which has been taken by management. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements. For further details see page 90-94 of the Directors' Report.

Master Settlement Agreement

In the mid 1990s, the Attorneys General of most of the US States filed litigation against the major tobacco manufacturers seeking to recover the costs of treating tobacco related illnesses. In November, 1998, the States and the companies entered into a comprehensive settlement of these actions known as the Master Settlement Agreement ("MSA"). The parties to the MSA included the major US cigarette manufacturers, including Reynolds Tobacco Co, and Lorillard, and 46 US states, the District of Columbia and certain US territories and possessions.

Prior to November 1998, these same cigarette manufacturers had settled four other cases which had arisen in Mississippi, Florida, Texas and Minnesota (the "Previously Settled States"), by separate agreements with each state. The Previously Settled States agreements are referred to as the "State Settlement Agreements". ITG Brands is currently a party to the MSA and the Mississippi State Settlement Agreement only.

By entering into the MSA and State Settlement Agreements the company has the benefit of a release from liability from the States' various historic tobacco product liability claims. The requirements of the tobacco companies as a party to the MSA and Mississippi State Settlement Agreement, involves making annual payments which are based on the volume of US tobacco sales, and an agreement to abide by certain marketing restrictions. The associated charge under the MSA for the US Group companies in the year was £432 million (2019: £425 million). This is recognised within other cost of sales. In addition, the amount paid under the Mississippi State Settlement Agreement was £7 million (2019:£7 million) and was also recognised in other cost of sales.

Competition authority investigations

The Group is currently co-operating with the Belgian national competition authority in relation to an ongoing competition law investigation and is engaged in appealing fines imposed on Group companies by competition authorities through the national courts in other relevant countries.

Spain

On 12 April 2019 the Spanish National Commission on Markets and Competition (CNMC) announced penalties against Philip Morris Spain, Altadis, JT International Iberia and Logista. Altadis and Logista received fines of €11.4 million and €20.9 million, respectively, from the CNMC. According to the decision, Altadis and Logista are alleged to have infringed competition law by participating in an exchange of sales volume data between 2008 and February 2017. CNMC considers that this conduct had the effect of restricting competition in the Spanish tobacco market. Both companies believe that the arguments made by CNMC that define this conduct as anti-competitive are flawed. In June 2019, both Altadis and Logista commenced appeals to the CNMC's Decision and the fines imposed in the Spanish High Court where they believe they will be successful, a decision supported by external legal counsel. In September 2019 Altadis and, separately, Logista arranged bank guarantees for the full amount of the fines with the result that payment of the fines had been suspended pending the outcome of the appeals. Therefore, provision for these amounts is not considered appropriate. Following some delay due to court closures due to COVID-19, a hearing to hear oral evidence from the economic experts took place in October 2020 and Imperial will proceed to prepare its final written conclusions.

Belgium

On 29 May 2017, the National Competition Authority in Belgium (the BCA) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. Since that date, the Group's subsidiary has responded to various information requests as the BCA investigation continues. The BCA may issue a Statement of Objections which would state the allegations and provide an opportunity to respond. No fines are imposed at this stage. Given that the allegations against the Group's subsidiary have not yet been articulated, provision for a fine would not be appropriate.

Others

Germany

In late March 2020, a trademark infringement claim was filed against Reemtsma Cigarettenfabriken GmbH ("Reemtsma") in the Hamburg Court by an e-cigarette company. The claim relates to the DAVIDOFF EVOLVED product which was launched in Germany in March 2019. The claimant has requested that the court grant an injunction to prevent Reemtsma using "EVOLVED" and also determine that Reemtsma provide compensation regarding its use of EVOLVED. A first instance decision is expected in 2021.

Morocco – former retirees

A number of cases have been raised against Societe Marocaine des Tabacs SA (SMT) disputing a reduction to retirees' pensions. These cases have been in the courts for a number of years and SMT has successfully defended many of them. As the routes to appeal for previous judgements are reaching the final courts available in Morocco there is a possible outcome that SMT may owe retirees up to £100 million, although the company remains of the opinion that the case for the defence is robust.

31. NET DEBT

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

£ million	Current borrowings	Lease Liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2019	**(1,937)**	**–**	**(11,697)**	**(622)**	**(14,256)**	**2,286**	**(11,970)**
On adoption of IFRS 16	**–**	**(326)**	**–**	**–**	**(326)**	**–**	**(326)**
Reallocation of current borrowings from non-current borrowings	**(1,340)**	**–**	**1,340**	**–**	**–**	**–**	**–**
Cash flow	**1,857**	**72**	**(1)**	**23**	**1,951**	**(611)**	**1,340**
Accretion of interest	**32**	**(7)**	**–**	**(28)**	**(3)**	**–**	**(3)**
Change in fair values	**–**	**–**	**–**	**80**	**80**	**–**	**80**
New leases and modifications	**–**	**(32)**	**–**	**–**	**(32)**	**–**	**(32)**
Exchange movements	**(54)**	**(6)**	**148**	**(269)**	**(181)**	**13**	**(168)**
Transferred to held for disposal (note 11)	**–**	**–**	**–**	**–**	**–**	**(62)**	**(62)**
At 30 September 2020	**(1,442)**	**(299)**	**(10,210)**	**(816)**	**(12,767)**	**1,626**	**(11,141)**

£ million	Current borrowings	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2018	(2,397)	(9,598)	(679)	(12,674)	775	(11,899)
Reallocation of current borrowings from non-current borrowings	(1,656)	1,656	–	–	–	–
Cash flow	2,159	(3,528)	117	(1,252)	1,540	288
Accretion of interest	20	(26)	39	33	–	33
Change in fair values	–	–	(174)	(174)	–	(174)
Exchange movements	(63)	(201)	75	(189)	(15)	(204)
Transferred to held for disposal (note 11)	–	–	–	–	(14)	(14)
At 30 September 2019	(1,937)	(11,697)	(622)	(14,256)	2,286	(11,970)

Analysis by denomination currency

£ million	GBP	EUR	USD	Other	2020 Total
Cash and cash equivalents	412	556	407	251	1,626
Total borrowings	(2,694)	(3,852)	(5,083)	(23)	(11,652)
	(2,282)	(3,296)	(4,676)	228	(10,026)
Effect of cross currency swaps	2,666	(4,515)	1,368	–	(481)
	384	(7,811)	(3,308)	228	(10,507)
Lease liabilities	(39)	(190)	(27)	(43)	(299)
Derivative financial instruments					(335)
Net debt					(11,141)

£ million	GBP	EUR	USD	Other	2019 Total
Cash and cash equivalents	235	659	932	460	2,286
Total borrowings	(2,687)	(4,588)	(6,326)	(33)	(13,634)
	(2,452)	(3,929)	(5,394)	427	(11,348)
Effect of cross currency swaps	2,510	(4,268)	1,432	–	(326)
	58	(8,197)	(3,962)	427	(11,674)
Derivative financial instruments					(296)
Net debt					(11,970)

Adjusted net debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and the fair value of derivative financial instruments providing commercial hedges of interest rate risk.

£ million	2020	2019
Reported net debt	(11,141)	(11,970)
Accrued interest	156	162
Lease liabilities	299	–
Fair value of interest rate derivatives	387	432
Adjusted net debt	(10,299)	(11,376)

32. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2020	2019
(Decrease)/Increase in cash and cash equivalents	(611)	1,540
Cash flows relating to derivative financial instruments	23	117
Repayment of lease liabilities	72	–
Increase in borrowings	(1,240)	(3,699)
Repayment of borrowings	3,096	2,330
Change in net debt resulting from cash flows	1,340	288
Other non-cash movements including revaluation of derivative financial instruments	77	(141)
Transferred to held for disposal (note 11)	(62)	(14)
Lease liabilities	(358)	–
Exchange movements	(168)	(204)
Movement in net debt during the year	829	(71)
Opening net debt	(11,970)	(11,899)
Closing net debt	(11,141)	(11,970)

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

33. NON-CONTROLLING INTERESTS

Material non-controlling interests

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

Summarised balance sheet

at 30 September

Euro million	2020	2019
Current assets	6,106	5,440
Current liabilities	(6,909)	(6,254)
Current net assets	**(803)**	(814)
Non-current assets	1,740	1,644
Non-current liabilities	(421)	(309)
Non-current net assets	**1,319**	1,335
Net assets	**516**	521

Summarised statement of comprehensive income

for the year ended 30 September

Euro million	2020	2019
Revenue	**10,559**	10,148
Profit for the year	157	165
Other comprehensive income	1	(3)
Total comprehensive income	**158**	162

Summarised cashflow statement

for the year ended 30 September

Euro million	2020	2019
Cashflows from operating activities	830	347
Cashflows from investing activities	(640)	(190)
Cashflows from financing activities	(188)	(150)
Net increase in cash and cash equivalents	**2**	7

34. POST BALANCE SHEET EVENTS

Sale of the Premium Cigar Division

On 29 October 2020 the group completed the sale of the Premium Cigar Division for a consideration of €1,198 million. This business, excluding La Romana, was classified as an asset held for sale at 30 September 2020. For more details see note 11.

USA

On 13 October 2020 a new Product Liability Litigation (PLL) case was filed against Fontem US and ITG Brands in the US in relation to the usage of e-cigarettes and other vaping devices. The case has not been served on either Fontem US or ITG Brands by the 17 November 2020 but this action is expected.

35. BREXIT

Following the UK's exit from the European Union on 31 January 2020, the Group has looked at the potential impacts of the UK leaving the transition period on the 31 December 2020 without a substantive trade agreement in place. The key risks remain a potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling, inventory requirements to ensure supply, impact on consumer confidence, and implications on existing international tax legislation. In the event that these are not addressed prior to 31 December 2020, we estimate there could be additional costs of around £75 million annually primarily relating to import duties.

36. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2020, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

IMPERIAL BRANDS PLC BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2020	2019
Fixed assets			
Investments	iii	**7,968**	7,968
Current Assets			
Debtors	iv	**4,364**	6,174
Creditors: amounts falling due within one year	v	**(44)**	(44)
Net current assets		**4,320**	6,130
Net assets		**12,288**	14,098
Capital and reserves			
Called up share capital	vi	**103**	103
Capital redemption reserve		**4**	4
Share premium account		**5,833**	5,833
Profit and loss account – brought forward		**8,091**	10,043
Profit and loss account – profit for the year		**35**	67
Profit and loss account – other movements for year		**(1,778)**	(1,952)
Total shareholders' funds		**12,288**	14,098

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented.

The financial statements on pages 191-195 were approved by the Board of Directors on 17 November 2020 and signed on its behalf by:

THÉRÈSE ESPERDY
Chairman

OLIVER TANT
Director

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2020

£ million	Share capital	Share premium and capital redemption	Retained Earnings	Total Equity
At 1 October 2019	**103**	**5,837**	**8,158**	**14,098**
Profit for the year	**–**	**–**	**35**	**35**
Total comprehensive income	**–**	**–**	**35**	**35**
Transactions with owners				
Repurchase of shares	**–**	**–**	**(92)**	**(92)**
Dividends paid	**–**	**–**	**(1,753)**	**(1,753)**
At 30 September 2020	**103**	**5,837**	**6,348**	**12,288**
At 1 October 2018	103	5,837	10,043	15,983
Profit for the year	–	–	67	67
Total comprehensive income	–	–	67	67
Transactions with owners				
Repurchase of shares	–	–	(108)	(108)
Dividends paid	–	–	(1,844)	(1,844)
At 30 September 2019	103	5,837	8,158	14,098

Total distributable reserves were £6,339 million (2019 £8,157 million).

I. ACCOUNTING POLICIES

Basis of preparation and statement of compliance with FRS 101

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in note 2 of the Group financial statements for the year ended 30 September 2020.

Imperial Brands PLC (the Company) is the ultimate parent company within the Imperial Brands group (the Group). The Company is a public company limited by shares, incorporated in the England and Wales and its principal activity continued to be that of holding investments. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level. These risks are detailed in note 2 of the Group's Annual Report (see pages 149-151).

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

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

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

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

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

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

Investments

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

Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

Financial instruments

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

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

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

Treasury shares

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

Income taxes

Judgement is involved in determining whether the Company is subject to a tax liability or not in line with tax law. Where liabilities exist, estimation is often required to determine the potential future tax payments. The Company recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 'Uncertainty over income tax treatments' was adopted on 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation has not had a material effect on the Company's net assets or results.

II. DIVIDENDS

Distributions to ordinary equity holders

£ million	2020	2019	2018
Paid interim of 41.70 pence per share (2019: 62.56 pence, 2018: 122.33 pence)			
• Paid June 2018	–	–	271
• Paid September 2018	–	–	271
• Paid December 2018	–	–	624
• Paid June 2019	–	298	–
• Paid September 2019	–	298	–
• Paid December 2019	–	679	–
• Paid June 2020	197	–	–
• Paid September 2020	197	–	–
Interim dividend paid	394	1,275	1,166
Proposed interim of 48.00 pence per share (2019: 72.00 pence, 2018: nil)			
• To be paid December 2020	453	–	–
Interim dividend proposed	453	–	–
Proposed final of 48.01 pence per share (2019: 72.01 pence, 2018: 65.46 pence)			
• Paid March 2019	–	–	624
• Paid March 2020	–	680	–
• To be paid March 2021	454	–	–
Final dividend	454	680	624
Total ordinary share dividends of 137.71 pence per share (2019: 206.57 pence, 2018: 187.79 pence)	1,301	1,955	1,790

The third interim dividend for the year ended 30 September 2020 of 48.00 pence per share amounts to a proposed dividend of £453 million, which will be paid in December 2020.

The proposed final dividend for the year ended 30 September 2020 of 48.01 pence per share amounts to a proposed dividend payment of £454 million in March 2021 based on the number of shares ranking for dividend at 30 September 2020, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2020 will be £1,301 million (2019: £1,955 million). The dividend paid during 2020 is £1,753 million (2019: £1,844 million).

III. INVESTMENTS

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2020	2019
At 1 October	7,968	7,968
At 30 September	7,968	7,968

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

A list of the subsidiaries of the Company is shown on pages 196-211.

IV. DEBTORS

£ million	2020	2019
Amounts owed from Group undertakings	4,364	6,174

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

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2020	2019
Amounts owed by Group undertakings	35	35
Cash at bank and in hand	2	2
Other creditors	7	7
	44	44

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

VI. CALLED UP SHARE CAPITAL

£ million	2020	2019
Authorised, issued and fully paid 1,020,697,238 ordinary shares of 10p each (2019: 1,025,795,746)	**103**	103

During the year 5,098,508 shares (2019: 5,230,338 shares) were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

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

VII. RESERVES

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £35 million (2019: £67 million).

Treasury shares

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 5,098,508 shares at a cost of £92 million (2019: 5,230,338 shares at a cost of £108 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2020		2019	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	**74.3**	**2,183**	77.3	2,183
Purchase of shares	**5.1**	**92**	5.2	108
Cancellation of shares	**(5.1)**	**(92)**	(5.2)	(108)
Gifted to Employee Share Ownership Trusts	**–**	**–**	(3.0)	–
At 30 September	**74.3**	**2,183**	74.3	2,183
Percentage of issued share capital	**7.3**	**n/a**	7.2	n/a

VIII. GUARANTEES

The Company provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2020. See note 1 Accounting Policies of the consolidated financial statements for further details.

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2020, the amount guaranteed is £18,620 million (2019: £19,272 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2020 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, the Company has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

Many of the committed revolving credit facilities remain undrawn as at 30 September 2020 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2020. The Irish companies, namely John Player & Sons Limited, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

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

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

IX. RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 96-123 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2020 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

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

Name	Principal activity and registered address
Imperial Tobacco Overseas Holdings (4) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Limited(x)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees Limited(iv)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
ITG Brands Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Joseph & Henry Wilson Limited	Licencing rights for the manufacture and sale of tobacco products 121 Winterstoke Road, Bristol BS3 2LL England
Nerudia Limited	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Trading Limited	In Liquidation The offices of BDO LLP, Two Snowhill Birmingham, B4 6GA, England
Nerudia Consulting Limited	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Compliance Limited	In Liquidation The offices of BDO LLP, Two Snowhill Birmingham, B4 6GA, England
La Flor de Copan UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Park Lane Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Rizla UK Limited	Entity ceased trading 121 Winterstoke Road, Bristol, BS3 2LL, England
Sensus Investments Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Sinclair Collis Limited (iv)	In Liquidation The offices of BDO LLP, Two Snowhill Birmingham, B4 6GA, England
Tabacalera de Garcia UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity and registered address
1213509 B.C. Limited	Canada	Holding investments in subsidiary companies Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC. V6C 2X8, Canada
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Altadis Canarias SAU(ii)	Spain	Marketing and sale of tobacco products in the Canary Islands C/Comandante Azcarraga 5, Madrid, 28016, Spain
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Altadis Management Services Corporation	United States of America	Trademark service company 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Altadis Mayotte SAS	France, Mayotte Island	Sales and distribution of tobacco products in Mayotte Island C/o SOMACO, BP 15 – Mamoudzou, 97600, Mayotte
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates
Altadis Ocean Indien SAS	France (La Reunion Island)	Sales and distribution of tobacco products in la Reunion Island ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion
Altadis Retail Corporation	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain C/Comandaute Azcarraga 5, Madrid 28016, Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the USA 217 Shaker Road, Somers, CT, 06071, USA
Altadis U.S.A. LLC	United States of America	Dormant c/o Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware. 19808. USA
Athena IP Vermogensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
AUSA Premium Cigar Holdings inc	United States of America	Holding investments in subsidiary companies c/o Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware. 19808. USA
Cacique, SA – Comércio, Importaçao e Exportaçao	Brazil	Dormant Rua Marechal Deodoro, 690 – Centro Arapiraca, Alagoas, Brazil
Casa Blanca Inc	United States of America	Restaurant 301 Route 10 East, Whippany, New Jersey, 07981, USA
Casa de Montecristo Inc	United States of America	Retail Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Casa de Montecristo FL LLC	United States of America	Retail C/o ~Corporation Service Company, 1201 Hayes Street, Tallahassee Florida 32301, USA
Casa de Montecristo TN LLC	United States of America	Retail CSC, 2908 Poston Avenue, Nashville, TN 37203, USA
Casa de Montecristo TX LLC	United States of America	Retail Corporate Service Company, 211 E. 7th Floor, Suite 260, Austin, Texas, TX 78701, USA
CBHC Inc	United States of America	Dormant 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Cigar Savor Enterprises LLC	United States of America	Manufacture of tobacco products 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the USA 714 Green Vally Road Greensboro, NC27408 USA
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the USA 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA

Name	Country of incorporation	Principal activity and registered address
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Consolidated Cigar Holdings Inc(vii)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Coralma International SAS	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Cuban Cigar Brands BV(v)	Netherlands Antilles	Trademark owner N.V. Fides, 15 Pietermaai, Curaçao, Netherlands Antilles
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Dunkerquoise des Blends SAS	France	Tobacco processing 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
East Side Cigar, Inc	United States of America	Production and distribution of cigars Corporate Service Company, 80 State St, Albany, NY12207-2543, USA
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium Sint-Bavostraat 66, 2610 Wilrijk, Belgium
Fontem (Beijing) Technology Solutions Limited(i)	People's Republic of China	Research and development Room 201, Floor 2, Building 6, Yuan Dong science and technology park, 6 Hepingli North Street, Dong Cheng District, Beijing, 100013, China
Fontem Canada Limited(vii)	Canada	Import and distribution of tobacco and tobacco related products in Canada Suite 200, 389 Connell Street, Woodstock, NB, E7M 5G5, Canada
Fontem Holdings 1 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 2 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 3 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 4 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem US, LLC.	United States of America	Sales and marketing of tobacco products in the US Suite 350, 1100 South Tryon Road, Charlotte, NC28203, USA
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Huotraco International Limited	Cambodia	Production and marketing of tobacco products No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia
Imperial Brands Columbia SAS	Columbia	Import and distribution of tobacco and tobacco related products in Columbia TV21 No.98 05, Bogota D.C. Columbia
Imperial Brands Finance France SAS	France	Provision of finance to other Group companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Imperial Brands Finance Netherlands B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Brands Finland Oy	Finland	Sales and marketing of tobacco products in Finland Poikluomantie 1-3, Piispanristi, 20760, Finland
Imperial Brands Global Duty Free & Export S.L.	Spain	Sale and export of duty-free tobacco products C/Comandaute Azcarraga 5, Madrid 28016, Spain
Imperial Brands Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands

Name	Country of incorporation	Principal activity and registered address
Imperial Brands Japan Kabushiki Kaisha	Japan	Sales and marketing of tobacco products in Japan The Okura Prestige Tower, 10th Floor, 2-10-4 Toranoomon, Minato-ku, Tokyo 105-0001, Japan
Imperial Finance Ireland Limited	Ireland	Provision of finance to other Group companies 21 Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Finance Malta Ltd	Malta	Aragon House Business Centre, St. George's Park, St. Julians, Malta
Imperial Nominees Limited(ii)	New Zealand	Trustee Company 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco (Asia) Pte. Ltd.,	Singapore	Trading of tobacco related products 80 Robinson Road, #02-00, 068898, Singapore
Imperial Tobacco (Beijing) Limited(i)	People's Republic of China	Holding investments in subsidiary companies 1201 Building, 12 Futong West Street, Chaoyang District, Beijing, , China
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia John Player Special House, Level 4, 4-8 Inglewood Place, Norwest, NSW 2153, Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria Zieglergasse 6, A-1070 Vienna, Austria
Imperial Tobacco BH doo(i)	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia Adema Buce, Sarajevo, 71000, Bosnia & Herzegovina
Imperial Tobacco Brasil Comércio de Produtos de Tabaco Ltda.	Brazil	Co-ordinating and monitoring of WEST license productions and distribution of tobacco products 5th andar (floor), Av. Brig. Faria Lima 3.729, itaim Bib, Sao Paolo, 04538-905, Brazil
Imperial Tobacco Bulgaria EOOD(i)	Bulgaria	Manufacture and sale of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco CR s.r.o.	Czech Republic	Sales and marketing of tobacco products in the Czech Republic Radlicka 14, Prague 5, 150 00, Czech Republic
Imperial Tobacco Distribution EOOD(i)	Bulgaria	Marketing and distribution of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco Distribution Romania srl	Romania	Marketing and distribution of tobacco products in Romania Nicolae Canea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Imperial Tobacco Estonia OÜ	Estonia	Sales of tobacco products A. H. Tammsaare tee 47, Tallinn 11316, Estonia
Imperial Tobacco Germany Finance GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece 300 Klisthenous Str, 15344 Gerakas, Attikis, Athens, Greece
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Intellectual Property Limited	Ireland	Ownership of trademarks 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Tobacco International GmbH	Germany	Export and marketing of tobacco products Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Ireland Unlimited Company(v)	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Italy S.r.l.,	Italy	Holding investments in subsidiary companies Via Luca Passi 22, Roma, 00166, Italy

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco Kyrgyzstan LLC(i)	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan 115, Ibraimov Street, 10th Floor, Business Center 'Asyl-Tash', Bishkek, 720021, Kyrgyzstan
Imperial Tobacco Magyarország Dohányforgalmázo Kft (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary Váci út 141, 1138, Budapest, Hungary
Imperial Tobacco Management Luxembourg sarl	Luxembourg	Holding investments in subsidiary companies 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products Symphony Corporatehouse SdnBhd, Level 8 Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco Norway AS	Norway	Sales and marketing of tobacco products in Norway Ryensvingen 2-4, 0680, Oslo, Norway
Imperial Tobacco Polska Manufacturing SA	Poland	Manufacture of tobacco products in Poland Ul. Tytoniowa 2/6, Radom, 26-600, Poland
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland Jankowice, ul. Przemyslowa 1, Pl-62-080, Tarnowo-Podgome, Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management 144, 7 DT, Avenida da Liberdade, Lisbon, Portugal
Imperial Tobacco Production Ukraine(i)	Ukraine	Manufacture of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco Sales & Marketing LLC	Russia	Sales and marketing of tobacco products in Russia Degtjarnyi pereulok 4-1, 125009 Moskau, Russian Federation
Imperial Tobacco SCG doo Beograd(i)	Serbia	Marketing and distribution of tobacco products in Serbia Milutina Milankovica 11a, Novi Beograd, Serbia
Imperial Tobacco Sigara ve Tutunculuck Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic 7A Galvaniho, 824 53 Bratislava, Slovakia
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan 6F1-2 No.2 Sec. 3, Minsheng E road, Zhongshen District, Taipei, Taiwan, Province of China
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan No 8 Cyunyi Road, Jhunan, MiaoLi County 350, Taiwan Province of China
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Ukraine(i)	Ukraine	Sales and marketing of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Volga LLC(i)	Russia	Manufacture of tobacco products in Russia ul.Tomskaja 7, 400048 Volgograd, Russian Federation
Imperial Tobacco West Africa SAS(i)	Cote D'Ivoire	Holding investments in subsidiary companies Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan
Imperial Tobacco Yaroslavl CJSC(i)	Russia	Manufacture of tobacco products in Russia 22, Pobedy St., 150040 Yaroslavl, 150040, Russian Federation
Imperial Tobacco Zagreb doo(i)	Croatia	Marketing and distribution of tobacco related products in Croatia Gradičanska 30, Zagreb, HR-10000, Croatia
IMPTOB South Africa (Pty) Limited	South Africa	Provision of services to other Group companies Suite 107, Beacon Rock, 21 Lighthouse Road, Umhlanga 4319, South Africa

Name	Country of incorporation	Principal activity and registered address
International Marketing Promotional Services Limited	Nigeria	Sales and marketing and of tobacco products in Nigeria 13 A, Dapo Solanke Close – Lekki Phase 1, Lagos, Nigeria
ITB Corporation Limited	Bahamas	Trademark owner Building of the Canadian Imperial Bank of Commerce, Shirley Street, Nassau, Bahamas
ITB Corporation y Cia. S.R.C	Spain	Trademark owner Calle Antonio Maura numero 9, Madrid, 28014, Spain
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the USA 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Cigars Inc	United States of America	Manufacture and sale of cigars in the USA 2601 Tampa East Blvd, Tampa Florida FL33619-8306, USA
ITG Holdings USA Inc[(ix)]	United States of America	Holding investments in subsidiary companies C/o The Corporation Trust Co, 1209 Orange Street, City of Wilmington, County of Newcastle, DE 19801, USA
ITI Cigars SL	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco related products Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong
J & R Tobacco (New Jersey) Corp	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JAW-Invest Oy	Finland	Trademark owner Poikluomantie 1-3, Piispanristi, 20760, Finland
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
JR Cigar (DC) Inc	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JR Cigars.com, Inc.	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Mooresville, Inc	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco NC, Inc	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco of America Inc	United States of America	Sales of tobacco and tobacco related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Burlington Inc	United States of America	Sales of tobacco and tobacco related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Michigan Inc	United States of America	Sales of tobacco and tobacco related products 601, Abbott Road, East lansing, Ingham, MI, 48823, USA
JR Tobacco Outlet Inc	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JSNM SARL	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
La Flor de Copan Honduras SA	Honduras (CA)	Manufacture of handmade premium cigars Zona Libre, Colonia MeJia Garcia, Frente Boulavard, Jorge Bueso Arias, Santa Rosa de Copan, Honduras
MYBLU Spain S.L.	Spain	Marketing and sale of e-vaopur products in Spain CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Los Olvidados SRL	Dominican Republic	Manufacture and distribution of cigars 129, Independencia Street, Santiago, 51000, Dominican Republic
Max Rohr, Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE,19801, USA

Name	Country of incorporation	Principal activity and registered address
MC Management, Inc.	United States of America	Provision of services to other Group companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Meccarillos France, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos International, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos Suisse, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Millennium Tobacco Unlimited Company	Ireland	Provision of finance to other Group companies 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Newglade International Unlimited Company	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Philippine Bobbin Corporation	Philippines	Manufacture of tobacco related products Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines
Real Club de Golf la Herrería S.A.	Spain	Management of golf course CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Robert Burton Associates Limited	United States of America	Marketing of papers in the US 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, Florida, FL 33309, USA
Santa Clara Inc	United States of America	Distribution of cigars 327, Hillsborough Street, Raleigh, NC, 27603, USA
Skruf Snus AB	Sweden	Manufacture, marketing, sales of tobacco products in Sweden PO Box 3068, Stockholm, SE-103 61, Sweden
Société Centrafricaine de Cigarettes SA[i]	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic Rue David Dacko, BP 1446, Bangui, Central African Republic
Société Centrafricaine de Distribution Sarl[i]	Central African Republic	Dormant Avenue Boganda Pk4, Bangui, Central African Republic
Société du Mont Nimba Sarl[i]	Guinee Conakry	In Liquidation BP 3391, Conakry, Guinea
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Société pour le Développement du Tabac en Afrique SAS	France	Purchasing company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
System Designed to Africa Sarl	Morocco	Distribution of tobacco products Km 17, Route national de Rabat, Ain Harrouda, Morocco
Tabacalera Brands Inc	United States of America	Trademark owner 103 Foulk Road, Suite 253, Wilmington, Delaware, 19803, USA
Tabacalera Brands SLU	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Tabacalera de Garcia Limited	Bermuda	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Tabacalera de Garcia SAS	France	Manufacture of cigars in the Dominican Republic 320, Rue Saint-Honore, Paris, 75001, France
Tabacalera de Garcia SAS	Dominican Republic	Manufacture of cigars in the Dominican Republic Industrial Free Zone #1, La Romana, Domincan Republic
Tabacalera SLU	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Tabacalera USA Inc	United States of America	Holding investments in subsidiary companies Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Tahiti Tabacs SASU	France, Papeete (Tahiti)	Distribution of tobacco products in Denmark and Greenland PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia

Name	Country of incorporation	Principal activity and registered address
Tobacco Products Fulfillments, Inc.	United States of America	Fulfilment services PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobaccor SAS(v)	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Tobačna 3DVA, trgovsko podjetje, d.o.o.	Slovenia	Retail of products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Grosist d.o.o.	Slovenia	Marketing and distribution in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Ljubljana d.o.o.(v)	Slovenia	Sales and marketing tobacco products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobamark International SAS	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Urex Inversiones SA	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Universal Brands S.A.	Spain	Trademark Owner C/Comandaute Azcarraga 5, Madrid, 28016, Spain
Van Nelle Tabak Nederland B.V. (x)	The Netherlands	Manufacture and sale of tobacco products in the Netherlands Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco related products Slachtedijk 28a, 8501 ZA, Joure, Netherlands

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity and registered address	
Be To Be Pharma, S.L.U	Spain	Distribution of pharmaceuticals Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	60.0
CdM Hallandale, LLC	United States of America	Management company c/o Corporation Service Company, 1201 Hays Street, Tallahassee, Florida, 32301, United States	50.0
Compagnie Agricole et Industrielle des Tabacs Africains SAS	France	Management company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France	99.9
Compagnie Agricole et Industrielle des Tabacs de Cote D'Ivoire SA, IL(i)	Cote D'Ivoire	In liquidation BP 418 – Bouake, Cote d'lvoire, Cote d'Ivoire	74.6
Compagnie Réunionnaise des Tabacs SAS	France, St Pierre (La Reunion Island)	Manufacture of cigarettes ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion	98.6
Compañía de Distribución Integral de Publicaciones Logista SLU(iv)	Spain	Distribution of published materials and other products Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Compañía de Distribución Integral Logista Holdings, S.A.(iii)	Spain	Holding investments in subsidiary companies C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL)	Poland	Distribution of tobacco products in Poland Avenida Jerozolimskie 133/131, 02-304 Varsaw, Poland	50.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Cyberpoint, S.L.U.	Spain	Distribution of POS software Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Distribuidora de Ediciones SADE, SAU	Spain	Distribution of published materials and other products in Spain Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain	50.0
Distribuidora de las Rias SA	Spain	Distribution of published materials and other products in Spain Avda. Cerezos, Parcela D-28, Polígono Industrial PO.CO.MA.CO , 15190 Mesoiro, La Coruña, Spain	50.0
Distribuidora del Este S.A.U.	Spain	Distribution of published materials and other products in Spain Felix Rodriguez de la Fuente, 11, Parque Epresarial de Elche, Alicante, Elche, 03203, Spain	50.0
Distribuidora del Noroeste SL	Spain	Distribution of published materials and other products in Spain C/ Gandarón, 34, interior, Vigo, Pontevedra, 36214, Spain	50.0
Dronas 2002, SLU	Spain	Industrial parcel and express delivery service Energía, 25-29; Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain	50.0
Imperial Tobacco TKS a.d.(i)	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia	99.1
Imperial Tobacco TKS a.d. – Dege Kosove	Kosovo	Manufacture, marketing and distribution of tobacco products in Kosovo Ahmet Krasniqi, Obj.Redoni C1 B Nr 23, Prishtina, Republic of Kosovo	99.1
Imprimerie Industrielle Ivoirienne SA(i)	Cote D'Ivoire	Printing company Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abdjan, Cote d'Ivoire	72.1
La Mancha 2000, S.A., Sociedad Unipersonal	Spain	Distribution services Av. de la Veguilla, 12-Nave A- Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain	50.0
Lao Tobacco Limited(i)	Laos	Manufacture and distribution of cigarettes in Laos KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic	53.0
Logesta Deutschland Gmbh, Sociedad Unipersonal	Germany	Long haul transportation in Germany Pilotystrasse, 4, 80538 München, Germany	50.0
Logesta France SARL	France	Long haul transportation in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logesta Gestión de Transporte SAU	Spain	Long haul transportation services in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logesta Italia, S.R.L., Sociedad Unipersonal	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logesta Lusa LDA	Portugal	Long haul transportation in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logesta Polska Sp Zoo	Poland	Long haul transportation in Poland Aleje Jerozolimskie 133/32, 02/304 Varsovia, Poland	50.0
Logista France Holding SA	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista France SAS	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista Payments, SL	Spain	Provision of financial services C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Logista Italia Spa	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logista Pharma SA	Spain	Distribution of pharmaceuticals Felix Rodriguez de la Fuente, 11, Parque Epresarial de Elche, Alicante, Elche, 03203, Spain	50.0
Logista Pharma Canarias, SA	Spain	Pharmaceutical products logistics in Canary Islands C/ Entreríos Nave 3; Las Palmas de Gran Canaria, 35600, Spain	50.0
Logista Promotion et Transport SAS	France	Marketing and distribution of tobacco products in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical Distribution in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logista-Dis SAU	Spain	Sale of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
MABUCIG Industries SA	Burkina Faso	Manufacture of cigarettes in Burkina Faso No 55, Rue 19.14, , B.P. 94, Kodeni, – Bobo Dioulasso, Burkina Faso	72.7
MABUCIG (Manufacture Burkinabe de Cigarette)	Burkina Faso	Manufacture of cigarettes in Burkina Faso Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 – Bobo Dioulasso, Burkina Faso	72.7
Macotab SAS (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes Route Nationale 193, Furiani, 20600, France	99.9
Manufacture de Cigarettes du Tchad SA	Tchad	Manufacture and distribution of cigarettes in Chad 0502 rue 1039, Arrondissement 1, N'DJamena, Chad	95.0
Midsid – Sociedade Portuguesa de Distribução, S.A., Sociedad Unipersonal	Portugal	Wholesale of tobacco and other products Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
MTOA SA[(i)]	Senegal	Manufacture and sales of cigarettes in Senegal Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal	97.3
NITAF Limited, IL[(i)]	Nigeria	In liquidation 28, Ground Floor, Ajasa Street, Off King George V Road, Onikan, Lagos, Nigeria	50.0
Promotora Vascongada de Distribuciones SA	Spain	Distribution of published materials and other products in Biscay and Santander C/ Guipúzcoa, 5, Polígono Industrial Lezama Leguizamón, 48450 Echevarri, Vizcaya, Spain	50.0
Publicaciones y Libros SA	Spain	Publishing company Avenida de Europa No.2, Edificio Alcor Plaza/ Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Reemtsma Kyrgyzstan OJSC[(i)]	Kyrgyzstan	In liquidation 249 Ibraimov Street, Bishkek, Kyrghyz Republic, 720011, Kyrgyzstan	99.7
S3T Pte Ltd[(i)]	Singapore	Holding investments in subsidiary companies 80 Robinson Road, #02-00, 068898, Singapore	51.0
SACIMEM SA[(i)]	Madagascar	Manufacture of cigarettes in Madagascar 110 Antsirabe – Madagascar, Route d'Ambositra, BP 128, Madagascar	65.4
SITAB Industries SA[(i)]	Cote D'Ivoire	Manufacture of cigarettes in Cote D'Ivoire Rue de I'Industrie – Lot No 19, 01 – BP 607, Bouake, Cote d'Ivoire	80.5
SITAR Holding SAS	France (La Reunion Island)	Holding investments in subsidiary companiesr Z.I n2, B.P. 256, 97457 Saint Pierre, IIe de la Reunion, France	99.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Société Africaine d'Impression Industrielle SA(i)	Senegal	Manufacture and distribution of cigarettes in Senegal route de Bel Air – Km 2200, Dakar, Senegal	99.8
Société Allumettiere Française SAS	France	Manufacture and distribution of cigarettes Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Société des Cigarettes Gabonaises SA(i)	Gabon	In liquidation 2381 bld Léon MBA, BP 2175, Libreville, Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical SA(i)	Congo	Manufacture and distribution of cigarettes in Congo Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo	89.7
Société Ivoirienne des Tabacs SA(i) (iii)	Cote D'Ivoire	Manufacture and distribution of cigarettes in Ivory Coast Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan	74.1
Société Marocaine des Tabacs SA	Morocco	Manufacture and distribution of cigarettes in Morocco 87 Rue Hamed El Figuigui , Casablanca, 20500, Morocco	99.9
SOCTAM SA(i)	Madagascar	Manufacture and distribution of cigarettes in Mali 15 Rue Geoges V, Mahajanga, Madagascar	50.5
SOTCHADIS SAS	Chad	Non-trading 502 Rue 1039, BP 852, N'Djamena, Chad	95.0
Supergroup SAS	France	Wholesale of tobacco products Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Von Erl. Gmbh(i)	Austria	Sale of e-vapour products in the US and Europe Alte Landstrasse 27, 6060 Hall in Tirol, Austria	100.0

ASSOCIATES: REGISTERED IN ENGLAND AND WALES

Name	Principal activity and registered address	Percentage owned
C H (Downton) Limited(ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
F J (Downton) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Hunters & Frankau Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Incentive Marketing Services (UK) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Jacon Financial Services Limited(ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Joseph Samuel & Son Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Knight Brothers Cigar Shippers Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Lancha House Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart & Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart Holdings Limited(ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Morris & Morris Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tabaco Torcido Traders Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
The English Import Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tropic Tobacco Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0

ASSOCIATES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
5th Avenue Products Trading GmbH(i) (iv)	Germany	Distribution of Cuban cigars in Germany Schwarzenbergstr. 3-7 ; Waldshut-Tiengen, 79761, Germany	27.5
Azur Finances SA	Cameroon	Holding investments in subsidiary companies B.P 1105, Douala, Cameroon	20.0
Caribbean Cigars Corporation NV(i)	Curacao	Distribution of Cuban cigars in the Caribbean Hato Economic Zone, Office D-28, Curacao, N.A.	25.0
Cigar Divan (Cambodia) Company Limited	Cambodia	Retail Raffles Hotel Le Royal 92, Rukhak Vithei Duan Penh, Sangkat Wat Phnom, Phnom Penh. 120211. Cambodia	25.0
Compañia Española de Tabaco en Rama SA (Cetarsa)(i)	Spain	Production and sale of raw tobacco Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain	20.8
Diadema Spa(i)	Italy	Distribution of Cuban cigars in Italy Via delle Terme Deciane, 10, Partita IVA 01213650995, Codice Fiscale 01374280509, 00153 Rome, Italy	30.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products Carretera de la Esclusa, S/N – Pariela 2, Modulo 4, Sevilla, 41011, Spain	25.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain	40.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia Pedrapiquers 5, Poligono Industrial Vara de Quart, Valencia, 46014, Spain	25.0
DTPU Kaliman Caribe Dooel Scopje	Macedonia	Distribution of Cuban cigars in Macedonia 5 Luj Pater Str., 1000 Scopje Center, Macedonia	25.0
Entreprises des Tabacs en Guinée(i)	Guinée Conakry	Dormant B.P 3391, Conakry, Guinea	34.0
Havana House Cuban Products Specialist Limited(i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
Havana House Limited(i)	Canada	Distribution of Cuban cigars in Canada 92 Scarsdale Road, Toronto ON, M3B 2R7, Canada	25.0
Importadora y Exportadora de Puros y Tabacos SA DE CV (IEPT)(i)	Mexico	Marketing and distribution of Cuban cigars in Mexico Presidente Mazaryk numero 393 local 28, colonia Polanco, C.P. 11560 Delegación Miguel Hidalgo México D.F., Mexico	25.0
Intertabak AG(i)	Switzerland	Distribution of Cuban cigars in Switzerland and Liechtenstein Intertabak AG, Salinenstrasse 61, CH-4133 Pratteln, Entrepots: Salinenstrasse, 63, Switzerland	25.0
Kaliman Caribe doo Beograd	Serbia	Distribution of Cuban cigars in Serbia 5 Igmanska Str., Beograd, Serbia	25.5
Kaliman Caribe ood	Bulgaria	Distribution of Cuban cigars in Bulgaria 118 Bulgaria Blvd., Abacus Business Center, fl. 2, 1618 Sofia, Bulgaria	25.5
Kaliman Caribe Tirana Sh. p.k.	Albania	Distribution of Cuban cigars in Albania Sheraton Tirano Hotel and Tower, Italia Sq., fl. 1, Tirana, Albania	25.5
Kaliman Caribe yer LLC	Armenia	Distribution of Cuban cigars in Armenia V. Papazyan / 16a/ 17; Yerevan, 0012, Armenia	25.5
Lippoel Tobacco Corporation International NV	Netherlands Antilles	Distributor of Cuban leaf Pietermaai 123, P.O. BOX 897. Willemstad, Curacao, Netherlands Antilles	27.5

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Logista Libros SL	Spain	Distribution of books Avda. Castilla La Mancha, 2 – Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain	25.0
Maori Tabacs, S.A.(i)	Andorra	Distribution of Cuban cigars in Andorra Av. Pont De La Tosca, 13, Andorra	25.0
New Mentality Limited(i)	British Virgin Islands	In liquidation Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Pacific Holding (Thailand) Company Limited(i) (vi)	Thailand	Holding investments in subsidiary companies 39/7 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330 Thailand	25.0
Phoenicia Beirut SAL(i)	Lebanon	Retail in Lebanon New Starco Center, Sixth Floor, Beirut Central District, Lebanon	25.0
Phoenicia TAA Cyprus Ltd(i)	Cyprus	Distribution of Cuban cigars in the Middle East and Africa 249, 28 Oct Street, Lophitis Business Center, Limassol, 3035, Cyprus	25.0
Pit Stop Limited(i)	British Virgin Islands	In liquidation Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Promotion et Distribution a Madagascar(i)	Madagascar	Distribution of cigarettes in Madagascar Tour ZITAL Ankorondrano, Antananarivo, Madagascar	33.4
SITABAC S.A,	Cameroon	Manufacture and distribution of tobacco products in Cameroon 113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon	34.5
Société Internationale des Tabacs Malgaches(i)	Madagascar	Leaf processing BP 270, 401 Mahajanga, Madagascar	47.9
Société Nationale des Tabacs et Allumettes du Mali SA(i)	Mali	Manufacture and distribution of cigarettes in Mali Route Sotuba – Z.I., BP 59, Bamako, Mali	28.0
Terzia SPA	Italy	Wholesale to tobacconists in Italy Via Valadier, 37 – 00193 Roma, Italy	34.0
The Pacific Cigar (Thailand) Co Limited(i) (vii)	Thailand	Distribution of Cuban cigars in Thailand 25 Alma Link Building, 2nd Floor, Soi Chidlom, Ploenchit Road, Kwaeng Lumpinee, Khet Patumwan, Bangkok Metropolis, Bangkok, Thailand	25.0
The Pacific Cigar Co. (Singapore) Pte Limited(i)	Singapore	Distribution of Cuban cigars in Singapore 150 Cecil Street, #15-01, 069543, Singapore	25.0
The Pacific Cigar Company (Australia) Pty Limited(i)	Australia	Distribution of Cuban cigars in Australia 17/23, Bowden Street Australia, Alexandria, NSW 2015, Australia	25.0
The Pacific Cigar Company (Macau) Limited(i)	Macau	Distribution of Cuban cigars in Macau Avenida Praia Grande No. 369-371, Edif. Keng Ou 8 Andar, A, Macau	25.0
The Pacific Cigar Company (Malaysia) SDN BHD(i)	Malaysia	Dormant 83A, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul, Ehsan, 47500, Malaysia	25.0
The Pacific Cigar Company (New Zealand) Limited(i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
The Pacific Cigar Company Limited(i)	China	Distribution of Cuban cigars in Asia 21/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	25.0
The Pacific Cigar International Co Limited(i)	British Virgin Islands	Distribution of Cuban cigars in Asia Akara Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	25.0

JOINT VENTURES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Altabana SL(i)	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Comercial Iberoamericana SA(i)	Spain	Wholesale and distribution of tobacco products Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Compañía de Distribución Integral Logista S.A.U. y GTECH Global Lottery, S.L.U., U.T.E.	Spain	Services and distribution C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	25.0
Corporación Habanos SA(i)	Cuba	Export of cigars manufactured in Cuba Centro de Negocios Miramar, Edificio Habana, 3ra. Planta, Avenida 3ra. e/ 78 y 80, C.P.: 11300, Cuba	50.0
Coprova SAS(i)	France	Distribution of Cuban cigars in the Caribbean 171 Avenue Jean Jaures – Paris CEDEX 19, 75927, France	50.0
Cuba Cigar, S.L.(i)	Spain	Distribution of Cuban cigars in the Canary Islands Avenida Andrés Perdomo S/N, Edificio de Zona Franca, Planta Baja, Puerto de la Luz (Las Palmas de Gran Canaria), 35008, Spain	50.0
Cubacigar (Benelux) N.V.(i)	Belgium	Distribution of cigars in Belgium Reutenbeek, 5 – 3090 Overijse, Belgium	50.0
Dalso, S.R.L.(i)	Dominican Republic	Distribution of Cuban cigars in Republic Dominican Avenida Gustavo Mejía Ricart esquina Avenida Abraham Lincoln, Torre Piantini, sexto piso, Ensanche Piantini, Santo Domingo, Distrito Nacional, Dominican Republic	50.0
Empor – Importação e exportação, SA(i)	Portugal	Distribution of tobacco products in Portugal Rua João Santos, Lote 2, Lisboa, 1300-325, Portugal	50.0
Global Horizon Ventures Limited	Hong Kong	Sales and marketing of cigarettes in Asia Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong	50.0
Habanos Nordic AB(i)	Sweden	Distribution of Cuban cigars in Scandinavia August Barks gata 30B SE-42132 Västra Frölunda – Sweden	50.0
Infifon APS(i)	Denmark	Holding investments in subsidiary companies 21, INFIFON ApS, Harbour House, Sundkrogsgade, 2100 Copenhagen , Denmark	50.0
Infifon Hong Kong Limited(i)	China	Distribution of Cuban cigars in China 21/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	50.0
Infifon I, BV(i)	The Netherlands	Holding investments in subsidiary companies Parklaan 34, Rotterdam, 3016 BC, Netherlands	50.0
Infifon II NV(i)	Netherlands Antilles	Distribution of Cuban cigars in Russia Van Engelenweg 23, Curaçao, Netherlands Antilles	50.0
International Cubana de Tabaco SA(i)	Cuba	Manufacture of cigarillos in Cuba Ave. Independencia #34501 entre Ave. 345 y 1ºde Mayo, Municipio Boyeros, Ciudad de La Habana, Cuba	50.0
Intertab SA(i)	Switzerland	Holding investments in subsidiary companies Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland	50.0
Promotora de Cigarros SL(i)	Spain	Sales and marketing of cigars manufactured in Cuba Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain	50.0
Puro Tabaco SA(i)	Argentina	Distribution of Cuban cigars in Argentina and Chile Lavalle 445, Piso 1, Buenos Aires, Argentina	50.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Top Cigars Corporation LLC(i)	Russia	Distributor of Habanos in Russia Dimitrovskoe shosse 167, 127204 Moscow, Russian Federation	50.0
West Tobacco Pte Ltd(i)	Singapore	Dormant 50 Raffles Place #32-01, Singapore Land Tower, 048623, Singapore	50.0
Xinet SA(i)	Uruguay	Dormant Ciudadela 1373, Montevideo, Uruguay	50.0

PARTNERSHIPS

The Group also owns the following partnerships:

Name	Country	Principal activity, registered address and principal place of business
Fabrica de Tabacos La Flor de Copan S de R.L. de CV	Honduras	Holding investments in subsidiary companies Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras
Imperial Tobacco (Efka) GmbH & Co. KG	Germany	Manufacture of tubs in Germany Registed address: Postfach 1257, Industriestrasse 6, Trossingen, 78636, Germany Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany
Imperial Tobacco Kazakhstan LLP(i)	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Registered address and principal place of business: 3rd Floor, Prime Business Park, 100/2 Nursultan Nazarbayev Avenue, Medeuskiy District, Almaty, 050000, Kazakhstan
ITG Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27408, United States of America

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

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

(i) December year end

(ii) March year end

(iii) Listed entity

(iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue). Only applicable to partly owned entities – percentage ownership is shown in the tables above.

(v) Holding of two types of ordinary share (where more than one type of ordinary share is authorised / in issue). Only applicable to 100% owned subsidiaries.

(vi) Holding of preference shares only

(vii) Holding of ordinary and preference shares

(viii) Holding of ordinary and redeemable shares

(ix) Holding of ordinary and deferred shares

(x) Holding of two types of ordinary share and redeemable shares

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, are held by a number of Group companies, and Compañía de Distribución Integral Logista SAU, Logista France SAS, and Logista Italia SpA are 100 per cent owned subsidiaries of Compañía de Distribución Integral Logista Holdings SA, which is itself 50.01 per cent owned by Altadis SAU.

FINANCIAL CALENDAR AND DIVIDENDS

Half-year results are expected to be announced in May 2021 and the full-year's results in November 2021.

The Annual General Meeting of the Company will be held on Wednesday 3 February 2021 at 123, Winterstoke Road, Bristol. However, shareholders are encouraged to attend virtually. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2020 final dividend, if approved, will be on 31 March 2021 to shareholders on the Register of Members at the close of business on 19 February 2021. The associated ex-dividend date will be 18 February 2021.

SHARE DEALING SERVICE

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number, which you can find on your share certificate.

INDIVIDUAL SAVINGS ACCOUNT

Investors in Imperial Brands PLC ordinary shares may take advantage of a low-cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £12.50 and £1.75 respectively for the sale and purchase of shares.

For a brochure or to apply for an ISA or Investment Account go online to www.shareview.co.uk/dealing or call Equiniti on 0345 300 0430.

DIVIDEND REINVESTMENT PLAN

Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2268 (+44 (0)121 415 7173) or online at www.shareview.co.uk

AMERICAN DEPOSITARY RECEIPT FACILITY

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

WEBSITE

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

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

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