IMPERIAL BRANDS PLC
FULL YEAR RESULTS STATEMENT
14 NOVEMBER 2023

IMPERIAL BRANDS

CONSUMER-FOCUSED TRANSFORMATION DRIVES IMPROVING RETURNS

REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2023

BUSINESS HIGHLIGHTS

- Delivered an acceleration in adjusted operating profit growth in line with five-year strategic plan
- Improved combustible tobacco performance with 10 basis points aggregate market share growth in top-five priority markets and strong, broad-based pricing gains
- Next generation product net revenue up 26% as momentum grows in all categories; Europe NGP up 40%
- Operational and financial delivery underpinned by new consumer capabilities, ways of working and cultural change, with employee engagement 100 basis points ahead of global benchmark at 74%
- Enhanced shareholder returns with 4.0% dividend increase as well as a 10% increase in share buybacks; total FY24 returns of £2.4 billion equivalent to c. 15% of total market value

FINANCIAL SUMMARY

		Reported			Adjusted[2]				
		2023	2022	Change	**2023**	2022	Actual	Constant currency[3]	CC ex Russia[4]
Revenue/Net revenue[1]	£m	**32,475**	32,551	-0.2%	**8,012**	7,793	+2.8%	+0.7%	+1.4%
Operating profit	£m	**3,402**	2,683	+26.8%	**3,887**	3,694	+5.2%	+3.8%	+3.9%
Earnings per share	p	**252.4**	165.9	+52.1%	**278.8**	265.2	+5.1%	+4.2%	+4.3%
Free cash flow	£m	**2,364**	2,562	-	**2,364**	2,562	-	-	-
Net debt	£m	**(8,438)**	(8,492)	-	**(8,026)**	(8,054)	-	-	-
Dividend per share	p	**146.82**	141.17	4.0%	**146.82**	141.17	4.0%	4.0%	-

1. Reported revenue includes duty, similar items, Distribution gross profit (Logista) 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 gross profit (Logista).
2. See page 3 for the basis of presentation and the supplementary section at the end of the financial statements for the reconciliation between reported and adjusted measures.
3. Constant currency removes effect of exchange rate movements on the translation of the results of our overseas operations.
4. Constant currency movement excluding the prior year financial contribution from Russia, following our exit in April 2022.

STEFAN BOMHARD CHIEF EXECUTIVE

"Three years into Imperial's transformation, our investments in consumer capabilities, changes to the way we work, and a new performance culture are translating into stronger, more sustainable operational and financial outcomes. In combustible tobacco, improving brand equity and investment in our salesforce capabilities has led to the third consecutive year of stable or growing aggregate market share in the five priority markets which account for 70% of our operating profit. At the same time, we have offset structural volume declines with strong pricing in all key markets.

"In next generation products, our challenger approach, which combines partnership-based innovation with disciplined market entry, is delivering positive results. We now have credible propositions across all categories - vape, heated tobacco and oral nicotine. Following recent launches, we now offer consumers potentially reduced-harm choices in more than 20 European markets, as well as the United States. This step-up in investment in Europe has driven an acceleration in net revenue growth.

"Underpinning this broad-based progress is our continued transformation, which includes new innovation hubs in Liverpool, Hamburg and Shenzhen, modernisation of legacy systems, and investments in upskilling our leaders.

"All of this means we are well placed to deliver on our commitment to enhance returns to investors, with increases to both our dividend and buyback programme. Looking ahead, we expect the continuing benefits of our transformation to enable a further acceleration in our adjusted operating profit growth in the final two years of our five-year strategy. We look forward to building on our growing operational track record to deliver sustainable returns to shareholders and play a positive, distinctive role in this industry's transition to a healthier future."

DELIVERING AGAINST OUR STRATEGIC PRIORITIES

Growing market share in aggregate across our portfolio of five priority combustible markets

- **10 bps aggregate market share gain** in our five priority markets, while achieving strong pricing in all markets
- Continued investment in brand equity building and sales force initiatives is driving performance
- **Three out of five markets in share growth**: gains in US, Australia and Spain offset declines in Germany and UK

Accelerating our NGP performance with disciplined execution

- **New product and market launches** delivering acceleration in NGP net revenue growth in second half of the year
- **Driving growth across all three categories: vapour, heated tobacco and modern oral nicotine**
- Our new heated tobacco offering, Pulze 2.0 and iD launched across seven European markets
- All-new blu 2.0 now available nationally in nine markets; disposable blu bar now available in 11 markets
- In modern oral, growth in Zone X, and Skruf Super White supported by flavour launches
- Acquisition of US nicotine pouch business creates opportunity to launch new modern oral in US in FY24

Driving value from our broader market portfolio

- **Strong pricing in our wider footprint markets** has driven financial performance
- Good progress in several smaller clusters, e.g. Africa, Asia, Middle East and Taiwan
- Leveraging our capabilities in driving growth from portfolios of smaller markets with transfer of Central and Eastern Europe cluster from Europe region to the Africa, Asia and Australasia (AAA) region

Transforming our ways of working

- **Consumer centricity:** Significantly strengthened our consumer-facing capabilities under Global Consumer Office
- **Performance-based culture:** Continued roll-out with 'how' objectives incorporated within remuneration incentives as well as senior leadership coaching programme
- Benchmark-beating employee engagement scores – showing buy-in to new strategy, vision, purpose and behaviours
- **Simplified and efficient operations:** have delivered the target cost savings of £150m by end FY23

RESULTS OVERVIEW*

Tobacco & NGP net revenue growth driven by resilient tobacco pricing

- **Strong tobacco pricing across all key markets mitigating volume declines**
- **Excluding Russia, tobacco price mix of 8%**: pricing +11% with adverse mix of -3%, driven primarily by adverse product mix in the USA (mass market cigars and cigarettes)
- Tobacco volumes down 10.4% driven by our exit from Russia and weakness in US mass market cigars
- **Excluding Russia, tobacco volumes declined 7.1%,** as anticipated against a stronger prior year comparator, down 1.2%
- **NGP net revenue up 26.4%** driven by growth across all categories; Europe net revenue up 40.4%
- **Reported revenue declined -0.2% reflecting lower excise partially offset by higher Logista revenue**

Delivering improved profitability and increased investment

- **Group adjusted operating profit grew +3.8%,** driven by our tobacco portfolio and Logista; excluding Russia, Group adjusted operating profit grew +3.9%
- **Reported operating profit grew 26.8%** because charges relating to our Russia exit last year were not repeated
- **Tobacco adjusted operating profit grew** +**3.9%,** reflecting strong pricing and cost control; excluding Russia +4.1%
- **Tobacco adjusted operating margins increased +180bps** driven by pricing more than offsetting cost inflation; ex. Russia +150bps
- **NGP adjusted losses increased +48.3% to £135m as** new product and market launches led to higher investment
- **Distribution adjusted operating profit up 17.0%** reflecting organic growth and the contribution from acquisitions
- **Adjusted EPS grew +4.2%** driven by operating results and reduced share count, partially offset by higher finance costs and increased minority interests; excluding Russia adjusted EPS grew +4.3%
- **Reported EPS grew 52.1%** driven by higher reported operating profit and a reduction in tax charge relating to favourable FX translation

Strong free cash flow and clear capital allocation framework supports growing shareholder returns

- **Adjusted operating cash conversion of 92%, against a strong comparator (102%); free cash flow of £2.4bn**
- Investing in **organic growth initiatives** and targeted **bolt-on acquisitions in NGP and Logista**
- Adjusted net debt £8.0bn (2022: £8.1bn); adjusted net debt to EBITDA at 1.9x (2022: 2.0x)
- Reported net debt £8.4bn (2022: £8.5bn)
- **Annual dividend per share up 4.0%** to 146.82 pence per share, in line with our progressive dividend policy
- **Ongoing multi-year share buyback with £1.1bn underway for FY24; 10% increase on FY23 buyback**
- **Cumulative capital returns of £4.7bn in FY23 and FY24**

* All measures at constant currency unless otherwise stated

OUTLOOK

Our five-year strategy is continuing to drive the operational and cultural changes which, despite challenging macro-economic headwinds, are strengthening financial delivery. This underpins our confidence in delivering against the final two years of our plan with a further improvement in adjusted operating profit growth to support a mid-single-digit constant currency CAGR over FY23-FY25, in line with our medium-term guidance.

In the coming year, we expect to deliver low-single-digit constant currency revenue growth and to grow our constant currency adjusted operating profit close to the middle of our mid-single digit range.

Performance will be weighted to the second half of the year driven by the phasing of our pricing in the prior year and investments in NGP. As a result, first-half operating profit is expected to grow at low single digits. at constant currency.

Our earnings per share growth will benefit additionally from the continued reduction in share count as a result of our ongoing share buyback programme, although this will be offset slightly by increased adjusted finance and tax costs.

At current rates, foreign exchange translation is expected to be a 0-1% headwind to net revenue, adjusted operating profit and earnings per share.

We look forward to building on our growing operational track record to deliver shareholder returns through an ongoing buyback and progressive dividend, and to play a positive, distinctive role in this industry's transition to a healthier future.

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 but exclude any NGP volume such as heated tobacco, modern oral nicotine and vapour.
- 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.

OTHER INFORMATION

Investor Contacts

Peter Durman	+44 (0)7970 328 093
Jennifer Ramsey	+44 (0)7974 615 739
Henry Dodd	+44 (0)7941 648 421

Media Contacts

Jonathan Oliver	+44 (0)7740 096 018
Simon Evans	+44 (0)7967 467 684

Analyst Presentation Webcast

Imperial Brands PLC will be hosting a live webcast at 09:00 (GMT) on 14 November 2023 for investors and investment analysts following the publication of our interim results at 07:00 (GMT). 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 from 07.00 (GMT). A webcast recording and the presentation script will also be available after the live webcast has concluded.

The webcast will be available on https://edge.media-server.com/mmc/p/mmry9v55. To participate in the Q&A session, please register in advance via this link: https://register.vevent.com/register/BI3cc04a0f77b246ea8dfafdf340b87071. 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.

PERFORMING WITH PURPOSE

Three years into our strategy, I am pleased with the consistent track record we are building and excited by the growing opportunities ahead. Our focus has been to develop Imperial into a strong, consumer-centric challenger business, capable of growth, year in and year out. Since the launch of our strategy in early 2021, we have been creating the team and the capabilities to enable the revival of our combustible business and the successful reboot of our next generation products (NGP).

This approach is leading to clear operational progress, despite a challenging macro-economic environment. In our five priority combustible markets, which account for around 70% of our operating profit, we have stabilised the share declines and exceeded our expectations with a 43 basis point growth in aggregate share since September 2020. Over the same period, NGP net revenue has grown by 41% at actual exchange rates, underpinned by market launches and new products in all three categories.

We have also delivered a material step-up in shareholder returns. During FY23 and FY24, through a combination of dividends and our ongoing share buyback programme, we expect to make cumulative capital returns of £4.7 billion. This is the equivalent of c.30% of Imperial's market value as at 30 September 2023.

Meanwhile, we are continuing to make focused investments in consumer capabilities, data, processes and systems, and our culture to ensure we can grasp future opportunities across all segments. While I am pleased with our progress so far, I believe that the full benefits of Imperial's transformation will continue to emerge in the next few years and beyond.

BUILDING OUR CHALLENGER CAPABILITIES

Imperial is the fourth largest – and smallest – of the global businesses in our sector. To outperform consistently, we need to do things differently to our larger rivals – to act as the industry's challenger. Being a challenger is about being close to the consumer, having robust data and processes to enable fast, well-informed decisions, and developing a performance-based culture. Taken together, these are the critical enablers for strategic success and the focus for our investments over the past three years.

In a sector where consumer behaviour is becoming increasingly diverse, strong insights, innovation capabilities and brand building are more and more crucial. In June, I joined our consumer team at a capital markets event in New York City. Their presentations included our new research in consumer demand spaces, our emerging partnership approach to innovation, and our activity to refresh both our international and local brands. Since then, we have continued to improve our ways of working to ensure that our centres of expertise work as effectively as possible with our teams in the markets.

Today's Imperial was assembled through a series of global acquisitions during the past quarter century. A clear demonstration of our transformation journey is how we are replacing more than 60 legacy systems with a single, unified platform. In parallel, we are also creating an end-to-end supply chain system – from leaf to store. These investments will make a significant contribution to future operational improvements, by giving our people more robust, actionable data, and automating low-value processes, freeing up time to focus on meeting consumer needs. While these programmes will each take several years to complete, pilot markets and factories are currently adopting the new systems and ways of working.

We continue to build a distinctive, performance-based challenger culture, which internally we call "Connections". Having introduced our new behaviours in 2021, during 2022 all colleagues went through training to help them better understand how to deploy these behaviours in their everyday working lives. Over the past year, we moved to the next phase of this culture change journey by inviting 300 of our senior leaders to spend seven working days on a coaching programme to help them nurture high-performing teams (see pages 26-27). We also launched a new long-term diversity, equity and inclusion strategy designed to ensure that everyone in Imperial can feel that they belong (see pages 67-69).

Another important focus this year has been to support our colleagues in markets dealing with exceptional challenges. These include Laos and Morocco, which have been affected by natural disasters and, of course, in Ukraine.

Our 2023 employee experience survey was completed by 91% of eligible colleagues around the world, and we maintained our above-benchmark engagement score of 74%.

IMPROVED, MORE CONSISTENT PERFORMANCE

Our focused investments in the critical enablers of our strategy are driving improved business performance. In the period, excluding Russia we delivered growth in tobacco and NGP net revenue of 1.4% and in Group adjusted operating profit of 3.9%, at constant currency. Reported revenue was down 0.2% due to lower excise partially offset by higher Logista revenues. Operating profit grew 26.8% as charges relating to our exit from Russia were not repeated.

Once again, these achievements have been delivered against an inflationary backdrop which has squeezed consumer purchasing power. As anticipated, we delivered strong tobacco price mix for the year at 10.4% which more than offset volume declines.

During 2023, market share in our five priority markets increased by 10 basis points.

In our largest market, the United States, our challenger approach supported a share increase of 65 basis points for the year. Our flagship cigarette brands Winston and Kool were stable in their segments thanks to distinctive brand positioning and focused sales execution, and we continued to increase share in the deep discount segment. In mass market cigars we faced a decline in net revenue against a strong comparator period. As expected, this headwind, which we reported at the half year, has eased during the second half.

We continue to refine our approach in Germany with investment in building brand equity and in our sales force effectiveness.

In the UK and Spain our strategy has been focused on investment in local jewel brands, while in Australia our approach to revenue growth management underpinned our clear brand offerings at each of the key price points.

To improve focus on our medium-sized and smaller markets, we have created the new AAACE region which includes Africa, Asia, Australasia and Central & Eastern Europe. Strong tobacco pricing across the region offset volume declines, while Central & Eastern Europe benefited from NGP growth.

In NGP, we now have credible consumer propositions across all categories – vape, heated tobacco and modern oral. During 2023 we accelerated the roll-out of new products in Europe, with the pod-based vape blu 2.0 now available in nine markets, the blu bar disposable in 11 markets, and Pulze 2.0, our heated tobacco device, in seven markets. We have also expanded the flavour range of Zone X pouches in Europe. In the Europe region, NGP net revenue grew by 40% year on year on a constant currency basis. We are pleased with the progress and feel that we now have a full product platform for the NGP category. We will continue to be disciplined and will now aim to consolidate momentum in our current markets. This means investing only in markets where NGP categories account for a material proportion of the overall nicotine market and where we have a strong route to market. In the US, we welcomed the unanimous federal court decision in August to vacate an earlier Marketing Denial Order issued by the Food and Drug Administration against our myblu pod-based vapour portfolio. In 2024, we will launch our new modern oral range under the brand "Zone". This follows the acquisition of a range of US pouches from TJP Labs in June.

PURPOSE, PEOPLE AND PLANET

A consumer-centric, challenger approach to NGP is how we will contribute to the broader industry-wide commitment to reduce harm. As the smallest of the international businesses, we know we cannot deliver a healthier future on our own. But, by getting close to our consumers, innovating fast and working with partners, we can drive responsible competition and help accelerate the transition to potentially reduced-harm products. This distinctive way of working is most clearly seen in our new Sense Hubs in Liverpool and Hamburg, which bring together consumers, our own product developers and third-party partners in a single collaborative space.

Consumer health is a key element of our broader environmental, social and governance (ESG) framework, which internally we refer to as our People and Planet agenda. We are making material progress in our other priority areas. We are committed to becoming a fully Net Zero carbon emission company by 2040 and, driven by an overall reduction in energy consumption, we have reduced our Scope 1 and Scope 2 market-based carbon emissions by 65% since our baseline year 2017. We are also on course to meet our commitment to eliminate landfill waste in our operations by 2025. For more information on People and Planet see pages 38-69.

ALLOCATING CAPITAL WITH DISCIPLINE

Capital allocation is a key value lever for the business. Focus and discipline are the key principles behind our four capital allocation priorities:

- Invest behind the 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 adjusted net debt to EBITDA range of 2-2.5 times.
- A progressive dividend policy with dividend growing annually, taking into account underlying business performance.
- Return surplus capital to shareholders while maintaining our target leverage.

Having reached our target leverage, in October 2022 we began returning surplus capital to shareholders via a share buyback. We completed an initial buyback of £1 billion during FY23, and we have announced the next £1.1 billion tranche for FY24. As a result, we expect in total our returns to shareholders will exceed £2.4 billion in the coming fiscal year.

Given the highly cash generative nature of the business and our current valuation, we remain committed to a progressive dividend policy and an ongoing buyback programme, which will meaningfully reduce the capital base and generate significant shareholder returns.

EMBRACING CHANGE

Since joining Imperial in June 2020, I have visited a total of 35 markets and nine factories and had conversations both face to face and virtually with many hundreds of colleagues. During this past three years, I have seen how our people have embraced change, balancing the need for near-term delivery with supporting our long-term transformation. I have seen too a growing spirit of collaboration, accountability and inclusivity, as we integrate new hires with strong global consumer experience and our colleagues with deep local and sector expertise. Above all else it is the power of our people which gives me confidence in our ability to continue to deliver over our five-year strategy period and beyond.

OUTLOOK

Our five-year strategy is continuing to drive the operational and cultural changes which, despite challenging macro-economic headwinds, are strengthening our financial delivery. This underpins our confidence in delivering against the final two years of our plan with a further improvement in adjusted operating profit growth to support a mid-single-digit constant currency compound annual growth rate over FY23-FY25, in line with our medium-term guidance.

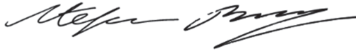
In the coming year, we expect to deliver low single-digit constant currency tobacco and NGP net revenue growth and to grow our constant currency adjusted operating profit close to the middle of our mid-single-digit range.

Performance will be weighted to the second half of the year driven by the phasing of investments in NGP and the phasing of our pricing in FY23. As a result, first half operating profit is expected to grow at low single digits, at constant currency.

Our earnings per share growth will benefit additionally from the continued reduction in the number of shares as a result of our ongoing share buyback programme, although this will be offset slightly by increased adjusted finance and tax costs.

At current rates, foreign exchange translation is expected to be a 0-1% headwind to net revenue, adjusted operating profit and earnings per share.

We look forward to building on our growing operational track record to deliver shareholder returns through an ongoing buyback and progressive dividend, and to play a positive, distinctive role in this industry's transition to a healthier future.



Stefan Bomhard
Chief Executive Officer

EUROPE REGION

Aleš Struminský
President, Europe Region

OPERATING REVIEW

To provide a greater focus on "driving value from our broader market portfolio", which is one of our strategic pillars, we have transferred the management of our Central and Eastern Europe cluster from our Europe region to the Africa, Asia and Australasia (AAA) region. Under the leadership of Paola Pocci, we have been enhancing our capabilities and expertise in managing our smaller markets, many of which have attractive margins and the potential to become platforms for future growth in combustible tobacco and NGP. The AAA region will now be known as AAACE. The affected markets are Poland, Czech Republic, Ukraine, Slovakia, Hungary, Azerbaijan, Armenia, Georgia, Moldova, Croatia and Slovenia. The Americas region is unaffected by this change.

AT A GLANCE

Tobacco volume

-8.2%

Tobacco & NGP net revenue*

+4.8%

Tobacco net revenue*

+2.8%

NGP net revenue*

+40.4%

Adjusted operating profit*

+2.0%

* Change at constant currency.

HEADLINES

- Strong financial performance driven by strong pricing action early in the year which offset volume declines
- Leveraging our local jewel brand strategy to drive operational and financial performance
- Positive NGP net revenue performance with growth across all categories driven by product innovation and new market launches
- Successful launch and roll-out of all-new vapour device blu 2.0 and disposable blu bar
- New and improved Pulze 2.0 offering consumer choice across four markets
- Adjusted operating profit growth reflects strong combustible performance and increased investments behind NGP

Our results in Europe are driven by strong combustible pricing, which helped mitigate inflationary headwinds and support increased investment in NGP launches. Tobacco volumes were impacted by macro conditions and continued pressure on consumer spending. As expected, the volume trajectory improved in the second half of the year. Net revenue benefited from an acceleration in NGP revenue growth (year on year up 45.1% in the second half of the year at constant currency) as our innovation pipeline supported new product and market launches alongside growth in existing markets.

Strategic initiatives in our priority markets supported our combustible tobacco performance. In the UK, after two years of market share growth, we raised prices early in the period, causing our market share to decline as we balanced market share with value creation. As anticipated, we experienced some market share recovery during the second half of the year. We remain confident that our strategic initiatives in the UK, such as our local jewel brands, Richmond Embassy and Regal Signature, have continued to gain traction. Our work to arrest the long-term share declines in Germany continues with a refinement in our investment in brand equity building initiatives. In Spain, we achieved strong price increases while also gaining market share as our local jewel brand, Nobel, benefited from new format launches and we refined our focus on the key sales channels, for example vending machines.

Tobacco volumes declined 8.2% with consumer buying patterns impacted by cost-of-living pressures. The elevated excise regimes in markets such as the UK and France have contributed to continuing pressure on volumes. However, volume declines moderated in the second half of the year in the UK. Tobacco net revenue was up 2.8% at constant currency, reflecting strong price mix of 11.0%, which more than offset the volume declines.

Our NGP portfolio has delivered strong net revenue growth, which was up 40.4% at constant currency with growth across all three categories. We delivered a step-up in new product and flavour launches following our "test and learn" validation with consumers and market pilots in FY22. Our new consumer-led partnership model on NGP product innovation delivered a range of new products in all three categories: Pulze 2.0 in heated tobacco (four markets); blu 2.0 (10 markets) and blu bar (nine markets) in vapour; and ZoneX (three markets) and Skruf Modern (Norway) in modern oral nicotine.

Tobacco and NGP adjusted operating profit for the year increased 2.0% at constant currency, mainly reflecting the strong tobacco performance together with increased investment in our NGP product and market launches.

		Full year result		Change	
		2023	*2022	Actual	Constant currency
Tobacco volume	bn SE	**89.9**	97.9	-8.2%	–
Total tobacco & NGP net revenue	£m	**3,240**	3,039	+6.6%	+4.8%
Tobacco net revenue	£m	**3,020**	2,883	+4.8%	+2.8%
NGP net revenue	£m	**220**	156	+41.0%	+40.4%
Adjusted operating profit	£m	**1,482**	1,447	+2.4%	+2.0%

* 2022 figures restated for the transfer of the Central & Eastern Europe cluster from Europe to AAACE.

Priority market	Performance
Tobacco share	
Germany • 18.2% (-80bps) • 13% of Group net revenue	Tobacco market size declined 1.9% in the year with some downtrading, together with a category shift from cigarettes to fine cut tobacco. Our market share declined although we continue to refine our investment initiatives with the aim of stabilising our share over time. As anticipated, it is taking time to address our share performance after more than a decade of underinvestment and share losses. We remain confident the investment behind these strategic initiatives will enhance our brand equity and improve our sales force effectiveness. Our brand portfolio remains well positioned across the key price segments to appeal to a range of consumer needs, which includes the launch of Paramount to meet consumer needs in the value segment. We expanded our vapour offer with the launch of blu 2.0 and blu bar during the year.
UK • 41.1% (-50 bps) • 8% of Group net revenue	Tobacco market size declined 16.9%, driven by the COVID-19 unwind, inflationary excise increases and manufacturer price increases in the period. We increased prices in November and again in March to pass on the excise increases. As anticipated, and after two years of share gains, these price increases caused us to lose share. However, we recovered some of the market share lost in H1 as we sought to optimise the balance between managing share and value creation. Our strategic investments continue to gain traction with our local jewel brand variants of Richmond, Embassy and Regal Signature performing well – and as we focused on supporting our key account customers. We grew our NGP contribution in vaping, launching both blu 2.0 and blu bar in the period, supported by innovation of our flavours in both platforms.
Spain • 28.4% (+10 bps) • 5% of Group net revenue	Tobacco market size declined 2.6% year on year. We were able to increase prices for the second year in a row, following several years of stable pricing, while also continuing to deliver share gains. Our market share increase was driven by investments in innovation and brand extensions, such as limited-edition packs and big pack launches for West. We continued to focus on our portfolio of local jewel brands with the launch of new, high-quality packs for brands such as Nobel. We also benefited from refocusing our sales force on channels, where we have been under-represented historically. The launches of blu 2.0 and blu bar have been well received by consumers and the trade and the blu brand is the joint market-leading brand by retail sales value as at August 2023.

AMERICAS REGION

Kim Reed
President and CEO, Americas Region

AT A GLANCE

Tobacco volume

-5.5%

Tobacco & NGP net revenue*

-4.7%

Tobacco net revenue*

-4.5%

NGP net revenue*

-21.4%

Adjusted operating profit*

+1.9%

* Change at constant currency

HEADLINES

- Cigarette share growth up 65 basis points to 10.7% with gains across all three of our focus price segments
- Investment in strategic initiatives continues to drive operational improvements
- Net revenue decline reflects adverse product mix in mass market cigars partially offset by strong cigarette pricing
- Mass market cigar performance temporarily affected by wholesaler inventory movements and market share pressure
- NGP net revenue declined as we prioritised investment in Europe pending resolution of the FDA's Marketing Denial Orders for myblu, which was vacated in August 2023
- Adjusted operating profit growth reflects strong cigarette pricing and cost initiatives to mitigate the reduction in volumes

We delivered a strong combustible market share performance in the US while achieving strong pricing across our cigarette portfolio. This was offset by a decline in our mass market cigar volumes due to a temporary wholesaler destock after they increased inventories ahead of Hurricane Ian in September 2022. This contributed to adverse product mix which has weighed on our net revenue performance.

Tobacco volumes declined against an industry volume decline of 8.4% in cigarettes and a 5.4% fall in industry mass market cigar volumes. Market volumes continue to be impacted by macro-economic pressure on consumer disposable income. Our cigarette outperformance reflects the improvement in our cigarette market share of 65 basis points to 10.7% – our fifth consecutive year of market share growth. Our cigarette volumes also reflect a slight increase in wholesaler inventories in the period, which increased our shipment volumes by c. 0.2%.

Our market share performance was driven by three factors: first, the continued benefit from our investment in sales execution and brand building; second, the way we have positioned our brand portfolio to meet the needs of consumers, particularly as they continue to trade down; and third, to a much smaller extent, the annualisation of the benefit from our agile response to capture share arising from KT&G's exit in December 2021. We gained or held share in the three price segments, where we are focused.

On a constant currency basis, tobacco net revenue declined by 4.5%, as strong pricing of around +10% was more than offset by volumes down -5.5% and adverse mix of around -9%. The adverse mix was driven by the performance of mass market cigars, which accounted for around -5% of decline. This reflects the relatively high value, low volume nature of the category – the revenue per stick for cigars is around 2.5 times that for cigarettes. Adverse cigarette mix accounted for the remaining around -4% adverse mix driven by our market share performance in the deep discount segment and the successful capture of the KT&G share following their exit from the market in December 2021.

Our cigarette share performance partly reflects our progress in building brand equity and strengthening our sales force capabilities. For example, our brand investment behind KOOL continues to support share growth in the premium value segment. We continue to improve our sales execution with our increased sales force, setting our "perfect store" concept as the standard to achieve across all stores and working with our key account customers on joint business planning.

As anticipated our mass market cigar portfolio improved into the second half of the year, driven by product innovation. Over the year, however, volumes came under pressure driven by a temporary wholesaler destock, market share losses and overall market size declines. The destock followed a wholesaler inventory build last September ahead of Hurricane Ian, which affected Southwest Florida where our Tampa cigar warehouse is located. Wholesaler inventories have now normalised. The overall category decreased as consumer buying patterns changed post COVID. Pressure on consumer spending drove some downtrading, leading to market share losses in our premium Backwoods offering. We believe the outlook for this category remains positive and we continue to have a strong brand presence with Backwoods, a premium quality iconic heritage brand.

Our NGP net revenue declines improved into the second half of the year on a constant currency basis, declining 21.4% over the full year. The uncertainty caused by the FDA's Marketing Denial Orders (MDOs) issued in April 2022 for our myblu products eased into the period end as we welcomed the unanimous decision on 29 August 2023 by United States Court of Appeals for the District of Columbia Circuit to vacate the FDA's Marketing Denial Order for our myblu pod-based vapour portfolio. Our products have remained in the market throughout the appeals process. We also completed the acquisition of a range of nicotine pouches to facilitate our entry into the US modern oral market.

We plan to launch this range of 14 product variants under a new brand, which will leverage the Company's existing US sales force.

Adjusted operating profit grew 1.9% at constant currency, reflecting the strong cigarette pricing and cost initiatives to mitigate the reduction in volumes, as well as a year-on-year benefit (c. £30 million) from ongoing non-participating manufacturers' settlements relating to prior year disputes under the Master Settlement Agreement. Although we expect further settlements over time, we do not anticipate this level of benefit to be repeated in the coming financial year.

		Full year result		Change	
		2023	2022	Actual	Constant currency
Tobacco volume	bn SE	**20.7**	21.9	-5.5%	–
Total tobacco & NGP net revenue	£m	**2,812**	2,826	-0.5%	-4.7%
Tobacco net revenue	£m	**2,778**	2,784	-0.2%	-4.5%
NGP net revenue	£m	**34**	42	-19.0%	-21.4%
Adjusted operating profit	£m	**1,257**	1,179	+6.6%	+1.9%

AFRICA, ASIA, AUSTRALASIA AND CENTRAL & EASTERN EUROPE

Paola Pocci
President, Africa, Asia, Australasia and Central & Eastern Europe

AT A GLANCE

Tobacco volume**

-6.3%

Tobacco & NGP net revenue*,**

+5.3%

Tobacco net revenue*,**

+5.3%

NGP net revenue*

+10.0%

Adjusted operating profit*,**

+6.2%

* Change at constant currency
**Excluding Russia in prior year

HEADLINES

- Strong financial delivery with pricing discipline and strategic initiatives offsetting exit from Russia in 2022
- Region now includes our Central & Eastern Europe cluster; comparator figures have been restated
- Positive contribution across all market clusters with improved consumer insight driving local initiatives
- Strong tobacco price mix across region offset inflationary input pressures
- Market share growth in Australia driven by active brand portfolio management
- NGP net revenue growth with launch of Pulze 2.0 in Czech Republic, Poland and Hungary
- Adjusted operating profit delivery driven by strong tobacco performance offset by increased NGP investment

The region delivered a strong operational and financial performance which offset the impact of our decision to exit the Russian market in April 2022. The contribution from Russia in the prior period is outlined in the table on the opposite page.

Our results benefited from a strong focus on pricing discipline across the region, which offset inflationary pressures on input costs, our improved consumer insight and revenue growth management tools provided by our Global Consumer Office. Additionally, we maintained a disciplined and targeted approach to our investment in sales execution and marketing in line with our strategy to revitalise our priority markets and to drive value from our broader market portfolio.

The region includes one priority market, Australia, where we continued to innovate our product offer enabling us to deliver an improvement in market share against a highly competitive market backdrop with record levels of illicit trade. We refined our approach to revenue growth management to optimise value creation across our portfolio with a clear brand offering at each of the key price points. This has supported our decisions on pricing and product innovation, for example line extensions of our Lambert & Butler brand in the lowest pricing segment enabled us to adopt a clearer pricing strategy for Parker & Simpson in the value segment. We also reshaped how we support our customers to drive improved availability while enhancing our financial performance.

As we look to drive value from our wider market portfolio, we transferred the management of our Central & Eastern European markets from Europe to this region. Given their similar characteristics, these markets now benefit from being under this regional leadership team which has enhanced capabilities and expertise to manage our portfolio of smaller markets to unlock value and become platforms for future growth.

In our African markets, pricing gains more than offset weaker volumes as consumer spending was affected by the rising cost of living and there was an increase in illicit trade in some countries. Ou renewed consumer focus underpins the management of our local jewel brands, such as Fine in Ivory Coast and Hamilton in Burkina Faso, and our international brands, such as News in Madagascar. With a wide variety of consumer preferences across these markets, this insight enables us to prioritise how we utilise the diverse brand portfolios for each country to meet the differing adult consumer demands.

In the Middle East, markets such as Kuwait benefited from borders reopening and we exercised strong pricing discipline combined with a more rigorous go-to-market approach. Our global brand Davidoff resonates with local consumers and performed well in Kuwait. Davidoff also has strong brand loyalty in Taiwan, though volumes here were impacted by lengthy local COVID-related travel restrictions and the competitive dynamic which made pricing gains tougher.

Pricing was stronger across the majority of our Central & Eastern European markets, which more than offset volume declines to support financial delivery.

Tobacco volumes declined 13.6% primarily driven by our exit from Russia. Excluding Russia, volumes declined 6.3%. However, strong price mix (+11.7% ex Russia) more than offset volume declines to grow tobacco net revenue by 5.3% ex Russia on a constant currency basis.

NGP net revenue grew 10.0% in the period reflecting product and market launches during the year. Following our successful trial of our upgraded Pulze 2.0 device, which validated our consumer proposition, we launched our new heated tobacco device in Czech Republic and two additional markets of Hungary and Poland. This was supported by an expansion in our iD stick offering with new flavour and limited edition crushball launches.

Adjusted operating profit grew 5.5% at constant currency driven by a strong tobacco performance in Australia, Africa and the Middle East. These more than offset increased NGP investment to fund new product and market launches. Excluding Russia, adjusted operating profit grew 6.2% at constant currency.

		Full year result		Change		Change
		2023	2022	Actual	Constant currency	Excluding Russia
Tobacco volume	bn SE	**87.4**	101.1	-13.6%	–	-6.3%
Total tobacco & NGP net revenue	£m	**1,960**	1,928	+1.7%	+2.3%	+5.3%
Tobacco net revenue	£m	**1,949**	1,918	+1.6%	+2.2%	+5.3%
NGP net revenue	£m	**11**	10	+10.0%	+10.0%	+10.0%
Adjusted operating profit	£m	**844**	815	+3.6%	+5.5%	+6.2%

* 2022 figures restated for the transfer of the Central & Eastern Europe cluster from Europe to AAA (now known as AAACE). The change excluding Russia removes the FY22 contribution from Russia of 7.8 bn SE volumes, £56 million of net revenue and £5 million of adjusted operating profit. There was £0 million of NGP net revenue in Russia.

Priority market	Performance
Tobacco share	
Australia • 32.1% (+10 bps) • 4% of Group net revenue	Market size declined 15.6% with the pressure on consumer affordability as well as record levels of illicit trade. However, we grew share, revenue and profit in Australia as we continue to actively manage our portfolio of brands, applying revenue growth management techniques to optimise the value creation while managing our overall market share delivery. Our performance benefited from innovation with line extensions in Lambert & Butler in the fifth price segment, which created a clearer price segment architecture for our portfolio. This enabled us to deliver strong pricing with Parker & Simpson. We also launched JPS Evolve for both cigarettes and fine cut.

DISTRIBUTION

AT A GLANCE

Gross profit*

+36.4%

Adjusted operating margin excluding eliminations*,**

-339bps

Adjusted operating profit excluding eliminations*,**

+17.3%

Adjusting operating profit including eliminations*,**

+17.0%

* Change at constant currency
** Elminations relate to sales of tobacco and NGP product to Logista that are still held in their inventory

		Full year result		Change	
		2023	2022	Actual	Constant currency
Distribution gross profit*	£m	**1,466**	1,046	+40.2%	+36.4%
Adjusted operating profit	£m	**306**	254	+20.5%	+17.3%
Adjusted operating profit margin	%	**20.9**	24.3	-341bps	-339bps
Eliminations	£m	**(2)**	(1)	-100.0%	-100.0%
Adjusted operating profit (inc. eliminations)	£m	**304**	253	+20.2%	+17.0%

* Distribution gross profit is Distribution revenue less the cost of distributing products. This was previously referred to as Distribution net revenue.

HEADLINES

- Gross profit includes contributions from recent acquisitions
- Acquisitions support strategy to accelerate growth in European non-tobacco-related businesses
- Better than expected adjusted operating profit includes strong contribution from profit on inventory vs prior year

Distribution consists of our 50.01% stake in Logista. Logista is a Spanish-listed distributor of tobacco and other convenience products as well as providing services such as freight, parcel and pharmaceutical logistics. It operates an end-to-end distribution model that covers the full value chain from collection to point of sale, and covers over 200,000 points of sale across Southern Europe.

The results include the incremental financial contribution from the acquisitions of Herinvemol S.L., trading as 'Transportes El Mosca', (73.3%) and Carbó Collbatallé S.L. (100%), which were not in the prior year period, and Speedlink Worldwide Express B.V. (70%), which was included from February 2022. The acquisitions are in line with Logista's strategy to accelerate growth in European non-tobacco-related businesses, which now comprise over 50% of economic sales. Following the 60% acquisition of Transportes El Mosca (a Spanish-based international transportation company) in October 2022, Logista increased its stake in the business to 73.3% in August 2023. This is in accordance with the original deal which enabled Logista to increase the stake in Transportes El Mosca to 100% over the three years from the date of the original deal. Logista is now the second largest temperature-controlled transportation company in Spain, with both maritime and road transportation assets. Carbó Collbatallé, acquired in October 2022, brings specialisation in frozen and refrigerated transportation in the food sector in Spain and Speedlink, acquired in February 2022, a Dutch express, courier company, expands the B2B parcel business.

Gross profit – Gross profit at £1,466 million was 36.4% higher on a constant currency basis with strong underlying performance across the three key regions (Iberia, France and Italy), further enhanced by the contribution from acquisitions.

In Iberia, growth in gross profit was driven in part by tobacco and related products, with the former benefiting from manufacturer price increases in Spain which also led to a higher profit on inventory than in the prior year. The transport services recorded a strong growth year on year, partly as a result of the integration of the new acquisitions. In the long-distance segment, Logista Freight recorded single digit growth including the integration of Transportes El Mosca (100% consolidated with 73.3% stake). In the industrial parcel segment, Logista Parcel continued to benefit from improving demand for its services and has started to integrate with the Carbó Collbatallé network. Growth in the parcel delivery business benefited from the acquisition of Speedlink (70%) and from single digit growth in Nacex business. Pharmaceutical distribution continues to expand both its customer base and product offering.

In Italy, gross profit was supported by good performance in tobacco and NGP volumes together with strong growth in convenience products, driven by disposable vaping products. In July 2023, Logista announced the acquisition of Gramma Farmaceutici, a pharmaceutical distribution company in Italy, representing the first stage of our expansion into the pharma segment in Italy.

In France, gross profit was impacted by tobacco volume declines, following the excise tax increase mid-year with subsequent price increases by the tobacco manufacturers, which led to a profit on inventory much higher than in the prior year. This was offset by the positive performance in convenience product distribution, driven by the growth in disposable vaping products.

Operating profit – Adjusted operating profit margin reduced by 339 basis points at constant currency as the acquired businesses diluted Logista's strong pre-acquisition margins. After eliminations, the adjusted operating profit contribution to the Group increased 17.0% on a constant currency basis, driven by the acquired businesses and a strong contribution from profit on inventory in Spain and France following manufacturers' price increases in the period. Restructuring charges of €14 million were included in adjusted operating profit. This is in line with our policy on adjusting items where restructuring charges are now not recognised as an adjusting item after FY22.

Cash – In line with the rest of Imperial Brands, 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 c.£1.8 billion, with movements in the cash position during the 12-month period varying from a high of c.£2.3 billion to a low of c.£0.9 billion, primarily due to the timing of excise duty payments. At 30 September 2023, the loan position was c.£2.0 billion compared to c.£2.1 billion at 30 September 2022.

ACCELERATING RETURNS

SUMMARY FINANCIAL INFORMATION

Volumes*

-7.1%

led by declines in market size, offset by market share gains

Tobacco & NGP net revenue*

+1.4%

at constant currency, driven by robust tobacco price mix and NGP growth

Reported operating profit

+26.8%

reflecting impact of exit from Russia in prior year

Adjusted operating profit*

+3.9%

at constant currency, driven by tobacco pricing and Logista, offset by increased NGP losses

Reported basic EPS

252.4p

an increase of 52.1%

Adjusted EPS*

278.8p

an increase of 4.3% on a constant currency basis

Adjusted operating cash conversion

92%

2022: 102%

Adjusted net debt/EBITDA

1.9x

2022: 2.0x

* Excluding Russia

This year's financial results reflect the improving returns from our first year of the growth phase of our five-year strategy.

On a constant currency basis, tobacco & NGP net revenue grew 1.4% excluding Russia, reflecting strong tobacco price mix and NGP growth. Group adjusted operating profit rose 3.9%, on a constant currency basis. Including Russia, tobacco and NGP net revenue grew 0.7% and Group adjusted operating profit rose 3.8% on a constant currency basis.

Reported revenue declined -0.2% reflecting lower excise partially offset by higher Logista revenues. Reported operating profit increased 26.8% primarily driven by non-recurrence of exit charges related to the Russian asset disposal (£399 million) in the comparator period.

Cash generation remains a key focus and has supported the delivery of £2.4 billion of free cash flow, with 92% adjusted operating cash conversion. The strong cash generation has enabled us to invest behind our strategy, return £2.3 billion to shareholders via dividend and share buyback and to reduce reported net debt by £0.1 billion to £8.4 billion with adjusted net debt/EBITDA in line with expectations, reducing by 0.1x to 1.9x in FY23.

On a reported basis, cash flow reduced year on year due to the £1 billion share repurchase.

The strong free cash flow generation enables us to invest behind the strategy, a strengthened balance sheet and return capital to shareholders. We have announced a further share buyback of up to £1.1 billion of shares during FY24. This is a 10% increase on last year's £1 billion buyback, where we repurchased 52,107,043 shares, or 5.5% of our share capital in FY23. In support of our progressive dividend policy, we are also increasing our dividend per share of 4.0% for FY23.

We anticipate our growth phase will continue for the remainder of our five-year strategy as the business capitalises on the gains and investments we have previously made.

SUMMARY INCOME STATEMENT

£ million (unless otherwise indicated)	Reported		Adjusted	
	2023	2022	**2023**	2022
Revenue/net revenue/gross profit*				
Tobacco & NGP revenue/net revenue	**21,656**	22,795	**8,012**	7,793
Distribution revenue/gross profit	**10,819**	9,756	**1,466**	1,046
Operating profit				
Tobacco & NGP	**3,106**	2,472	**3,583**	3,441
Distribution	**298**	212	**306**	254
Eliminations	**(2)**	(1)	**(2)**	(1)
Group operating profit	**3,402**	2,683	**3,887**	3,694
Net finance costs	**(298)**	(117)	**(410)**	(326)
Share of profit/(losses) of investments accounted for using the equity method	**7**	(15)	**7**	9
Profit before tax	**3,111**	2,551	**3,484**	3,377
Tax	**(655)**	(886)	**(781)**	(755)
Profit for the year	**2,456**	1,665	**2,703**	2,622
Earnings per ordinary share (pence)	**252.4**	165.9	**278.8**	265.2
Dividend per share (pence)	**146.82**	141.17	**146.82**	141.17

* 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. Distribution gross profit is Distribution revenue less the cost of distributing products. This was previously referred to as Distribution net revenue.

Impact of Russia exit

On 20 April 2022, we announced the transfer of our Russian business to local investors. This has affected the year-on-year performance comparison in these results. We provide below the contribution from our Russian business in FY22 for key metrics in order to facilitate comparison between the two periods; we have also provided year-on-year comparisons including and excluding Russia.

FY22 Russia contribution		Russia
Tobacco volume	bn SE	7.8
Tobacco & NGP net revenue	£m	56
Tobacco net revenue	£m	56
NGP net revenue	£m	–
Adjusted operating profit	£m	5

Alternative performance measures (APM)

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 Supplementary Information. 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.

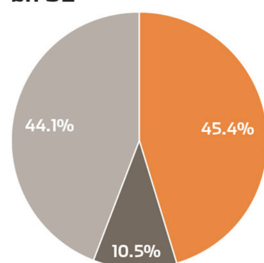
While we believe that adjusted performance measures can provide helpful information which supplements reported measures, we are also aware of the need to ensure that an appropriate balance is maintained between the two sets of reporting metrics, with adjusted disclosures not being given greater prominence than GAAP measures. This year, we have included adjusted performance measures to exclude our exit from Russia in April 2022.

GROUP RESULTS – ADJUSTED CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Full year ended 30 September 2022	Foreign exchange	Constant currency movement	Full year ended 30 September 2023	Change	Constant currency change	cc change excluding Russia*
Tobacco & NGP net revenue							
Europe	3,039	56	145	3,240	6.6%	4.8%	4.8%
Americas	2,826	120	(134)	2,812	(0.5)%	(4.7)%	(4.7)%
Africa, Asia, Australasia and Central & Eastern Europe	1,928	(12)	44	1,960	1.7%	2.3%	5.3%
Tobacco & NGP net revenue	7,793	164	55	8,012	2.8%	0.7%	1.4%
Tobacco & NGP adjusted operating profit							
Europe	1,447	6	29	1,482	2.4%	2.0%	2.0%
Americas	1,179	56	22	1,257	6.6%	1.9%	1.9%
Africa, Asia, Australasia and Central & Eastern Europe	815	(16)	45	844	3.6%	5.5%	6.2%
Tobacco & NGP adjusted operating profit	3,441	46	96	3,583	4.1%	2.8%	2.9%
Distribution							
Gross profit	1,046	40	380	1466	40.2%	36.4%	36.4%
Adjusted operating profit including eliminations	253	8	43	304	20.2%	17.0%	17.0%
Group adjusted results							
Adjusted operating profit	3,694	54	139	3,887	5.2%	3.8%	3.9%
Adjusted net finance costs	(326)	(22)	(62)	(410)	25.8%	19.1%	19.1%
Adjusted eps (pence)	265.2	2.5p	11.1p	278.8	5.1%	4.2%	4.3%

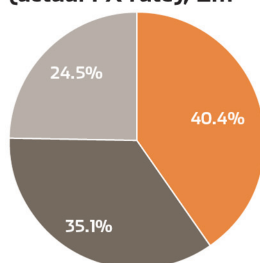
* Constant currency movement excluding Russia

Volumes, bn SE



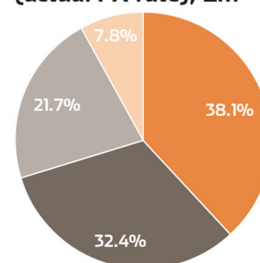
Europe	89.9bn SE
Americas	20.7bn SE
AAACE	87.4bn SE

Tobacco & NGP net revenue (actual FX rate), £m



Europe	£3,240m
Americas	£2,812m
AAACE	£1,960m

Adjusted operating profit (actual FX rate), £m



Europe	£1,482m
Americas	£1,257m
AAACE	£844m
Distribution	£304m

SALES PERFORMANCE

Reported revenue

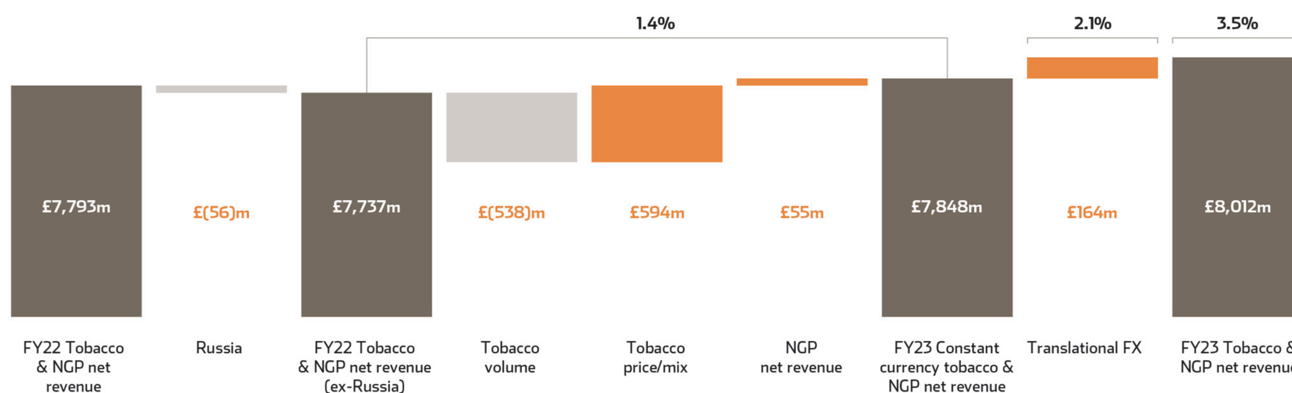
-0.2%

Tobacco & NGP net revenue*

+1.4%

* excluding Russia, at constant currency

- Reported revenue declined -0.2% reflecting lower excise due to volume declines partially offset by higher Logista revenues.
- Tobacco & NGP net revenue grew +1.4% at constant currency excluding Russia, comprising +0.7% from tobacco and +26.4% from NGP; including Russia, net revenue grew by +0.7%.
- Tobacco volume was down -7.1%, reflecting declines across Europe, Americas and AAACE as a result of pressure on consumer spending; including Russia, tobacco volumes were down -10.4%.
- Aggregate market share growth in our top-five priority markets of +10bps (FY22: +35bps).
- Tobacco price mix was strong at +7.9% due to positive pricing. Including our exit from Russia, price mix was up +10.4%.
- NGP net revenue increased +26.4% at constant currency, led by product and market launches in Europe and AAACE, offsetting continued declines in the USA.
- Translation FX was favourable at +2.1% due to average sterling weakening against the dollar and euro.



OPERATING PROFIT

Reported operating profit

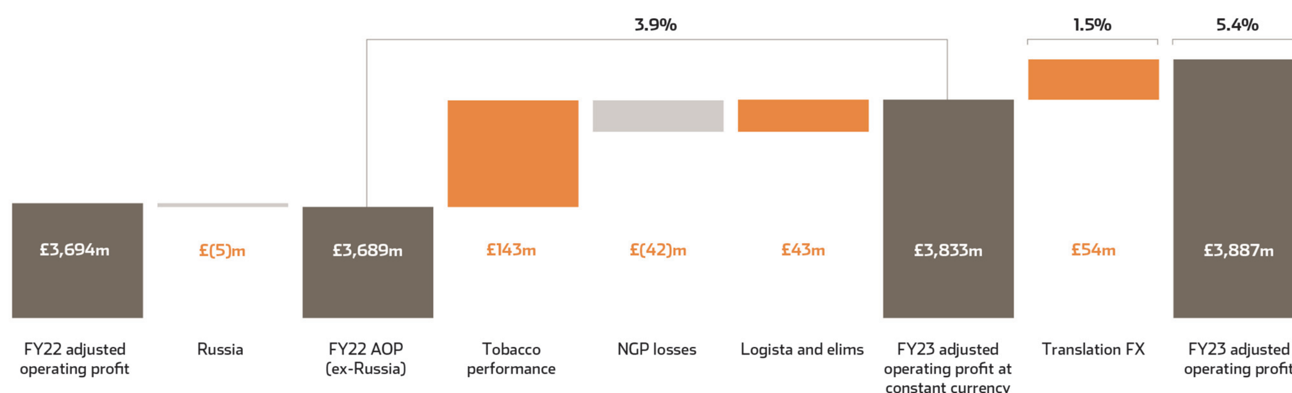
+26.8%

Group adjusted operating profit*

+3.9%

* excluding Russia, at constant currency

- Reported Group operating profit of £3,402m increased by +26.8% primarily driven by non-recurrence of exit charges related to the Russian asset disposal (£399m) in FY22.
- Adjusted Group operating profit increased +3.9% at constant currency and excluding Russia, driven by Logista performance and strong tobacco pricing offsetting tobacco volume declines and increased NGP losses. Including Russia, Group adjusted operating profit increased +3.8%.
- Tobacco adjusted operating profit increased by +4.1% at constant currency and excluding Russia, reflecting strong pricing offsetting volume declines. Including Russia, tobacco adjusted operating profit rose +3.9% at constant currency.
- NGP losses increased +48.3% at constant currency as we increased investment behind product and market launches.
- Translation FX of +1.5% reflects average sterling weakening against the dollar and euro.



EARNINGS PER SHARE

Reported EPS

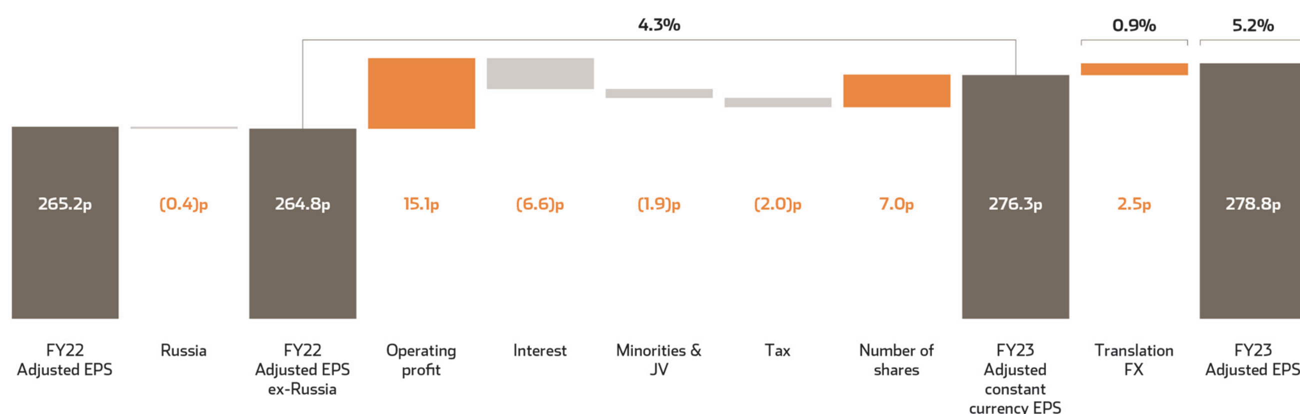
+52.1%

Adjusted EPS*

+4.3%

* excluding Russia, at constant currency

- Reported EPS increased +52.1% to 252.4 pence driven by higher reported operating profit and a reduction in tax charge relating to favourable FX movements.
- Adjusted EPS was 278.8 pence, up +4.3% at constant currency and excluding Russia, due to increased adjusted operating profit and a lower share count as a result of the share buyback programme, offset by higher finance costs and minority interest costs, the latter reflecting higher growth at Logista. Including Russia, adjusted EPS grew +4.2%.



SUMMARY CASH FLOW STATEMENT

£ million (unless otherwise indicated)	Reported 2023	Reported 2022	Adjusted 2023	Adjusted 2022
Group operating profit	**3,402**	2,683	**3,887**	3,694
Depreciation, amortisation and impairments	**632**	660	**270**	244
EBITDA	**4,034**	3,343	**4,157**	3,938
Loss on disposal of subsidiary	**1**	428	**–**	–
Profit on disposal of assets	**(39)**	–	**–**	–
Other non-cash movements	**70**	56	**7**	(20)
Operating cash flows before movement in working capital	**4,066**	3,827	**4,164**	3,918
Working capital	**(347)**	40	**(347)**	40
Tax cash flow	**(590)**	(681)	**(590)**	(681)
Cash flows from operating activities	**3,129**	3,186	**3,227**	3,277
Net capital expenditure	**(254)**	(177)	**(254)**	(177)
Restructuring	**–**	–	**(98)**	(91)
Cash interest	**(407)**	(358)	**(407)**	(358)
Minority interest dividends	**(104)**	(89)	**(104)**	(89)
Free cash flow	**2,364**	2,562	**2,364**	2,562
(Acquisitions)/disposals	**(183)**	14	**(183)**	14
Shareholder dividends	**(1,312)**	(1,320)	**(1,312)**	(1,320)
Share buyback	**(1,006)**	–	**(1,006)**	–
Purchase of ESOT shares	**–**	(1)	**–**	(1)
Net cash (outflow)/inflow	**(137)**	1,255	**(137)**	1,255

CASH FLOW

Cash flows from operating activities were £3,129 million (2022: £3,186 million).

As anticipated, capital expenditure of £254 million was also higher than the prior year (2022: £177 million) and is anticipated to increase in 2024 to within an expected range of £300 million to £350 million. The increased capital expenditure is supporting projects to drive simplified and efficient operations in line with our strategic plan.

Adjusted operating cash conversion was 92% (2022: 102%) on a 12-month basis.

£ million (unless otherwise indicated)	2023	2022
Adjusted operating profit	**3,887**	3,694
Cash flow from operating activities post capital expenditure pre interest and tax	**3,563**	3,781
Adjusted operating cash conversion	**92%**	102%

Free cash flow of £2,364 million (2022: £2,562 million) was below the prior year primarily due to the lower cash flows from operating activities, the increase in capital expenditure and increased interest costs due to the higher cost of debt.

Restructuring cash costs were £98 million (2022: £91 million). We have cash spend from our three previous restructuring programmes: Cost Optimisation Programme I of £24 million (2022: £11 million), Cost Optimisation Programme II of £10 million (2022: £19 million) and the 2021 Strategic Review Programme of £61 million (2022: £56 million) and other restructuring costs of £3 million. Together, the total cash spend for all three restructuring programmes is anticipated to be £1,558 million, of which £1,346 million has been spent to date. The remaining cash spend is ongoing, although is not expected to be in excess of the existing provisions.

£ million	2023	2022
Restructuring cash cost	**98**	91
Cumulative to date	**1,346**	1,248
Anticipated total	**1,558**	1,558

The net cash outflow of £137 million (2022: £1,255 million inflow) reduced year on year, reflecting the share buyback programme and higher acquisition costs compared to the prior year. Acquisition costs were £183 million (2022: £14 million income) and relate to Imperial's acquisition of a range of nicotine pouches to be launched in the US and that we announced in June and Logista's acquisition of Transportes El Mosca (73.3%) and Carbó Collbatallé S.L. (100%), all of which completed in the period. The £1.0 billion share buyback announced in October 2022 also completed in the period. We have announced a further share buyback of up to £1.1 billion of shares during FY24.

RETURN ON INVESTED CAPITAL

Return on invested capital (ROIC) increased by 80 basis points, driven by an increase in net adjusting operating profit after tax. ROIC was 18.5% (2022: 17.7%).

Adjusted operating profit increased by £193 million. This offset the increase of £64 million in average annual capital to drive an improvement in returns.

Our FY23 invested capital has reduced compared to the prior year mainly due to the translational FX impact on intangible assets.

£ million	2023	2022
Reported operating profit	**3,402**	2,683
Adjusting items (APM section within Supplementary Information)	**485**	1,011
Adjusted operating profit	**3,887**	3,694
Equivalent tax charge	**(871)**	(827)
Net adjusted operating profit after tax	**3,016**	2,867
Working capital	**(2,567)**	(2,823)
Intangible assets	**16,944**	17,777
Property, plant and equipment	**1,617**	1,659
Invested capital	**15,994**	16,613
Average annual invested capital	**16,304**	16,240
Return on invested capital	**18.5%**	17.7%

ADJUSTED NET DEBT/EBITDA

Adjusted net debt reduced £28 million to £8,026 million (2022: £8,054 million) in the year, as continued strong cash generation supported additional return of capital to shareholders via a share buyback. Adjusted net debt/EBITDA reduced to 1.9x from 2.0x, in line with previous guidance.

Reported net debt reduced by £54 million to £8,438 million (2022: £8,492 million). Excluding accrued interest, lease liabilities and the fair value of interest rate derivatives providing commercial hedges of interest risk, Group adjusted net debt was £8,026 million (2022: £8,054 million).

£ million	2023	2022
Reported net debt	**(8,438)**	(8,492)
Accrued interest	**125**	105
Lease liabilities	**349**	248
Fair value of interest rate derivatives	**(62)**	85
Adjusted net debt	**(8,026)**	(8,054)
Adjusted EBITDA	**4,157**	3,938
Adjusted net debt/EBITDA	**1.9x**	2.0x

RECONCILIATION BETWEEN REPORTED AND ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance (costs)/income		Earnings per share (pence)	
£ million unless otherwise indicated	2023	2022	2023	2022	2023	2022
Reported	**3,402**	2,683	**(298)**	(117)	**252.4**	165.9
Russia, Ukraine and associated markets	**4**	399	**–**	–	**0.4**	42.2
Amortisation & impairment of acquired intangibles	**347**	349	**–**	–	**38.0**	35.4
Restructuring costs	**–**	197	**–**	–	**–**	15.6
Fair value adjustment and impairment of other financial assets	**36**	37	**–**	–	**3.4**	3.9
Loss on disposal of subsidiaries	**1**	29	**–**	–	**0.1**	2.2
Acquisition and disposal costs	**–**	5	**–**	–	**–**	0.5
Excise tax provision	**–**	(9)	**–**	–	**–**	(1.0)
Charges related to legal provisions	**85**	–	**–**	–	**6.4**	–
Structural changes to defined benefit pension schemes	**12**	4	**–**	–	**1.0**	0.4
Brand impairment in equity accounted joint venture	**–**	–	**–**	–	**–**	2.5
Net fair value and exchange movements on financial instruments	**–**	–	**(149)**	(201)	**(25.8)**	(1.9)
Post-employment benefits net financing income	**–**	–	**(13)**	(8)	**(1.4)**	(0.8)
Tax settlement interest costs	**–**	–	**50**	–	**5.2**	–
Recognition of deferred tax assets	**–**	–	**–**	–	**(23.0)**	–
Provision for state aid recoverable	**–**	–	**–**	–	**–**	10.7
Uncertain tax positions	**–**	–	**–**	–	**22.4**	(6.7)
Deferred tax on unremitted earnings	**–**	–	**–**	–	**–**	(2.7)
Tax on unrecognised losses	**–**	–	**–**	–	**–**	0.8
Adjustments above attributable to non-controlling interests	**–**	–	**–**	–	**(0.3)**	(1.8)
Adjusted	**3,887**	3,694	**(410)**	(326)	**278.8**	265.2

Adjusting items

The main reconciling items of the Group's reported to adjusted operating profit are shown above.

In the period to 30 September 2023 adjusting items relate mainly to amortisation of acquired intangibles of £347 million (2022: £349 million) and fair value movements on derivative financial instruments £(149) million (2022: £(201) million).

Adjusting items in the prior period included net charges associated with Russia, Ukraine and associated markets which are significantly reduced in the current year to £4 million (2022: £399 million).

We have not treated restructuring costs as adjusting items in the FY23 results. Restructuring charges of £197 million in the prior year relate to the 2021 Strategic Review Programme which is now complete. There will be ongoing cash spend from past restructuring programmes.

During the period factory footprint rationalisation costs were supported by profit on sale of former operational sites and have not been included in adjusted items.

Finance costs

Adjusted net finance costs were higher at £410 million (2022: £326 million), reflecting higher interest rates in all major currencies during the year. Reported net finance costs were £298 million (2022: £117 million), incorporating the impact of net fair value and foreign exchange gains on financial instruments of £149 million (2022: £201 million), post-employment benefits net financing income of £11 million (2022: £8 million) and tax settlement interest costs of £50 million (2022: nil). The net fair value gains of £139 million on financial instruments are primarily due to positive valuation movement of the Group's interest rate derivatives reflecting increasing market interest rate expectations in the year.

Our all-in cost of debt increased to 4.3% (2022: 3.5%) due to the refinancing of naturally maturing cheaper debt at higher rates and the impact of rising interest rates on the proportion of our debt that was not hedged.

Our interest cover decreased to 10.1x (2022: 12.1x) reflecting the increased adjusted net finance costs.

Given the rising interest environment, we expect upward pressure on finance costs going forward although we have hedging in place for 80% of our expected debt in FY24.

Taxation

Our adjusted effective tax rate is 22.4% (2022: 22.4%) and the reported effective tax rate is 21.1% (2022: 34.7%). The adjusted effective tax rate is in line with the prior year and our previously issued guidance for year ended 30 September 2023. The adjusted tax rate is lower than the reported rate due to limited tax relief arising on foreign exchange gains that arise on consolidation, the recognition of deferred tax assets for intangibles in the Group's Dutch business and an increase in uncertain tax positions in the Group's French and German businesses.

We expect our adjusted effective tax rate for the year ended 30 September 2024 to be around 23%.

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 Cooperation 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 adjusted earnings per share at constant currency (1.5% and 0.9%, respectively). Sterling weakened against the US dollar (4.3%) and weakened against the euro (2.7%). Other major currencies remained broadly flat compared to the prior year.

Dividend payments

The Group paid two interim dividends of 21.59 pence per share in June and September 2023.

The Board has approved a further interim dividend of 51.82 pence per share and will propose a final dividend of 51.82 pence per share bringing the total dividend for the year to 146.82 pence. This represents a 4.0% increase to the amount of 141.17 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 52.7% with respect to basic earnings per share.

The third interim dividend will be paid on 29 December 2023 to shareholders registered on 24 November 2023. Subject to AGM approval, the proposed final dividend will be paid on 28 March 2024 to shareholders registered on 16 February 2024.

Dividend payments	Amount (pence)	Ex-date	Record dates	Payment date
First interim	21.59	25-May-23	26-May-23	30-Jun-23
Second interim	21.59	17-Aug-23	18-Aug-23	29-Sep-23
Third interim	51.82	23-Nov-23	24-Nov-23	29-Dec-23
Final	51.82	15-Feb-24	16-Feb-24	28-Mar-24

Funding/liquidity

During the year, we repaid the remaining $354 million balance of our February 2023 $1 billion bond and our €750 million bond in August 2023. We issued bonds of €950 million in the year with a coupon of 5.25%, maturing in February 2031. In September 2023, we swapped our remaining US dollar bonds to euro, therefore closing adjusted net debt was materially all euro. As at 30 September 2023, the Group had committed financing in place of around £12.9 billion, which comprised 28% bank facilities and 72% raised from capital markets. During the year the maturity date of €3,125 million of the Group's existing syndicated multicurrency facility was extended to 30 September 2026. Two further tranches of €184 million each were not extended and therefore maintain their maturity dates of 30 September 2025 and 30 March 2026, respectively. The Group also put in place an additional £550 million of committed bilateral bank facilities with maturity dates in September 2024.

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. 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 the short-term liquidity of the Group.

The Directors have assessed the emerging and 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.£500 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 2023.

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

Under the reverse stress test scenario, after considering mitigation actions including reductions of capital expenditure, dividend payments and share buyback programme, we have modelled that a 38% EBITDA reduction would lead the Group to have sufficient headroom until April 2024. The Group believes this reverse stress test scenario to be remote given the relatively small impact on our trading performance and bad debt levels during the COVID-19 pandemic, as well as the current political situation in Ukraine. In this scenario the Group would implement a number of mitigating actions including revoking the uncommitted dividend, pausing the share buyback and reducing discretionary spend such as capital expenditure.

Based on its review of future cash flows covering the period through to November 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 30 November 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 2023 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.

CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2023

£ million unless otherwise indicated	Notes	2023	2022
Revenue	3	**32,475**	32,551
Duty and similar items		**(14,398)**	(15,644)
Other cost of sales		**(11,397)**	(10,869)
Cost of sales		**(25,795)**	(26,513)
Gross profit		**6,680**	6,038
Distribution, advertising and selling costs		**(2,338)**	(2,021)
Administrative and other expenses		**(940)**	(1,334)
Operating profit		**3,402**	2,683
Investment income		**907**	1,600
Finance costs		**(1,205)**	(1,717)
Net finance costs		**(298)**	(117)
Share of profit/(loss) of investments accounted for using the equity method	14	**7**	(15)
Profit before tax	4	**3,111**	2,551
Tax	7	**(655)**	(886)
Profit for the year		**2,456**	1,665
Attributable to:			
Owners of the parent		**2,328**	1,570
Non-controlling interests		**128**	95
Earnings per ordinary share (pence)			
• Basic	9	**252.4**	165.9
• Diluted	9	**250.8**	164.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2023

£ million	Notes	2023	2022
Profit for the year		**2,456**	1,665
Other comprehensive income			
Exchange movements		**(508)**	841
Exchange movements recycled to profit and loss upon disposal of subsidiaries		**–**	190
Hyperinflation adjustment in the year	1	**5**	11
Current tax on hedge of net investments and quasi-equity loans		**(115)**	148
Items that may be reclassified to profit and loss		**(618)**	1,190
Net actuarial (losses)/gains on retirement benefits	23	**(376)**	76
Current tax relating to net actuarial losses on retirement benefits		**–**	10
Deferred tax relating to net actuarial losses/(gains) on retirement benefits		**135**	(52)
Items that will not be reclassified to profit and loss		**(241)**	34
Other comprehensive (expense)/income for the year, net of tax		**(859)**	1,224
Total comprehensive income for the year		**1,597**	2,889
Attributable to:			
Owners of the parent		**1,484**	2,778
Non-controlling interests		**113**	111
Total comprehensive income for the year		**1,597**	2,889

CONSOLIDATED BALANCE SHEET

at 30 September 2023

£ million	Notes	2023	2022
Non-current assets			
Intangible assets	11	**16,944**	17,777
Property, plant and equipment	12	**1,617**	1,659
Right of use assets	13	**326**	228
Investments accounted for using the equity method	14	**55**	56
Retirement benefit assets	23	**414**	826
Trade and other receivables	16	**63**	67
Derivative financial instruments	20/21	**824**	985
Deferred tax assets	22	**653**	439
		20,896	22,037
Current assets			
Inventories	15	**4,522**	4,140
Trade and other receivables	16	**2,490**	2,543
Current tax assets	7	**112**	334
Cash and cash equivalents	17	**1,345**	1,850
Derivative financial instruments	20/21	**126**	54
		8,595	8,921
Total assets		**29,491**	30,958
Current liabilities			
Borrowings	19	**(1,499)**	(1,011)
Derivative financial instruments	20/21	**(174)**	(54)
Lease liabilities	13	**(81)**	(58)
Trade and other payables	18	**(9,579)**	(9,506)
Current tax liabilities	7	**(418)**	(307)
Provisions	24	**(148)**	(203)
		(11,899)	(11,139)
Non-current liabilities			
Borrowings	19	**(7,882)**	(8,996)
Derivative financial instruments	20/21	**(829)**	(1,072)
Lease liabilities	13	**(268)**	(190)
Trade and other payables	18	**(27)**	(10)
Deferred tax liabilities	22	**(871)**	(961)
Retirement benefit liabilities	23	**(807)**	(894)
Provisions	24	**(266)**	(223)
		(10,950)	(12,346)
Total liabilities		**(22,849)**	(23,485)
Net assets		**6,642**	7,473
Equity			
Share capital	25	**97**	103
Share premium and capital redemption		**5,843**	5,837
Retained earnings		**(674)**	(443)
Exchange translation reserve		**755**	1,363
Equity attributable to owners of the parent		**6,021**	6,860
Non-controlling interests		**621**	613
Total equity		**6,642**	7,473

The financial statements on pages 178 to 262 were approved by the Board of Directors on 13 November 2023 and signed on its behalf by:

Lukas Paravicini
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2023

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2022	**103**	**5,837**	**(443)**	**1,363**	**6,860**	**613**	**7,473**
Profit for the year	**–**	**–**	**2,328**	**–**	**2,328**	**128**	**2,456**
Exchange movements on retranslation of net assets	**–**	**–**	**–**	**(942)**	**(942)**	**(15)**	**(957)**
Exchange movements on net investment hedges	**–**	**–**	**–**	**427**	**427**	**–**	**427**
Exchange movements on quasi-equity loans	**–**	**–**	**–**	**22**	**22**	**–**	**22**
Hyperinflation adjustment in the year	**–**	**–**	**5**	**–**	**5**	**–**	**5**
Current tax on hedge of net investments and quasi-equity loans	**–**	**–**	**–**	**(115)**	**(115)**	**–**	**(115)**
Net actuarial losses on retirement benefits	**–**	**–**	**(376)**	**–**	**(376)**	**–**	**(376)**
Deferred tax relating to net actuarial losses on retirement benefits	**–**	**–**	**135**	**–**	**135**	**–**	**135**
Other comprehensive expense	**–**	**–**	**(236)**	**(608)**	**(844)**	**(15)**	**(859)**
Total comprehensive income/(expense)	**–**	**–**	**2,092**	**(608)**	**1,484**	**113**	**1,597**
Transactions with owners							
Costs of employees' services compensated by share schemes	**–**	**–**	**41**	**–**	**41**	**–**	**41**
Repurchase of shares	**(6)**	**6**	**(1,006)**	**–**	**(1,006)**	**–**	**(1,006)**
Changes in non-controlling interests	**–**	**–**	**1**	**–**	**1**	**(1)**	**–**
Deferred tax on share-based payments	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Registration of put/call option	**–**	**–**	**(48)**	**–**	**(48)**	**–**	**(48)**
Dividends paid	**–**	**–**	**(1,312)**	**–**	**(1,312)**	**(104)**	**(1,416)**
At 30 September 2023	**97**	**5,843**	**(674)**	**755**	**6,021**	**621**	**6,642**
At 30 September 2021	103	5,837	(788)	200	5,352	588	5,940
Hyperinflation restatement to 1 October 2021	–	–	22	–	22	–	22
At 1 October 2021	103	5,837	(766)	200	5,374	588	5,962
Profit for the year	–	–	1,570	–	1,570	95	1,665
Exchange movements on retranslation of net assets	–	–	–	1,518	1,518	16	1,534
Exchange movements on net investment hedges	–	–	–	(649)	(649)	–	(649)
Exchange movements on quasi-equity loans	–	–	–	(44)	(44)	–	(44)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	–	–	–	190	190	–	190
Hyperinflation adjustment in the year	–	–	11	–	11	–	11
Current tax on hedge of net investments and quasi-equity loans	–	–	–	148	148	–	148
Net actuarial gains on retirement benefits	–	–	76	–	76	–	76
Current tax relating to net actuarial gains on retirement benefits	–	–	10	–	10	–	10
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(52)	–	(52)	–	(52)
Other comprehensive income	–	–	45	1,163	1,208	16	1,224
Total comprehensive income	–	–	1,615	1,163	2,778	111	2,889
Transactions with owners							
Costs of employees' services compensated by share schemes	–	–	29	–	29	–	29
Changes in non-controlling interests	–	–	(3)	–	(3)	3	–
Deferred tax on share-based payments	–	–	2	–	2	–	2
Dividends paid	–	–	(1,320)	–	(1,320)	(89)	(1,409)
At 30 September 2022	103	5,837	(443)	1,363	6,860	613	7,473

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2023

£ million	2023	2022
Cash flows from operating activities		
Operating profit	**3,402**	2,683
Dividends received from investments accounted for using the equity method	**7**	7
Depreciation, amortisation and impairment	**632**	660
Profit on disposal of non-current assets	**(39)**	–
Loss on disposal of subsidiaries	**1**	428
Post-employment benefits	**(29)**	(56)
Costs of employees' services compensated by share schemes	**31**	29
Other non-cash items	**40**	37
Movement in provisions	**21**	39
Operating cash flows before movement in working capital	**4,066**	3,827
Increase in inventories	**(551)**	(195)
Decrease in trade and other receivables	**46**	89
Increase in trade and other payables	**158**	146
Movement in working capital	**(347)**	40
Tax paid	**(590)**	(681)
Net cash flows generated from operating activities	**3,129**	3,186
Cash flows from investing activities		
Interest received	**10**	8
Proceeds from the sale of non-current assets	**71**	53
Proceeds from sale of subsidiaries, net of cash disposed of (note 10)	**–**	27
Purchase of non-current assets	**(325)**	(230)
Purchase of brands and operations (note 10/11)	**(183)**	(13)
Net cash used in investing activities	**(427)**	(155)
Cash flows from financing activities		
Interest paid	**(417)**	(366)
Purchase of shares by Employee Share Ownership Trusts	**–**	(1)
Lease liabilities paid	**(92)**	(68)
Increase in borrowings	**1,462**	1,710
Repayment of borrowings	**(1,518)**	(2,476)
Cash flows relating to derivative financial instruments	**(64)**	94
Repurchase of shares	**(1,006)**	–
Dividends paid to non-controlling interests	**(104)**	(89)
Dividends paid to owners of the parent	**(1,312)**	(1,320)
Net cash used in financing activities	**(3,051)**	(2,516)
Net (decrease)/increase in cash and cash equivalents	**(349)**	515
Cash and cash equivalents at start of year	**1,850**	1,287
Effect of foreign exchange rates on cash and cash equivalents	**(156)**	48
Cash and cash equivalents at end of year	**1,345**	1,850

NOTES TO THE 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.

Alternative performance measures

Information on Alternative Performance Measures (APMs) is presented within the Supplementary Information section of this document.

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. During the period of the COVID-19 pandemic as well as during 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 the short-term liquidity of the Group.

The Directors have assessed the emerging and 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.£500m.
- 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 per cent from 1 October 2023.

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

Under the reverse stress test scenario, after considering mitigation actions including reductions of capital expenditure, dividend payments and share buyback programme, we have modelled that a 38% EBITDA reduction would lead the Group to have sufficient headroom until April 2024. The Group believes this reverse stress test scenario to be remote given the relatively small impact on our trading performance and bad debt levels during the COVID-19 pandemic, as well as the current political situation in Ukraine. In this scenario Group would implement a number of mitigating actions including revoking the uncommitted dividend, pausing the share buyback and reducing discretionary spend such as capex.

Based on its review of future cash flows covering the period through to November 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 30 November 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 2023. See note VIII 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

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

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

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

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

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

	2023		2022	
Foreign exchange rate versus GBP	**Closing rate**	**Average rate**	Closing rate	Average rate
Euro	**1.1545**	**1.1487**	1.1325	1.1807
US dollar	**1.2214**	**1.2264**	1.1040	1.2813

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 with effect from 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 2022 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 (1 October 2021) 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 and where necessary.
- The financial statements of the Group's Turkish operations have been translated into sterling at the closing exchange rate at 30 September 2023.
- 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 TurkStat CPI index was 1,691.04 at 30 September 2023 (1,046.89 at 30 September 2022 and 570.66 at 30 September 2021). The inflation index for the year is therefore 1.6153 (2022: 1.8345). The Turkish economy has been designated hyperinflationary since April 2022, but the impact on the Group's results remains immaterial.

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

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

Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

Intangible assets – goodwill

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

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. If any negative goodwill arises this is recognised immediately in the income 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

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 asset is 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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.

New accounting standards

The following amendments to the accounting standards, issued by the IASB or International Financial Reporting Standards Interpretations Committee (IFRS IC) and endorsed for use in the UK, have been adopted by the Group from 1 October 2022 with no impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IAS 12 International Tax Reform – Pillar Two model rules. (The Group has applied the mandatory exception under IAS 12 in relation to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.)

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.

Estimates

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 statement. 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Other estimates

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

Determination of useful economic life of intangible assets

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

Amortisation and impairment of intangible assets

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

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

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

Corporate income taxes

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

Other 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 24 and 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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 accepting 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 5 out of 12 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 has a designated program 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 don't 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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.

On 1 October 2022 the Group reorganised the structure of the Europe and AAA regions. The Central and Eastern Europe cluster, which includes operations in Poland, Czech Republic, Ukraine, Slovakia, Hungary, Azerbaijan, Armenia, Georgia and Slovenia, moved from the Europe region to the AAA region. The AAA region has been re-named AAACE. The managerial and internal reporting structures of the regions have been revised to reflect the new structure. Following the introduction of these changes we have revised our segmental reporting as required under IFRS 8. The comparative figures below have been restated accordingly.

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 the Group's 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.

The Group's reportable segments are Europe, Americas, Africa, Asia, Australasia and Central and Eastern Europe (AAACE) and Distribution. Operating segments are comprised of geographical groupings of business markets. The main Tobacco & NGP business markets within the Europe, Americas and AAACE reportable segments are:

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

Americas – United States.

AAACE – Australia, Japan, Saudi Arabia, Taiwan, Poland, Czech Republic, Ukraine, Slovakia, Hungary, Slovenia and our African markets including Algeria and Morocco.

Tobacco & NGP

	2023			2022		
£ million unless otherwise indicated	**Tobacco**	**NGP**	**Tobacco & NGP**	Tobacco	NGP	Tobacco & NGP
Revenue	**22,114**	**299**	**22,413**	23,232	224	23,456
Net revenue	**7,747**	**265**	**8,012**	7,585	208	7,793
Operating profit/(loss)	**3,262**	**(156)**	**3,106**	2,599	(127)	2,472
Adjusted operating profit			**3,583**			3,441
Adjusted operating margin %			**44.7**			44.2

Distribution

£ million unless otherwise indicated	**2023**	2022
Revenue	**10,819**	9,756
Distribution gross profit	**1,466**	1,046
Operating profit	**298**	212
Adjusted operating profit	**306**	254
Adjusted operating margin %	**20.9**	24.3

NOTES TO THE FINANCIAL STATEMENTS *continued*

Revenue

£ million	2023 Total revenue	2023 External revenue	2022 (restated) Total revenue	2022 (restated) External revenue
Tobacco & NGP				
Europe	**11,749**	**10,992**	12,052	11,391
Americas	**3,700**	**3,700**	3,756	3,756
AAACE	**6,964**	**6,964**	7,648	7,648
Total Tobacco & NGP	**22,413**	**21,656**	23,456	22,795
Distribution	**10,819**	**10,819**	9,756	9,756
Eliminations	**(757)**	**–**	(661)	–
Total Group	**32,475**	**32,475**	32,551	32,551

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

Tobacco & NGP net revenue

£ million	2023 Tobacco	2023 NGP	2023 Total	2022 (restated) Tobacco	2022 (restated) NGP	2022 (restated) Total
Europe	**3,020**	**220**	**3,240**	2,883	156	3,039
Americas	**2,778**	**34**	**2,812**	2,784	42	2,826
AAACE	**1,949**	**11**	**1,960**	1,918	10	1,928
Total Tobacco & NGP	**7,747**	**265**	**8,012**	7,585	208	7,793

Adjusted operating profit and reconciliation to profit before tax

£ million	2023	2022 (restated)
Tobacco & NGP		
Europe	**1,482**	1,447
Americas	**1,257**	1,179
AAACE	**844**	815
Total Tobacco & NGP	**3,583**	3,441
Distribution	**306**	254
Eliminations	**(2)**	(1)
Adjusted operating profit	**3,887**	3,694
Russia, Ukraine and associated markets – Tobacco & NGP	**(4)**	(399)
Amortisation and impairment of acquired intangibles – Tobacco & NGP	**(339)**	(323)
Amortisation of acquired intangibles – Distribution	**(8)**	(26)
Restructuring costs – Tobacco & NGP	**–**	(197)
Fair value adjustment and impairment of other financial assets – Tobacco & NGP	**(36)**	(37)
Loss on disposal of subsidiaries – Tobacco & NGP	**(1)**	(13)
Loss on disposal of subsidiaries – Distribution	**–**	(16)
Acquisition and disposal costs – Tobacco & NGP	**–**	(5)
Excise tax provision – Tobacco & NGP	**–**	9
Charges related to legal provisions – Tobacco & NGP	**(85)**	–
Structural changes to defined benefit pension schemes – Tobacco & NGP	**(12)**	(4)
Operating profit	**3,402**	2,683
Net finance costs	**(298)**	(117)
Share of profit/(loss) of investments accounted for using the equity method	**7**	(15)
Profit before tax	**3,111**	2,551

NOTES TO THE FINANCIAL STATEMENTS *continued*

Other information

£ million	2023 Additions to property, plant and equipment	2023 Depreciation and software amortisation	2022 (restated) Additions to property, plant and equipment	2022 (restated) Depreciation and software amortisation
Tobacco & NGP				
Europe	**69**	**79**	44	76
Americas	**36**	**20**	31	25
AAACE	**46**	**41**	41	52
Total Tobacco & NGP	**151**	**140**	116	153
Distribution	**40**	**41**	29	32
Total Group	**191**	**181**	145	185

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	2023 External revenue	2023 Non-current assets	2022 (restated) External revenue	2022 (restated) Non-current assets
UK	**3,926**	**148**	4,286	149
Germany	**4,142**	**3,245**	4,238	3,280
France	**3,428**	**2,350**	3,215	2,371
USA	**3,657**	**5,646**	3,726	6,430
Other	**17,322**	**7,553**	17,086	7,490
Total Group	**32,475**	**18,942**	32,551	19,720

Non-current assets comprise intangible assets, property, plant and equipment, right of use assets and investments accounted for using the equity method. Note the comparative figure has been restated to include right of use assets.

4. PROFIT BEFORE TAX

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

£ million	2023	2022
Raw materials and consumables used	**773**	857
Changes in inventories of finished goods – Tobacco & NGP	**2,630**	2,660
Changes in inventories of finished goods – Distribution	**7,994**	7,350
Depreciation and impairment of fixed assets	**153**	235
Amortisation and impairment of intangible assets and investments in associates	**394**	406
Acquisition and disposal costs	**–**	5
Expenses relating to short-term leases	**4**	3
Expenses relating to low value asset leases	**1**	2
Depreciation and impairment of right of use assets	**85**	74
Net foreign exchange (gains)/losses	**(11)**	75
Write down of inventories	**40**	20
Profit on disposal of non-current assets	**39**	–
Write back of trade receivables	**(5)**	(3)

Analysis of fees payables to Ernst & Young LLP and its associates

£ million	2023	2022
Parent Company and consolidated financial statements	**2.7**	2.2
The Company's subsidiaries	**6.1**	5.6
Total audit fees	**8.8**	7.8
Audit-related assurance services	**0.5**	0.4
Total audit-related fees	**9.3**	8.2
Other assurance services	**0.5**	0.6
Total non-audit fees	**0.5**	0.6
Total auditor's remuneration	**9.8**	8.8

NOTES TO THE FINANCIAL STATEMENTS *continued*

5. RESTRUCTURING COSTS

£ million	2023	2022
Employment related	–	103
Asset impairments	–	70
Other charges	–	24
	–	197

Analysed by workstream:

	2023			2022		
£ million	Costs	Cash spend	Cumulative cash spend	Costs	Cash spend	Cumulative cash spend
2021 Strategic review programme	–	61	165	197	56	104
Other	–	37	1,276	–	35	1,239
	–	98	1,441	197	91	1,343

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.

No accounting charges are now expected to be recognised in relation to historic restructuring programmes, however there remains some ongoing cash costs to be incurred which are not expected to be in excess of existing provisions.

6. DIRECTORS AND EMPLOYEES

Employment costs

£ million	2023	2022
Wages and salaries	882	642
Social security costs	186	142
Other pension costs (note 23)	41	64
Share-based payments (note 26)	31	29
	1,140	877

Operating executive (excluding executive directors)

£ million	2023	2022
Base salary	4.7	4.3
Benefits	0.9	0.7
Pension salary supplement	0.7	0.7
Bonus	4.8	5.3
Termination payments	2.1	5.8
LTIP annual vesting[1]	7.8	1.5
	21.0	18.3

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 £39,323,966 (2022: £31,671,710).

Key management compensation[1]

£ million	2023	2022
Short term employee benefits	17.0	17.6
Post-employment benefits	–	0.1
Termination payments	2.1	5.7
Share based payments (in accordance with IAS 24)	15.0	3.6
	34.1	27.0

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

Details of Directors' emoluments and interests, and of key management compensation which represent related-party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors' Remuneration Report, on pages 142-163 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Number of people employed by the group during the year

	2023		2022	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	**18,800**	**19,100**	19,900	22,600
Distribution	**6,400**	**6,400**	5,800	6,000
	25,200	**25,500**	25,700	28,600

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

	2023		2022	
	At 30 September	Average	At 30 September	Average
UK and European Union	**12,200**	**11,900**	14,000	14,200
Americas	**4,700**	**5,100**	5,700	7,800
Rest of the World	**8,300**	**8,500**	6,000	6,600
	25,200	**25,500**	25,700	28,600

7. TAX

The major components of income tax expense for the years ended 30 September 2023 and 2022 are:

£ million	2023	2022
UK current tax		
Current year (credited)/charged to the consolidated income statement	**(55)**	217
Current year charged/(credited) to consolidated other comprehensive income	**115**	(158)
Total current year UK current tax	**60**	59
Adjustments in respect of prior years charged to the consolidated income statement	**15**	149
Total UK current tax	**75**	208
Overseas current tax		
Current year charged to the consolidated income statement	**620**	670
Total current year overseas current tax	**620**	670
Adjustments in respect of prior years charged/(credited) to the consolidated income statement	**233**	(116)
Total overseas current tax	**853**	554
Total current tax charged to the consolidated statement of other comprehensive income	**928**	762

£ million	2023	2022
UK current tax		
Current year	**(55)**	217
Adjustments in respect of prior years	**15**	149
Overseas current tax		
Current year	**620**	670
Adjustments in respect of prior years	**233**	(116)
Total current tax	**813**	920
Deferred tax		
Relating to origination and reversal of temporary differences	**(158)**	(34)
Total tax charged to the consolidated income statement	**655**	886

NOTES TO THE FINANCIAL STATEMENTS *continued*

£ million	2023	2022
Tax related to items recognised in consolidated other comprehensive income during the year:		
Current tax on hedge of net investment and quasi-equity loans	**115**	(148)
Current tax on actuarial gains and losses	**–**	(10)
Total current tax	**115**	(158)
Deferred tax on actuarial gains and losses	**(135)**	52
Deferred tax on hyperinflation adjustment	**1**	3
Total deferred tax	**(134)**	55
Total tax credited to consolidated other comprehensive income	**(19)**	(103)

£ million	2023	2022
Tax related to items recognised in equity during the year:		
Deferred tax on share-based payments	**(1)**	(2)
Total tax credited to equity	**(1)**	(2)

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 22.0% (2022: 19.0%) as follows:

£ million	2023	2022
Profit before tax	**3,111**	2,551
Tax at the UK corporation tax rate of 22.0% (2022: 19.0%)	**684**	484
Tax effects of:		
Differences in effective tax rates on overseas earnings	**24**	118
Movement in provision for uncertain tax positions	**211**	(78)
Remeasurement of deferred tax balances arising from changes in tax rates	**–**	4
Remeasurement of previously recognised deferred tax assets	**(6)**	(1)
Increase in unrecognised deferred tax assets	**1**	14
Deferred tax on unremitted earnings	**5**	(26)
Share of (profit)/loss of investments accounted for using the equity method	**(2)**	3
Non-deductible expenses	**24**	18
(Non-taxable gains)/non-deductible losses on net foreign exchange on financial instruments	**(122)**	145
Recognition of deferred tax assets	**(212)**	–
Exempt losses on Russian and associated markets exit	**–**	88
Provision for state aid tax recoverable	**–**	101
Adjustments in respect of prior years	**48**	16
Total tax charged to the consolidated income statement	**655**	886

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 22.0%.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £nil (2022: £4 million).

During the year the Group has increased the provision for deferred tax on unremitted earnings by £5 million (2022: £26 million decrease). The tax will arise on the distribution of profits through the Group and on planned Group simplification.

Movement on the current tax account

£ million	2023	2022
At 1 October	**27**	82
Charged to the consolidated income statement	**(813)**	(920)
(Charged)/credited to other comprehensive income	**(115)**	158
Cash paid	**590**	681
Exchange movements	**6**	(7)
Balance sheet reclassification	**(1)**	33
At 30 September	**(306)**	27

The cash tax paid in the year is £223 million lower than the current tax charge (2022: £239 million lower). 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	2023	2022
Current tax assets	**112**	334
Current tax liabilities	**(418)**	(307)
	(306)	27

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 2023 the total value of these provisions excluding compensating assets under mutual agreement procedure was £261 million (2022: £215 million excluding compensating assets, 2022: £148 million including compensating assets). 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 on the results of the Group.

French tax litigation

The Group has an ongoing challenge from the French tax authorities, which is now in litigation, and could lead to additional liabilities of £254 million including tax, interest, and penalties. 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 May 2023 the Administrative Tribunal of Montreuil issued its decision, ruling in favour of the French tax authorities. In July 2023 the Group appealed to the Administrative Court of Appeal of Paris. Whilst the Group has appealed, in the light of the Administrative Tribunal of Montreuil's decision, having subsequently reassessed the probability of a successful appeal, the Group has now determined it is appropriate to increase the provision for uncertain tax positions to £180 million (2022: £42 million).

State and UK CFC

In 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.

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 that 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, during 2022 the Group reassessed recoverability of the £101 million previously recorded as a receivable and determined it was appropriate to provide in full.

Transfer pricing

The Group has been subject to tax audits relating to transfer pricing matters in several jurisdictions, principally UK, France and Germany. The Group estimates the potential gross level of exposure relating to transfer pricing issues is approximately £100 million (2022: £200 million). The Group holds a provision of £68 million excluding compensating assets (2022: £121 million excluding compensating assets, £54 million including compensating assets) in respect of these items.

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 2022. Settlement of the German audit was made during 2023. In September 2023 an additional separate transfer pricing audit was opened by the German tax authorities.

The Group believes 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 concerning 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 was made for £48 million including interest, for which a provision was made in 2022 and has since been settled in 2023. The Group holds a provision of £nil (2022: £48 million) in respect of this matter.

8. DIVIDENDS

Distributions to ordinary equity holders

£ million	**2023**	2022	2021
Paid interim of 43.18 pence per share (2022: 42.54 pence, 2021: 42.12 pence)			
• Paid June 2021	**–**	–	199
• Paid September 2021	**–**	–	199
• Paid December 2021	**–**	–	458
• Paid June 2022	**–**	202	–
• Paid September 2022	**–**	202	–
• Paid December 2022	**–**	464	–
• Paid June 2023	**196**	–	–
• Paid September 2023	**195**	–	–
Interim dividend paid	**391**	868	856
Proposed third interim of 51.82 pence per share (2022: 49.31 pence, 2021: 48.48 pence)			
• To be paid December 2023	**466**	–	–
Interim dividend proposed	**466**	–	–
Proposed final of 51.82 pence per share (2022: 49.32 pence, 2021: 48.48 pence)			
• Paid March 2022	**–**	–	458
• Paid March 2023	**–**	457	–
• To be paid March 2024	**465**	–	–
Final dividend	**465**	457	458
Total ordinary share dividends of 146.82 pence per share (2022: 141.17 pence, 2021: 139.08 pence)	**1,322**	1,325	1,314

The proposed third interim dividend for the year ended 30 September 2023 of 51.82 pence per share amounts to a proposed dividend of £466 million, which will be paid in December 2023. The proposed final dividend for the year ended 30 September 2023 of 51.82 pence per share amounts to a proposed dividend payment of £465 million in March 2024 based on the number of shares ranking for dividend at 30 September 2023, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2023 will be £1,322 million (2022: £1,325 million). The dividend paid during 2023 is £1,312 million (2022: £1,320 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	2023	2022
Earnings: basic and diluted – attributable to owners of the Parent Company	**2,328**	1,570

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**922.5**	946.2
Potentially dilutive share options	**5.7**	6.8
Shares for diluted earnings per share	**928.2**	953.0

Pence		
Basic earnings per share	**252.4**	165.9
Diluted earnings per share	**250.8**	164.7

10. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Russian associated markets exit

In the prior year a loss on exit from the Russian and associated markets of £423 million was incurred, 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. 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 to be impaired. In addition, certain exit costs are expected to be incurred in the process of ceasing operations. Total impairment and exit costs of £35 million were recognised in the financial year ending 30 September 2022. There is ongoing work to complete the exit from the associated markets. In the current year revisions to these exit provisions totalling £14 million have been recognised primarily arising due to changes in the expected level of exit costs.

Logista

Acquisition of Speedlink Worldwide Express B.V.

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 €20 million (£16 million) which has been paid in cash. There is an intention to purchase the remaining 30% of share capital over the next two 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 €12 million (£10 million), intangible assets of €15 million (£13 million) and deferred tax liability of €4 million (£3 million) were recognised on acquisition.

Acquisition of Herinvemol, S.L. (Transportes El Mosca)

On 17 June 2022, the Group's subsidiary Logista announced the acquisition of 60% of the shares of Herinvemol S.L. Herinvemol S.L. is the parent company of a group of companies over which it holds control, trading as 'Transportes El Mosca'. This acquisition completed on 28 October 2022.

Transportes El Mosca offers national and international intermodal transport services by road, sea and air, as well as frozen or refrigerated transport. The main destination markets for the international road transport activity are the United Kingdom, Germany, Portugal, France, the Netherlands, and Italy, and its clients are mainly producers and large distribution chains in the food sector.

The total purchase consideration for the 60% initial shareholding is €99 million (£86 million) with €1 million (£1 million) remaining as a current liability as at 30 September 2023. The agreement contemplates cross-call and call options for the remaining 40% exercisable over a 3-year time horizon. At 30 September 2023 goodwill of €39 million (£33 million) has been recognised relating to this acquisition which has been assigned to the Distribution segment. The valuation of the assets at fair value has been carried out by an independent expert. This valuation includes, as intangible assets, Customer Relationships for €42 million (£38 million) and Trademarks for €5 million (£4 million).

On 3 August 2023, Logista announced the acquisition of an additional 13.33% of equity for a consideration of €23 million (£20 million), increasing its total ownership to 73.33%.

At 30 September 2023, Logista has a purchase option for the remaining 26.67%, which is recorded at fair value as a non-current liability for an amount of €25 million (£22 million) and a current liability for an amount of €25 million (£22 million), with a corresponding adjustment taken to equity reserves. The equity movement of €56 million (£48 million) is calculated based on the initial valuation of the call options at fair value of €75 million (£65 million) , reduced by the minority interests arising from the purchase transaction of €17 million (£14 million) and those arising from the profit for the year generated by the acquired company.

The revenue and net profit that were contributed to the consolidated income statement for the period ended 30 September 2023 totalled €260 million (£226 million) and €4 million (£3 million), respectively.

The ordinary income and net profit that would have contributed to the consolidated income statement if Transportes El Mosca had been acquired on 1 October 2022 is not significantly different from the figures indicated in the previous paragraph.

Acquisition of Carbó Collbatallé S.L.

In April 2022, the Group's subsidiary Logista reached an agreement for the acquisition of 100% of the shares of Carbó Collbatallé, a company that offers transport and logistics services for refrigerated and frozen foods, which carries out its commercial activity mainly in the Spanish market. This acquisition was completed in October 2022.

The total consideration for the shares acquired was €55 million (£46 million) of which €51 million (£42 million) was paid in cash at the time of the purchase with €4 million (£4 million) outstanding as at 30 September 2023.

As at 30 September 2023, goodwill of €36 million (£31 million) has been recognised which has been assigned to the Distribution segment. The valuation of the assets at fair value has been carried out by an independent expert. This valuation includes, as intangible assets, Customer Relationships for €20 million (£17 million) and Trademarks for €1 million (£1 million).

The revenue and net profit that were contributed to the consolidated income statement for the period ended 30 September 2023 totalled €63 million (£55 million) and €5 million (£4 million) respectively.

Acquisition of Gramma Farmaceutici, S.R.L.

In July 2023, the Group's subsidiary Logista acquired 100% of the equity shares of Gramma Farmaceutici, S.R.L., a company specialised in logistics services for the pharmaceutical industry in Italy. The total purchase price of these shares amounted to €3 million (£3 million), paid in cash at the time of purchase. The book value of the net assets acquired was €296 thousand (£257 thousand). As at 30 September 2023, the company has recorded provisional goodwill of €3 million (£3 million) which has been assigned to the Distribution segment.

The revenue and net profit that were contributed to the consolidated income statement for the period ended 30 September 2023 totalled €2 million (£2 million) and €18 thousand (£16 thousand) respectively. The ordinary income and net profit that would have contributed to the consolidated income statement if the company had been acquired on 1 October 2022 is not significantly different from the figures indicated in the previous paragraph.

The amounts of the assets and liabilities arising from the following acquisitions during the year ending 30 September 2023 are as follows:

£ million	Carbó Collbatallé S.L. Fair value	Hernivemol, S.L. (Transportes El Mosca) Fair value	Total Fair value
Property, plant and equipment and right of use assets	**29**	**67**	**96**
Other intangible assets	**18**	**42**	**60**
Other non-current assets	**–**	**1**	**1**
Trade receivables and other accounts receivable	**10**	**75**	**85**
Cash and other equivalent liquid assets	**3**	**11**	**14**
Other current assets	**1**	**2**	**3**
Deferred tax liabilities	**(5)**	**(10)**	**(15)**
Trade payables and other accounts payable	**(16)**	**(55)**	**(71)**
Other current financial liabilities	**–**	**(43)**	**(43)**
Other non-current financial liabilities	**(25)**	**(23)**	**(48)**
Total net assets	**15**	**67**	**82**
Less minority interests	**–**	**(14)**	**(14)**
Net assets acquired by the group	**15**	**53**	**68**
Consideration for the acquisition	**46**	**86**	**132**
Goodwill	**31**	**33**	**64**

NOTES TO THE FINANCIAL STATEMENTS *continued*

11. INTANGIBLE ASSETS

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
					2023
Cost					
At 1 October 2022	14,228	13,871	1,433	522	30,054
Additions	–	136	1	119	256
Acquisitions	67	5	54	2	128
Disposals	–	(115)	–	(3)	(118)
Reclassifications	–	(2)	–	2	–
Exchange movements	(510)	(853)	(31)	(12)	(1,406)
At 30 September 2023	13,785	13,042	1,457	630	28,914
Amortisation and impairment					
At 1 October 2022	1,587	8,925	1,414	351	12,277
Amortisation charge for the year	–	352	6	34	392
Disposals	–	(109)	–	(3)	(112)
Reclassifications	–	(1)	–	1	–
Exchange movements	(31)	(517)	(31)	(8)	(587)
Accumulated amortisation	–	8,111	1,389	374	9,874
Accumulated impairment	1,556	539	–	1	2,096
At 30 September 2023	1,556	8,650	1,389	375	11,970
Net book value					
At 30 September 2023	12,229	4,392	68	255	16,944

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

Amortisation and impairment of acquired intangibles excluded from adjusted operating profit amounted to £347 million (2022: £349 million), this comprises amortisation on intellectual property of £341 million (2022: £323 million) and amortisation on supply agreements of £6 million (2022: £26 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 acquired as part of the purchase of Altadis, and of Carbó Collbatallé S.L. and Herinvemol S.L. (Transportes El Mosca) in the current financial year.

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

In June 2023 the Group purchased intellectual property relating to tobacco pouches to be marketed within the United States. The purchase consideration was $130 million (£106 million) comprising $50 million (£41 million) which was paid in cash on completion, deferred consideration of $31 million (£25 million) expected to be paid in December 2023 and contingent consideration currently estimated at $49 million (£40 million) payable over a five-year period up until 2028. All deferred and contingent consideration has been discounted at a rate of 13% and a corresponding consideration liability of $81 million (£66 million) has been recognised. The total initial intangible asset value recognised was $130 million (£106 million).

Goodwill and intangible asset impairment review

On 1 October 2022 the Group reorganised the Tobacco & NGP business, changing our geographic footprint with the markets comprising our Central and Eastern Europe cluster moving from our Europe region into the Africa, Asia & Australasia (AAA) region to form the newly constituted AAACE region. The managerial and internal reporting structures of the business have been revised to reflect the new structure. Following the introduction of these changes we have revised our segmental reporting as required under IFRS 8. As the Group's Cash Generating Unit Groupings (CGUG) that are used for annual goodwill impairment testing are aligned to the region-based segments, where appropriate, goodwill and other indefinite life intangible assets has been reapportioned across the new CGUG structure on a relative value basis to reflect the segmental changes.

One of the requirements of IAS 36 is to undertake an impairment test based on the former CGUG prior to reapportioning intangible assets to new CGUG in the event of a Group reorganisation. The impairment testing which was undertaken as at 1 October 2022 indicated no impairment. Therefore there was no requirement to impair any goodwill or brand intangible prior to the reallocation to new CGUG.

Our reportable segments have been updated to Americas, Europe, AAACE and Distribution. The Tobacco & NGP operating segments continue to be comprised of geographical groupings of business markets. The main Tobacco & NGP business markets that have moved segments as part of this restructuring are Poland, Czech Republic, Ukraine, Slovakia, Hungary, Azerbaijan, Armenia, Georgia, Moldova, Croatia and Slovenia.

Goodwill is allocated to CGUG that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business, CGUG are based on the markets where the business operates and are grouped in line with the regional 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.

	2023		2022 (restated)	
£ million	**Goodwill**	**Intangible assets with indefinite lives**	Goodwill	Intangible assets with indefinite lives
Europe	**4,123**	**307**	4,295	313
Americas	**4,147**	**–**	4,326	–
AAACE	**2,181**	**162**	2,277	165
Tobacco & NGP	**10,451**	**469**	10,898	478
Distribution	**1,778**	**–**	1,743	–
	12,229	**469**	12,641	478

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGUG), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGUG) 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 CGUG is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans of our Tobacco business which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

Growth rates and discount rates used

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

%	**2023** Pre-tax discount rate	**2023** Initial growth rate	**2023** Long-term growth rate	2022 Pre-tax discount rate	2022 Initial growth rate	2022 Long-term growth rate
Europe	**10.4**	**4.5**	**1.0**	10.3	4.6	0.6
Americas	**8.9**	**5.8**	**2.1**	8.7	5.2	1.6
AAACE	**12.5**	**4.3**	**2.2**	11.1	2.8	1.3
Distribution	**12.3**	**5.0**	**1.6**	11.8	3.9	1.5

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 was in line with the prior year. The long term growth rate improved by 0.4%. This primarily reflects improvements in the UK market where the outlook is forecast to be better than prior year forecast and where the long term growth rate was not capped by the medium term rate.

Americas was broadly in line with the prior year growth assumptions for the initial and medium growth rate. The key changes which largely offset each other were the 0.5% increase in long-term growth rate and an increased tax rate by 4%.

AAACE's increases in the initial growth rates are driven by improved initial and medium-term forecasts, which are both due to changes in the growth outlook for a number of key markets including Taiwan, Ivory Coast and Hungary. Improvements in forecast profitability reflect actions delivered in line with our strategic goals. The long-term growth rate has improved this year, in the prior year this needed to be capped to the medium-term rate for a number of the key markets.

The Distribution improved initial growth rate reflects stronger business projections compared to prior year.

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 2023. 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Consideration of the impact of climate change

The Group has completed an assessment of the impact of climate change which includes how it will vary future costs and therefore cash flows. The detail of the Tobacco & NGP climate change review can be found on pages 74-77. The review has concluded that there are impacts on future cash flows as a result of climate change, with the most significant being relating to NTM and leaf costs due to increases in the operating costs of suppliers and raw materials. We have factored the additional costs to the Group relating to forecast climate costs into our discounted cash flow forecasts used for impairment testing valuation purposes. The modelled impact of this for the Group was £338 million (2022: £726 million). 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 (2022: £nil) 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 2023 and hence no impairment charge has been incurred (2022: £nil).

No impairment charge (2022: £1 million) was incurred in the year relating to software.

12. PROPERTY, PLANT AND EQUIPMENT

				2023
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2022	806	2,080	455	3,341
Additions	3	130	58	191
Acquisitions	–	5	9	14
Disposals	(22)	(74)	(24)	(120)
Hyperinflation adjustment (note 1)	–	5	–	5
Exchange movements	(31)	(81)	(14)	(126)
At 30 September 2023	756	2,065	484	3,305
Depreciation and impairment				
At 1 October 2022	181	1,200	301	1,682
Depreciation charge for the year	17	98	32	147
Impairment	–	6	–	6
Disposals	(11)	(60)	(15)	(86)
Exchange movements	(10)	(41)	(10)	(61)
At 30 September 2023	177	1,203	308	1,688
Net book value				
At 30 September 2023	579	862	176	1,617

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

13. RIGHT OF USE ASSETS AND LEASE LIABILITY

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

£ million	**Property**	**Plant and equipment**	**Fixtures and motor vehicles**	**Total**
				2023
Net book value				
At 1 October 2022	**194**	**3**	**31**	**228**
Additions	**74**	**3**	**37**	**112**
Acquisitions	**50**	**–**	**32**	**84**
Terminations and modifications	**(3)**	**–**	**(2)**	**(5)**
Depreciation and impairment	**(53)**	**(4)**	**(28)**	**(85)**
Exchange movements	**(6)**	**–**	**(2)**	**(8)**
At 30 September 2023	**256**	**2**	**68**	**326**

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

£ million	**Lease Liabilities**
At 1 October 2022	**248**
Cash flow	**(92)**
Accretion of interest	**10**
New leases, terminations and modifications	**106**
Acquisitions	**84**
Exchange movements	**(7)**
At 30 September 2023	**349**

The maturity profile and the future minimum lease payments of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2023 is disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

£ million	**2023**	2022
Expenses relating to short-term leases	**4**	3
Expenses relating to low value asset leases	**1**	2
Depreciation and impairment expense of right of use assets	**85**	74
Interest on lease liabilities	**10**	6

The movements in right of use assets in the year ending 30 September 2022 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	(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 ending 30 September 2022 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 and the future minimum lease payments of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2022 is disclosed in Note 20.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint venture during the year was Global Horizon Ventures Limited. In the prior year, 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 on 27 April 2022 these royalties ceased and, therefore, the Group's share of this intangible asset was fully impaired.

Summarised financial information for the Group's joint ventures, which are accounted for using the equity method, is shown below:

			2023
£ million	**Global Horizon Ventures**	**Others**	**Total**
Revenue	**19**	**28**	**47**
Profit after tax	**13**	**4**	**17**
Non-current assets	**–**	**7**	**7**
Current assets	**56**	**49**	**105**
Total assets	**56**	**56**	**112**
Current liabilities	**(7)**	**(41)**	**(48)**
Non-current liabilities	**–**	**(14)**	**(14)**
Total liabilities	**(7)**	**(55)**	**(62)**
Net assets	**49**	**1**	**50**

			2022
£ million	Global Horizon Ventures	Others	Total
Revenue	23	27	50
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

NOTES TO THE FINANCIAL STATEMENTS *continued*

Transactions and balances with joint ventures

£ million	2023	2022
Purchases from	**4**	11
Accounts payable to	**(2)**	(3)

Movement on investments accounted for using the equity method

£ million	2023	2022
At 1 October	**56**	88
Share of profit/(loss) for the year from joint ventures	**7**	(15)
Share of profit for the year from associates	**2**	2
Increase in investment in associates	**–**	2
Impairment of investment in associates	**(2)**	(12)
Dividends	**(7)**	(9)
Foreign exchange losses	**(1)**	–
At 30 September	**55**	56

15. INVENTORIES

£ million	2023	2022
Raw materials	**1,159**	910
Work in progress	**81**	73
Finished inventories	**3,106**	2,969
Other inventories	**176**	188
	4,522	4,140

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £3,106 million (2022: £2,969 million) there is excise duty of £1,192 million (2022: £1,255 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 £337 million (2022: £114 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

	2023		2022	
£ million	Current	Non-current	Current	Non-current
Trade receivables	**2,211**	**3**	2,262	3
Less: loss allowance	**(63)**	**(3)**	(76)	(3)
Net trade receivables	**2,148**	**–**	2,186	–
Other receivables	**149**	**26**	200	37
Prepayments	**193**	**37**	157	30
	2,490	**63**	2,543	67

Trade receivables may be analysed as follows:

	2023		2022	
£ million	Current	Non-current	Current	Non-current
Within credit terms	**1,996**	**–**	2,084	–
Past due by less than 3 months	**121**	**–**	93	–
Past due by more than 3 months	**31**	**–**	9	–
Amounts that are impaired	**63**	**3**	76	3
	2,211	**3**	2,262	3

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

£ million	**2023**	2022
At 1 October	**79**	71
Net (decrease)/increase in provision	**(13)**	8
At 30 September	**66**	79

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.

17. CASH AND CASH EQUIVALENTS

£ million	**2023**	2022
Cash at bank and in hand	**683**	703
Short-term deposits and other liquid assets	**662**	1,147
	1,345	1,850

£135 million (2022: £144 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 three months or less from the date the transfer is requested.

18. TRADE AND OTHER PAYABLES

	2023		2022	
£ million	**Current**	**Non-current**	Current	Non-current
Trade payables	**1,507**	**–**	1,345	–
Duties payable	**5,297**	**–**	5,453	–
Other taxes and social security contributions	**1,375**	**–**	1,412	–
Other payables	**526**	**–**	500	–
Accruals	**874**	**27**	796	10
	9,579	**27**	9,506	10

NOTES TO THE FINANCIAL STATEMENTS *continued*

19. BORROWINGS

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

£ million	2023	2022
Current borrowings		
Bank loans and overdrafts	**49**	27
Capital market issuance:		
$354 million 3.5% notes due February 2023	**–**	322
€750 million 1.125% notes due August 2023	**–**	662
£600 million 8.125% notes due March 2024	**627**	–
$1,000 million 3.125% notes due July 2024	**823**	–
Total current borrowings	**1,499**	1,011
Non-current borrowings		
Bank loans	**2**	1
Capital market issuance:		
£600 million 8.125% notes due March 2024	**–**	626
$1,000 million 3.125% notes due July 2024	**–**	910
€500 million 1.375% notes due January 2025	**437**	445
$1,500 million 4.25% notes due July 2025	**1,236**	1,367
€650 million 3.375% notes due February 2026	**574**	584
$750 million 3.5% notes due July 2026	**617**	682
£500 million 5.5% notes due September 2026	**500**	500
€750 million 2.125% notes due February 2027	**657**	670
$1,000 million 6.125% notes due July 2027	**822**	908
$1,000 million 3.875% notes due July 2029	**822**	909
€950 million 5.25% notes due February 2031	**838**	–
£500 million 4.875% notes due June 2032	**505**	505
€1,000 million 1.75% notes due March 2033	**872**	889
Total non-current borrowings	**7,882**	8,996
Total borrowings	**9,381**	10,007
Analysed as:		
Capital market issuance	**9,330**	9,979
Bank loans and overdrafts	**51**	28

Current and non-current borrowings include interest payable of £33 million (2022: £2 million) and £96 million (2022: £104 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 13 February 2023, $354 million (£292 million equivalent) 3.5% notes were repaid. On 15 February 2023, €600 million (£533 million equivalent) 5.25% notes were issued. On 14 August 2023, €750 million (£646 million equivalent) 1.125% notes were repaid. On 12 September 2023, €350 million (£301 million equivalent) 5.25% notes were issued, supplementary to the 15 February 2023, €600 million issue.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2022: no defaults).

The maturity profile of the Group's bonds and the contractual cash flows as at September 2023 is disclosed in Note 20.

Fair value of borrowings

The fair value of borrowings as at 30 September 2023 is estimated to be £8,669 million (2022: £9,030 million). £8,617 million (2022: £9,002 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	2023 Balance sheet amount	2023 Fair value	2022 Balance sheet amount	2022 Fair value
GBP	**1,632**	**1,524**	1,631	1,457
EUR	**3,378**	**2,996**	3,250	2,777
USD	**4,320**	**4,097**	5,098	4,768
Total capital market issuance	**9,330**	**8,617**	9,979	9,002

Undrawn revolving credit facilities

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

£ million	2023	2022
Amounts maturing:		
In less than one year	**550**	–
Between one and two years	**159**	–
Between two and five years	**2,866**	3,091
	3,575	3,091

During the year the maturity of €3,125 million of the Group's syndicated multicurrency facility of €3,493 million (2022 €3,500 million) was extended to 30 September 2026. One syndicate member opted not to extend their participation of €184 million which has a maturity date of 30 September 2025. One syndicate member opted not to extend their participation of €184 million which has a maturity date of 30 March 2026. One syndicate member sold their participation of €125 million and one syndicate member sold their participation of €184 million. Two syndicate members increased their participations from €125 million to €184 million and a new syndicate member joined with a participation of €184 million.

During the year three new bilateral facilities for a total £550 million, all maturing in September 2024, were arranged.

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 programmes. 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 four times per year and comprises the Chief Financial Officer, the Director of Treasury, the Group Finance Director, the Chief Legal and Corporate Affairs Officer, the Chief Strategy and Development Officer and three Group Regional Finance Directors. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a policy (the Treasury Operations Policy) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks covers 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 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's currency mix of debt and related derivatives is held with consideration to the currency mix of its net assets and profits, 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 2023. 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	**2023** **Increase/ (decrease) in income**	2022 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of sterling against euro (2022: 10%)	**33**	59
10% appreciation of sterling against US dollar (2022: 10%)	**(9)**	2

An equivalent depreciation of sterling against the above currencies would cause a decrease in income of £41 million and £11 million increase for euro and US dollar exchange rates respectively (2022: £72 million decrease and £2 million decrease).

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	**2023** **Change in equity**	2022 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of sterling against euro (2022: 10%)	**1,035**	621
10% appreciation of sterling against US dollar (202: 10%)	**205**	276

An equivalent depreciation of sterling against the above currencies would result in a change in equity of £(1,265) million and £(250) million for euro and US dollar exchange rates respectively (2022: £(759) million and £(338) million).

At 30 September 2023, after the effect of derivative financial instruments, approximately 111% of the Group's net debt was denominated in euro and non US dollar currencies (2022: 80%) and (11)% in US dollars (2022: 20%).

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 Operations Policy and Treasury Committee discussions.

As at 30 September 2023, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 107% (2022: 103%) of reported net debt was at fixed rates of interest and (7)% (2022: (3)%) 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 100% (2022: 97%) of debt was at fixed rates of interest and 0% (2022: 3%) 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 2023, 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 (2022: £nil).

£ million	**2023** **Change in income**	2022 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2022: 1%)	**12**	13
+/- 1% increase in US dollar interest rates (2022: 1%)	**(9)**	(9)

(B) Credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, on cash deposits and derivatives. The maximum aggregate credit risk to these sources was £4,507 million at 30 September 2023 (2022: £5,151 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 2023 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement, and subsequently derecognised totalled £570 million (2022: £570 million). The total value of trade receivables reclassified as fair value was £22 million at 30 September 2023 (2022: £50 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 Operations Policy. 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. During the year the Group terminated one collateralised trade held under an ISDA Credit Support Annex and as at 30 September 2023 had placed collateral of £nil (2022: £12 million) with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS *continued*

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2023. At the balance sheet date management does not expect these counterparties to default on their current obligations.

Counterparty exposure	**2023** **Maximum exposure to credit risk £ million**	2022 Maximum exposure to credit risk £ million
Highest	**311**	136
2nd highest	**104**	135
3rd highest	**84**	128
4th highest	**83**	127
5th highest	**80**	114

These exposures are held with counterparties with investment grade credit ratings or in money market funds with a AAA rating.

(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 money market funds and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2023, the Group held liquid assets of £1,345 million (2022: £1,850 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2023. 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.

£ million	**Balance sheet amount**	**Contractual cash flows total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
						2023
Non-derivative financial liabilities:						
Bank loans	**51**	**51**	**49**	**2**	**–**	**–**
Capital market issuance	**9,330**	**10,663**	**1,767**	**1,951**	**3,651**	**3,294**
Trade payables	**1,507**	**1,507**	**1,507**	**–**	**–**	**–**
Lease liabilities	**349**	**406**	**82**	**70**	**114**	**140**
Total non-derivative financial liabilities	**11,237**	**12,627**	**3,405**	**2,023**	**3,765**	**3,434**

£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
						2022
Non-derivative financial liabilities:						
Bank loans	28	28	27	1	–	–
Capital market issuance	9,979	11,440	1,349	1,830	5,710	2,551
Trade payables	1,345	1,345	1,345	–	–	–
Lease liabilities	248	289	64	56	84	85
Total non-derivative financial liabilities	11,600	13,102	2,785	1,887	5,794	2,636

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 ratings 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 share buybacks and in on-going discussions with the relevant rating agencies.

As at 30 September 2023 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/F2/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	**2023**	2022
Adjusted net debt	**8,026**	8,054
Equity attributable to the owners of the parent	**6,021**	6,860
Total capital	**14,047**	14,914

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 and foreign exchange 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 and losses 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 2023.

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

					2023
		Maturity			
£ million	**Total notional balance**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
Bonds	**(3,897)**	**–**	**(433)**	**(2,645)**	**(819)**
Cross-currency swaps	**(5,986)**	**(1,447)**	**(1,214)**	**(1,971)**	**(1,354)**
Foreign exchange swaps	**(541)**	**(541)**	**–**	**–**	**–**
	(10,424)	**(1,988)**	**(1,647)**	**(4,616)**	**(2,173)**

					2022
		Maturity			
£ million	Total notional balance	<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)

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

£ million	Notional balance	Carrying amount: Assets	Carrying amount: Liabilities	Balance sheet line item	2023 Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	**3,897**	**–**	**3,929**	**Borrowings**	**338**
Cross-currency swaps	**5,986**	**–**	**249**	**Derivative financial instruments**	**75**
Foreign exchange swaps	**541**	**1**	**–**	**Derivative financial instruments**	**14**
Hedged item:					
Investment in a foreign operation	**n/a**	**10,424**	**–**		**427**

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

Reconciliation of changes in the value of net investment hedges:

£ million	2023 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	**(338)**	**1**	**89**	**–**	**(248)**
Bonds in net investment hedges of foreign operations	**(5,414)**	**(3)**	**338**	**1,150**	**(3,929)**
Total	**(5,752)**	**(2)**	**427**	**1,150**	**(4,177)**

£ 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)	(7)	(117)	–	(338)
Bonds in net investment hedges of foreign operations	(5,286)	(3)	(532)	407	(5,414)
Total	(5,500)	(10)	(649)	407	(5,752)

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 €3,714 million (£3,217 million equivalent) (2022: €674 million (£595 million equivalent)) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments 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 £2 million (2022: £3 million) and would have been a £5 million (2022: £8 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, 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 $0.81 per share. Following a two year extension to the repayment date which was agreed in July 2023, repayment of the debenture is now repayable on 25 September 2026. The debenture is valued as a loan receivable measured on the basis of discounting future cash flows at a rate of 14% (2022: 14%) plus the application of an expected credit loss provision. At 30 September 2023 the loan was held at a fair value of £nil (30 September 2022: £17 million) following an increase in the expected credit loss provision to £70 million (30 September 2022: £53 million). The expected credit loss provision increase reflects changes in the counterparty credit risk.

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.

					2023
£ million	**Gross financial assets/ (liabilities)**	**Gross collateral assets/ (liabilities) set-off**	**Net financial assets/ (liabilities) per balance sheet**	**Related amounts not set-off in the balance sheet**	**Net**
Assets					
Derivative financial instruments	**950**	**–**	**950**	**(817)**	**133**
Liabilities					
Derivative financial instruments	**(1,003)**	**–**	**(1,003)**	**817**	**(186)**

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

						2023
£ 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	**–**	**–**	**2,323**	**2,323**	**2,297**	**26**
Cash and cash equivalents	**–**	**–**	**1,345**	**1,345**	**1,345**	**–**
Derivatives	**949**	**1**	**–**	**950**	**126**	**824**
Total financial assets	**949**	**1**	**3,668**	**4,618**	**3,768**	**850**
Borrowings	**–**	**–**	**(9,381)**	**(9,381)**	**(1,499)**	**(7,882)**
Trade and other payables	**–**	**–**	**(8,705)**	**(8,705)**	**(8,705)**	**–**
Derivatives	**(754)**	**(249)**	**–**	**(1,003)**	**(174)**	**(829)**
Lease liabilities	**–**	**–**	**(349)**	**(349)**	**(81)**	**(268)**
Total financial liabilities	**(754)**	**(249)**	**(18,435)**	**(19,438)**	**(10,459)**	**(8,979)**
Total net financial assets/(liabilities)	**195**	**(248)**	**14,767**	**14,820**	**(6,691)**	**8,129**

						2022
£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	17	–	2,406	2,423	2,386	37
Cash and cash equivalents	–	–	1,850	1,850	1,850	–
Derivatives	1,039	–	–	1,039	54	985
Total financial assets	1,056	–	4,256	5,312	4,290	1,022
Borrowings	–	–	(10,007)	(10,007)	(1,011)	(8,996)
Trade and other payables	–	–	(8,710)	(8,710)	(8,710)	–
Derivatives	(788)	(338)	–	(1,126)	(54)	(1,072)
Lease liabilities	–	–	(248)	(248)	(58)	(190)
Total financial liabilities	(788)	(338)	(18,965)	(20,091)	(9,833)	(10,258)
Total net financial assets/(liabilities)	268	(338)	(14,709)	(14,779)	(5,543)	(9,236)

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps and foreign exchange swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of these derivative instruments and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of these derivative instruments 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 2023 of those bonds included in the above table is £3,929 million (2022: £5,414 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.

			2023			2022
£ million	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments:						
Interest rate swaps	**30**	**(66)**	**(36)**	6	(36)	(30)
Foreign exchange contracts	**12**	**(5)**	**7**	31	(13)	18
Cross-currency swaps	**84**	**(103)**	**(19)**	17	(5)	12
Total current derivatives	**126**	**(174)**	**(48)**	54	(54)	–
	126	**(174)**	**(48)**	54	(54)	–
Non-current derivative financial instruments:						
Interest rate swaps	**745**	**(652)**	**93**	680	(746)	(66)
Cross-currency swaps	**79**	**(177)**	**(98)**	305	(338)	(33)
Total non-current derivatives	**824**	**(829)**	**(5)**	985	(1,084)	(99)
Collateral[1]	**–**	**–**	**–**	–	12	12
	824	**(829)**	**(5)**	985	(1,072)	(87)
Total carrying value of derivative financial instruments	**950**	**(1,003)**	**(53)**	1,039	(1,126)	(87)
Analysed as:						
Interest rate swaps	**775**	**(718)**	**57**	686	(782)	(96)
Foreign exchange contracts	**12**	**(5)**	**7**	31	(13)	18
Cross-currency swaps	**163**	**(280)**	**(117)**	322	(343)	(21)
Collateral[1]	**–**	**–**	**–**	–	12	12
Total carrying value of derivative financial instruments	**950**	**(1,003)**	**(53)**	1,039	(1,126)	(87)

1. Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex.

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 reputable 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 £2 million (2022: £3 million) and would have been a £5 million (2022: £8 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 2023. As at 30 September 2022 collateral transferred to counterparties in respect of derivative financial liabilities was classified consistently with the related underlying derivative. No collateralised trades are outstanding as at 30 September 2023.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2023. 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.

						2023
£ 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	**57**	**200**	**(3)**	**34**	**143**	**26**
Gross settled derivatives	**(110)**	**–**	**–**	**–**	**–**	**–**
• receipts	**–**	**17,822**	**5,429**	**4,010**	**5,283**	**3,100**
• payments	**–**	**(17,675)**	**(5,374)**	**(3,941)**	**(5,247)**	**(3,113)**
	(53)	**347**	**52**	**103**	**179**	**13**

£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
						2022
Net settled derivatives	(84)	(321)	(71)	(64)	(101)	(85)
Gross settled derivatives	(3)	–	–	–	–	–
• receipts	–	9,890	1,934	3,293	4,059	604
• payments	–	(9,635)	(1,851)	(3,201)	(3,944)	(639)
	(87)	(66)	12	28	14	(120)

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 IFRS 9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

As a result of the discontinuation of GBP LIBOR in December 2021 and US$ LIBOR discontinuation in June 2023, the Group amended all GBP LIBOR derivatives to reference the daily risk free rate of SONIA instead of GBP LIBOR and all US$ LIBOR derivatives were amended to reference the daily risk free rate of SOFR instead of US$ LIBOR. There are no changes pending for EUR derivatives. These changes did not impact the Group's commercial hedging strategy and they did not 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 2023, 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 was £8,111 million equivalent (2022: £9,578 million equivalent) with a fair value of £714 million liability (2022: £755 million liability). The fixed interest rates vary from 1.3% to 7.9% (2022: 1.1% to 7.9%), and the floating rates are based on EURIBOR, SONIA and SOFR.

As at 30 September 2023, 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 was £11,622 million equivalent (2022: £11,548 million equivalent) with a fair value of £771 million asset (2022: £671 million asset). The fixed interest rates vary from 3.1% receivable to 4.0% payable (2022: 0.5% payable to 4.0% payable), and the floating receivable rates reference EURIBOR and SOFR. This includes forward starting interest rate swaps with a total notional amount of £4,055 million equivalent (2022: £3,353 million equivalent) with tenors between 1 and 10 years, starting between October 2023 and May 2032.

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 is recognised in other comprehensive income.

As at 30 September 2023, the notional amount of cross-currency swaps entered into to convert sterling debt into the desired currency was £1,600 million (2022: £1,600 million) and the fair value of these swaps was £111 million net liability (2022: £232 million net liability); the notional amount of cross-currency swaps entered into to convert US dollar debt into the desired currency was $5,250 million (2022: $2,250 million) and the fair value of these swaps was £6 million net liability (2022: £211 million net asset).

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 2023, the notional amount of these contracts was £2,020 million equivalent (2022: £1,662 million equivalent) and the fair value of these contracts was a net asset of £7 million (2022: £19 million net asset).

Hedges of net investments in foreign operations

As at 30 September 2023, cross currency swaps with a notional amount of €6,910 million (2022: €4,103 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £75 million (2022: £105 million losses) were recognised within exchange movements in other comprehensive income in respect of cross currency swaps designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2022: £nil).

As at 30 September 2023, foreign exchange swaps with a notional amount of €624 million (2022: €309 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £14 million (2022: £12 million losses) 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 (2022: £nil).

The movements in other comprehensive income due to net investment hedging in the period were as follows:

£ million	**2023**	2022
Foreign exchange gains/(losses) on borrowings	**338**	(532)
Foreign exchange gains/(losses) on derivative financial instruments	**89**	(117)
	427	(649)

22. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax relates to the following:

£ million	**Consolidated income statement 2023**	Consolidated income statement 2022	**Consolidated balance sheet 2023**	Consolidated balance sheet 2022
Temporary differences on depreciation and amortisation	**164**	14	**(716)**	(895)
Retirement benefits	**(9)**	(4)	**30**	(90)
Tax credits and losses	**6**	(17)	**282**	278
Accruals, provisions and other temporary differences	**(3)**	41	**186**	185
Deferred tax (expense)/benefit	**158**	34		
Net deferred tax (liabilities)/assets			**(218)**	(522)

Reflected in the consolidated balance sheet as follows

£ million	**2023**	2022
Deferred tax assets	**653**	439
Deferred tax liabilities	**(871)**	(961)
	(218)	(522)

Reconciliation of net deferred tax liabilities

£ million	**2023**	2022
At 1 October	**(522)**	(479)
Credited to the income statement	**158**	34
Credited/(charged) to other comprehensive income	**134**	(55)
Credited to equity	**1**	2
Acquisitions	**(15)**	–
Exchange movements	**22**	(18)
Other movements	**4**	(6)
As at 30 September	**(218)**	(522)

Unrecognised deferred tax assets

£ million	**Gross 2023**	**Net 2023**	Gross 2022	Net 2022
Tax losses	**235**	**62**	278	75
Tax credits	**15**	**15**	25	25
Other temporary differences	**84**	**24**	71	20
	334	**101**	374	120

Analysis of unrecognised deferred tax assets by expiry date

£ million	Gross 2023	Net 2023	Gross 2022	Net 2022
Tax losses expiring:				
Within 2-5 years	–	–	20	4
No expiry	**235**	**62**	258	71
	235	**62**	278	75
Tax credits expiring:				
Within 1 year	**15**	**15**	22	22
Within 2-5 years	–	–	1	1
No expiry	–	–	2	2
	15	**15**	25	25
Other temporary differences expiring:				
No expiry	**84**	**24**	71	20
	84	**24**	71	20

In December 2021, the OECD issued model rules for a new global minimum tax framework (Pillar Two), applicable for multinational enterprise groups with global revenue over €750 million. The legislation implementing the rules in the UK was substantively enacted on 20 June 2023 and will apply to the Group from the financial year ending 30 September 2025 onwards. The Group has applied the mandatory exception under IAS 12 in relation to the accounting for deferred tax assets and liabilities arising from the implementation of the Pillar Two model rules. The Group is reviewing this legislation and monitoring the status of implementation of the model rules outside of the UK to assess the potential impact.

Included within net deferred tax liabilities are deferred tax assets recognised of £257 million (2022: £257 million) for tax credits arising in the Group's Spanish business. These tax credits have no time expiry. Utilisation of these tax credits is restricted to 50% of the Spanish business's 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 £88 million (2022: £55 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 £40 million (2022: £20 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. Based on a range of forecast scenarios modelling sensitivities these deferred tax assets are expected to be recovered over a period of 20-40 years corresponding to the life of the pension scheme.

Included within net deferred tax liabilities are deferred tax assets recognised for intangibles of £199 million (2022: £nil) arising in the Group's Dutch business. These deferred tax assets are expected to be recovered 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. The period over which these deferred tax assets are utilised is sensitive to forecasting assumptions about future growth rates and regulatory changes. These deferred tax assets are expected to be recovered over a period of 16 years corresponding to the life of the intangibles.

We have reviewed the recoverability of deferred tax assets in overseas territories in light of forecast business performance. In 2023 we have recognised deferred tax assets of £6 million that were previously unrecognised (2022: recognised deferred tax assets of £1 million that were previously unrecognised) on the basis that it is more likely than not that these are recoverable (2022: recoverable).

A deferred tax liability of £40 million (2022: £43 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £2 billion (2022: £2 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 £1,215 million (2022: £1,244 million) for which a deferred tax liability of £38 million (2022: £37 million) has not been recognised. 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 64%, 15% and 9% of the Group's total defined benefit obligations (2022: 62%, 15% and 10%) and 22%, 32% and 8% of the current service cost (2022: 31%, 32% and 10%) respectively.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Imperial tobacco pension fund

The UK scheme, the Imperial Tobacco Pension Fund ("ITPF"), was closed to future accrual on 30 September 2023. All active members are now enrolled into the defined contribution scheme as of 1 October 2023 alongside all new employees that have joined since 1 October 2010. Former active members of the defined benefit section of the ITPF are now deferred members who are able to draw their pension in the same way as an existing deferred member and are in receipt of annual inflationary increases as existing deferred members. The closure to future accrual resulted in a curtailment credit of £8.3 million in the 2023 income statement. As part of the agreement with active members to close to future accrual, the company agreed a compensation package. The main component included a number of payments to members between October 2023 and October 2025, for which the company has accrued £14.3 million in the 2023 income statement. The ITPF defined benefit obligation comprises 80% in respect of pensioners and dependants, 20% in respect of deferred members and has a weighted average maturity of 12 years.

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 assets are held by the trust.

The main risk for the company 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 liquidity to manage the Liability Driven Investment (LDI) portfolio, credit exposure within investment funds and exposure to the property market. The ITPF holds a buy-in policy with Standard Life as an asset; this covers around 61% of the pensioner defined benefit obligation. The buy-in eliminates investment return, longevity, inflation and funding risks in respect of those benefits covered. The ITPF also has access to a loan facility to provide short-term liquidity to support the LDI portfolio in the event of significant changes in government bond yields.

The main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels, as these impact increases to pensions, 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 company, the level of risk in the ITPF, the expected return on assets, the results of the funding assessment on the Technical Provisions basis and the expected cost of securing benefits if the ITPF were to be wound up.

The latest valuation agreed at 31 March 2022 reported a 118% funding ratio on the Technical Provisions basis. The company and Trustee agreed to maintain the existing dynamic contribution schedule, which means ITL's annual contributions will reduce or increase depending on the ITPF valuation going forward. The level of ITL's annual contribution to the ITPF was nil for the year to 31 March 2023. ITL expect to pay £8.4 million in contributions to an escrow account for the year to 31 March 2024. 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, a reduced surety guarantee with a total value of £120 million was agreed (previously £225 million) and a parental guarantee from Imperial Brands PLC remains in place. In certain circumstances, surplus funds in the defined benefit section of the ITPF may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The IAS 19 measurement of the defined benefit obligation is sensitive to the assumptions made about future inflation as well as the assumptions made about life expectancy. It is also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the Technical Provisions and IAS 19 assumptions are a more prudent longevity assumption for Technical Provisions 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 returnseeking assets, is that the difference between the market value of the assets and the IAS 19 defined benefit obligation may be relatively volatile.

The ITPF has a pension surplus on the IAS 19 measure and, 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 company an ability to receive a refund of surplus assets assuming the full settlement of liabilities in the event of a 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 the ITPF 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. The RCPP defined benefit obligation comprises 53% in respect of pensioners and dependants, 24% in respect of deferred members and 23% in respect of active members and has a weighted average maturity of 16 years. The RCPP was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits.

The RCPP is unfunded and the company pays benefits as they arise. The RCPP obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £24 million (2022: £23 million) in respect of benefits.

The main uncertainties affecting the level of benefits payable under the RCPP are future inflation levels, as these impact increases to pensions, and the actual longevity of the membership.

The IAS 19 measurement of the defined benefit obligation 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 US pension scheme, held by ITG Brands is the ITG Scheme, is a defined benefit pension plan that is closed to new entrants. The ITG Scheme defined benefit obligation comprises 83% in respect of pensioners and dependants, 2% in respect of deferred members and 15% in respect of active members and has a weighted average maturity of nine years.

The ITG Scheme is funded and benefits are paid from the ITG Scheme assets. Contributions to the plan are determined based on US regulatory requirements. ITG Brands made no contributions this year and 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 union negotiations.

The IAS 19 measurement of the defined benefit obligation 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. Some of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, whilst 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 2023 the Group included no new schemes in the IAS 19 position that had not been previously reported in the IAS 19 position or elsewhere in the financial statements.

The company agreed with the Trustees in Ireland to merge both defined benefit plans into a single trust and with the trustees in New Zealand to fully close and wind-up the defined benefit plan.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2023 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

			2023			2022
£ million	**DBO**	**Assets**	**Total**	DBO	Assets	Total
At 1 October	**(3,609)**	**3,541**	**(68)**	(5,319)	5,166	(153)
Consolidated income statement expense:						
Current service cost	**(25)**	**–**	**(25)**	(49)	–	(49)
Settlements gains/(losses)	**2**	**(6)**	**(4)**	136	(139)	(3)
Past service income/(costs)	**9**	**–**	**9**	(2)	–	(2)
Cost of termination benefits	**(5)**	**–**	**(5)**	(10)	–	(10)
Net interest (expense)/income on net defined benefit (liability)/asset	**(165)**	**178**	**13**	(99)	107	8
Administration costs paid from plan assets	**–**	**(5)**	**(5)**	–	(5)	(5)
Cost recognised in the income statement			**(17)**			(61)
Remeasurements:						
Actuarial loss due to liability experience	**(132)**	**–**	**(132)**	(94)	–	(94)
Actuarial gain due to financial assumption changes	**234**	**–**	**234**	1,659	–	1,659
Actuarial gain due to demographic assumption changes	**–**	**–**	**–**	10	–	10
Return on plan assets excluding amounts included in net interest (expense)/income above	**–**	**(478)**	**(478)**	–	(1,499)	(1,499)
Remeasurement effects recognised in other comprehensive income			**(376)**			76
Cash:						
Employer contributions	**–**	**59**	**59**	–	120	120
Employee contributions	**–**	**–**	**–**	(1)	1	–
Benefits paid directly by the company	**265**	**(265)**	**–**	311	(311)	–
Benefits paid from plan assets	**–**	**–**	**–**	–	–	–
Net cash			**59**			120
Immaterial benefit plans categorised as an IAS 19 obligation	**(8)**	**–**	**(8)**	–	–	–
Exchange movements	**64**	**(47)**	**17**	(151)	101	(50)
Total other			**9**			(50)
At 30 September	**(3,370)**	**2,977**	**(393)**	(3,609)	3,541	(68)

NOTES TO THE FINANCIAL STATEMENTS *continued*

Retirement benefit scheme costs charged to operating profit

£ million	2023	2022
Defined benefit expense in operating profit	**30**	69
Defined contribution expense in operating profit	**16**	16
Total retirement benefit scheme cost in operating profit	**46**	85

Split as follows in the consolidated income statement:

£ million	2023	2022
Cost of sales	**15**	25
Distribution, advertising and selling costs	**20**	39
Administrative and other expenses	**11**	21
Total retirement benefit scheme costs in operating profit	**46**	85

Assets and liabilities recognised in the consolidated balance sheet

£ million	2023	2022
Retirement benefit assets	**414**	826
Retirement benefit liabilities	**(807)**	(894)
Net retirement benefit liability	**(393)**	(68)

Key figures and assumptions used for major plans

			2023			2022
£ million unless otherwise indicated	ITPF	RCPP	ITG Scheme	ITPF	RCPP	ITG Scheme
Defined benefit obligation (DBO)	**2,142**	**496**	**311**	2,229	538	365
Fair value of scheme assets	**(2,481)**	**–**	**(337)**	(2,958)	–	(405)
Net defined benefit (asset)/liability	**(339)**	**496**	**(26)**	(729)	538	(40)
Current service cost	**6**	**8**	**2**	15	15	3
Employer contributions	**–**	**23**	**–**	50	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	**5.6**	**4.2**	**5.7**	5.3	3.7	5.4
Future salary increases	**n/a**	**3.5**	**n/a**	3.7	3.7	n/a
Future pension increases	**3.4**	**2.4**	**n/a**	3.7	2.5	n/a
Inflation	**3.4**	**2.4**	**2.3**	3.7	2.5	2.3

						2023
		ITPF		RCPP		ITG Scheme
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	**21.2**	**22.5**	**20.8**	**24.2**	**19.7**	**21.7**
Member currently aged 50	**21.9**	**23.8**	**22.8**	**25.8**	**20.8**	**22.8**

						2022
		ITPF		RCPP		ITG Scheme
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.1	22.4	20.5	23.9	19.7	21.7
Member currently aged 50	21.8	23.7	22.6	25.6	20.9	22.9

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 (2022: 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 (2022: 2021) CMI improvement rates with a long-term trend of 1.25% per annum.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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.

			2023			2022
% increase in DBO	ITPF	RCPP	ITG Scheme	ITPF	RCPP	ITG Scheme
Discount rate: 0.5% decrease	**5.6**	**8.1**	**4.5**	6.1	9.5	4.9
Rate of inflation: 0.5% decrease	**(4.2)**	**(5.7)**	**n/a**	(4.9)	(6.3)	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	**3.5**	**4.2**	**4.4**	3.7	4.7	4.6

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 £12 million (2022: £22 million).

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

		2023		2022
£ million unless otherwise indicated	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Bonds – index linked government / LDI funds	**351**	**14.1**	409	14.0
Bonds – corporate and other	**–**	**–**	34	1.0
Property including ground leases	**488**	**19.7**	604	20.0
Secured finance and private debt funds	**620**	**25.0**	827	28.0
Insurance contract (buy-in policy)	**1,044**	**42.1**	1,058	36.0
Other – including cash and short-term loan drawings	**(22)**	**(0.9)**	26	1.0
	2,481	**100.0**	2,958	100.0

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.

The majority of the assets are non-quoted. The ITPF holds £nil of self-invested assets (2022: £nil).

An approximate split of the major categories of ITG Scheme assets is as follows:

		2023		2022
£ million unless otherwise indicated	Fair value	Percentage of ITG Scheme assets	Fair value	Percentage of ITG Scheme assets
Bonds – government, corporate and other	**203**	**60.2**	129	31.9
Other – including derivatives, commodities and cash	**134**	**39.8**	276	68.1
	337	**100.0**	405	100.0

The majority of the assets are non-quoted.

NOTES TO THE FINANCIAL STATEMENTS *continued*

24. PROVISIONS

£ million	Restructuring	Employment related claims	Other	Total
				2023
At 1 October 2022	286	59	81	426
Additional provisions charged to the consolidated income statement	–	106	40	146
Amounts used	(100)	(9)	(18)	(127)
Unused amounts reversed	–	(12)	(8)	(20)
Exchange movements	(6)	–	(5)	(11)
At 30 September 2023	180	144	90	414

Analysed as:

£ million	2023	2022
Current	148	203
Non-current	266	223
	414	426

Restructuring provisions relate mainly to our 2021 Strategic review programme and other programmes (see note 5).

The restructuring provision is split between 2021 Strategic review programme of £88 million (2022: £155 million) and other programmes of £92 million (2022: £131 million).

Employment related claims provisions include £31 million (2022: £37 million) relating to local employment requirements including holiday pay and £28 million (2022: £21 million) of distribution requirements relating to employment and duty. An amount of £85 million (2022: £nil) has been provided for employment related claims arising from a number of legacy legal disputes. Although the company continues to appeal a number of these claims, in the current year the Group has resolved to engage with certain counterparties where a valid claim has been established. There are uncertainties relating to the estimation and quantification of this provision and amounts may change in the future, but any provisions are expected to be utilised within the next 2 years.

Other provisions include £38 million (2022: £46 million) relating to various local tax or duty requirements, £9 million (2022: £21 million) of market exit provisions and £30 million for factory closure provisions (2022: £nil).

The provisions are spread throughout the Group and payment will be dependent on local statutory requirements.

Most of the other provisions will also 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

	2023		2022	
		Ordinary shares 10p each		Ordinary shares 10p each
	Number	£ million	Number	£ million
Authorised, issued and fully paid:				
1 October	1,020,697,237	103	1,020,697,237	103
Shares cancelled	(52,107,043)	(6)	–	–
30 September	968,590,194	97	1,020,697,237	103

During the period a share buy back scheme was initiated and 52,107,043 10p shares were repurchased for a cost of £1,000 million.
Upon completion of the purchase, these shares were cancelled and transferred to the capital redemption reserve. The stamp duty costs were £5 million and the fees charged for the share repurchase were £1 million.

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	**2023**	2022
Share Matching Scheme	**2**	2
Long Term Incentive Plan	**27**	25
Sharesave Plan	**1**	1
Discretionary Share Awards Plan	**1**	1
	31	29

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2023 was £3.4 million (2022: £3.6 million).

Reconciliation of movements in awards/options

					2023
Thousands of shares unless otherwise indicated	**Share matching scheme awards**	**LTIP awards**	**Sharesave options**	**DSAP awards**	**Sharesave weighted average exercise price £**
Outstanding at 1 October 2022	**486**	**8,120**	**1,934**	**120**	**13.21**
Granted	**161**	**3,853**	**862**	**67**	**13.24**
Lapsed/cancelled	**(18)**	**(2,402)**	**(90)**	**(11)**	**12.63**
Exercised	**(176)**	**(1,069)**	**(1,020)**	**(3)**	**12.38**
Outstanding at 30 September 2023	**453**	**8,502**	**1,686**	**173**	**13.72**
Exercisable at 30 September 2023	**–**	**–**	**264**	**–**	**12.37**

					2022
Thousands of shares unless otherwise indicated	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

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £18.28 (2022: £16.83). The weighted average fair value of Sharesave options granted during the year was £3.26 (2022: £3.30).

NOTES TO THE FINANCIAL STATEMENTS *continued*

Summary of awards/options outstanding at 30 September 2023

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2021	**181**	**5**	**n/a**
2022	**139**	**17**	**n/a**
2023	**133**	**29**	**n/a**
Total awards outstanding	**453**		
Long Term Incentive Plan			
2021	**2,369**	**5**	**n/a**
2022	**2,896**	**17**	**n/a**
2023	**3,237**	**29**	**n/a**
Total awards outstanding	**8,502**		
Sharesave Plan			
2020	**264**	**–**	**17.45**
2021	**315**	**10**	**13.09**
2022	**254**	**22**	**14.56**
2023	**855**	**34**	**14.29**
Total options outstanding	**1,688**		
Discretionary Share Awards Plan			
2021	**5**	**10**	**n/a**
2022	**101**	**15**	**n/a**
2023	**67**	**30**	**n/a**
Total options outstanding	**173**		

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 options. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their options. 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 Share Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2023 and 2022 is as follows:

			2023
	Share Matching Scheme	Sharesave	DSAP
Risk-free interest rate %	**4.0**	**4.4**	**4.1**
Volatility (based on 3 or 5 year history)%	**33.1**	**27.7**	**33.2**
Expected lives of options granted years	**3.0**	**3.0**	**3.0**
Dividend yield %	**8.2**	**8.2**	**8.2**
Fair value £	**16.04**	**3.30**	**14.72**
Share price used to determine exercise price £	**20.53**	**17.88**	**18.84**
Exercise price £	**n/a**	**14.29**	**n/a**

	2022		
	Share Matching Scheme	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

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2023 and 2022 are given in the following table:

%	**2023**	2022
Future Imperial Brands share price volatility	**23.3**	29.6
Future Imperial Brands dividend yield	**–**	–
Share price volatility of the tobacco and alcohol comparator group	**15.9–63.5**	17.0–83.7
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**21.4**	24.4

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 2023. 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	**2023**	2022
At 1 October	**3.7**	0.9
Gift of shares from Treasury	**–**	4.0
Distribution of shares held by Employee Share Ownership Trusts	**(2.1)**	(1.2)
At 30 September	**1.6**	3.7

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2022: nil) and 1.6 million (2022: 3.7 million) treasury shares gifted to the Trusts by the Group. No (2022: 4 million) shares were gifted to the Trusts in the financial year 2023.

27. TREASURY SHARES

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Act. 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. Shares purchased under the share buyback programme initiated on 7 October 2022 will be cancelled immediately on completion of the purchase. There were no movements in treasury shares during the year to 30 September 2023 (2022: reduced by 4.0 million shares).

	2023		2022	
£ million unless otherwise indicated	**Millions of shares (number)**	**Value £**	Millions of shares (number)	Value £
At 1 October	**70.3**	**2,183**	74.3	2,183
Gifted to Employee Share Ownership Trusts	**–**	**–**	(4.0)	–
At 30 September	**70.3**	**2,183**	70.3	2,183
Percentage of issued share capital	**7.3**	**n/a**	6.9	n/a

28. COMMITMENTS

Capital commitments

£ million	**2023**	2022
Contracted but not provided for:		
Property, plant and equipment and software	**97**	95

29. CONTINGENT LIABILITIES

The following summary includes updates to matters that have developed since the 2022 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.

Delaware

ITGB is involved in litigation with Reynolds in the Delaware court that has jurisdiction over disputes under the Asset Purchase Agreement (APA) for the Acquired Brands. The current case in progress involves Reynolds' claim to indemnity for Florida settlement payments. The issue in this case is whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlement with Florida under the APA and whether regardless of that "reasonable best efforts" requirement whether ITGB is required to indemnify Reynolds for amounts the Florida Court may require Reynolds to pay.

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. It further held that as a matter of law the contract provisions were unambiguous and no evidence was required, and 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 submitted an agreed schedule to the court to address the issue of damages.

On 23 February 2023 the initial motions on the amount of indemnity due were argued and supplemental briefing requested by the court was completed on 9 June 2023, with the Court having 90 days to issue its decision. On 2 October 2023 the Court issued an order on damages. The court rejected ITGB's claim that no damages could be assessed but declined to decide the amount of damages and other issues until after a trial. The trial is expected to take place in the first quarter of 2024.

Reynolds' claim for indemnification in Delaware is limited at most 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. ITGB 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.

Amounts at issue range to US$ 250 million through 2022, plus future payments of US$ 19 million to US$ 32 million annually going forward, alleged accrued interest of up to US$ 23 million and attorney's fees of up to US$ 7 million through 2022. Based on the current facts and circumstances it is currently unclear as to what level of damages will become payable in this case. Due to the inability to determine a reliable estimate of the amount involved, no provision has been recognised pending the outcome of the trial at which the level of damages will be decided.

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 circa 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 investigations

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. There have been no material updates to matters in any product liability investigations in the period since the 2023 Annual Report and Accounts.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Competition authority investigations

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. The CNMC considers that this conduct had the effect of restricting competition in the Spanish tobacco market. Both companies believe that the arguments made by the 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.

Both in the Altadis and Logista appeals, the parties have concluded their submissions to the Court and a judgment is awaited. The judgment of the Court of First Instance is currently pending, and it is possible it might be served in 2024.

In parallel to the main proceedings against the CNMC decision, on 28 February 2023, the Supreme Court annulled the unannounced inspection carried out by the CNMC officials on Altadis' premises in February 2017 for lack of consent by Altadis. Therefore, all the documents and evidence seized by the CNMC during Altadis' inspection have to be returned to the company and should be struck out from the CNMC decision. It remains to be seen what the impact of this Court decision will be on the main proceedings.

Other litigation

US Helms-Burton litigation

Imperial Brands Plc 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 HelmsBurton, 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.

On 31 March 2023 the district judge issued an order addressing the magistrate's recommended ruling and adopting the recommended ruling in part. In respect of Habanos, the motion to dismiss was granted, without objection from the claimants, on the basis that the federal court in Florida was an "improper venue" (wrong court). Habanos was therefore dismissed from the case, without prejudice to the claimants' right to sue it in a proper venue. As to Imperial and the other defendants, the district judge remanded the motion to dismiss back to the same magistrate for a further review and analysis and a report and recommendation on whether the ruling regarding Habanos should result in dismissal of all defendants. The magistrate is also permitted to address "other issues if warranted", including Imperial's other arguments for dismissal.

The hearing with the magistrate on further arguments on the motion to dismiss took place on 28 September 2023. The recommended ruling from the magistrate is now expected by the end of November 2023. The magistrate's recommendation will not be binding on the parties, who will be permitted to file objections to the recommendation with the district judge. No provision has been made for potential liabilities related to this claim.

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 was postponed pending other case management actions and will be determined at a subsequent case management hearing 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.

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 2022	**(1,011)**	**(248)**	**(8,996)**	**(87)**	**(10,342)**	**1,850**	**(8,492)**
Reallocation of current borrowings from non-current borrowings	**(1,536)**	**–**	**1,536**	**–**	**–**	**–**	**–**
Cash flow	**891**	**92**	**(835)**	**64**	**212**	**(349)**	**(137)**
Change in accrued interest	**2**	**(10)**	**(24)**	**1**	**(31)**	**–**	**(31)**
Change in fair values	**–**	**–**	**–**	**139**	**139**	**–**	**139**
New leases, terminations and modifications	**–**	**(106)**	**–**	**–**	**(106)**	**–**	**(106)**
Acquisitions	**–**	**(84)**	**–**	**–**	**(84)**	**–**	**(84)**
Exchange movements	**155**	**7**	**437**	**(170)**	**429**	**(156)**	**273**
At 30 September 2023	**(1,499)**	**(349)**	**(7,882)**	**(53)**	**(9,783)**	**1,345**	**(8,438)**

£ 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	–	–	–	–
Cash flow	1,595	68	(829)	(94)	740	515	1,255
Change in accrued 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)

Average reported net debt during the year was £10,072 million (2022: £9,822 million).

Analysis by denomination currency

£ million	GBP	EUR	USD	Other	2023 Total
Cash and cash equivalents	**177**	**405**	**324**	**439**	**1,345**
Total borrowings	**(1,631)**	**(3,417)**	**(4,319)**	**(14)**	**(9,381)**
	(1,454)	**(3,012)**	**(3,995)**	**425**	**(8,036)**
Effect of cross-currency swaps	**1,576**	**(6,016)**	**4,323**	**–**	**(117)**
	122	**(9,028)**	**328**	**425**	**(8,153)**
Lease liabilities	**(43)**	**(247)**	**(26)**	**(33)**	**(349)**
Derivative financial instruments					**64**
Net debt					**(8,438)**

£ 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)
	(1,374)	(3,045)	(4,125)	387	(8,157)
Effect of cross-currency swaps	1,561	(3,637)	2,056	–	(20)
	187	(6,682)	(2,069)	387	(8,177)
Lease liabilities	(45)	(148)	(20)	(35)	(248)
Derivative financial instruments					(67)
Net debt					(8,492)

NOTES TO THE FINANCIAL STATEMENTS *continued*

31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2023	2022
(Decrease)/increase in cash and cash equivalents	**(349)**	515
Cash flows relating to derivative financial instruments	**64**	(94)
Repayment of lease liabilities	**92**	68
Increase in borrowings	**(1,462)**	(1,710)
Repayment of borrowings	**1,518**	2,476
Change in net debt resulting from cash flows	**(137)**	1,255
Other non-cash movements including revaluation of derivative financial instruments	**108**	299
Lease liabilities	**(190)**	(54)
Exchange movements	**273**	(619)
Movement in net debt during the year	**54**	881
Opening net debt	**(8,492)**	(9,373)
Closing net debt	**(8,438)**	(8,492)

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	2023	2022
Current assets	**6,246**	6,094
Current liabilities	**(6,983)**	(6,763)
Current net liabilities	**(737)**	(669)
Non-current assets	**1,816**	1,599
Non-current liabilities	**(482)**	(365)
Non-current net assets	**1,334**	1,234
Net assets	**597**	565

Summarised statement of comprehensive income

for the year ended 30 September

Euro million	2023	2022
Revenue	**12,428**	11,464
Profit for the year	**274**	199
Other comprehensive income	**3**	7
Total comprehensive income	**277**	206

Summarised cash flow statement

for the year ended 30 September

Euro million	2023	2022 (restated)
Cash flows from operating activities	**308**	642
Cash flows from investing activities	**(83)**	(389)
Cash flows from financing activities	**(250)**	(206)
Net (decrease)/increase in cash and cash equivalents	**(25)**	47

NOTES TO THE FINANCIAL STATEMENTS *continued*

33. POST BALANCE SHEET EVENTS

Share Buybacks

On 5 October 2023 Imperial Brands PLC ("the Company") announced the start of an ongoing share buyback programme, to initially repurchase up to £1.1 billion of shares in the period from 6 October 2023 to 30 September 2024.

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 Imperial Brands PLC, as at 30 September 2023, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

ALTERNATIVE PERFORMANCE MEASURES

Use of alternative performance measures

Management believes that non-GAAP or alternative performance measures provide an important comparison of business performance and reflect the way in which the business is controlled. The alternative 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, alternative performance measures exclude, where applicable, amortisation and impairment of acquired intangibles, profit/loss on disposal of subsidiaries, Russia, Ukraine and associated markets, restructuring costs, business acquisition and disposal costs, fair value adjustment and impairment of other financial assets, charges related to legal provisions, structural changes to defined benefit pension schemes, 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 alternative 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 alternative 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	**2023**	2022
Russia, Ukraine and associated markets		**(4)**	(399)
Amortisation and impairment of acquired intangibles		**(347)**	(349)
Restructuring costs	5	**–**	(197)
Fair value adjustment and impairment of other financial assets		**(36)**	(37)
Loss on disposal of subsidiaries		**(1)**	(29)
Acquisition and disposal costs		**–**	(5)
Excise tax provision		**–**	9
Charges related to legal provisions		**(85)**	–
Structural changes to defined benefit pension schemes		**(12)**	(4)
Total adjusting administrative and other expenses		**(485)**	(1,011)
Total non-adjusting administrative and other expenses		**(455)**	(323)
Administrative and other expenses		**(940)**	(1,334)

Russia, Ukraine and associated markets

In the current year the £4 million adjusted net charge relates to £18 million of costs relating to Ukraine partially offset by £14 million release of other market exit provisions. The Ukraine costs relates to factory repairs and the redeployment of the production facility to service only the domestic market. The release of the market exit provisions primarily relates to potential tax liabilities with insufficient certainty over the quantum of future charges.

In the comparative period, 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.

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 arising on intangibles which are either being amortised or are fully amortised is excluded on the basis that amortisation of intangibles is not directly related to the operating performance of the business. 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 £392 million (2022: £394 million) of which £347 million (2022: £349 million) relates to acquired intangibles and is adjusting and £45 million (2022: £45 million) relates to internally generated intangibles and is non adjusting. In the year to 30 September 2023 adjusting items all relate to amortisation. £339 million (2022: £323 million) is attributable to Tobacco & NGP and £8 million (2022: £26 million) is attributable to distribution.

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.

No new restructuring programmes were initiated in the current financial year and no charges arose relating to historic restructuring programmes. As a consequence, no restructuring charge adjustments were made in the calculation of any alternative performance metrics within the current financial year.

Fair value adjustment and impairment of other financial assets

As the movement in the fair value of loan receivables associated with the investment in Auxly Cannabis Group Inc. has the potential to be significant and does not show a fair representation of the day-to-day operational performance of the asset, it is treated as an adjusting item.
The fair value adjustment also includes changes in the carrying value of certain financial assets held by ITG Brands.

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 of subsidiaries 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.

Charges related to legal provisions

The adjusting item relates to legal provisions that the Group has provided for (see note 24). These are potential liabilities arising from a number of legacy legal disputes across the Group that have been in the courts for several years and which the Group have considered as being unrelated to ongoing business performance and therefore adjusted. The final settlement and agreement of these cases still remain uncertain but future outflows are still expected.

Structural changes to defined benefit pension schemes

These are non-recurring pension scheme restructuring costs. They comprise £8m of net costs related to the closure of the UK defined benefit retirement scheme to future accrual and £4m settlement charge on the full closure of the New Zealand defined benefit scheme.

In 2022, there was a charge relating to the restructuring of the Irish defined benefit pension scheme of £4 million.

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

£ million	2023	2022
Impairment of intangible assets held by Global Horizon joint venture	–	(24)
Other profits from investments accounted for using the equity method	7	9
Share of profits/(losses) of investments accounted for using the equity method	7	(15)

Adjusting items recognised within tax

£ million	2023	2022
Deferred tax on amortisation of acquired intangibles	(4)	15
Tax on net foreign exchange and fair value gains and losses on financial instruments	89	(183)
Tax on post-employment benefits net financing cost	–	–
Tax on restructuring costs	–	49
Tax on disposal of subsidiaries	–	8
Tax on charges relating to legal provisions	26	–
Tax on structural changes to defined benefit pension schemes	3	–
Tax on fair value adjustment and impairment of other financial assets	5	–
Tax on interest settlements	2	–
Recognition of deferred tax assets	212	–
Provision for state aid tax recoverable	–	(101)
Uncertain tax positions	(207)	63
Deferred tax on unremitted earnings	–	26
Tax on unrecognised losses	–	(8)
Other non-adjusting taxation charges	(781)	(755)
Reported tax	(665)	(886)

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.

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.

Recognition of deferred tax assets

Significant one-off tax charges or credits arising from prior period items, and arising due to a change of facts and circumstances in the current year, are excluded from the adjusted tax charge. The recognition of deferred tax assets relating to the uplifted value of intangibles in the Group's Dutch business are excluded from the adjusted tax charge on this basis.

Provision for state aid tax 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 ALTERNATIVE PERFORMANCE MEASURES

A) Net revenue Tobacco & NGP and net revenue excluding Russia

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 alternative performance measures on net revenue the Group treats 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. For the purpose of showing comparable year-on-year metrics the Group have included a net revenue excluding Russia measure excluding the results of the Russia business in the comparative figures, following the disposal of that operation in April 2022.

Reconciliation from Tobacco & NGP revenue to Tobacco & NGP net revenue and net revenue excluding Russia

			2023			2022
£ million	**Tobacco**	**NGP**	**Total**	Tobacco	NGP	Total
Revenue	**22,114**	**299**	**22,413**	23,232	224	23,456
Duty and similar items	**(14,364)**	**(34)**	**(14,398)**	(15,628)	(16)	(15,644)
Sale of peripheral products	**(3)**	**–**	**(3)**	(19)	–	(19)
Net Revenue	**7,747**	**265**	**8,012**	7,585	208	7,793
Russia net revenue	**–**	**–**	**–**	(56)	–	(56)
Net revenue excluding Russia	**7,747**	**265**	**8,012**	7,529	208	7,737

B) Distribution gross profit

Distribution gross profit comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations. Distribution gross profit was previously described as Distribution net revenue. There has been no change in calculation of this metric.

Reconciliation from distribution revenue to distribution gross profit

£ million	**2023**	2022
Revenue – Distribution	**10,819**	9,756
Cost of sales – Distribution	**(9,353)**	(8,710)
Distribution gross profit	**1,466**	1,046

C) Adjusted operating profit and adjusted operating profit excluding Russia

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. For the purpose of showing comparable year-on-year metrics we have included an adjusted operating profit measure excluding the results of the Russia business in the comparative figures, following the disposal of that operation in April 2022. For the year ending 30 September 2023 the previously combined adjusted operating profit metric for Tobacco and NGP has been split into its two component parts.

Reconciliation from profit before tax to adjusted operating profit and adjusted operating profit excluding Russia

£ million	2023	2022
Profit before tax	**3,111**	2,551
Net finance costs	**298**	117
Share of (profit)/loss of investments accounted for using the equity method	**(7)**	15
Operating profit	**3,402**	2,683
Russia, Ukraine and associated markets	**4**	399
Amortisation and impairment of acquired intangibles	**347**	349
Restructuring costs	**–**	197
Fair value adjustment and impairment of other financial assets	**36**	37
Loss on disposal of subsidiaries	**1**	29
Acquisition and disposal costs	**–**	5
Excise tax provision	**–**	(9)
Charges related to legal provisions	**85**	–
Structural changes to defined benefit pension schemes	**12**	4
Total adjustments	**485**	1,011
Adjusted operating profit	**3,887**	3,694
Russia operating profit	**–**	5
Adjusted operating profit excluding Russia	**3,887**	3,689

Reconciliation from tobacco & NGP operating profit to adjusted operating profit

			2023			2022
£ million	**Tobacco**	**NGP**	**Total**	Tobacco	NGP	Total
Operating profit/(loss)	**3,262**	**(156)**	**3,106**	2,599	(127)	2,472
Russian, Ukraine and associated markets	**4**	**–**	**4**	399	–	399
Amortisation and impairment of acquired intangibles	**334**	**5**	**339**	320	3	323
Restructuring costs	**–**	**–**	**–**	197	–	197
Loss on disposal of subsidiaries	**1**	**–**	**1**	13	–	13
Fair value adjustment and impairment of other financial assets	**20**	**16**	**36**	–	37	37
Acquisition and disposal costs	**–**	**–**	**–**	5	–	5
Excise tax provision	**–**	**–**	**–**	(9)	–	(9)
Charges related to legal provisions	**85**	**–**	**85**	–	–	–
Structural changes to defined benefit pension schemes	**12**	**–**	**12**	4	–	4
Adjusted operating profit/(loss)	**3,718**	**(135)**	**3,583**	3,528	(87)	3,441
Russia operating profit	**–**	**–**	**–**	5	–	–
Adjusted operating profit/(loss) excluding Russia	**3,718**	**(135)**	**3,583**	3,523	(87)	3,436

Reconciliation from distribution operating profit to distribution adjusted operating profit

£ million	2023	2022
Distribution operating profit	**298**	212
Loss on disposal of subsidiaries	**–**	16
Amortisation of acquired intangibles	**8**	26
Distribution adjusted operating profit	**306**	254

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 the 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 excludes 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	2023	2022
Reported net finance costs	**298**	117
Fair value gains on derivative financial instruments	**707**	1,483
Fair value losses on derivative financial instruments	**(568)**	(1,213)
Exchange gains/(losses) on financing activities	**10**	(69)
Net fair value and exchange gains on financial instruments	**149**	201
Interest income on net defined benefit assets	**178**	107
Interest cost on net defined benefit liabilities	**(165)**	(99)
Post-employment benefits net financing income	**13**	8
Tax settlement interest cost	**(50)**	–
Adjusted net finance costs	**410**	326
Comprising:		
Interest income on bank deposits	**(12)**	(9)
Interest cost on lease liabilities	**10**	6
Interest cost on bank and other loans	**412**	329
Adjusted net finance costs	**410**	326

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.

Reconciliation from reported tax to adjusted tax

£ million	2023	2022
Reported tax	655	886
Deferred tax on amortisation of acquired intangibles	(4)	15
Tax on net foreign exchange and fair value gains and losses on financial instruments	89	(183)
Tax on post-employment benefits net financing cost	–	–
Tax on restructuring costs	–	49
Tax on disposal of subsidiaries	–	8
Tax on charges relating to legal provisions	26	–
Tax on structural changes to defined benefit pension schemes	3	–
Tax on fair value adjustment and impairment of other financial assets	5	–
Tax on interest settlements	2	–
Recognition of deferred tax assets	212	–
Provision for state aid recoverable	–	(101)
Uncertain tax positions	(207)	63
Deferred tax on unremitted earnings	–	26
Tax on unrecognised losses	–	(8)
Adjusted tax charge	781	755

G) Adjusted earnings per share and adjusted earnings per share excluding Russia

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. For the purpose of showing comparable year-on-year metrics we have included an adjusted earnings per share measure excluding Russia which excludes the results of the Russia business in the comparative figures following the disposal of that operation in April 2022.

Reconciliation from reported to adjusted earnings and earnings per share

£ million unless otherwise indicated	2023 Earnings per share (pence)	2023 Earnings	2022 Earnings per share (pence)	2022 Earnings
Reported basic	**252.4**	**2,328**	165.9	1,570
Russia, Ukraine and associated markets	**0.4**	**4**	42.2	399
Amortisation and impairment of acquired intangibles	**38.0**	**351**	35.4	334
Restructuring costs	**–**	**–**	15.6	148
Fair value adjustment and impairment of other financial assets	**3.4**	**31**	3.9	37
Loss on disposal of subsidiaries	**0.1**	**1**	2.2	21
Acquisition and disposal costs	**–**	**–**	0.5	5
Excise tax provision	**–**	**–**	(1.0)	(9)
Charges related to legal provisions	**6.4**	**59**	–	–
Structural changes to defined benefit pension schemes	**1.0**	**9**	0.4	4
Brand impairment in equity accounted joint venture	**–**	**–**	2.5	24
Net fair value and exchange movements on financial instruments	**(25.8)**	**(238)**	(1.9)	(18)
Post-employment benefits net financing cost	**(1.4)**	**(13)**	(0.8)	(8)
Tax settlement interest costs	**5.2**	**48**	–	–
Recognition of deferred tax assets	**(23.0)**	**(212)**	–	–
Provision for state aid recoverable	**–**	**–**	10.7	101
Uncertain tax positions	**22.4**	**207**	(6.7)	(63)
Deferred tax on unremitted earnings	**–**	**–**	(2.7)	(26)
Tax on unrecognised losses	**–**	**–**	0.8	8
Adjustments above attributable to non-controlling interests	**(0.3)**	**(3)**	(1.8)	(18)
Adjusted	**278.8**	**2,572**	265.2	2,509
Adjusted diluted	**277.1**	**2,572**	263.3	2,509
Russia earnings per share	**–**	**–**	0.4	4
Adjusted excluding Russia	**278.8**	**2,572**	264.8	2,505
Adjusted diluted excluding Russia	**277.1**	**2,572**	262.9	2,505

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	2023	2022	2021
Reported operating profit	**3,402**	2,683	3,146
Adjusting items (see section C)	**485**	1,011	427
Adjusted operating profit	**3,887**	3,694	3,573
Equivalent tax charge	**(871)**	(827)	(807)
Net adjusted operating profit after tax	**3,016**	2,867	2,766
Working capital	**(2,567)**	(2,823)	(2,523)
Intangibles	**16,944**	17,777	16,674
Property, plant and equipment	**1,617**	1,659	1,715
Invested capital	**15,994**	16,613	15,866
Average annual invested capital	**16,304**	16,240	16,741
Return on invested capital (%)	**18.5**	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 translates current year results at prior year foreign exchange rates. An analysis of all key metrics can be found in the Group Financial Review on pages 92-99.

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

£ million	2023	2022
Reported net debt	**(8,438)**	(8,492)
Accrued interest	**125**	105
Lease liabilities	**349**	248
Fair value of interest rate derivatives	**(62)**	85
Adjusted net debt	**(8,026)**	(8,054)

Average adjusted net debt during the year was £9,574 million (2022: £9,198 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 adjusted operating profit to adjusted EBITDA is shown below.

£ million	2023	2022 (restated)
Adjusted operating profit (see section C above)	**3,887**	3,694
Depreciation, amortisation and impairments	**270**	244
Adjusted EBITDA	**4,157**	3,938

Note the comparative figure has been restated as it previously included a reconciliation from operating profit to EBITDA. This has been changed to a reconciliation from adjusted operating profit to adjusted EBITDA.

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 unless otherwise stated	2023	2022
Net cash flows generated from operating activities	**3,129**	3,186
Tax	**590**	681
Net capital expenditure	**(254)**	(177)
Restructuring	**98**	91
Cash flow post capital expenditure pre interest and tax	**3,563**	3,781
Adjusted operating profit	**3,887**	3,694
Adjusted operating cash conversion	**92%**	102%

M) Free cash flow

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

Net cash flows generated from operating activities to free cash flow

£ million	2023	2022
Net cash flows generated from operating activities	**3,129**	3,186
Net capital expenditure	**(254)**	(177)
Cash interest	**(407)**	(358)
Minority interest dividends	**(104)**	(89)
Free cash flow	**2,364**	2,562

GLOSSARY

Financial terms

Adjusted closing net debt	Adjusted closing net debt is measured at balance sheet foreign exchange rates, with a full reconciliation shown within section J of the supplementary information.
Adjusted earnings per share	This is an alternative performance measure which is defined within section G of the supplementary information.
Adjusted earnings per share excluding Russia	This is an alternative performance measure which is defined within section G of the supplementary information.
Adjusted EBITDA	This is an alternative 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 net debt	This is an alternative performance measure which is defined within section J of the supplementary information.
Adjusted net debt to EBITDA multiple	This is an alternative 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 net finance costs	This is an alternative performance measure which is defined within section E of the supplementary information.
Adjusted (Non-GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next.
Adjusted operating cash conversion	This is an alternative performance measure which is defined within section L of the supplementary information.
Adjusted operating profit	This is an alternative performance measure which is defined within section C of the supplementary information.
Adjusted operating profit excluding Russia	This is an alternative 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 tax charge	This is an alternative 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.
EBITDA	Earnings before interest, taxation, depreciation and amortisation.
GAAP	Generally accepted accounting principles.
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.
Net revenue excluding Russia	This is an alternative performance measure which is defined within section A of the supplementary information.
Reported (GAAP)	Reported (GAAP) complies with UK-adopted International Accounting Standards and the relevant legislation.
Return on invested capital	This is an alternative performance measure which is defined within section H of the supplementary information.
Stick equivalent volumes	Stick equivalent volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes but exclude any NGP volume such as heated tobacco, modern oral nicotine and vapour.
Tobacco & NGP Net revenue/ Distribution gross profit	This is an alternative performance measure which is 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.

GLOSSARY *contuned*

Other	
AAACE	Africa, Asia And Australasia and Central & Eastern Europe.
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CO2E	Carbon Dioxide Equivalent
CSRD	The Corporate Sustainability Reporting Directive
DEI	Diversity, Equity and Inclusion
Distribution	Logistics Segment
ECLT	Eliminating Child Labour in Tobacco Growing Foundation
EFRAG	European Financial Reporting Advisory Group
ELT	Executive Leadership Team
EPR	Extended Producer Responsibility Scheme
ERG	Employee Resource Groups
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EVP	Electronic Vape Products
EY	Ernst & Young LLP
FCT	Fine Cut Tobacco
FDA	US Food and Drug Administration
FMC	Factory Made Cigarettes
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
GWh / KWh	Gigawatt-Hour / Kilowatt-Hour
HRIA	Human Rights Impact Assessment
HT	Heated Tobacco
HTP	Heated Tobacco Products
ILO	International Labour Organisation
IOSH	Institution of Occupational Safety and Health
IPM	Integrated Pest Management
ISAE	International Standard for Assurance Engagements
ISO	International Organization for Standardization
IVMS	In Vehicle Monitoring System
KPI	Key Performance Indicators
LCWG	Leaf Compliance Working Group
Leaf CARE	Leaf Compliance and Response Program
LGBTQ+	Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, Intersex, Asexual, and More
LTA	Lost Time Accident
LTIP	Long Term Incentive Plans
MMC	Mass Market Cigars
MOND	Modern Oral Nicotine Delivery
MPI	Manufacturer's Price Increase
MSCI	Company Name
NGOs	Non-Government Organisation
NGP	Next Generation Products
NGP	Next Generation Products
NTM	Non-Tobacco Materials
NTM	Non Tobacco Materials

GLOSSARY *continued*

Other	
OHSE	Occupational Health Safety and Environment
OND	Oral Nicotine Delivery Category
OND	Oral Nicotine Delivery Category
PDCA	Plan Do Check Act
PG&S	Purchased Goods and Services
PPE	Personal Protective Equipment
Priority markets	Top 5 combustible markets USA, Germany, UK, Spain and Australia
PSHG	Product Stewardship and Health Group
RECs	Renewable Energy Certificates
SASB	Sustainable Accounting Standards Board
SBTi	Science Based Target Initiatives
SCIA	Supply Chain Impact Assessments
SDGs	Sustainable Development Goals
SE	Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes
SECR	Streamlined Energy and Carbon Reporting
SER	Supplier Engagement Rating
STP	Sustainable Tobacco Programme
T&Cs	Terms and Conditions
TCFD	Task Force on Climate-Related Financial Disclosures
Tobacco & NGP	Tobacco & Next Generation Products
UK	United Kingdom
UN SDGs	United Nations Sustainable Development Goals
WDI	Workforce Disclosure Initiative