

## STRATEGY GAINING TRACTION AND DELIVERING IMPROVED RETURNS

### Report for the year ended 30 September 2022

#### Business Highlights

- Five-year strategy on track and delivering improved operational performance
- Aggregate market share for top-five combustible markets up 35bps – first annual share gain in >five years
- Next generation products (NGP) net revenue up 11% driven by market launches in all categories
- Strong adjusted operating cash conversion of 102% enables balance sheet to reach target leverage of 2.0x
- Increased shareholder returns with 1.5% growth in dividend enhanced by an ongoing £1 billion share buyback
- Embedding of culture changes continues, with all 26,000 Imperial colleagues set to complete training in our new purpose, vision and behaviours by calendar year-end

#### Financial Summary

		Reported			Adjusted <sup>3</sup>			Constant currency <sup>4</sup>
		2022	2021	Change	2022	2021 <sup>2</sup>	Actual	
Revenue/Net revenue <sup>1</sup>	£m	<b>32,551</b>	32,791	-0.7%	<b>7,793</b>	7,589	+2.7%	+1.5%
Operating profit	£m	<b>2,683</b>	3,146	-14.7%	<b>3,694</b>	3,570	+3.5%	+1.8%
Basic earnings per share	pence	<b>165.9</b>	299.9	-44.7%	<b>265.2</b>	246.5	+7.5%	+4.9%
Free cash flow	£m	<b>2,562</b>	1,524	+68.1%	<b>2,562</b>	1,524	+68.1%	
Net debt	£m	<b>(8,492)</b>	(9,373)		<b>(8,054)</b>	(8,615)		
Dividend per share	pence	<b>141.17</b>	139.08	1.5%	<b>141.17</b>	139.08	+1.5%	+1.5%

<sup>1</sup> Reported revenue includes duty, similar items, distribution and sale of peripheral products, which are excluded from net revenue; net revenue comprises reported revenue less duty and similar items, excluding sale of peripheral products and distribution revenue.

<sup>2</sup> The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division following its divestment in October 2020. The Division contributed £21m to net revenue and £3m to adjusted operating profit in 2021.

<sup>3</sup> See page 3 for the basis of presentation and the supplementary section of the financial statements for the reconciliation between reported and adjusted measures.

<sup>4</sup> Constant currency removes effect of exchange rate movements on the translation of the results of our overseas operations.

#### Stefan Bomhard Chief Executive

"In line with our five-year strategy, increased investment and a more consumer-centric approach have improved delivery in both our priority combustible markets and our next generation product operations. At the same time, disciplined capital allocation has strengthened our balance sheet to reach our target leverage. This has enabled us to enhance shareholder returns through an ongoing share buyback programme alongside a progressive dividend.

"In tobacco, a sharper focus on brand building and sales execution has supported aggregate market share gains in our top-five priority markets. Price mix improved in the second half, helping to offset the anticipated acceleration in volume declines, which occurred as borders reopened, prompting a return to pre-COVID buying patterns.

"In NGP, successful consumer trials have validated our approach and we are now stepping up investment in new product and market launches across all three product categories. Our heated tobacco proposition, Pulze and iD, continued to perform well in our pilot markets of Czech Republic and Greece, and we have recently launched in Portugal, Hungary and Italy, the largest European market for this category. Following the successful French trial of our new vapour device, blu 2.0, we have now launched in the UK. In modern oral, we expanded our range of flavours for Zone X in key markets and successfully introduced the Zone X format into Norway.

"Looking ahead, we are well positioned to deliver against the next phase of our five-year strategy. The additional investment and the actions we have taken during the initial two-year strengthening phase have built stronger foundations as we face into a more challenging macro-economic environment. We are well placed to build on our track record of delivery over the next three years, improving returns and creating sustainable growth in shareholder value."

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## Delivering Against our Strategic Priorities

### *Focus on five priority combustible markets*

- Investment delivering 35 bps growth in aggregate market share; first share gains in >five years
- Four out of five markets in share growth; gains in US, UK, Australia and Spain offsetting declines in Germany
- Driven by investment in multiple initiatives across all five markets
  - Expanding sales force and improving sales execution, e.g. US
  - Building brand equity and increasing presence in premium, e.g. Winston and Kool in US, Gauloises in Germany
  - Optimising our approach to the value segment, e.g. Lambert & Butler launch in Australia
  - Rejuvenating local jewel brands, e.g. Embassy and Regal in UK, Nobel and Fortuna in Spain
  - Maximising potential of fine cut category, e.g. Players Easy Rolling and Riverstone in the UK

### *Drive value from our broader market portfolio*

- New capabilities and increased focus with a clear market prioritisation are driving operational improvements
- Disciplined market focus with exits from Japan and Russia completed
- Focus on Eastern Europe is delivering growth in net revenue (+6%) and operating profit (+4%)
- Africa continues to perform well with further share gains and revenue growth (+3%), against a strong comparator

### *Build a targeted NGP business*

- Strategy delivering net revenue growth driven by Europe and despite uncertainties caused by the MDO in the US
- Heated tobacco Pulze & iD gained share in Czech; now also launched in Italy, Portugal, Hungary
- Successful trial of our all new pod-based vapour device, blu 2.0, in France supports recent UK launch
- Modern oral product, Zone X, launched in Norway, new flavour launches in other markets
- Consumer and trade feedback validates strategy and further investment and market expansion in FY23

### *Transforming our ways of working*

- Increased investment in building consumer-focused capabilities in insights, innovation and marketing
- New behaviours framework launched and set to be rolled out across all employees by calendar year end
- On track to deliver annual savings target of £150m by end FY23; actions taken to realise £120m in FY23
- ESG review for tobacco & NGP completed and aligned to strategy, purpose and vision; eight priorities identified

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## Results Overview\*

### *Net revenue growth driven by resilient tobacco pricing and NGP growth*

- **Net revenue up 1.5%** with tobacco +1.3% to £7,585m and NGP +10.8% to £208m
- **Reported revenue reduced by -0.7%** driven by adverse translation FX from a weaker Euro
- **Tobacco price mix up 6.0%**, with an acceleration in H2 to +10.7%
- Tobacco price mix driven by gross pricing of 4.8%, (e.g. US, Germany) and positive market mix of 2.7% (e.g. Russia exit, US) partially offset by adverse product mix of 1.4% (e.g. US)
- Tobacco volumes declined -4.7% (-1.2% excluding Russia); H2 volumes -8.4%, reflecting Russia exit and COVID unwind

### *Delivering improved profitability and increased investment*

- **Adjusted Group operating profit up 1.8%**: growth in tobacco and NGP more than offsetting Distribution decline
- **Reported operating profit of £2,683m reduced by £463m**, driven by charges related to our exit from Russia and associated markets (£399m) and non-recurrence of gains on disposal of the Premium Cigar Division (£281m)
- **Tobacco adjusted operating profit up +0.3%**, reflecting the non-recurrence of US state litigation costs taken in FY21 offset by increased investment in our strategic plan
- **NGP losses reduced by 39.1% to £87m**, despite market launches as investment is optimised behind new strategy
- Distribution adjusted operating profit (incl. eliminations) down 1.2%, reflecting £11m of restructuring charges
- **Adjusted EPS up 4.9%** driven by growth in operating profit and lower interest costs
- **Reported basic EPS down 44.7%** at 165.9p with lower operating profit and lower finance income as we reduced our unhedged currency exposures on financial instruments, partly offset by a higher reported tax rate

### *Strong free cash flow supporting investment and deleverage*

- **Strong adjusted operating cash conversion of 102% and with free cash flow of £2.6bn**
- Adjusted net debt reduced by £0.6bn
- Adjusted net debt to EBITDA improved to 2.0x (2021: 2.2x)
- **Reported net debt reduced by £0.9bn**, with £0.3bn benefit from difference in fair value of interest rate derivatives
- **Annual dividend per share up 1.5%** to 141.17 pence per share, in line with our progressive dividend policy
- **Returning surplus capital with initial £1.0bn share buyback in FY23**

\*All measures at constant currency unless otherwise stated

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## Outlook

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

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

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

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

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

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

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## Basis of Presentation

- To aid understanding of our results, we use 'adjusted' (non-GAAP) measures to provide a consistent comparison of performance from one period to the next. Reconciliations between adjusted and reported (GAAP) measures and further definitions of adjusted measures are provided in the supplementary information section. Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. References in this document to percentage growth and increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise. These are calculated by translating current year results at prior year exchange rates.
- Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.
- Market share is presented as a 12-month average to the end of September (MAT – moving annual trend), unless otherwise stated. Aggregate market share is a weighted average across markets within our footprint.

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## Other Information

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### Analyst Presentation Webcast

Imperial Brands PLC will be hosting a live webcast at 09:00 (GMT) for investors and investment analysts following the publication of our preliminary results on 15 November 2022. The webcast will be hosted by Stefan Bomhard, Chief Executive, and Lukas Paravicini, Chief Financial Officer. The presentation will be followed by a question and answer session. The presentation slides will be available on [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com) from 07.00 (GMT). An archive of the webcast and the presentation script and slides will also be available.

The webcast will be available on <https://edge.media-server.com/mmc/p/ec6yjmqi>. To participate in the Q&A session, please register in advance via this link: <https://register.vevent.com/register/B1e768936f71994dadb923ba8162ac809f>.

You will then receive the dial-in details and your own PIN to access the live Q&A session.

### **Cautionary Statement**

Certain statements in this announcement constitute or may constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is or may be a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied in any forward-looking statement. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the Company for current or future financial years will necessarily match or exceed the historical or published earnings per share of the Company. This announcement has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this announcement is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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## CHIEF EXECUTIVE'S STATEMENT

### Delivering on our strategy

We are now two years into our strategy and I am pleased with our progress so far. The foundations have been built and we are moving to the next phase of the plan: improved, more consistent performance and enhanced returns for investors.

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

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

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

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

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

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

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

### Improved performance

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

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

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

### Foundations for a strong challenger

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

We have implemented further changes to make our structures simpler and more efficient, better enabling us to become a strong challenger. In 2021, we reorganised the Executive Leadership Team and made changes to our regional and cluster structure; for example, by creating a new AAA region to focus on market opportunities beyond Europe and the US. Over the past year, we have also been building new functional centres of excellence, which will enable the corporate functions to better support the growth agenda of our consumer- and market-facing teams and

this work will continue into 2023. These new ways of working will be further enhanced by a multi-year digital transformation programme to upgrade our Enterprise Resource Planning processes, which is now underway. At the same time, I can also confirm that actions already taken will deliver £120 million of annual savings in FY23.

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

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

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

### **Purpose, people and planet**

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

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

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

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

### **Allocating capital with discipline**

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

Our strategy is supported by four clear capital priorities:

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

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

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

### **Strengthening delivery**

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

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

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

### **Outlook**

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

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

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

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

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

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

### **STEFAN BOMHARD**

CHIEF EXECUTIVE OFFICER

## OPERATING REVIEW

### EUROPE REGION

		Full year result		Change	
		2022	2021	Actual	Constant currency
Tobacco volume	bn SE	121.5	126.7	-4.1%	
Total net revenue	£m	3,472	3,551	-2.2%	+0.2%
Tobacco net revenue	£m	3,306	3,425	-3.5%	-1.0%
NGP net revenue	£m	166	126	+31.4%	+34.2%
Adjusted operating profit	£m	1,562	1,670	-6.5%	-5.2%

#### Headlines

- Market share growth in UK and Spain driven by local jewel brands strategy; share declines in Germany
- Industry volumes affected by increased travel, with consumer buying patterns reverting to historical channels and markets
- Price mix improved in the second half, driven by price phasing
- Strong NGP performance with growth across heated tobacco, vapour and modern oral
- Successful Pulze and iD trials in heated tobacco supported further launches in Italy, Portugal and Hungary
- Successful trial of all-new vapour device blu 2.0 in France validates roll-out into UK
- Adjusted operating profit decline also reflects increased investment behind strategic initiatives

Our results in Europe should be viewed against a strong comparator year, which benefited from COVID-related travel restrictions and changes in consumer buying patterns. The lifting of restrictions and increased travel have led to volumes reverting to pre-COVID channels and markets.

Strong market share growth in the UK was driven by investment behind our strategic initiatives, with local jewel brand, Embassy, making gains in under-penetrated regions of the country, and share gains in fine cut. As expected, our initiatives to rejuvenate our brands in Germany are taking time, with activations on our largest brand JPS, focused on appealing to a wider demographic of adult smokers. Our initiatives with Gauloises, West and Davidoff have begun to gain some traction in Germany. In Spain, we grew market share driven by our brand portfolio approach, offering consumers choice across the price ladder and leveraging local heritage brands.

Volumes for the region declined 4.1%, as expected, with sales increasingly reverting to pre-COVID channels and markets during the year. This has resulted in increased volume declines in higher margin Northern European markets such as UK, Germany and Scandinavia, partially offset by increased volumes in lower margin southern European holiday destinations such as Spain and strong growth in the duty free channel.

Tobacco net revenue was down 1.0% at constant currency, reflecting the volume declines and price mix of 3.1%. Price mix was effected by the timing of price increases and the adverse geographic mix effects as COVID-19 restrictions were lifted. Price increases taken in Germany and the UK in the latter part of the first half of the year led to improved tobacco price mix in the second half of 6.0%, compared to price mix of -0.2% in the first half of the year.

Our priority in Ukraine remains the safety and wellbeing of our 600 Ukrainian colleagues and families. In the second half we were able to restart production at our factory in Kyiv, including some contract manufacturing. This remains a fast-moving situation, which we continue to monitor closely.

Our NGP portfolio has performed well with net revenue up 34.2% at constant currency, and with growth across all three categories. A positive response from both consumers and the trade to our launches of Pulze and iD in the Czech Republic and Greece has supported further share gains during the second half. These market learnings have reinforced our confidence in the recent launches of Pulze and iD in Portugal and Hungary as well as in Italy, Europe's largest heated tobacco market. In vapour, the successful trial of a new pod-based vapour proposition, blu 2.0, in four selected cities in France has led us to roll out the product to the UK market in November 2022. This is the first product to be delivered from our refocused innovation pipeline. This consumer-led and partnership-based approach to innovation has also supported the launch in the UK of blu bar, a new disposable vapour device, to meet the rapidly growing demand in this category. In modern oral nicotine, we are continuing to evolve our offerings to meet consumer preferences and have achieved strong growth in Sweden, Norway and Austria.

Adjusted operating profit for the year declined 5.2% at constant currency against a strong comparator year, which benefited from consumers buying in higher margin Northern European domestic markets. The profit performance also reflects increased investment behind our strategic initiatives in both the combustible and NGP opportunities in Europe.



## Priority Market

## Performance

### Tobacco share

<b>Germany</b> <ul style="list-style-type: none"> <li>19.0% (-85 bps)</li> <li>12% of Group net revenue</li> </ul>	<p>Market size declined 4.1% in the year against a strong prior-year comparator, which benefited from COVID-19 travel restrictions. Our market share declined despite increased investment behind our strategy, though we have started to see stabilisation in Gauloises and West following brand equity investment. Our brand portfolio is well positioned across price segments, after we took action to tier Gauloises variants within premium and repositioned portfolio heritage brands within the lower-tier value segment to offer consumers choice in both cigarettes and fine cut tobacco. We continue to invest behind JPS to rejuvenate brand equity, with a pack redesign and targeted point-of-sale marketing campaigns coupled with retailer advocacy programmes driving increased consumer awareness.</p>
<b>UK</b> <ul style="list-style-type: none"> <li>41.6% (+85 bps)</li> <li>7% of Group net revenue</li> </ul>	<p>Market size declined 11% in the year as COVID-19-related travel restrictions unwound in the second half of the year and there was growth in illicit trade as borders reopened. Our strong market share gains reflected investment in our portfolio, particularly behind the local jewel brand, Embassy, and in fine cut tobacco with our Players Easy Rolling and Riverstone brands. We also invested in new sales effectiveness initiatives to enhance on-shelf availability with retailers. Price increases taken towards the end of the first half, the first increases in two years, led to improved price mix in the second half.</p>
<b>Spain</b> <ul style="list-style-type: none"> <li>28.3% (+5 bps)</li> <li>4% of Group net revenue</li> </ul>	<p>Tobacco market volumes grew 4.8% following two years of decline due to COVID-19-related restrictions. In the first half of the year, we achieved price increases across key product lines for the first time in five years. This led to temporary share declines in the first half, which we have been able to recover in the second half. We continued to invest behind our local jewel brands and captured downtrading through a super-king variant of our West brand. Our increased focus and investment in these brands has helped us to record three consecutive years of share gains.</p>

## AMERICAS REGION

		Full year result		Change	
		2022	2021	Actual	Constant currency
Tobacco volume	bn SE	21.9	21.5	+2.0%	
Total net revenue	£m	2,826	2,534	+11.5%	+4.4%
Tobacco net revenue	£m	2,784	2,478	+12.3%	+5.2%
NGP net revenue	£m	42	56	-25.1%	-29.7%
Adjusted operating profit	£m	1,179	1,037	+13.8%	+5.8%

### Headlines

- Cigarette share growth up 90 basis points to 10.1% with gains across all three of our focus price segments
- Investment in strategic initiatives continue to drive operational improvements
- Revenue growth reflects strong cigarette pricing offset by adverse product mix
- NGP net revenue declined as we did not participate in the category price discounting and some uncertainty linked to the FDA's Marketing Denial Orders for some of our myblu products
- Adjusted operating profit growth reflects lower litigation costs and higher investment

We delivered a strong combustible tobacco performance in the US, which is our largest single market, contributing around 36% of Group net revenue.

Tobacco volumes have grown by 2.0% against an industry volume decline of 7.9%. This out-performance reflects the improvement in our US cigarette market share of 90 basis points to 10.1%, the fourth consecutive year of market share growth. Our volumes also reflect an increase in customer inventories of around 180 million sticks at the period end as orders were pulled forward ahead of the expected landfall of Hurricane Ian and anticipated price increases. Excluding this inventory movement, our volumes were up around 1.0% year on year.

Our share growth benefited from our increased investment in sales execution and our brands, leading to share gains in three of the four price segments in which we operate. Additionally, we retained the share captured in the deep discount segment by our Sonoma and Crowns brands as a result of our agile response to KT&G's exit from the US

market in the first half of the financial year. We estimate our underlying share growth, excluding the KT&G-related share gains, was over 65 basis points.

Industry volume declines of 7.9% are against a strong comparator year that benefited from COVID-19-related changes to consumer buying patterns as a result of lockdowns and fiscal stimulus payments. Volumes also reflect some increased pressure on consumer spending leading to downtrading, although our brand portfolio is well-placed across key price segments.

On a constant currency basis, tobacco net revenue increased by 4.4%, benefiting from four price increases in the premium and traditional discount segments in the year. Two price increases were taken in the deep discount cigarette segment. However, over the period, this strong cigarette pricing was offset by adverse product mix with robust growth in the deep discount cigarette segment, resulting in +3.2% price mix for the year.

We continue to invest in our strategic priorities to build brand equity and strengthen sales force execution across our portfolio. For example, in the premium segment our Winston pack redesign launched in March has been rolled out nationally and has been supported by a new reward programme to drive participation together with multi-pack offers. With an increased sales force, we continue to invest to improve our sales execution through training and by adopting best practices such as route optimisation and better information systems. We are also achieving improved traction following the expansion of our key account team.

Our mass market cigar portfolio grew market share, driven by strong performances by Backwoods and Dutch Leaf, and we retain our position as the second largest manufacturer in the US. Our share gains partially offset the overall market decline in mass market cigars as we cycled against an exceptionally strong comparator period. As consumers return to work, they found fewer opportunities to enjoy mass market cigars and buying patterns are returning to pre-COVID levels. However, we remain well positioned to capture consumer demand in this category with our portfolio of iconic heritage brands.

Our NGP revenues were down 29.7% on a constant currency basis, reflecting the continued competitive environment with greater discounting in the category and some uncertainty linked to the FDA's Marketing Denial Orders (MDOs) for some of our myblu products issued in early April. We were disappointed with the FDA's decision to issue the MDOs and are seeking to overturn the decision through the administrative appeals process. Our products remain in the market during the appeals process. Following validation of our refreshed consumer marketing proposition for blu in trials in Charlotte, North Carolina, we have begun a roll-out into new territories.

Adjusted operating profit was 5.8% higher at constant currency driven by a stronger tobacco performance and lower NGP losses. Increased investment in strategic priorities and higher Master Settlement Agreement inflation-indexed costs were offset by the non-repeat of the litigation settlement cost in Minnesota and Texas in the prior period.

## AFRICA, ASIA AND AUSTRALASIA REGION

		Full year result		Change	
		2022	*2021	Actual	Constant currency
Tobacco volume	bn SE	77.5	83.7	-7.5%	
Total net revenue	£m	1,495	1,504	-0.6%	-0.5%
Tobacco net revenue	£m	1,495	1,498	-0.2%	-0.1%
NGP net revenue	£m	0	6	-100.0%	-100.0%
Adjusted operating profit	£m	700	598	+17.1%	+15.6%

\* The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division from that financial reporting period following its divestment in October 2020. The Premium Cigar Division contributed £21 million to net revenue and £3 million to adjusted operating profit in 2021.

### Headlines

- Performance affected by the decision to exit Russia; successful transfer of business as going concern
- Excluding Russia: volumes +3.2%; tobacco net revenue +3.9%
- Strong regional financial delivery driven by Australia, Africa and Middle East
- Australia market share gains supported by launch of Lambert & Butler and better key account execution
- Market share and financial performance gains in Africa driven by clear portfolio focus
- NGP net revenue decline reflects market exits from Russia and Japan
- Operating profit delivery supported by more focused approach to investment

Our volume and tobacco revenue performance in the Africa, Asia and Australasia region was affected by our decision to initially suspend operations in Russia and then subsequently exit the market. We were able to successfully transfer the business as a going concern to local investors in Russia in April. Excluding the impact of Russia, regional volumes were up 3.2% and net revenue increased 3.9% at constant currency. There was an immaterial impact on profit.

Our Africa, Asia and Australasia regional performance benefited from a more focused approach under the new regional structure and leadership team. The strong financial performance, excluding the impact of the Russian market exit, was driven by focused investment behind sales execution and marketing in line with our strategy to drive value from our broader market portfolio.

Excluding Russia, regional volumes had a strong recovery in the Middle East following prior year COVID-related disruptions and market-share-related volume gains in the Ivory Coast, Morocco and Taiwan.

Our Australia market share and financial performance benefited from the move to establish a clear brand offering at each of the key price points. This led to the launch of Lambert & Butler in the fifth price tier, which delivered incremental share gains. Our performance also benefited from improved supply chain delivery and investment in key account sales execution.

Our African markets continue to perform strongly, driven by our targeted brand approach. By taking selective local jewel and key international brands we have focused brand portfolios for each country to meet the differing adult consumer demands. In the Ivory Coast, positive share performance benefited from consumer activation and increased distribution of Fine. Trade promotions and activation activities behind Gauloises resulted in market share growth in Morocco.

Tobacco net revenue was down 0.1% at constant currency, reflecting the decision to exit Russia. Volume declines of 7.5% were offset by price mix of 7.4%. This price mix benefited from the exit from Russia, which has high volumes and low pricing. Excluding this, price mix was up 0.7% due to the growth in lower margin volume in the Middle East, as sales patterns returned to pre-COVID levels, and positive net pricing in our African portfolio.

NGP net revenue performance declined to zero, reflecting our decision to withdraw our NGP offerings from Russia and Japan in the prior financial year.

Adjusted operating profit was up 15.6% at constant currency, driven by strong performance in Australia, Africa and the Middle East and lower NGP investment compared to last year, following our decision to exit Japan and Russia.

## Priority Market

## Performance

### Tobacco share

#### Australia

- 31.8% (+20 bps)
- 4% of Group net revenue

Investment in our total brand portfolio strategy and establishing a clear offering at each of the key price points helped us grow market share. The launch of Lambert & Butler in the fifth price tier enabled a clear differentiation between Parker & Simpson and JPS in the higher price tier. The performance of JPS roll your own was supported by our launch of new pack size variants. Market dynamics have stabilised following changes to the excise regime, although the market remains highly competitive, with illicit trade also at historically high levels.

## DISTRIBUTION

	Full year result		Change		
		2022	2021	Actual	Constant currency
Net revenue	£m	<b>1,046</b>	1,069	-2.1%	+0.8%
Adjusted operating profit	£m	<b>254</b>	258	-1.7%	+1.8%
Adjusted operating profit margin	%	<b>24.3</b>	24.1	+14bps	+26bps
Eliminations	£m	<b>(1)</b>	7	-118.7%	-119.2%
Adjusted operating profit (inc. eliminations)	£m	<b>253</b>	265	-4.5%	-1.2%

Our Distribution is made up of our 50.01% stake in Logista. Volumes reflected the lifting of COVID-19-related travel restrictions. While inflation has been exacerbated by the Russian invasion of Ukraine and transport union strikes have impacted economic growth in Spain, the business has been able to mitigate these pressures.

Net revenues at £1,046 million were 0.8% higher on a constant currency basis as good performance in Iberia and Italy offset the continued weak performance in France.

In Iberia net revenue growth was driven by:

- tobacco and related products which benefited from an increase in tobacco volumes and growth in convenience products
- transport services with strong demand for Logista Freight (long-distance), increased B2B activity at parcel delivery business (Nacex) and Logista Parcel
- pharmaceutical distribution expansion of customer base and product offering

In Italy, net revenues were supported by good tobacco and NGP volumes together with growth in convenience products.

In France, the removal of COVID-related travel restrictions led to weak tobacco volumes somewhat offset by the positive performance in convenience product distribution.

The adjusted operating profit margin increased by 26bps at constant currency as the focus on cost control, and contracts that allow cost changes to be passed through, mitigated inflationary pressures. After eliminations, the adjusted operating profit contribution to the Group reduced 1.2% on a constant currency basis, as the costs of restructuring at Logista were expensed in adjusted operating profit. This is in line with the reporting policy set out in our FY21 Results which outlined that no further restructuring costs outside of the 2021 Strategic Review Programme would be recognised in 2022.

In line with Logista's strategy to accelerate growth in European non-tobacco, the company announced a number of acquisitions during the period. Together these acquisitions total €175 million, and, with the exception of Speedlink which completed in FY22, are expected to complete in FY23. The acquisition of 60% of Transportes El Mosca, a Spanish international transportation company, announced in June, will place Logista as the second largest temperature controlled transportation company in Spain once fully consolidated, and brings both maritime and road transportation assets to the Group. Earlier in the year, Logista announced the acquisition of 70% of Speedlink Worldwide Express B.V, a Dutch express courier company and in September it announced the acquisition of 100% of Carbó Collbatallé, a Spanish company specialising in cold transportation in the food sector. In February 2022, Logista disposed of Supergroup S.A.S., a subsidiary in France, that had already been classified as held for sale at the end of the prior financial year.

In line with other Imperial-owned entities, we continue to benefit from an inter-company cash pooling arrangement with Logista, which further enhances the Group's liquidity. On a 12-month basis, the daily average cash balance loaned to the Group by Logista was £1.9 billion, with movements in the cash position during the 12-month period varying from a high of £2.2 billion to a low of £1.3 billion, primarily due to the timing of excise duty payments. At 30 September 2022, the loan position was £2.1 billion compared to £1.8 billion at 30 September 2021.

## FINANCIAL REVIEW

### Strengthening our performance

This year's financial results reflect our continued progress against our five-year strategy. In the period, Group net revenues grew 1.5% and Group adjusted operating profit rose 1.8%, both on a constant currency basis.

Reported revenue declined 0.7% driven by adverse translation FX. Reported operating profit reduced 14.7%, mainly due to exit charges related to the Russian asset disposal (£399 million) and the non-recurrence of gains on disposal of the Premium Cigar Division (£281 million) in the comparator period.

Cash generation remains a key focus and has supported the delivery of £2.6 billion of free cash flow, with 102% adjusted operating cash conversion. The strong cash generation enabled us to reduce reported net debt by £0.9 billion to £8.5 billion and delivered adjusted net debt/EBITDA in line with expectations, reducing by 0.2x to 2.0x in FY22.

As recently announced, the strengthened balance sheet and achievement of our leverage target has enabled us to begin an ongoing, multi-year share buyback programme, where we will initially repurchase up to £1.0 billion of shares during FY23.

This year represented the final year of the strengthening phase of our five year plan as previously announced. Next year leads us into our growth phase, positioning the business to capitalise on the gains and investments made over the last two years.

### SUMMARY INCOME STATEMENT

£ million (unless otherwise indicated)	Reported		Adjusted	
	2022	2021	2022	**2021
<b>Revenue/net revenue*</b>				
Tobacco & NGP revenue/net revenue	<b>22,795</b>	23,202	<b>7,793</b>	7,589
Distribution revenue/net revenue	<b>9,756</b>	9,589	<b>1,046</b>	1,069
<b>Operating profit</b>				
Total Tobacco & NGP	<b>2,472</b>	2,991	<b>3,441</b>	3,305
Distribution	<b>212</b>	148	<b>254</b>	258
Eliminations	<b>(1)</b>	7	<b>(1)</b>	7
Group operating profit	<b>2,683</b>	3,146	<b>3,694</b>	3,570
Net finance costs	<b>(117)</b>	81	<b>(326)</b>	(417)
Share of profit/(losses) of investments accounted for using the equity method	<b>(15)</b>	11	<b>9</b>	7
Profit before tax	<b>2,551</b>	3,238	<b>3,377</b>	3,160
Tax	<b>(886)</b>	(331)	<b>(755)</b>	(714)
Profit for the year	<b>1,665</b>	2,907	<b>2,622</b>	2,446
Earnings per ordinary share (pence)	<b>165.9</b>	299.9	<b>265.2</b>	246.5
Dividend per share (pence)	<b>141.17</b>	139.08	<b>141.17</b>	139.08

\* Reported revenue includes duty, similar items, distribution and sale of peripheral products, which are excluded from net revenue; net revenue comprises reported revenue less duty and similar items, excluding sale of peripheral products and distribution revenue.

\*\* The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division from that financial reporting period following its divestment in October 2020. The Premium Cigar Division contributed £21 million to net revenue, £3 million to adjusted operating profit, £4 million to Adjusted share of (loss)/profit accounted for using the equity method and £(2) million to adjusted tax in 2021.

## SUMMARY CASH FLOW STATEMENT

£ million (unless otherwise indicated)	Reported		Adjusted	
	2022	2021	2022	2021
<b>Group operating profit</b>	<b>2,683</b>	3,146	<b>3,694</b>	3,573
Depreciation, amortisation and impairments	<b>660</b>	815	<b>244</b>	269
<b>EBITDA</b>	<b>3,343</b>	3,961	<b>3,938</b>	3,842
Loss/(profit) on disposal of subsidiary	<b>428</b>	(281)	–	–
Other non-cash movements	<b>56</b>	(29)	<b>(20)</b>	(79)
<b>Operating cash flows before movement in working capital</b>	<b>3,827</b>	3,651	<b>3,918</b>	3,763
Working capital	<b>40</b>	(664)	<b>40</b>	(664)
Tax cash flow	<b>(681)</b>	(820)	<b>(681)</b>	(820)
<b>Cash flows from operating activities</b>	<b>3,186</b>	2,167	<b>3,277</b>	2,279
Net capex	<b>(177)</b>	(150)	<b>(177)</b>	(150)
Restructuring	–	–	<b>(91)</b>	(112)
Cash interest	<b>(358)</b>	(400)	<b>(358)</b>	(400)
Minority interest dividends	<b>(89)</b>	(93)	<b>(89)</b>	(93)
<b>Free cash flow</b>	<b>2,562</b>	1,524	<b>2,562</b>	1,524
Acquisitions/disposals	<b>14</b>	845	<b>14</b>	845
Shareholder dividends	<b>(1,320)</b>	(1,305)	<b>(1,320)</b>	(1,305)
Purchase of ESOT shares	<b>(1)</b>	–	<b>(1)</b>	–
<b>Net cash flow</b>	<b>1,255</b>	1,064	<b>1,255</b>	1,064

### Adjusted performance measures

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 useful 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 the accounting policies accompanying our financial statements and the APM section within the supplementary information.

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.

While we believe that adjusted performance measures can provide helpful information which supplements reported measures, we are also aware of the need to ensure that an appropriate balance is maintained between the two sets of reporting metrics, with adjusted disclosures not being given greater prominence than GAAP measures. In line with this, we have reduced the number of adjusted performance measures used this year.

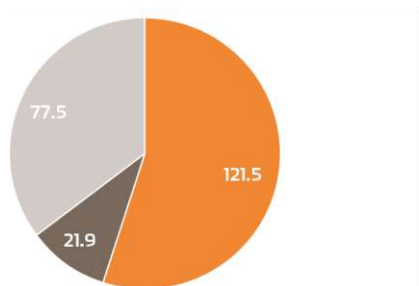
## GROUP RESULTS - ADJUSTED CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Full year ended 30 September 2021*	Foreign exchange	Constant currency movement	Full year ended 30 September 2022	Change	Constant currency change
<b>Tobacco &amp; NGP net revenue</b>						
Europe	3,551	(88)	9	3,472	-2.2%	0.2%
Americas	2,534	181	111	2,826	11.5%	4.4%
Africa, Asia and Australasia	1,504	(2)	(7)	1,495	-0.6%	** -0.5%
Total Group	7,589	91	113	7,793	2.7%	1.5%
<b>Tobacco &amp; NGP adjusted operating profit</b>						
Europe	1,670	(22)	(86)	1,562	-6.5%	-5.2%
Americas	1,037	83	59	1,179	13.8%	5.8%
Africa, Asia and Australasia	598	9	93	700	17.1%	15.6%
Total Group	3,305	70	66	3,441	4.1%	2.0%
<b>Distribution</b>						
Net revenue	1,069	(32)	9	1,046	-2.1%	0.8%
Adjusted operating profit including eliminations	265	(8)	(4)	253	-4.5%	-1.2%
<b>Group adjusted results</b>						
Adjusted operating profit	3,570	62	62	3,694	3.5%	1.8%
Adjusted net finance costs	(417)	10	81	(326)	-21.9%	-19.6%
Adjusted eps (pence)	246.5	6.5	12.2	265.2	7.6%	4.9%

\* The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division from that financial reporting period following its divestment in October 2020. The Premium Cigar Division contributed £21 million to net revenue and £3 million to adjusted operating profit in 2021.

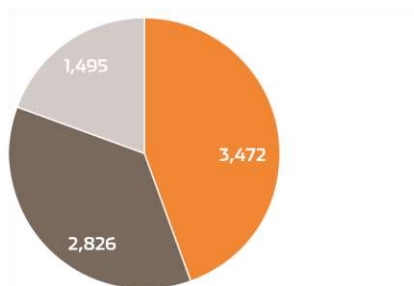
\*\* Africa, Asia and Australasia performance has been impacted by our exit from Russia; excluding Russia tobacco & NGP net revenue grew 3.9% at constant currency.

### Volumes, bn SE



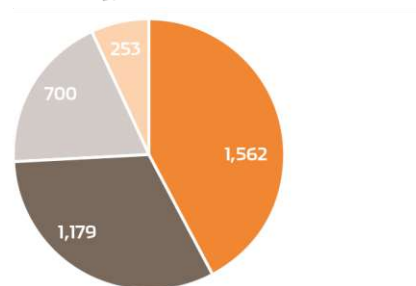
Europe	121.5
Americas	21.9
Africa, Asia and Australasia	77.5

### Net revenue (actual FX rate), £m



Europe	3,472
Americas	2,826
Africa, Asia and Australasia	1,495

### Adjusted operating profit (actual FX rate), £m



Europe	1,562
Americas	1,179
Africa, Asia and Australasia	700
Distribution	253

## SALES PERFORMANCE

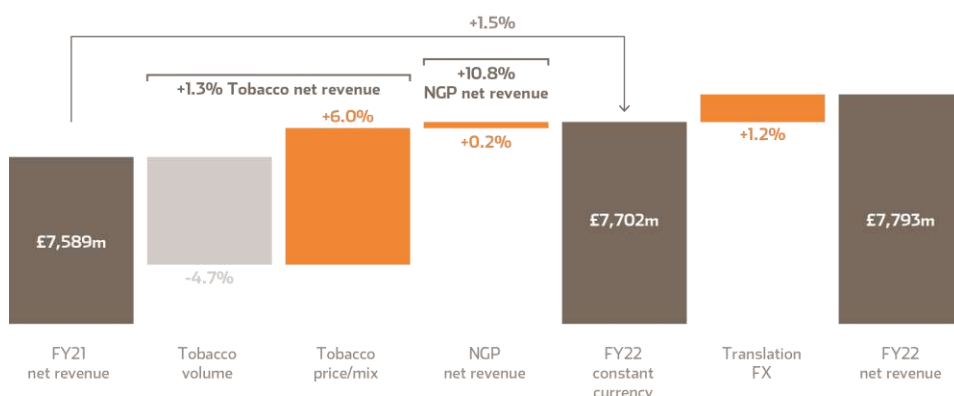
### Reported revenue

-0.7%

### Net revenue

+1.5%

- Reported revenue declined -0.7% driven by adverse translation FX from a weaker euro and higher euro exposure than net revenue due to excise duty and Logista.
- Net revenue grew 1.5% at constant currency comprising +1.3% from tobacco and +0.2% from NGP.
- Tobacco volume was down -4.7%, reflecting the exit from Russia and volume declines in Europe as COVID-19 restrictions unwind, partly offset by a strong volume performance in the Americas and the Africa, Asia and Australasia regions.
- Strong aggregate market share growth in our top-five priority markets of +35bps (FY21: -2bps).
- Tobacco price mix rose by 6.0% due to positive pricing and market mix from the Russian market exit. Excluding Russia, price mix was 3.4%, showing a recovery back to historic levels in the second half of the year (5.7%).
- NGP net revenue increased +10.8% at constant currency, led by growth in Europe more than offsetting declines in the USA.
- Translation FX was favourable due to sterling weakening against the dollar but partially offset by strengthening against the euro.



The net revenue of £7,589m for 2021 excludes a £21m contribution from the Premium Cigar Division following its divestment in September 2020.

## OPERATING PROFIT

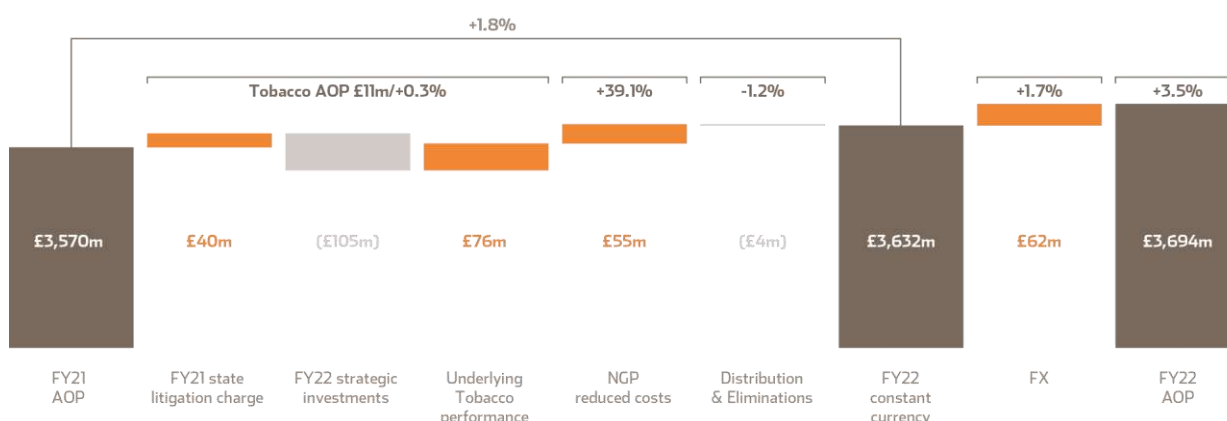
### Reported operating profit

-14.7%

### Adjusted operating profit

+1.8%

- Reported Group operating profit of £2,683m declined 14.7%, primarily driven by exit charges related to the Russian asset disposal (£399m) and the non-recurrence of gains on disposal of the Premium Cigar Division (£281m).
- Adjusted Group operating profit increased 1.8% at constant currency driven by tobacco & NGP growth.
- Tobacco adjusted operating profit increased marginally (+0.3%) reflecting increased investment in our strategy and the non-recurrence of US state litigation costs in FY21.
- NGP losses reduced as we re-prioritised investment and exited loss making markets.
- Translation FX reflects sterling weakening against the dollar, partially offset by strengthening against the euro.



The adjusted operating profit figure of £3,570m for 2021 excludes a £3m contribution for the Premium Cigar Division following its divestment in September 2020.



## EARNINGS PER SHARE

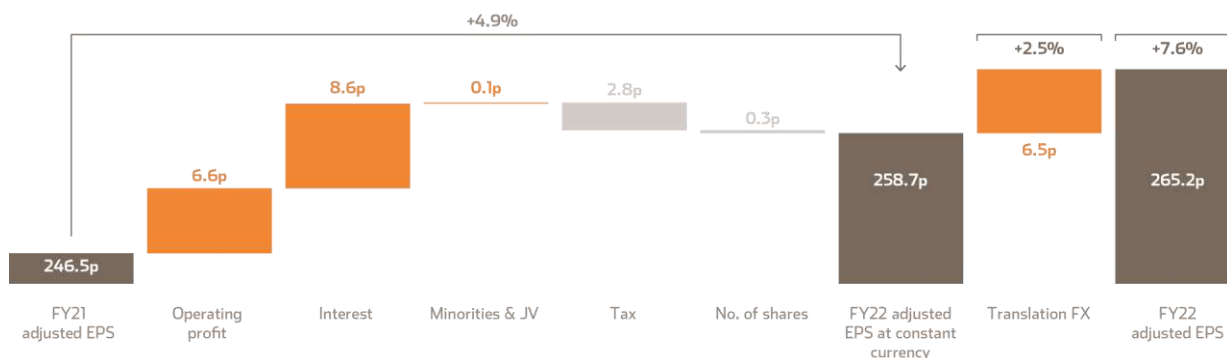
### Reported EPS

-44.7%

### Adjusted EPS

+4.9%

- Reported EPS declined 44.7% to 165.9 pence driven by the lower reported operating profit, an increase in tax charge and lower net finance income as we reduced our exposure to the marked to market foreign exchange accounting gains on unhedged financial instruments.
- Adjusted EPS was 265.2 pence, up 4.9% at constant currency due to increased adjusted operating profit, supported by lower adjusted interest costs due to a reduction in net debt as high coupon bonds matured or were repaid early in FY21.



The adjusted earnings per share figure of 246.5p for 2021 excludes a 0.6p contribution from the Premium Cigar Division following its divestment in September 2020.

## CASH FLOW

Cash flows from operating activities were £3,186 million (2021: £2,167 million).

The year-on-year improvement in free cash flow to £2,562 million (2021: £1,524 million) was driven by a lower working capital outflow, as duty payment dates at Logista return to normal following changes to duty payment dates in preceding years, and a lower cash tax payment after a one-off payment in 2021 of £101m for Controlled Foreign Company (CFC) state aid in the UK.

While the net cash inflow of £1,255 million (2021: £1,064 million) improved year-on-year, the improvement was impacted by lower disposal proceeds compared to the prior year which benefited from the sale of the Premium Cigar Division. Disposal proceeds in 2022 were related to the La Romana factory sale, which was finalised in the second half of 2022. Shareholder dividend payments of £1,320 million are marginally higher than last year (2021: £1,305 million) driven by our progressive dividend policy.

Capital expenditure of £177 million was higher than the prior year (2021: £150 million) and is anticipated to increase in 2023 to within an expected range of £300 million to £350 million. The increased capital expenditure will support projects to drive simplified and efficient operations in line with our strategic plan.

Adjusted operating cash conversion was 102% (2021: 83%) driven by neutral working capital in the year and temporary sales phasing in Logista driving a higher duty payable. Adjusted operating cash conversion in the prior year was impacted by increased duty payments in Logista which were deferred from 2020, leading to a significant working capital outflow.

£ million (unless otherwise indicated)	2022	2021
Cash flow from operating activities	3,186	2,167
Free cash flow	2,562	1,524
Net cash flow	1,255	1,064
Adjusted operating profit	3,694	3,573
Cash flow post capital expenditure pre interest and tax	3,781	2,949
Adjusted operating cash conversion	102%	83%

## RETURN ON INVESTED CAPITAL

Return on invested capital (ROIC) increased by 120 basis points, driven by an increase in net adjusted operating profit and a reduction in annual average capital. Average annual ROIC was 17.7% (2021: 16.5%).

Average annual capital reduced by £0.5 billion, driving an improvement in returns, with the benefit of increased adjusted operating profit.

Our FY22 invested capital has increased compared to the prior year due to beneficial foreign exchange movements in intangible assets. Despite this increase the average annual invested capital remains lower than 2021, benefiting from the disposal of assets held for sale from the Premium Cigar Division and a reduction in intangible assets in 2021.

£ million	2022	2021*
<b>Reported operating profit</b>	<b>2,683</b>	3,146
Adjusting items (APM section within supplementary information)	1,011	427
<b>Adjusted operating profit</b>	<b>3,694</b>	3,573
Implied tax (at adjusted effective tax rate)	(827)	(807)
<b>Net adjusted operating profit after tax</b>	<b>2,867</b>	2,766
Working capital	(2,823)	(2,523)
Intangible assets	17,777	16,674
Property, plant & equipment	1,659	1,715
Assets/(liabilities) held for disposal	–	–
<b>Invested capital</b>	<b>16,613</b>	15,866
<b>Average annual invested capital</b>	<b>16,240</b>	16,741
<b>Average annual ROIC</b>	<b>17.7%</b>	16.5%

\* 2021 figures calculated on the same basis as 2022.

## ADJUSTED NET DEBT/EBITDA

Adjusted net debt reduced by £0.6 billion (2021: £1.2 billion) in the year, driven by continued strong cash generation. Adjusted net debt/EBITDA reduced to 2.0x from 2.2x, in line with previous guidance.

Reported net debt reduced by £881 million to £8,492 million (2021: £9,373 million). Excluding accrued interest, lease liabilities and the fair value of derivative financial instruments providing commercial hedges of interest risk, Group adjusted net debt was £8,054 million (2021: £8,615 million).

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

## RECONCILIATION BETWEEN REPORTED AND ADJUSTED PERFORMANCE MEASURES

£ million unless otherwise indicated	Operating profit		Net finance (costs)/income		Earnings per share (pence)	
	2022	2021	2022	2021	2022	2021
<b>Reported</b>	<b>2,683</b>	<b>3,146</b>	<b>(117)</b>	<b>81</b>	<b>165.9</b>	<b>299.9</b>
Russian and associated markets exit	399	–	–	–	42.2	–
Acquisition and disposal costs	5	17	–	–	0.5	1.8
Amortisation & impairment of acquired intangibles	349	450	–	–	35.4	44.3
Excise tax provision	(9)	(1)	–	–	(1.0)	(0.1)
Fair value adjustment of loan receivable	37	(15)	–	–	3.9	(1.6)
Loss/(profit) on disposal of subsidiaries	29	(281)	–	–	2.2	(29.7)
Restructuring costs	197	257	–	–	15.6	19.6
Fair value and exchange movements on derivative financial instruments	–	–	(201)	(496)	(1.9)	(60.7)
Post-employment benefits net financing costs	–	–	(8)	(2)	(0.8)	(0.3)
Buy out liabilities on Irish Pension Scheme	4	–	–	–	0.4	–
Tax on disposal of premium cigar division	–	–	–	–	–	(1.2)
Previously unrecognised tax credits	–	–	–	–	–	(25.3)
Brand impairment in equity accounted joint venture	–	–	–	–	2.5	–
Provision for state aid recoverable	–	–	–	–	10.7	–
Uncertain tax positions	–	–	–	–	(6.7)	–
Deferred tax on unremitted earnings	–	–	–	–	(2.7)	–
Tax on unrecognised losses	–	–	–	–	0.8	5.0
Adjustments above attributable to non-controlling interests	–	–	–	–	(1.8)	(4.6)
<b>Adjusted</b>	<b>3,694</b>	<b>3,573</b>	<b>(326)</b>	<b>(417)</b>	<b>265.2</b>	<b>247.1</b>

### Adjusting items

A reconciliation of the Group's adjusted to reported operating profit is shown above.

The Group announced in April it had completed its exit and sale of its Russian business and associated markets with net charges totalling £399 million. These are outlined below:

- An impairment charge against the Russian assets of £166 million was recognised as at 31 March 2022 when the assets were classified as an asset held for sale.
- A further net loss of £198 million arose on completion including recycled foreign exchange losses of £190 million.
- The planned exit from a limited number of associated markets has resulted in the recognition of asset impairment provisions and exit costs currently estimated at £35 million.

In addition, the sale of the Russian business has triggered an impairment to the intangible asset for the Jadé brand which is sold in Russia through the venture between Global Horizons and China Tobacco. This has led to a charge to the Group of £23.5 million and impacts adjusted EPS by 2.5 pence.

The financial asset investments (Auxly and Oxford Cannabinoid Technologies) were revalued as at 30 September 2022, with a £37 million loss recorded due to credit risk provision adjustments and marking the value of equity investments to market prices.

The loss on disposal of subsidiaries totalled £29 million and comprised:

- The sale of the La Romana factory in the Dominican Republic which completed in August 2022. We received a sales consideration of £46 million and recognised a loss of £13 million on completion.
- The Group's subsidiary Logista sold its interest in Supergroup S.A.S for a consideration of £nil and recognised a loss on disposal of £16 million.

Restructuring costs of £197 million relating to the 2021 Strategic Review Programme were recognised in the year as shown in the Table below. Further details of our restructuring programmes are given in the restructuring section below.

The 2022 charges in relation to restructuring programmes are shown below.

£m	2022	
	Income Statement	Cash
Cost Optimisation Programme I	–	11
Cost Optimisation Programme II	–	19
2021 Strategic Review Programme	197	56
Other	–	5
<b>Total</b>	<b>197</b>	<b>91</b>

An overview of the restructuring programmes' cumulative charges, cash spend and annualised savings is shown below.

## Restructuring charge & cash spend

£m	Income Statement Charges		Cash Costs		Savings
	Cumulative to date	Anticipated Total	Cumulative to date	Anticipated Total	Annualised Savings
Cost Optimisation Programme I (2013)	945	945	582	634	305
Cost Optimisation Programme II (2018)	848	848	562	650	320
2021 Strategic Review Programme	423	423	104	274	150

### Restructuring

As previously confirmed and approved by the Audit Committee, only costs related to the operating model changes required as part of the strategic review announced in January 2021, together with its implementation costs and associated non-cash charges, are eligible for classification as adjusted costs in the income statement in FY22.

Therefore, there have been no further restructuring charges made during the period in respect of any other previously approved restructuring programmes (COP I, COP II). Any further charges in respect of any restructuring programmes will not be adjusted.

The programme announced during the course of 2021, which was an output from the strategic review, was a restructuring programme aiming to reorganise and simplify the business, unlocking efficiency savings and enabling increased investment in our core capabilities such as sales and marketing to support the five-year strategic plan. At that time, total restructuring costs in respect of the programme were anticipated to be in the range of £375 million to £425 million.

Since the strategy announcement, we developed detailed plans across a number of different initiatives and are now deploying a new operating model that will support the strategic delivery.

Following our detailed work:

- we expect cash costs to be £274 million, that will extend into 2023 and beyond, and the associated restructuring charges have been fully provided for across both FY21 (£153 million) and FY22 (£121 million).
- associated non-cash restructuring charges incurred in FY22 totalled £76 million, bringing the total non-cash charges to £149 million.

Hence the overall restructuring charge across both FY21 and FY22 periods, in respect of both cash and non-cash items is £423 million, which is at the higher end of our initial guidance of £375 million to £425 million. We are currently forecasting that the programme will deliver annualised savings at the higher end of the range of our initial guidance of £100 million to £150 million.

Cash spend for all three restructuring programmes is expected to continue into FY23 and beyond.

### Finance costs

Adjusted net finance costs were lower at £326 million (2021: £417 million), reflecting lower adjusted net debt balances during the year. Reported net finance cost was £117 million (2021: income of £81 million), incorporating the impact of net fair value and foreign exchange gains on financial instruments of £201 million (2021: gains of £496 million) and post-employment benefits net financing income of £8 million (2021: income of £2 million). The gains on financial instruments are primarily due to fair value gains of £270 million resulting from positive valuation movements of the Group's interest rate derivatives reflecting increasing market interest rate expectations in the year.

Our all-in cost of debt decreased to 3.5% (2021: 4.0%) due to the early repayment of a bond in FY21 and associated charges taken in that year combined with the natural maturity of higher cost debt during 2022, partially offset by rising interest rates.

Our interest cover increased to 12.1x (2021: 9.2x) reflecting the lower adjusted finance costs.

Given the rising interest environment, we expect upward pressure on finance cost going forward although we have hedging in place for 85% of our expected debt in FY23.

### Taxation

Our adjusted effective tax rate is 22.4% (2021: 22.6%) and the reported effective tax rate is 34.7% (2021: 10.2%). The slight reduction in the adjusted effective tax rate reflects both a significantly lower year-on-year provision build for uncertain tax positions arising from the settlement of several tax audits, largely offset by a greater proportion of the Group's profits being earned in jurisdictions with higher tax rates. The adjusted tax rate is lower than the reported rate due to no tax relief arising on the Russian market exit costs and limited tax relief arising on foreign exchange losses that arise on consolidation, and the recognition of a full provision against the previously recognised receivable for state aid tax.

We expect our adjusted effective tax rate for the year ended 30 September 2023 to be around 22%.

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 and Profits 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 Group tax strategy is publicly available and can be found in the Governance section of our corporate website.

### Exchange rates

Foreign exchange had a positive impact on Group adjusted operating profit and earnings per share at average exchange rates (1.7% and 2.4%, respectively). Sterling weakened against the US dollar (6.4%) and strengthened against the euro (3.1%). Other major currencies remained broadly flat compared to the prior year.

### Dividend payments

The Group paid two interim dividends of 21.27 pence per share in June and September 2022.

The Board has approved a further interim dividend of 49.31 pence per share and will propose a final dividend of 49.32 pence per share bringing the total dividend for the year to 141.17 pence. This represents a 1.5% increase to the amount of 139.08 pence per share paid in the prior year and is in line with the Group's progressive dividend policy.

The annual dividend represents a payout ratio of 53.2% with respect to basic earnings per share.

The third interim dividend will be paid on 30 December 2022 to shareholders registered on 25 November 2022. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2023 to shareholders registered on 17 February 2023.

### Funding/Liquidity

During the year we repaid one bond of £1 billion and made a partial repayment of US\$ 646 million from our February 2023 US\$ 1 billion bond. We issued a \$1 billion bond in the year with a coupon of 6.125%, maturing in July 2027. The denomination of our closing adjusted net debt was split approximately 80% euro and 20% US dollar. As at 30 September 2022, the Group had committed financing in place of around £13.0 billion, which comprised 24% bank facilities and 76% raised from capital markets. During the year the maturity date of €3,316 million of the Group's existing syndicated multicurrency facility was extended to 30 September 2025, with the exception of one tranche of €184 million, which remains at the 31 March 2025 maturity date.

The Group remains fully compliant with all our banking covenants and remains committed to retaining our investment grade ratings.

### Liquidity and going concern statement

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

The Group recognises uncertainty of the external environment. Given the current macroeconomic situation, our plans include higher than historical inflation impact to cost of sales driven by commodity price increases, energy and logistic costs, as well as higher people costs.

During the period of the COVID-19 pandemic, as well as during the ongoing period of political uncertainty with regard to Ukraine and Russia, the Group effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow would pose the greatest potential challenge to short term liquidity of the Group.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. These included scenarios which examined the implications of:

- A one-off discrete event resulting in immediate cash outflow, such as unexpected duty or tax payments of c. £1 billion.
- A rapid and lasting deterioration in the Group's profitability due to markets becoming closed to tobacco products or sustained failures in our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15% from 1 October 2022.
- Additional impact of potential bad debt risks arising from a recession, of c. £220 million.
- Withdrawal of facilities that provide receivables factoring of c. £560 million.

The scenario planning also considered mitigation actions including reductions to capital expenditure and dividend payments and share buyback programme.

There are additional actions that were not modelled but could be taken, including other cost mitigations such as staff redundancies, retrenchment of leases, and discussions with lenders about capital structure.

Under the worst-case scenario, where the largest envisaged downside scenarios all take place at the same time, the Group would have sufficient headroom until December 2023. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on our trading performance and bad debt levels during the COVID-19 pandemic. In addition, the Group has a number of mitigating actions available that could be implemented should such a scenario arise.

Based on its review of future cash flows covering the period through to March 2024, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole, and Imperial Brands PLC specifically, have adequate resources to meet their operational needs from the date of this Report through to 31 March 2024, and concludes that it is appropriate to prepare the financial statements on a going concern basis.

**LUKAS PARAVICINI**

CHIEF FINANCIAL OFFICER

## FINANCIAL STATEMENTS

The figures and financial information for year ended 30 September 2022 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar.

The auditors have reported on those accounts and their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts. The financial statements have been prepared in accordance with our accounting policies published in our financial statements available on our website [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com).

## CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2022

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2022

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



## CONSOLIDATED BALANCE SHEET

at 30 September

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2022

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
<b>At 30 September 2021</b>	<b>103</b>	<b>5,837</b>	<b>(788)</b>	<b>200</b>	<b>5,352</b>	<b>588</b>	<b>5,940</b>
<b>Hyperinflation restatement to 1 October 2021</b>	<b>–</b>	<b>–</b>	<b>22</b>	<b>–</b>	<b>22</b>	<b>–</b>	<b>22</b>
<b>At 1 October 2021</b>	<b>103</b>	<b>5,837</b>	<b>(766)</b>	<b>200</b>	<b>5,374</b>	<b>588</b>	<b>5,962</b>
Profit for the year	–	–	1,570	–	1,570	95	1,665
Exchange movements on retranslation of net assets	–	–	–	1,518	1,518	16	1,534
Exchange movements on net investment hedges	–	–	–	(649)	(649)	–	(649)
Exchange movements on quasi-equity loans	–	–	–	(44)	(44)	–	(44)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	–	–	–	190	190	–	190
Hyperinflation adjustment in the year	–	–	11	–	11	–	11
Current tax on hedge of net investments and quasi-equity loans	–	–	–	148	148	–	148
Net actuarial gains on retirement benefits	–	–	76	–	76	–	76
Current tax relating to net actuarial gains on retirement benefits	–	–	10	–	10	–	10
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(52)	–	(52)	–	(52)
Other comprehensive income	–	–	45	1,163	1,208	16	1,224
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>1,615</b>	<b>1,163</b>	<b>2,778</b>	<b>111</b>	<b>2,889</b>
<b>Transactions with owners</b>							
Costs of employees' services compensated by share schemes	–	–	29	–	29	–	29
Changes in non-controlling interests	–	–	(3)	–	(3)	3	–
Deferred tax on share based payments	–	–	2	–	2	–	2
Dividends paid	–	–	(1,320)	–	(1,320)	(89)	(1,409)
<b>At 30 September 2022</b>	<b>103</b>	<b>5,837</b>	<b>(443)</b>	<b>1,363</b>	<b>6,860</b>	<b>613</b>	<b>7,473</b>
<b>At 1 October 2020</b>	<b>103</b>	<b>5,837</b>	<b>(2,364)</b>	<b>1,295</b>	<b>4,871</b>	<b>647</b>	<b>5,518</b>
Profit for the year	–	–	2,834	–	2,834	73	2,907
Exchange movements on retranslation of net assets	–	–	–	(1,034)	(1,034)	(39)	(1,073)
Exchange movements on net investment hedges	–	–	–	476	476	–	476
Exchange movements on quasi-equity loans	–	–	–	(83)	(83)	–	(83)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	–	–	–	(337)	(337)	–	(337)
Current tax on hedge of net investments and quasi-equity loans	–	–	–	(105)	(105)	–	(105)
Deferred tax hedge of net investments and quasi-equity loans	–	–	–	(12)	(12)	–	(12)
Net actuarial gains on retirement benefits	–	–	41	–	41	–	41
Current tax relating to net actuarial gains on retirement benefits	–	–	2	–	2	–	2
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(21)	–	(21)	–	(21)
Other comprehensive income/(expense)	–	–	22	(1,095)	(1,073)	(39)	(1,112)
<b>Total comprehensive income/(expense)</b>	<b>–</b>	<b>–</b>	<b>2,856</b>	<b>(1,095)</b>	<b>1,761</b>	<b>34</b>	<b>1,795</b>
<b>Transactions with owners</b>							
Costs of employees' services compensated by share schemes	–	–	25	–	25	–	25
Dividends paid	–	–	(1,305)	–	(1,305)	(93)	(1,398)
<b>At 30 September 2021</b>	<b>103</b>	<b>5,837</b>	<b>(788)</b>	<b>200</b>	<b>5,352</b>	<b>588</b>	<b>5,940</b>

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2022

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### Basis of preparation

The consolidated financial statements comprise the results of the Company, a public company limited by shares, incorporated in England and Wales, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL.

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("UK-adopted IAS").

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis.

The consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one million (£1 million) except where otherwise indicated.

#### Adjusted performance measures

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

#### Basis for going concern

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

The Group recognises uncertainty of the external environment. Given the current macroeconomic situation, our plans include higher than historical inflation impact to cost of sales driven by commodity price increases, energy and logistic costs; as well as higher people costs. During the period of the Covid-19 pandemic as well as during the ongoing period of political uncertainty with regard to Ukraine and Russia, the Group effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow is of greatest concern to short-term liquidity of the Group.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. These included scenarios which examined the implications of:

- A one-off discrete event resulting in immediate cash outflow such as unexpected duty and tax payments; and/or other legal and regulatory risks materialising; of c. £1,000 million.
- A rapid and lasting deterioration to the Group's profitability because markets become closed to tobacco products or there are sustained failures to our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15% from 1 October 2022.
- The additional impact of potential bad debt risks arising from a recession of c. £220 million.
- The withdrawal of facilities that provide receivables factoring of c. £560 million.

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

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

Based on its review of future cash flows covering the period through to March 2024, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet their operational needs from the date of this Report through to 31 March 2024 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

Imperial Brands PLC (the Company) provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2022. See note VII Guarantees of the Imperial Brands Plc financial statements for further details.

The principal accounting policies, which have been applied consistently other than where new policies (detailed below) have been adopted, are set out below.

#### Basis of consolidation

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

#### Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of (loss)/profit of investments accounted for using the equity method'.

#### Foreign currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intercompany loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

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

#### Revenue recognition

For the Tobacco & Next Generation Products (Tobacco & NGP) business, Revenue comprises the invoiced value for the sale of goods net of sales taxes, rebates and discounts. Revenue is based on the completion of performance obligations that constitute the delivery of goods. The performance obligation is recognised as complete at the point in time when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. The distribution business also recognises revenue associated with logistics services, recognised on the basis of the invoiced value for the provision of these services net of sales taxes, rebates and discounts. The performance obligations associated with distribution services, which include fees for distributing certain third party products, are linked to the successful distribution of products for customers.

The Group recognises income arising from the licensing of intellectual property, occurring in the ordinary course of business, which is treated as revenue. Licensing revenue will be recognised over the period of the licence. The licences granted are distinct from other promises in the contract.

For the Distribution business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or distribution services have been provided. The Distribution business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Payments are made to both direct and indirect customers for rebates, discounts and other promotional activities. Direct customers are those to which the Group supplies goods or services. Indirect customers are other entities within the supply chain to the end consumer. Rebates and discounts are deducted from Revenue. Where the contract with customers has an entitlement to variable consideration due to the existence of retrospective rebates and discounts, revenue is estimated based on the amount of consideration expected to be received. This estimation is a determination of the most likely amount to be received using all known factors including historic experience. Typically there is a high degree of certainty over the amount of retrospective rebates/discounts paid due to relatively low year on year variations in the volume and pattern of product sales. As the provision of distribution services typically involves product delivery tasks undertaken in a short period of time, revenue and any associated rebates and discounts relating to these services do not normally span an accounting year end.

Payments for promotional activities will also be deducted from Revenue where the payments relate to goods or service that are closely related to or indistinct from associated sales of goods or services to that customer. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

#### Duty and similar items

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Duty is regarded as a sales tax and excluded from revenue where:

- duty becomes payable to the tax authority when the goods are sold;
- there is an obligation to change the sales price when a change in the rate of duty is imposed; and

- there is a requirement to identify the duty separately on sales information such as invoices.

Payments made in the USA under the Master Settlement Agreement are recognised in other cost of sales, for further disclosure see note 29 contingent liabilities.

#### Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions in which we operate using management's estimate of the most likely outcome. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The Group recognises interest on late paid taxes as part of financing costs. The Group recognises penalties, if applicable, as part of administrative and other expenses.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

#### Intangible assets – goodwill

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. If any negative goodwill arises this is recognised immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### Intangible assets – other

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost less accumulated amortisation and impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

These assets consist mainly of acquired trademarks, intellectual property, product development, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark is considered by the Directors to have an indefinite life based on the fact that it is an established international brand with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36 as the Group does not currently foresee a limit to the period over which the asset is expected to generate net cash inflows. The most recent assessment indicates that the carrying value is not impaired.

Intellectual property (including trademarks), product development, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 10 years	straight line
Product development	3 – 10 years	straight line

#### Property, plant and equipment

Property, plant and equipment are recognised in the consolidated balance sheet at historical cost or at their initial fair value where they are acquired as part of an acquisition, subject to depreciation or impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

#### Financial instruments and hedging

Receivables held under a hold to collect business model are stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are separately classified as fair value through profit or loss, within trade and other receivables.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to

impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

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

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IFRS 9) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of collateral appendix documents in respect of certain derivatives are netted off the carrying value of those derivatives in the consolidated balance sheet.

#### Right of use assets

The Group has lease contracts relating to property and other assets (which predominantly relates to motor vehicles).

The Group recognises right of use assets, at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments which depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments include the exercise of purchase options if determined reasonably certain to be exercised and termination payments if the lease term reflects the exercise of an option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment, at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accumulation of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight line basis over the lease term in cost of sales or distribution, advertising and selling costs.

#### Short-term leases, leases of low value assets and practical expedients applied

The Group has applied a number of practical expedients permitted by IFRS 16. These include;

- the exclusion of leases where the lease term ends within 12 months of the commencement of the lease or date of initial application; and
- the exclusion of leases of low value assets, defined as those of less than US\$ 5,000.

IFRS 16 was applied using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. The Group has elected to;

- apply hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- exclude initial direct costs from the measurement of the right of use asset; and
- use a single discount rate to a portfolio of leases with reasonably similar characteristics

These elections were only applied on transition to IFRS 16 and have not been applied to new leases following adoption of the standard.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory is considered for obsolescence or other impairment issues and an associated provision is booked where necessary.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

#### Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group.

#### Retirement benefit schemes

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

#### Share-based payments

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

#### Treasury shares

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

Where the Group enters into a contract with a third party that contains an obligation to re-purchase its own shares for cash or another financial asset; a financial liability is recognised for the present value of the redemption amount. One example is an obligation under a forward contract to re-purchase shares in Imperial Brands PLC for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured in accordance with IFRS 9, and is revalued at subsequent reporting points as appropriate. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

#### Hyperinflation

The Turkish economy was designated hyperinflationary from April 2022. The Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies to its Turkish operations from the beginning of the 2022 financial year. IAS 29 requires that hyperinflationary adjustments are reflected from the start of the reporting period in which it is applied. For the Group's Turkish operations this is 1 October 2021. In accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates, the comparative figures for the year ended 30 September 2021 have not been modified. The adjustments required by IAS 29 are set out below.

- Adjustment of historical cost non-monetary assets and liabilities from their date of initial recognition to the balance sheet date to reflect the changes in purchasing power of the currency caused by inflation, as measured by the official Consumer Price Index (CPI) published by the Turkish Statistical Institute (TurkStat).
- Adjustment of the components of the income statement and cash flow statement for the inflation index since their generation, with a balancing entry in the income statement and a reconciling item in the cash flow statement, respectively.
- Adjustment of the income statement to reflect the impact of inflation on holding monetary assets and liabilities in local currency, where necessary.
- The financial statements of the Group's Turkish operations have been translated into Sterling at the closing exchange rate at 30 September 2022.



- The impact of adjustments to non-monetary assets recognising inflation from the adoption date to the closing balance sheet date, on translation into Sterling at the closing balance sheet rate has been recognised within Other Comprehensive Income.
- The cumulative impact corresponding to previous years has been reflected directly in equity as an adjustment to the opening retained earnings reserve at 1 October 2021.

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

#### New accounting standards

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

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

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

#### New accounting standards and interpretations not yet in issue

There are also a number of other amendments and clarifications to IFRS, effective in future years, none of which are expected to significantly impact the Group's consolidated results or financial position.

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The actual amounts recognised in the future may deviate from these estimates and judgements.

#### Significant estimates

Companies are required to state whether estimates have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. We have reviewed the items below where estimation uncertainty exists. While a number of these areas do involve estimation of the carrying value of assets or liabilities that are potentially significant within the context of the financial statements the Group considers the probability of a significant risk of material adjustment to be low. None of these estimates are expected to present a material adjustment to the carrying amount of assets and liabilities in the next financial year. Therefore, no significant estimates are required to be disclosed.

#### Other estimates

Other estimates involve other uncertainties, such as those carrying lower risk, which have a smaller potential impact or would be expected to crystallise over a longer timeframe than a significant estimate. These items, listed below, are only disclosed where this provides material relevant information.

#### Determination of useful economic life of intangible assets

For non-goodwill intangible assets, there is a need to estimate the useful economical life of each asset. This includes determining whether the asset has an indefinite useful economic life, or not. The Davidoff trademark has a significant market share and positive cash flow growth expectations. There are no regulatory or contractual restrictions on the use of this trademark, and there are no plans to significantly redirect resources elsewhere which would reduce the value of this asset. Consequently, in the view of management, the Davidoff trademark does not have a foreseeable and definite end to its ability to generate future cash flows and hence it is not amortised. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36. The most recent assessment indicates that the carrying value is not impaired.

### **Amortisation and impairment of intangible assets**

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the time period during which an intangible asset will support future cashflows, and the quantum of those cash flows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, an impairment to the carrying value of the asset may be required. Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets can affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions significantly change it is possible that materially different amounts could be reported in the Group's financial statements in future periods. Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are long term uncertainties associated with estimating the value of the recoverable amount, particularly with regard to long term cash flow growth rates which are influenced by the future size and shape of the tobacco sector. While long term growth rates currently used in impairment assessments are based on current best estimates of future performance, there may be changes in these assumptions when conducting impairment tests in subsequent years. Details of goodwill and intangible asset impairment assessments are included in note 11.

### **Corporate income taxes**

Where tax liabilities have been judged to exist, estimation is often required to determine the potential future tax payments. The Group is subject to tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the valuation estimates related to tax provisions are given in note 7 to these financial statements.

### **Legal proceedings and disputes**

Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of estimation uncertainty include consideration as to the expected future amount to be paid out in the event the claim succeeds. In some situations where a probability risk calculation is required to determine the amount of an associated provision, both the quantum of future payments and the probability of those payments crystallising needs to be considered, both factors having a degree of uncertainty. More detail as to the considered position of these claims is given in note 29 of the financial statements. To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

### **Restructuring provisions**

The Group holds restructuring provisions where appropriate in respect of estimated future economic outflows which arise due to past events. Estimates are based on information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate. These provisions cover the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 24.

### **Judgements**

Paragraph 122 of IAS 1 requires disclosure of judgements made by management in applying an entity's accounting policies, other than those relating to estimation uncertainty. Paragraph 125 of IAS 1 requires more wide-ranging disclosures of judgements that depend on management assumptions about the future, and other major sources of estimation uncertainty ('Significant Judgements').

### **Corporate Income Taxes**

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining whether there is a liability requiring a provision for tax. Recognition of tax liabilities in situations where there is uncertainty is based on precedent in similar tax cases and external advice as to whether challenges by tax authorities are likely to result in future tax payments being made. The recognition of a tax liability involves consideration of the probability of tax authorities would accept the position taken in the tax return and there is therefore some uncertainty.

### **Deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the temporary differences, losses and credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Group has determined that it cannot recognise deferred tax assets on the temporary differences, tax losses and tax credits carried forward for certain subsidiaries. Further details of the estimates related to deferred taxes are given in note 22 to these financial statements.

### Legal proceedings and disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment. Judgement is required as to whether a liability exists. A provision will only be recognised where it is probable that the Group will be required to settle a claim.

### Control of Logista

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01 % of the voting shares. The Group has reviewed its control of Logista and that it is appropriate to consolidate this entity in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group continues to have Director presence on the Board of Logista, representing 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

### Climate change

The Group have a designated a programme to manage and mitigate climate related risks. The effect of climate change is not considered to have a material effect on the estimates in the financial statements. Governmental and societal responses to climate change risks are still developing and consequently financial statements cannot capture all possible future outcomes as these are not yet known or do not have sufficient certainty to be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards. Please refer to the following sections for further discussion on the impact of climate change relating to going concern assumptions in note 1, intangible assets impairment assumptions in note 11 and recoverability of deferred tax assets in note 22.

## 3. SEGMENT INFORMATION

Imperial Brands comprises two distinct businesses – Tobacco & NGP and Distribution. The Tobacco & NGP business comprises the manufacture, marketing and sale of Tobacco & NGP and Tobacco & NGP-related products, including sales to (but not by) the Distribution business. The Distribution business comprises the distribution of Tobacco & NGP products for Tobacco & NGP product manufacturers, including Imperial Brands, as well as a wide range of non-Tobacco & NGP products and services. The Distribution business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco & NGP and Distribution businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

The function of the Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive.

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

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

Americas – United States.

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

#### Tobacco & NGP

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

#### Distribution

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

## Revenue

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

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

## Tobacco & NGP net revenue

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

## Adjusted operating profit and reconciliation to profit before tax

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

## Other information

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

#### Additional geographic analysis

External revenue and non-current assets are presented for individually significant countries. The geographical analysis is based on country of origin. The Group's products are sold in over 120 countries.

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

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

#### 4. PROFIT BEFORE TAX

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

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

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

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

#### 5. RESTRUCTURING COSTS

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

Analysed by workstream:

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

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

Restructuring projects involve significant one-off costs that are incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects.

As these projects are not part of business as usual any costs incurred are classified as restructuring costs and are included within administrative and other expenses in the consolidated income statement and treated as adjusting items.

## 2021 strategic review programme

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

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

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

## Cost optimisation programmes

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

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

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

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

## 6. DIRECTORS AND EMPLOYEES

### Employment costs

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

### Operating executive (excluding executive directors)

£ million	2022	2021
Base salary	4.3	3.0
Benefits	0.7	0.7
Pension salary supplement	0.7	0.3
Bonus	5.3	2.9
Termination payments	5.8	–
LTIP annual vesting <sup>1</sup>	1.5	0.8
	<b>18.3</b>	<b>7.7</b>

1. Share plans vesting represent the value of LTIP awards (inclusive of recruitment awards) where the performance periods ends in the year.

Note: aggregate remuneration paid to or receivable by Executive directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges was £31,671,710 (2021: £16,439,675).

### Key management compensation<sup>1</sup>

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

1. Key management includes Directors, members of the Executive Committee and the Company Secretary

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report.

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

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

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

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

## 7. TAX

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

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

## Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 19.0% (2021: 19.0%) as follows:

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

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

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

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

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

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

## Movement on the current tax account

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

The cash tax paid in the year is £239 million lower than the current tax charge (2021: £333 million higher). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

## Analysis of current tax account

£ million	2022	2021
State aid tax recoverable	<b>–</b>	101
Current tax assets	<b>334</b>	234
Current tax liabilities	<b>(307)</b>	(253)
	<b>27</b>	82

## Uncertain tax positions

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2022 the total value of these provisions, including foreign exchange movements, was £148 million (2021: £306 million). The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice. Until matters are finally concluded it is possible that amounts ultimately paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the matters referred to below, the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact to the results of the Group.



### **French tax litigation**

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £240 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intragroup transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In October 2018 the Commission Nationale, an independent adjudication body, whose decision is advisory only, issued a report supportive of the Group's arguments for no adjustment. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed of £240 million (2021: £234 million). In January 2019 the Group appealed against the assessment. In August 2020, the French tax authorities rejected the Group's appeal and the matter will now proceed to litigation. All submissions have been made to the court and we await a hearing date. The Group believes it is appropriate to maintain a £42 million (2021: £41 million) provision for uncertain tax positions in respect of this matter.

### **State aid UK CFC**

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

Based on the Commission's decision and despite the appeals, the UK government was obliged to recover State Aid received. Whilst the Group's position remains no State Aid has been received, in February 2021 a recovery charging notice for £101 million was issued to the Group by HMRC, and has since been paid.

In June 2022 the European General Court rejected the appeals. Whilst this decision has been appealed to the Court of Justice of the European Union (CJEU) and the appeal may possibly be successful, in the light of the European General Court's decision we have reassessed recoverability of the £101 million previously recorded as a receivable and have now determined it is appropriate to provide in full.

### **Transfer pricing**

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

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

In December 2021 the Group concluded a transfer pricing audit with the French tax authorities. In September 2022 the Group concluded transfer pricing audits with the UK and German tax authorities. Settlements of the French and UK audits were made during the Group's year ended 30 September 2022.

The Group believe the transfer pricing provision held above appropriately provides for this and other transfer pricing issues.

### **French branch tax**

In December 2021 the Group received assessments from the French tax authorities which could lead to additional liabilities of £169 million. The challenge concerns the intragroup financing of the French branch of Imperial Tobacco Limited. In February 2022 the Group appealed against the assessment. In September 2022 the French tax authorities opened a further tax audit into this matter. Following discussions with the French tax authorities a settlement proposal covering all years has been made for £48 million including interest, for which a provision has been made.

## 8. DIVIDENDS

Distributions to ordinary equity holders

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

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

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

## 9. EARNINGS PER ORDINARY SHARE

Basic earnings per share is based on the profit for the period attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the period excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

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

## 10. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Russian and associated markets exit

The total loss on exit from the Russian and associated markets was £423 million, comprising a loss on transfer of Russian operations of £364 million, impairment of assets and exit costs of the associated markets of £35 million and the impairment of an intangible asset held by the Global Horizon Ventures Limited joint venture of £24 million.

### Loss on transfer of Russian operations

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

### Exit of the associated markets

The decision to transfer the assets of the Russian operations has implications for a limited number of Group markets that have historically been supplied by the Volgograd factory. Following a review of the impacts resulting from the decision to transfer the Russian factory it was determined that it was unviable to continue trading in these areas for a number of reasons including duty and supply chain challenges. The decision to exit operations results in a number of assets held by these markets having been impaired. In addition certain exit costs are expected to have to be incurred in the process of ending operations. Total impairment and exit costs of £35 million are now required to be recognised. Provisions for the costs of exit have been recognised as at the 30 September 2022 balance sheet date.

### **Impairment of Global Horizons Ventures Limited**

The Group has an investment in the Global Horizon Ventures Limited joint venture company which is accounted for as an investment using the equity method. This entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

### **Premium Cigar Division**

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

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

### **Logista**

#### **Disposals**

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

#### **Speedlink**

On 16 February 2022, the Group's subsidiary Logista acquired 70% of the share capital of Speedlink Worldwide Express B.V. for a purchase consideration of €17 million (£14 million) comprised of €15 million (£13 million) which has been paid in cash and €2 million (£2 million) of contingent consideration which is payable upon achievement of certain business objectives, the maximum contingent consideration payable is €3 million (£3 million). There is an intention to purchase the remaining 30% of share capital over the next 3 years. As effective control has been achieved through this acquisition, Speedlink Worldwide Express B.V. has been consolidated as a subsidiary within the Group with a 65% minority interest. Goodwill of €11 million (£10 million), intangible assets of €15 million (£13 million) and deferred tax liability of €4 million (£3 million) were recognised on acquisition.

#### **Carbó Collbatallé, S.L.**

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

#### **Transportes El Mosca**

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

#### **Assets and Liabilities Held For Disposal**

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

## 11. INTANGIBLE ASSETS

2022

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
<b>Cost</b>					
At 1 October 2021	13,417	12,359	1,387	451	27,614
Additions	–	20	1	65	86
Acquisitions	10	–	13	–	23
Disposals	–	–	–	(8)	(8)
Reclassifications	4	–	–	–	4
Exchange movements	797	1,492	32	14	2,335
At 30 September 2022	14,228	13,871	1,433	522	30,054
<b>Amortisation and impairment</b>					
At 1 October 2021	1,542	7,735	1,355	308	10,940
Amortisation charge for the year	–	331	27	35	393
Impairment	–	–	–	1	1
Disposals	–	–	–	(5)	(5)
Reclassifications	4	–	–	–	4
Exchange movements	41	859	32	12	944
Accumulated amortisation	–	8,386	1,414	350	10,150
Accumulated impairment	1,587	539	–	1	2,127
At 30 September 2022	1,587	8,925	1,414	351	12,277
<b>Net book value</b>					
At 30 September 2022	12,641	4,946	19	171	17,777

2021

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

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

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships. All were acquired as part of the Altadis purchase.

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

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

## Goodwill and intangible asset impairment review

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

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

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) and ITG Brands in 2015 (USA). Intangible assets with indefinite lives relate to the tobacco trademark, Davidoff, which was purchased as part of the acquisition of Reemtsma in 2002.

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a Cash Generating Unit Grouping (CGUG) is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans of our Tobacco business which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer up-trading and down-trading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

### Growth rates and discount rates used

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

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

The calculation to determine the value in use involves a discounted future cash flow forecast model. Nominal cash flows are used in the calculation which will themselves already factor in the effects of inflation. The cash flows are sourced from the Group business plan which considers and factors in the risk of variability of future business performance and hence cash flow variation. A nominal discount rate is used within the model based on the Group's weighted average cost of capital which is itself calculated using the Capital Asset Pricing Model. As risk has been applied within the undiscounted cash flows no adjustment is made to the discount rate for risk, except for the application of country risk premia over and above the Group weighted average cost of capital where appropriate.

Country specific discount rates are used based on the Group's weighted average cost of capital adjusted for country risk premium. The impairment review is undertaken at a CGUG level which involves the aggregation of the individual value in use amounts for the individual countries which constitute each CGUG. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Nominal cash flows from the business plan period are used for year one, two and three, then extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. In certain markets, the extrapolated cash flow growth rate can exceed the long term growth rate based on the business plan being a better reflection of the anticipated initial growth. Estimated long term weighted average compound growth rates are used beyond year five.

Long term growth rates are determined as the lower of:

- the nominal GDP growth rates for the country of operation; and
- the extrapolation of the initial growth rates as estimated by management for years one to five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry. Year on year variations in initial growth rates may result in consequential changes to estimated long term rates.

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

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

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

### Goodwill and Intangible asset impairment review conclusion

Our impairment testing confirms there are sufficient cash flows to support the current carrying values of the goodwill held at 30 September 2022. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets can affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions significantly change it is possible that materially different amounts could be reported in the Group's financial statements in future periods. There are uncertainties associated with estimating the valuation of the recoverable amount.

At the present time the recoverable amount is significantly in excess of the carrying value of goodwill and other intangible assets. However, given the uncertainties mentioned above this could change in the future.

#### Consideration of the impact of climate change

The Group has completed an assessment of the impact of climate change which includes how it will vary future costs and therefore cash flows. The review has concluded that there are limited impacts on future cash flows as a result of climate change. Within the impact assessment there is recognition that gross incremental costs of up to £3,466 million may be incurred in the period up to 2050. We have factored these additional costs to the Group into our discounted cash flow forecasts used for impairment testing valuation purposes. This concluded that there continues to be sufficient headroom. There is therefore no impairment recognised as result of incremental climate change costs. However, the Group will continue to review the climate change impact going forward and any future changes in impact assessment could potentially result in changes to the impairment assessment.

#### Other intangible assets

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cash flows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cash flows. No impairments have been recognised for brand intangibles.

Intellectual property and product development intangible assets have also been reviewed to identify potential impairment triggers. No such impairment triggers were noted in the year ended 30 September 2022 and hence no impairment charge has been incurred (2021: £118 million).

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

## 12. PROPERTY, PLANT AND EQUIPMENT

2022

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
<b>Cost</b>				
At 30 September 2021	797	2,086	411	3,294
Hyperinflation restatement to 1 October 2021	1	24	2	27
At 1 October 2021	798	2,110	413	3,321
Additions	13	74	58	145
Disposals	(51)	(170)	(24)	(245)
Hyperinflation adjustment	1	7	–	8
Reclassifications	19	(4)	(5)	10
Exchange movements	26	63	13	102
At 30 September 2022	806	2,080	455	3,341
<b>Depreciation and impairment</b>				
At 30 September 2021	162	1,146	271	1,579
Hyperinflation restatement to 1 October 2021	–	–	–	–
At 1 October 2021	162	1,146	271	1,579
Depreciation charge for the year	14	102	34	150
Impairment	10	69	6	85
Disposals	(13)	(146)	(21)	(180)
Reclassifications	–	(4)	1	(3)
Exchange movements	8	33	10	51
At 30 September 2022	181	1,200	301	1,682
<b>Net book value</b>				
At 30 September 2022	625	880	154	1,659

2021

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

### 13. RIGHT OF USE ASSETS AND LEASE LIABILITY

The movements in right of use assets in the year were as follows:

	2022			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Net book value				
At 1 October 2021	202	6	34	242
Additions	57	1	11	69
Terminations and modifications	(13)	–	(2)	(15)
Depreciation and impairment	(56)	(4)	(14)	(74)
Exchange movements	4	–	2	6
At 30 September 2022	194	3	31	228

The movements in lease liabilities in the year were as follows:

£ million	Lease Liabilities
At 1 October 2021	251
Cash flow	(68)
Accretion of interest	6
New leases, terminations and modifications	54
Exchange movements	5
At 30 September 2022	248

The maturity profile of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2022 is as follows:

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

Future minimum lease payments liabilities are analysed as below:

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

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

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

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

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



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

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

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

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

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

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

#### 14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint venture during the year was Global Horizon Ventures Limited. The entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

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

£ million	Global Horizon Ventures	Others	2022 Total
Revenue	23	27	50
(Loss)/profit after tax	(7)	5	(2)
Non-current assets	–	6	6
Current assets	62	44	106
Total assets	62	50	112
Current liabilities	–	(39)	(39)
Non-current liabilities	(7)	(10)	(17)
Total liabilities	(7)	(49)	(56)
Net assets	55	1	56

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

## Transactions and balances with joint ventures

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

## Movement on investments accounted for using the equity method

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

## 15. INVENTORIES

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

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,969 million (2021: £2,765 million) there is excise duty of £1,255 million (2021: £1,282 million).

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset, although part of such inventory, because of the duration of the processing cycle ordinarily would not be consumed within one year. We estimate that around £114 million (2021: £115 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

## 16. TRADE AND OTHER RECEIVABLES

£ million	2022		2021	
	Current	Non-current	Current	Non-current
Trade receivables	2,262	3	2,431	3
Less: loss allowance	(76)	(3)	(68)	(3)
Net trade receivables	2,186	–	2,363	–
Other receivables	200	37	227	58
Prepayments	157	30	159	4
	2,543	67	2,749	62

Trade receivables may be analysed as follows:

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

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

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

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. Expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach. Trade receivables are all repayable within 12 months and therefore the ECL provision represents all expected losses within this term.

## 17. CASH AND CASH EQUIVALENTS

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

£144 million (2021: £152 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time which in all cases is 3 months or less from the date the transfer is requested.

## 18. TRADE AND OTHER PAYABLES

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

## 19. BORROWINGS

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

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

Current and non-current borrowings include interest payable of £2 million (2021: £56 million) and £104 million (2021: £93 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 17 February 2022, £1,000 million 9.0% notes were repaid. On 27 July 2022, US\$ 1,000 million (£829 million equivalent) 6.125% notes were issued. On 27 July 2022, a partial repayment of the US\$ 1,000 million 3.5% notes was made; US\$ 646 million (£535 million equivalent) was repaid with the remaining US\$ 354 million due February 2023.

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

## Non-current financial liabilities

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

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

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

### Fair value of borrowings

The fair value of borrowings as at 30 September 2022 is estimated to be £9,030 million (2021: £10,386 million). £9,002 million (2021: £10,334 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

£ million	2022		2021	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	1,631	1,457	2,686	2,894
EUR	3,250	2,777	3,168	3,278
USD	5,098	4,768	3,916	4,162
<b>Total capital market issuance</b>	<b>9,979</b>	<b>9,002</b>	<b>9,770</b>	<b>10,334</b>

### Undrawn revolving credit facilities

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

£ million	2022		2021	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
<b>Amounts maturing:</b>				
Between two and five years			3,091	3,012
			<b>3,091</b>	<b>3,012</b>

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

## 20. FINANCIAL RISK FACTORS

### Financial risk management

#### Overview

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group wide insurance programs. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

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

The Board reviews and approves all major treasury decisions.

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

#### (A) market risk

##### Price risk

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 23, the investment in convertible debentures issued by Auxly Cannabis Group Inc. and an equity holding in Oxford Cannabinoid Technologies PLC. The Group is

exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

### Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

### Transaction risk

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

### Translation risk

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

### Foreign exchange sensitivity analysis

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

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

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

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

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

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

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

### Interest rate risk

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

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

As at 30 September 2022, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 103% (2021: 68%) of reported net debt was at fixed rates of interest and (3)% (2021: 32%) was at floating rates of interest. After adjusting for cash held in subsidiary bank accounts and cash in transit, accrued interest, the mark to market of the derivative portfolio and finance leases, approximately 97% (2021: 66%) of debt was at fixed rates of interest and 3% (2021: 34%) was at floating rates of interest.

## Interest rate sensitivity analysis

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2022, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2021: £nil).

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

## (B) credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, on cash deposits and derivatives. The maximum aggregate credit risk to these sources was £5,151 million at 30 September 2022 (2021: £4,177 million).

## Trade and other receivables

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2022 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement, and subsequently derecognised totalled £570 million (2021: £627 million). The total value of trade receivables reclassified as fair value was £50 million at 30 September 2022 (2021: £69 million). There was no valuation difference between amortised cost and fair value. Analysis of trade and other receivables is provided in note 16.

## Financial instruments

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with one ISDA Credit Support Annex the Group had placed £12 million as at 30 September 2022 (2021: £37 million) as collateral with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2022. At the balance sheet date management does not expect these counterparties to default on their current obligations.

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

## (C) liquidity risk

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2022, the Group held liquid assets of £1,850 million (2021: £1,287 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2022. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 21.

Balance sheet	Contractual cash flows		2022	
	Between 1 and	Between 2 and		

£ million	amount	total	<1 year	2 years	5 years	> 5 years
<b>Non-derivative financial liabilities:</b>						
Bank loans	28	28	27	1	–	–
Capital market issuance	9,979	11,440	1,349	1,830	5,710	2,551
Trade payables	1,345	1,345	1,345	–	–	–
Lease liabilities	248	289	64	56	84	85
<b>Total non-derivative financial liabilities</b>	<b>11,600</b>	<b>13,102</b>	<b>2,785</b>	<b>1,887</b>	<b>5,794</b>	<b>2,636</b>

2021

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

## Capital management

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward. Management have assessed that the likelihood of a future covenant breach is remote.

The Group continues to manage its capital structure to maintain investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in-going discussions with the relevant rating agencies.

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

The Group regards its total capital as follows.

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

## Hedge accounting

The Group has investments in foreign operations which are consolidated in its financial statements and whose functional currencies are euros or US dollars. Where it is practicable and cost effective to do so, the foreign exchange rate exposures arising from these investments are hedged through the use of cross currency swaps, foreign exchange swaps and foreign currency denominated debt.

The Group only designates the undiscounted spot element of the cross currency swaps, foreign exchange swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line – These amounts are, therefore, not included in the hedge effectiveness assessment.

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

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

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

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

£ million	2022				
	Total notional balance	Maturity			
		<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(5,378)	(982)	(906)	(3,490)	–
Cross-currency swaps	(3,623)	–	(1,475)	(1,596)	(552)
Foreign exchange swaps	(273)	(273)	–	–	–
	(9,274)	(1,255)	(2,381)	(5,086)	(552)

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

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

£ million	2022				Changes in fair value used for calculating hedge ineffectiveness
	Notional balance	Carrying amount			
		Assets	Liabilities	Balance sheet line item	
<b>Hedging instrument:</b>					
Bonds	5,378	–	5,414	Borrowings	(532)
Cross-currency swaps	3,623	–	331	Derivative financial instruments	(117)
Foreign exchange swaps	273	–	7	Derivative financial instruments	–
<b>Hedged item:</b>					
Investment in a foreign operation	n/a	9,274			(649)

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



Reconciliation of changes in the value of net investment hedges:

£ million	2022				
	At the beginning of the year	Income Statement	Other Comprehensive Income	Designations/ (de-designations)	At the end of the year
Derivatives in net investment hedges of foreign operations	(214)	(583)	(117)	576	(338)
Bonds in net investment hedges of foreign operations	(5,286)	(3)	(532)	407	(5,414)
	(7,165)	(586)	(649)	983	(5,752)

£ million	2021				
	At the beginning of the year	Income Statement	Other Comprehensive Income	Designations/ (de-designations)	At the end of the year
Derivatives in net investment hedges of foreign operations	(410)	28	168	–	(214)
Bonds in net investment hedges of foreign operations	(6,755)	13	308	1,148	(5,286)
	(7,165)	41	476	1,148	(5,500)

The Group also treats certain permanent intragroup loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intragroup loans with a notional value of €674 million (£595 million equivalent) (2021: €2,506 million (£2,156 million equivalent)) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments and the investment in Auxly Cannabis Group Inc. which are carried at fair value. Derivative fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date (Level 2 classification hierarchy per IFRS 7). Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £3 million (2021: £19 million) and would have been an £8 million (2021: £49 million) reduction without considering the early termination options. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance and the Auxly investment, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 20

Auxly Cannabis Group Inc.

The Group has invested CAD\$ 123 million into Auxly Cannabis Group Inc. by way of a debenture convertible to equity at a conversion price of CAD\$ 0.81 per share. Repayment of the debenture is due on 25 September 2024. The debenture is valued as a loan receivable measured on the basis of discounting future cash flows at a rate of 14% (2021: 14%) plus the application of an expected credit loss provision. At 30 September 2022 the loan was held at a fair value of £17 million (30 September 2021: £37 million), net of an expected credit loss provision of £53 million (30 September 2021: £16 million).

Netting arrangements of financial instruments

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's Balance Sheet primarily relate to collateral in respect of one derivative financial instrument under an ISDA Credit Support Annex.

£ million	2022				
	Gross financial assets/ liabilities	Gross collateral assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets:					
Derivative financial instruments	1,051	(12)	1,039	(948)	91
Liabilities:					
Derivative financial instruments	(1,138)	12	(1,126)	948	(178)

£ million	2021				
	Gross financial assets/ liabilities	Gross collateral assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets:					
Derivative financial instruments	496	(37)	459	(435)	24
Liabilities:					
Derivative financial instruments	(1,083)	37	(1,046)	435	(611)

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

2022

£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	17	–	2,406	2,423	2,386	37
Cash and cash equivalents	–	–	1,850	1,850	1,850	–
Derivatives	1,039	–	–	1,039	54	985
<b>Total financial assets</b>	<b>1,056</b>	<b>–</b>	<b>4,256</b>	<b>5,312</b>	<b>4,290</b>	<b>1,022</b>
Borrowings	–	–	(10,007)	(10,007)	(1,011)	(8,996)
Trade and other payables	–	–	(8,710)	(8,710)	(8,710)	–
Derivatives	(788)	(338)	–	(1,126)	(54)	(1,072)
Lease liabilities	–	–	(248)	(248)	(58)	(190)
<b>Total financial liabilities</b>	<b>(788)</b>	<b>(338)</b>	<b>(18,965)</b>	<b>(20,091)</b>	<b>(9,833)</b>	<b>(10,258)</b>
<b>Total net financial assets/(liabilities)</b>	<b>268</b>	<b>(338)</b>	<b>(14,709)</b>	<b>(14,779)</b>	<b>(5,543)</b>	<b>(9,236)</b>

2021

£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	37	–	2,611	2,648	2,590	58
Cash and cash equivalents	–	–	1,287	1,287	1,287	–
Derivatives	459	–	–	459	68	391
<b>Total financial assets</b>	<b>496</b>	<b>–</b>	<b>3,898</b>	<b>4,394</b>	<b>3,945</b>	<b>449</b>
Borrowings	–	–	(9,822)	(9,822)	(1,107)	(8,715)
Trade and other payables	–	–	(8,373)	(8,373)	(8,373)	–
Derivatives	(832)	(214)	–	(1,046)	(62)	(984)
Lease liabilities	–	–	(251)	(251)	(57)	(194)
<b>Total financial liabilities</b>	<b>(832)</b>	<b>(214)</b>	<b>(18,446)</b>	<b>(19,492)</b>	<b>(9,599)</b>	<b>(9,893)</b>
<b>Total net financial liabilities</b>	<b>(336)</b>	<b>(214)</b>	<b>(14,548)</b>	<b>(15,098)</b>	<b>(5,654)</b>	<b>(9,444)</b>

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of the cross currency swaps and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised in the income statement. The Group also designates certain bonds as hedges of foreign currency denominated net investments and the foreign exchange revaluation of those bonds is recognised in other comprehensive income. The carrying value at 30 September 2022 of those bonds included in the above table is £5,414 million (2021: £5,286 million). All of the Group's net investment hedges remain effective.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced from a reputed financial data provider and valuations are validated by comparison to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £3 million (2021: £19 million) and would have been an £8 million (2021: £49 million) reduction without considering the early termination options. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 20.

#### Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2022. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2022. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non derivative financial instruments are detailed in note 20.

	2022					
£ 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	(84)	(14,576)	(2,739)	(2,025)	(4,645)	(5,167)
Gross settled derivatives	(3)	–	–	–	–	–
– receipts	–	26,616	5,403	6,056	9,471	5,686
– payments	–	(9,635)	(1,851)	(3,201)	(3,944)	(639)
	(87)	2,405	813	830	882	(120)

	2021					
£ 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	(325)	(480)	16	(1)	(157)	(338)
Gross settled derivatives	(262)	–	–	–	–	–
– receipts	–	5,667	2,516	66	2,522	563
– payments	–	(5,818)	(2,521)	(48)	(2,661)	(588)
	(587)	(631)	11	17	(296)	(363)

#### Derivatives as hedging instruments

As outlined in note 20, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Foreign exchange contracts are used to manage the Group's short term liquidity requirements in line with short term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IFRS9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

Following the discontinuation of GBP LIBOR at the end of 2021 and the pending US\$ LIBOR discontinuation in 2023, in the first half of the fiscal year the Group amended all GBP LIBOR derivatives to reference the daily risk free rate of SONIA instead of GBP LIBOR. All existing US\$ LIBOR derivatives will be changed to reference the daily risk free rate of SOFR instead of US\$ LIBOR during the last quarter of calendar year 2022. New US\$ derivatives transacted during the fiscal year are referencing SOFR. There are no changes pending for EUR derivatives. At present, it is not anticipated that these changes will impact the Group's commercial hedging strategy, nor should they have a material financial impact.

#### Interest rate swaps

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2022, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £9,578 million equivalent (2021: £10,775 million equivalent) with a fair value of £755 million liability (2021: £425 million asset). The fixed interest rates vary from 1.1% to 7.9% (2021: 1.1% to 8.7%), and the floating rates are EURIBOR, SONIA and US dollar LIBOR.

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

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

## Cross-currency swaps

The Group enters into cross currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless the swaps are designated as hedges of a net investment in foreign operations, in which case the fair value movement attributable to changes in foreign exchange rates are recognised in other comprehensive income.

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

## Foreign exchange contracts

The Group enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2022, the notional amount of these contracts was £1,662 million equivalent (2021: £1,430 million equivalent) and the fair value of these contracts was a net asset of £18.5 million (2021: £0.6 million net liability).

## Hedges of net investments in foreign operations

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

As at 30 September 2022, foreign exchange swaps with a notional amount of €309 million (2021: €nil) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £12 million (2021: £nil) were recognised within exchange movements in other comprehensive income in respect of foreign exchange swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2021: £nil).

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

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

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

## 22. DEFERRED TAX ASSETS AND LIABILITIES

### Deferred tax assets

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

Reflected in the consolidated balance sheet as follows

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

### Reconciliation of net deferred tax liabilities

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

## Unrecognised deferred tax assets

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

## Analysis of unrecognised deferred tax assets by expiry date

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

Included within net deferred tax liabilities are deferred tax assets recognised of £257 million (2021: £267 million) for tax credits arising in the Group's Spanish business. The majority (£256 million) of these tax credits were recognised in the prior year following an internal reorganisation of the Spanish business. These tax credits have no time expiry. Utilisation of these tax credits is restricted to 50% of the Spanish business' taxable profits arising in any given year; those tax law restrictions extend the period over which the deferred tax assets would otherwise be recovered. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. The period over which these deferred tax assets are utilised is sensitive to forecasting assumptions about future growth rates (which may be influenced by the future effects of climate change) and regulatory changes. Any material effects of climate change in the long term could extend the period over which the deferred tax asset will be recovered but as the tax credits do not expire, the Group considers there is positive evidence that sufficient future taxable profits would still be available. Based on a range of forecast scenarios modelling sensitivities (including the future effects of climate change) these deferred tax assets are expected to be utilised over a period of 18-22 years.

Included within net deferred tax liabilities are deferred tax assets recognised for retirement benefits of £55 million (2021: £157 million) arising in the Group's German business. These deferred tax assets are expected to be recovered both by way of utilisation against the reversal of deferred tax liabilities of £20 million (2021: £33 million) arising in the Group's German business and by way of utilisation against future taxable profits. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. These deferred tax assets are expected to be recovered over a period of 20-40 years corresponding to the life of the pension scheme.

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

A deferred tax liability of £43 million (2021: £101 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £2 billion (2021: £5 billion).

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised in the periods presented, aggregate to £1,244 million (£37 million net) (2021: £1,027 million (£29 million net)). No liability has been recognised because the Group is in a position to control the timing of the reversal of those temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 23. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 62%, 15% and 10% of the Group's total defined benefit obligations and 31%, 32% and 10% of the current service cost respectively.

### Imperial Tobacco Pension Fund

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

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

The main risk for the Group in respect of the ITPF is that additional contributions are required if the assets are not expected to be sufficient to pay for the benefits. The investment portfolio is subject to a range of risks typical of the asset classes held, such as credit risk on bonds, and exposure to the property market.

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

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

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

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

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

The ITPF has a pension surplus on the IAS 19 measure, in line with IFRIC 14, recognition of the net asset on the fund is only appropriate where it can be recovered. The ITPF trust deed gives the Group an ability to receive a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up the ITPF or otherwise augment the benefits due to the ITPF's members. Based on these circumstances, any net surplus in this scheme is recognised in full.

#### The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan, though a small group of members has final salary benefits. It has a weighted average maturity of 18 years. The scheme population comprises 51% in respect of pensioners, 19% in respect of deferred members and 30% in respect of current employees. It was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits in the plan.

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

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

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

#### ITG Scheme

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

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

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

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

## Other plans

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

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

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2022 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

### Defined benefit plans

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

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

### Retirement benefit scheme costs charged to operating profit

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

### Split as follows in the consolidated income statement:

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

### Assets and liabilities recognised in the consolidated balance sheet

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

## Key figures and assumptions used for major plans

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

	2022					
	ITPF		RCP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	<b>21.1</b>	<b>22.4</b>	<b>20.5</b>	<b>23.9</b>	<b>19.7</b>	<b>21.7</b>
Member currently aged 50	<b>21.8</b>	<b>23.7</b>	<b>22.6</b>	<b>25.6</b>	<b>20.9</b>	<b>22.9</b>

	2021					
	ITPF		RCP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.1	22.7	20.5	23.9	19.7	21.7
Member currently aged 50	22.1	23.9	22.6	25.6	20.9	22.9

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S3 (2021: SAPS S3) tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S3 All Pensioner Male Amounts Middle table with a 105% multiplier. An allowance for improvements in longevity is made using the 2021 (2021: 2018) CMI improvement rates with a long-term trend of 1.25% per annum.

### Sensitivity analysis for key assumptions at the end of the year

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

% increase in DBO	2022			2021		
	ITPF	RCP	ITGBH	ITPF	RCP	ITGBH
Discount rate: 0.5% decrease	<b>6.1</b>	<b>9.5</b>	<b>4.9</b>	<b>8.6</b>	<b>10.8</b>	<b>5.8</b>
Rate of inflation: 0.5% decrease	<b>(4.9)</b>	<b>(6.3)</b>	<b>n/a</b>	<b>(6.9)</b>	<b>(7.0)</b>	<b>n/a</b>
One year increase in longevity for a member currently age 65, corresponding changes at other ages	<b>3.7</b>	<b>4.7</b>	<b>4.6</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5% decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £22 million.

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

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

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

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



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

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

The majority of the assets are non-quoted.

## 24. PROVISIONS

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

Analysed as:

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

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

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

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

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

Most provisions will be utilised within the next two years, though certain employee related provisions may be required to be held for a period of up to 10 years.

## 25. SHARE CAPITAL

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

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

## 26. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

### Share matching scheme

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

### Long term incentive plan (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.

### Sharesave plan

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

### Discretionary share awards plan (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25% of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

### Analysis of charge to the consolidated income statement

£ million	2022	2021
Share Matching Scheme	2	3
Long Term Incentive Plan	25	20
Sharesave Plan	1	1
Discretionary Share Awards Plan	1	1
	<b>29</b>	<b>25</b>

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

### Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated	2022				
	Share matching awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2021	482	7,412	2,053	60	13.89
Granted	192	2,658	274	106	14.56
Lapsed/cancelled	(23)	(873)	(321)	(5)	18.11
Exercised	(165)	(1,077)	(72)	(41)	16.14
Outstanding at 30 September 2022	486	8,120	1,934	120	13.21
Exercisable at 30 September 2022	–	–	151	–	17.45

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

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

Summary of awards/options outstanding at 30 September 2022

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

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

Pricing

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

	2022		
	Share matching	Sharesave	DSAP
Risk-free interest rate %	2.0	1.2-2.2	2.0-2.2
Volatility (based on 3 or 5 year history) %	35.5	35.3-35.5	35.5
Expected lives of options granted years	3.0	3.0	3.0
Dividend yield %	9.2	9.2	9.2
Fair value £	10.35	3.21-3.31	10.35-10.67
Share price used to determine exercise price £	13.65	17.83-18.39	13.65-14.08
Exercise price £	n/a	14.56	n/a
	2021		
	Share matching	Sharesave	DSAP
Risk-free interest rate %	0.7	(0.4)-0.2	0.7
Volatility (based on 3 or 5 year history) %	36.0	33.9	26.3
Expected lives of options granted years	3.0	3.0	3.0
Dividend yield %	8.9	8.9	6.7
Fair value £	12.37	2.31-2.56	12.86
Share price used to determine exercise price £	16.00	16.00	15.27
Exercise price £	n/a	13.09	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2022 and 2021 are given in the following table:

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

## Employee share ownership trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 million. In addition, the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2022. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

### Shares held by employee share ownership trusts

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

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

## 27. TREASURY SHARES

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of Group's issued share capital. Shares held in treasury do not qualify for dividends. Although the Group did not purchase any shares during the period, a share buyback programme was initiated after the balance sheet date, and these shares will be cancelled on completion of the purchase. Treasury shares reduced in the period after 4.0 million shares were gifted to the Employee Share Ownership Trusts to satisfy commitments to the employee share schemes.

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

## 28. COMMITMENTS

### Capital commitments

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

## 29. CONTINGENT LIABILITIES

The following summary includes updates to matters that have developed since the 2021 Annual Report and Accounts.

### USA state settlement agreements

In November 1998, the major United States cigarette manufacturers, including Reynolds and Philip Morris, entered into the Master Settlement Agreement ("MSA") with 52 US states and territories and possessions. These cigarette manufacturers previously settled four other cases, brought by Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively with the MSA, the "State Settlement Agreements", with Mississippi, Florida, Texas and Minnesota known collectively as the "Previously Settled States"). ITG Brands (ITGB) is a party to the MSA and to the Mississippi, Minnesota, and Texas State Settlement Agreements.

In connection with its 12 June 2015 acquisition of four cigarette brands (Winston, Salem, Kool and Maverick, referred to as the "Acquired Brands") from Reynolds and Lorillard, ITGB has been involved in litigation and other disputes with the Previously Settled States, Philip Morris, and Reynolds in their state courts. ITGB has also been involved in litigation with Reynolds in the Delaware court that has jurisdiction over disputes under the acquisition agreement for the Acquired Brands. All cases have now been resolved with the exception of Delaware court which involves Reynolds' claim to indemnity for Florida settlement payments. Amounts at issue range from US\$ 73 million to US\$ 182 million through 2021, plus interest and attorney's fees, and US\$ 20 million to US\$ 29 million annually going forward. Details are provided below.

### Delaware

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

court did not determine the amount of Reynolds' damages but left that question open for further proceedings. The parties have submitted an agreed schedule to the court to address the issue of damages which would result in initial motions on that issue being submitted by mid-January 2023.

Reynolds originally sought indemnification for all amounts it might be required to pay in settlement for the Acquired Brands in the Florida, Minnesota, and Texas litigations, described above. The portions of the Delaware dispute that related to Minnesota and Texas have been settled and dismissed, however, so Reynolds' claim for indemnification in Delaware is now limited to the amounts it has been required to pay under the Florida determination described above, plus interest and attorney's fees. ITGB continues to deny that indemnity is appropriate and intends to appeal that determination, and further contends that Reynolds' damages should be substantially reduced by the amount by which Reynolds' settlement payments have been reduced through operation of the "profit adjustment" by reason of ITGB not becoming a party to the Florida settlement as well as by reason of Reynolds' and third-parties' conduct. Based on the current facts and circumstances we consider it improbable that this potential liability will crystallise and therefore no provision has been recognised.

#### **MSA previously settled states reduction**

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

#### **Overall summary of liability position associated with USA state settlement agreements**

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

#### **Product liability matters**

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. This assessment of the probability of economic outflows at the year-end is a judgement which has been taken by management. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements.

#### **Competition authority investigations**

##### **Belgium**

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

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

##### **Spain**

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

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

#### **Other litigation**

##### **US Helms-Burton litigation**

Imperial has been named as a defendant in a civil action in federal court in Miami, Florida under Title III of the Cuban Liberty and Democratic Solidarity Act of 1996 ("Helms-Burton") filed on 6 August 2020. Title III provides United States nationals with a cause of action and a claim for treble damages against persons who have "trafficked" in property expropriated by the Cuban government. Treble damages are automatically available under Helms-Burton. Although the filed claim is for unquantified damages, we understand the claim could potentially reach approximately US\$ 365 million, based on the claimants' claim to own 90% of the property, which they value at US\$ 135 million (and then treble). The claim is based on allegations that Imperial, through Corporación Habanos S.A. (a joint venture between one of Imperial's now former subsidiaries and the Cuban government), has "trafficked" in a factory in Havana, Cuba that the Cuban government confiscated from the claimants' ancestor in the early 1960s, by using the factory to manufacture, market, sell, and distribute Habanos cigars.

At the time the claim was filed against Imperial and up until the conclusion of the Brexit "transition period" on 31 December 2020, Imperial was subject to an EU law known as the EU Blocking Statute (Regulation (EC) No. 2271/96), which conflicts with Helms-Burton, protected Imperial against the impact of Title III, and impacted how Imperial might respond to the threatened litigation. The EU Blocking Statute has

been transposed into domestic law with only minimal changes. Accordingly, on 10 January 2021, Imperial submitted an application to the UK Department for International Trade for authorisation from the Secretary of State for International Trade to defend the action or, at a minimum, to file and litigate a motion to dismiss the action. On 8 February 2021, the United Kingdom Secretary of State for International Trade authorised Imperial to file and litigate a motion to dismiss the action.

A hearing on the motion to dismiss took place on 26 July 2022 before a magistrate judge. On 2 November 2022 the magistrate judge recommended that the action be dismissed, without prejudice to re-filing in a proper venue. The district judge will review the recommendation, consider any objections to the recommendation filed by the parties, and issue a final order on the motion to dismiss. In the event the motion to dismiss is denied, the court has set a schedule for further proceedings, with trial commencing in July 2023. No provision has been made for potential liabilities related to this claim. The magistrate judge has recommended that the action be dismissed. In the event the district judge rejects that recommendation and the motion to dismiss is denied, the Company will have an opportunity to file a defence to the claim on the merits.

## **UK**

In June 2020, the Group responded to a claimant law firm's allegation of human rights issues in the Malawian tobacco supply chain, which included allegations relating to child and forced labour. In December 2020, a claim was filed in the United Kingdom High Court against Imperial Brands plc, Imperial Tobacco Limited and four of its subsidiaries (the Imperial Defendants) and two entities in the British American Tobacco (BAT) group by a group of tobacco farm workers. The Imperial Defendants have acknowledged service and confirmed to the claimants that they intend to defend the claim in full. The Imperial Defendants have not yet been required to file their Defence.

A procedural hearing scheduled for November/December 2021 was adjourned. The deadline for Imperial and BAT to file a defence has been postponed pending other case management actions and will be determined at a subsequent case management hearing which will be held after the completion of a matching exercise (which will seek to establish whether the claimants worked for farmers who grew tobacco purchased by either Defendant group). The claim is unquantified and given the early stage of the litigation a provision would not be appropriate.

## **Morocco**

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

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

## **Spain**

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

### 30. NET DEBT

The movements in cash and cash equivalents, borrowings, and derivative financial instruments in the year were as follows:

£ million	Current borrowings	Lease liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2021	(1,107)	(251)	(8,715)	(587)	(10,660)	1,287	(9,373)
Reallocation of current borrowings from non-current borrowings	(1,392)	–	1,392	–	–	–	–
Net cash flow	1,595	68	(829)	(94)	740	515	1,255
Accretion of interest	58	(6)	(16)	(7)	29	–	29
Change in fair values	–	–	–	270	270	–	270
New leases, terminations and modifications	–	(54)	–	–	(54)	–	(54)
Exchange movements	(165)	(5)	(828)	331	(667)	48	(619)
At 30 September 2022	(1,011)	(248)	(8,996)	(87)	(10,342)	1,850	(8,492)

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

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

Analysis by denomination currency

£ million	GBP	EUR	USD	Other	2022 Total
Cash and cash equivalents	257	216	971	406	1,850
Total borrowings	(1,631)	(3,261)	(5,096)	(19)	(10,007)
Effect of cross currency swaps	1,561	(3,637)	2,056	–	(20)
Lease liabilities	187	(6,682)	(2,069)	387	(8,177)
Derivative financial instruments	(45)	(148)	(20)	(35)	(248)
Net debt					(8,492)

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

### 31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

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

The increase in borrowings and repayment of borrowings reflect the cash flow movements relating to borrowings outstanding at the start and at the end of each financial year; cash flows relating to short term borrowings drawn down and repaid within the year are not included in this analysis.

### 32. NON-CONTROLLING INTERESTS

Material non-controlling interests

Detailed below is the summarised financial information of Logista, being a subsidiary where the non-controlling interest of 49.99 % is considered material to the Group.

#### Summarised balance sheet at 30 September

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

#### Summarised statement of comprehensive income for the year ended 30 September

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

#### Summarised cashflow statement for the year ended 30 September

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



### **33. POST BALANCE SHEET EVENTS**

#### Share Buybacks

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

#### Pension fund loan

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

#### Logista acquisitions

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

#### Russian disposal – associated markets exits

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

### **34. RELATED UNDERTAKINGS**

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2022, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

## SUPPLEMENTARY INFORMATION

### ADJUSTED PERFORMANCE MEASURES

#### Use of adjusted performance measures

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

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

#### Summary of key adjusting items

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

#### Consolidated income statement adjusting items

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

#### Adjusting items recognised within administrative and other expenses

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

### Amortisation and impairment of acquired intangibles

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

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

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

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

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

### Restructuring costs

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

### Russian and associated markets exit

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

### Fair value adjustment to financial assets

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

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

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

### Impairment of intangible assets held by global horizon joint venture

The Group has an investment in the Global Horizon Ventures Limited joint venture company which is accounted for as an investment using the equity method. This entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

## Adjusting items recognised within tax

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

### Tax adjustments related to other pre-tax adjusting items

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

### Significant one-off tax charges or credits

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

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

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

### Recognition of tax credits

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

### Uncertain tax positions

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

### Provision for State aid recoverable

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

### Deferred tax on unremitted earnings

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

### Tax on unrecognised losses

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

## DEFINITIONS AND RECONCILIATIONS OF ADJUSTED MEASURES

### A) net revenue Tobacco & NGP net revenue

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

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

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

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

### B) Distribution net revenue

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

### Reconciliation from Distribution revenue to Distribution net revenue

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

### C) Adjusted operating profit

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

### Reconciliation from profit before tax to adjusted operating profit

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

### Reconciliation from Tobacco & NGP operating profit to adjusted operating profit

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

### Reconciliation from distribution operating profit to adjusted operating profit

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

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

#### D) Adjusted operating profit margin

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

#### E) Adjusted net finance costs

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

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

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

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

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

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

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

#### Reconciliation from reported net finance costs to adjusted net finance costs

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

#### F) Adjusted tax charge

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

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

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

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

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

### G) Adjusted earnings per share

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

### Reconciliation from reported to adjusted earnings and earnings per share

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

### H) Return on invested capital (ROIC)

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

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

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

#### I) Constant currency

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

#### J) Adjusted net debt

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

#### Adjusted net debt calculation

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

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

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

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

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

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

#### L) Adjusted operating cash conversion

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

#### Adjusted operating cash conversion calculation

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

#### M) Free cash flow

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

#### Net cashflows generated from operating activities to free cash flow

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



## GLOSSARY

### Financial terms

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