



TRANSFORMING FOR SUCCESS

Dear Shareholders

The transformation of Imperial into a consumer-focused challenger business is now translating into a stronger and more consistent operational performance and enhanced shareholder returns. Despite a difficult macroeconomic and geopolitical environment, with inflationary headwinds, shifting consumer preferences and regulatory challenges, we continue to methodically deliver on our external commitments.

One of my highlights of the past year was attending our capital markets event in New York in June, where management showcased our new consumer capabilities in insights, innovation and marketing. What impressed me was both the best-in-class quality of the work by our new global centres of expertise and the deep collaboration with local markets. We are making progress in other transformation priorities:

improvements in data, simplification of processes, and the development of a performance-based culture.

All of this enabled the business to deliver an improved performance in both combustible and next generation products (NGP) during the 2023 fiscal year. Furthermore, we are providing shareholders with consistent, growing returns through a progressive dividend policy and an ongoing share buyback programme.

I would like to thank the 25,000 people who work at Imperial, as well as our many valued business partners, for their individual contributions to our growing collective success.

CONSUMER INSIGHTS ARE DRIVING OUR TRANSFORMATION

Everything we do starts with consumers – and their diverse voices can be heard on pages 4-5 and

throughout this report. Consumers tell us they value local brands with strong heritage and global brands with distinctive personalities – traditional areas of strength for Imperial, which we are now further developing. Many consumers also tell us they have yet to find a perfect potentially reduced-harm replacement for cigarettes. This means we are seeing a growing diversity of behaviour with consumers using different products for different moments in their day.

Therefore, we see a future for this industry where multiple nicotine categories and a diverse ecosystem of businesses will coexist and evolve. Innovation, and responsible competition and regulation, will be the motors which drive us to a healthier future. Thanks to our focused investments in transformation, Imperial is now well placed to make a positive contribution to this wider industry transition.

ADVOCATING FOR HARM REDUCTION

Public health bodies agree it is the smoke created by the burning of tobacco leaf which contains most of the harmful chemicals responsible for smoking-related disease. Yet, many consumers, policymakers and medical professionals continue to believe that nicotine is the principal cause of ill-health. We will continue to campaign to build a greater understanding of the positive role that potentially less harmful products can play in helping adult smokers.

All of Imperial's products are designed for and marketed to adult smokers and existing nicotine consumers. We are actively engaging to support the development of stronger, more enforceable regulation which balances the need to make an attractive range of NGP available to adult smokers while driving out irresponsible products and preventing youth access.

However, we are concerned with new policy proposals in some markets, which see prohibition as the solution. Outlawing legal products can inevitably lead to unintended consequences, in particular, the proliferation of illicit trade and the growth of black-market products outside the regulated framework.

While engaging to create regulatory environments that enable successful tobacco harm reduction, we will also support the freedoms of our legal adult consumers who choose to continue to smoke.

DELIVERING ON OUR PRIORITIES FOR PEOPLE AND PLANET

Alongside our progress on harm reduction, we are delivering on our other key environmental, social and governance priorities (ESG). In 2022 we refreshed our approach to ESG, which internally we call "People and Planet", and over the past year we have continued to enhance our governance and disclosures, and work towards our key commitments. Among these is our goal to be a fully Net Zero company by 2040, and since our baseline year of 2017 we have reduced carbon emissions by 65% within the business. In November 2022, the Board approved a new diversity, equity and inclusion strategy, which defines our processes, practices and long-term measures for success. In particular, we now have a clear goal to increase the proportion of women in senior management to 35% by 2027.



For more on People and Planet see pages 38-69.

ENHANCING BOARD CAPABILITIES

In March, we welcomed Andrew Gilchrist as a Non-Executive Director and as a member of the Audit and People and Governance Committees. Andrew, who was Chief Financial Officer of Reynolds American Inc, brings to our Board two decades of operational and financial experience in the tobacco sector. At February's Annual General Meeting (AGM), we said farewell to Simon Langelier, who after serving nearly six years on the Board had decided to step down. I would like to thank Simon again for his significant contribution to the Board and we wish him well in his future endeavours.

We continue to hold valuable educational sessions to ensure that Board members are well able to provide appropriate challenge and support for management. Topics covered over the past year have included tax and excise, patents and intellectual property, and regulatory policy.



See the Governance section, starting on page 112, for more information.

BROADENING STAKEHOLDER ENGAGEMENT

Building on the programmes of previous years, the Board held meetings in Germany and Morocco, during which we had the opportunity to meet with employees and consumers. I continue to have regular interactions with our largest investors, and over the past year we consulted with them on our refreshed Remuneration Policy, which will be brought to the 2024 AGM for approval. Having carefully considered the existing approach and alternative remuneration structures, the Board concluded that the current structure, with a small number of refinements, remains appropriate for the Company at this time.

EFFECTIVELY ALLOCATING CAPITAL

The combination of our strong cash flows and relatively low capital intensity means we generate surplus capital. The Board believes the disciplined allocation of capital is a key value lever alongside the delivery of the Group's strategy. We have clearly defined our capital allocation priorities, which start with investment to support our strategic delivery. While the investment needs of the business are relatively modest, we approved a small acquisition to facilitate our launch of modern oral in the United States. We have also strengthened our balance sheet to reach our target leverage and underpin our commitment to investment grade status.

Our objective is to support the long-term sustainable cash flows of the business to enable us to maintain our progressive dividend policy and ongoing share buyback. The Board is recommending an annual dividend increase of 4.0%, to 146.82 pence per share. We have also committed to a £1.1 billion share buyback to be completed in FY24, an increase of 10% on FY23.

MOVING CLOSER TO A HEALTHIER FUTURE

Looking ahead, we expect the continuing benefits of our transformation to enable a further acceleration of our financial performance during the final two years of our five-year strategy. We look forward to building on our growing operational track record to deliver sustainable shareholder returns and play a positive, distinctive role in this industry's transition to a healthier future.

Thérèse Esperdy
Chair

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