Imperial Tobacco Pension Fund

Actuarial valuation as at 31 March 2022

20 April 2023

Summary

The main results of the Fund's actuarial valuation are as follows:

- Funding level on the winding up basis at 31 March 2022 has increased to 104% (2019: 92%)

Winding up funding level

- Deficit on assets relative to liabilities on the winding up basis at 2019 of £380 million has changed to a surplus at 2022 of £162 million.

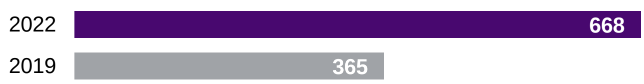
Winding up surplus/(deficit) £m

- Technical provisions funding level as at 31 March 2022 has increased to 118% (2019: 110%)

Technical provisions funding level

- Surplus of assets relative to technical provisions has increased to £668 million (2019: £365 million)

Technical provisions surplus £m



- Total service funding level as at 31 March 2022 has increased to 116% (2019: 106%)

Total service funding level

- Surplus of assets relative to liabilities on the total service basis has increased to £588 million (2019: £220 million)

Total service surplus £m

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Throughout this report the following terms are used:

Fund
Imperial Tobacco Pension Fund

Trustee
Imperial Tobacco Pension Trustees Limited

Company
Imperial Tobacco Limited and other participating companies

Trust Deed & Rules
The Fund's Trust Deed and Rules dated 28 September 2010 as subsequently amended

Introduction

Scope

This report is the actuarial valuation of the Imperial Tobacco Pension Fund as at 31 March 2022 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under the terms of Clause 11 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Company within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Fund and to determine the appropriate level of future contributions in accordance with Clause 11. The financial position is assessed by reference to the following measures:

- Statutory funding objective
  - Past service objective – to cover technical provisions
- Additional funding objectives
  - Total service objective
  - Winding up objective

The funding objectives are detailed in the Statement of Funding Principles agreed on 20 April 2023 and the additional objectives apply independent of, and in addition to, the statutory funding objective.

The report explains the financial position of the Fund at 31 March 2022 using these measures of its liabilities and how it has changed since the previous valuation at 31 March 2019. It also describes the strategy that has been agreed between the Trustee and Company for financing the Fund in the future. The report focuses initially on the winding up objective which currently determines the funding arrangements. The figures in this report relate solely to the Defined Benefit section of the Fund. The Defined Contribution section assets and liabilities (which amounted to £63m at 31 March 2022) have been excluded throughout.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Fund and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out at 31 March 2025.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Fund's assets and technical provisions. The next such report, which will have an effective date of 31 March 2023, must be completed by 31 March 2024.

Tim Panter
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, WTW
20 April 2023
Authorised and regulated by the Financial Conduct Authority

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Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Fund for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Fund, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the Data Protection Act). Data controllers would include the Trustee of the Fund and may also include the Scheme Actuary and Towers Watson, so we have provided further details on the way we may use this data on our website at https://www.willistowerswatson.com/en-GB/Notices/how-willis-towers-watson-uses-personal-data-for-actuarial-services-to-uk-pension-scheme-trustees.

Assumptions

The choice of long-term assumptions, as set out in the Fund's Statement of Funding Principles dated 20 April 2023, is the responsibility of the Trustee, in agreement with the Company, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Fund's experience from time to time to be better or worse than that assumed. The Trustee and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Fund is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk.

Further information on the main risks affecting the Fund and the actions taken to manage them is set out in the Additional Information section. The Trustee has considered how climate-related risks might manifest themselves within the Fund and the assumptions adopted for the funding of the Fund are intended to contain an appropriate degree of prudence taking into account these risks.

The assumptions which influence the output and observations set out in this paper have been derived by WTW through a blend of economic theory, historical analysis and the views of investment managers. They inevitably contain an element of subjective judgement. In particular, the assumptions included in the analysis cover the likely future behaviour of the investment markets in which the Fund will be invested. These include expected future returns from different asset classes, the likely volatility of those returns, and their inter-relationship. In addition, where relevant we have made assumptions about the level of cashflow generation from different asset classes, and the costs of investment. It should be noted that no economic model could be expected to capture future uncertainty perfectly, particularly the risk of extreme events.

It should also be noted that our timeframe in establishing our asset model and the assumptions used in this study are long-term, and as such are not meant to be precisely reflective of the likely course of the investment markets in the short-term. Furthermore, our opinions and return forecasts are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by WTW, either to the Trustee, or any third party, of the future performance of the asset classes in question, either favourable or unfavourable. Past performance should not be taken as representing any particular guide to future performance.

Winding up objective

The Fund has three funding objectives, the winding-up objective, the statutory funding objective to have sufficient and appropriate assets to cover the Fund's technical provisions, and the total service objective.

In 2021, the Fund purchased an insurance policy to secure some of the Fund's pensioner benefits ("buy-in"). The assumptions used for the technical provisions, total service and winding up bases will be different for members covered by the buy-in and those not covered. The assumptions used to calculate the asset and liability values, on all bases, of the benefits insured by the buy-in are consistent with the premium paid for the insurance contract, updated for any changes in market assumptions.

Discontinuance

In the event that the Fund is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Fund. There would be no entitlement to further accrual of benefits.

If the Fund's discontinuance is not the result of the Company's insolvency, the Company would ultimately be required to pay to the Fund any deficit between the Scheme Actuary's estimate of the full cost of securing Fund benefits with an insurance company (including expenses) and the value of the Fund's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run the Fund as a closed fund for a period of years before buying such policies if it is confident that doing so is likely to produce higher benefits for members or if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Fund's discontinuance is a result of the Company's insolvency, the "employer debt" would be determined as above and the Fund would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Company) were not sufficient to secure benefits equal to the PPF compensation then the Fund would be admitted to and members compensated by the PPF. Otherwise the Fund would be required to secure a higher level of benefits with an insurance company.

Winding up basis

For the purpose of the winding up objective I have assumed that the Fund is wound-up on the valuation date and annuities are purchased. I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by WTW at around the valuation date. I have assumed the cost of implementing the winding-up to be 1.4% of the estimated value of the winding up liabilities plus an estimate of disinvesting illiquid assets at 31 March 2022 of £73 million (leading to assumed winding-up costs of £130 million). In addition I have made a notional allowance for the impact of GMP equalisation of 0.2% of the estimated value of the winding up liabilities.

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Fund at the valuation date and my calculation of the winding up liabilities should be considered to satisfy this requirement.

The table below summarises the main assumptions used to estimate the Fund's winding up position at this and the previous actuarial valuation.

Financial assumptions	31 March 2022 % pa	31 March 2019 % pa
Pensioner discount rate	**Nominal gilt yield curve plus 0.3% pa**	Nominal gilt yield curve plus 0.2% pa
Non-pensioner discount rate	**Nominal gilt yield curve less 0.2% pa**	Nominal gilt yield curve less 0.25% pa
Price inflation: Retail Price Index (RPI)	Break-even inflation curve implied by the difference between fixed and index-linked gilt yields	Break-even inflation curve implied by the difference between fixed and index-linked gilt yields
Consumer Price Index (CPI)	**RPI less a margin (0.7% to 2030 and nil thereafter)**	RPI less 0.7% pa
Pension increases		
- Pre-2002 pensioner members	**RPI curve plus 0.2% pa**	RPI curve plus 0.2% pa
- Pre-2002 non-pensioner members	**RPI curve plus 0.2% pa**	RPI curve plus 0.2% pa
- Post-2002 pensioner members	**RPI curve plus 0% pa**	RPI curve plus 0% pa
- Post-2002 pensioner members	**RPI curve plus 0% pa**	RPI curve plus 0% pa

Demographic assumptions	31 March 2022	31 March 2019
Mortality base tables (Pensioners)	**75%/25% weighting between best fit tables based on 6-year experience over 2015 to 2022 excluding 2020/2021, and best estimate tables implied by postcode analysis for pensioners**	Best fit over 2013 to 2019 less 4%
Mortality base tables (Non-pensioners)	**35%/65% weighting between best fit tables based on 6-year experience over 2015 to 2022 excluding 2020/2021, and best estimate tables implied by postcode analysis for non-pensioners**	Best fit over 2013 to 2019 less 4%
Future improvements in longevity	**CMI 2019 projections with a long-term rate of 1.5% smoothing parameter of 7.5 and initial addition of 0.75% for Male Staff members, 0.25% for Female members and dependants and 0% for Male Works members**	CMI 2016 projections with a long-term rate of 1.5% for both males and females
Allowance for commutation	**None**	None

Winding up basis results

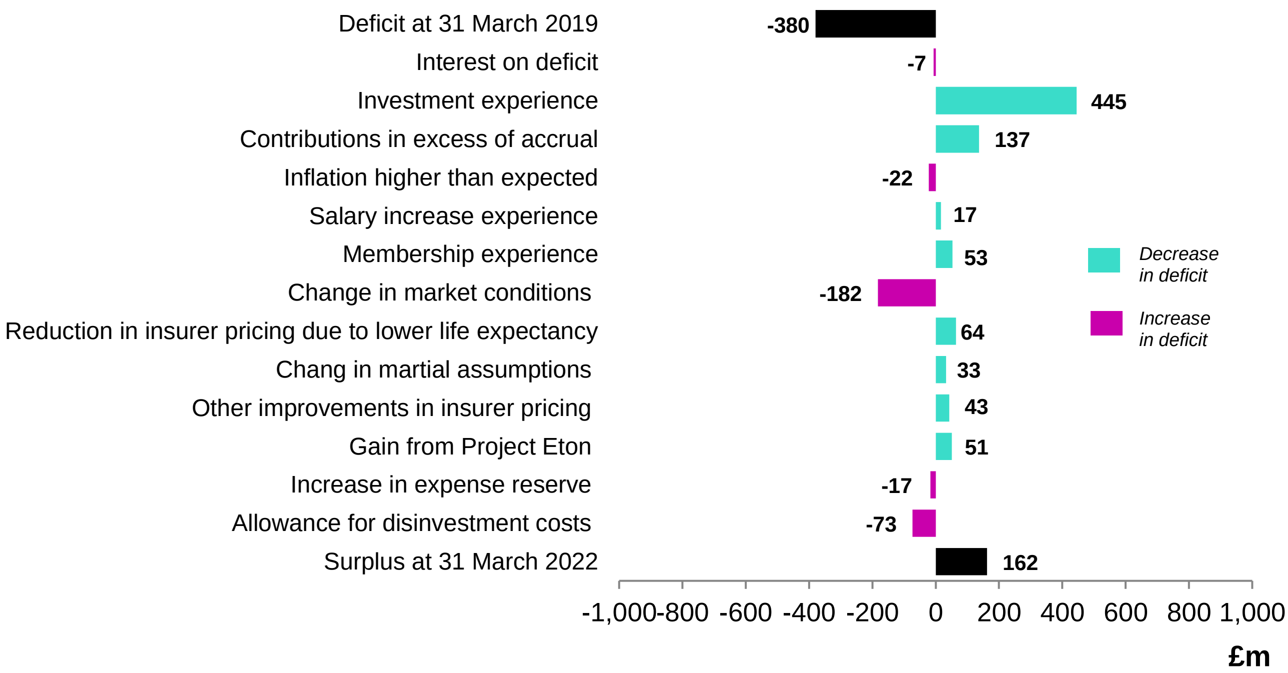
My estimate of the winding up position of the Fund as at 31 March 2022 is that the assets of the Fund would have met 104% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2022 £m	31 March 2019 £m
Estimated cost of buying insurance policies to cover:		
Employed members	**324**	452
Deferred pensioners	**987**	1,075
Pensioners (non-buy-in)	**1,097**	2,933
Pensioners (buy-in)	**1,628**	-
GMP equalisation	**8**	9
Expenses (including disinvestment costs)	**130**	45
AVCs and other money purchase benefits	**3**	3
Total estimated cost	**4,177**	4,517
Market value of assets	**4,338**	4,137
Winding up (deficit)/surplus (total estimated cost less assets)	**162**	(380)
Winding up level (assets ÷ total estimated cost)	**104%**	92%

Figures may not sum due to rounding

The change in the winding up level from 92% to 104% is due mainly to the investment performance of the Fund's assets being better than assumed. A combination of positive membership experience, contributions, improvements in insurer pricing (relative to gilts) and the terms achieved for the buy-in have also helped.

The main factors contributing to this improvement are shown below:



The estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Fund's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Fund before 6 April 1997
- category 2 – the cost to the Fund of securing the compensation that would otherwise be payable by the PPF if the Company became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above
- category 4 – all other pensions and benefits due under the Fund, including pension increases (where these exceed those under the PPF).

As the Fund assets covered the estimated cost of securing benefits with an insurer, the Fund would probably not have qualified for entry to the PPF had the Company become insolvent at 31 March 2022, and, based on the position at that date with no allowance for subsequent developments, I would have expected the members to receive their benefits in full from an insurance company once the Trustee had completed the winding-up of the Fund.

Funding arrangements

The funding package set out below has been determined following consultation with the Trustee and the Company, and is consistent with my advice provided over the course of the valuation process. At this valuation it was the position on the winding up basis which dictated the agreement in relation to any future contributions that might be required.

Contributions

At the 2019 valuation the Trustee and Company agreed a dynamic contribution schedule, under which any contributions are based on the level of the winding up deficit at the start of each Fund year. This has been retained at the 2022 valuation, with refinements to separately identify contributions in respect of ongoing accrual and to change the level at which contributions are made to an escrow account. The revised dynamic contribution schedule is set out below:

Winding up position at preceding 31 March	Annual deficit contribution	Contributions in respect of ongoing accrual
Deficit > £500m	£70m	100% of Pensionable Pay
Deficit > £200m	£50m	100% of Pensionable Pay
Deficit > £100m	£35m	100% of Pensionable Pay
Deficit < £100m	£20m	100% of Pensionable Pay
Deficit < £50m	£20m paid to an escrow account[1]	100% of Pensionable Pay to an escrow account[1]

Winding up position at preceding 31 March	Annual deficit contribution	Contributions in respect of ongoing accrual
Surplus < £50m	0	100% of Pensionable Pay to an escrow account
Surplus > £50m	0	0

1. In the event that Imperial Brands PLC loses its Investment Grade credit rating then the contributions in this scenario will be made to the Fund.

All contributions are spread over two equal payments, due by 31 October and by 31 March. As there was a surplus on the winding up basis of more than £50m at 31 March 2022 Company contributions to the Fund in the year to 31 March 2023 were nil.

The Trustee and Company have set out in an escrow agreement dated 20 April 2023 the conditions for escrow monies to be released to the Fund and to the Company.

Contingent funding arrangements

There is contingent security in the form of surety guarantees with a total value of £120m (non-increasing), and an agreement for a threefold deficit contribution step up if the Company loses its investment grade rating.

In addition Imperial Brands PLC has previously provided the Trustee with an enduring formal guarantee in respect of the Company's obligations to the Fund.

Further detail regarding the surety guarantees, the credit rating based trigger for increased contributions and Imperial Brands PLC guarantee is provided in the Additional Information.

Stochastic projections of the winding up position

In determining the appropriate level of contributions, I have considered stochastic projections of the winding up position following the valuation date.

These projections allow for the development of assets and liabilities including continued accrual of benefits and unreduced early retirement for employed members along with allowance for commutation over the projection period.

The central scenario showed that the funding position was expected to improve over time. Other scenarios were considered in order to understand better the likelihood of the Fund falling back into deficit. These scenarios included allowance for different packages of contributions and different investment strategy changes.

Considered as a whole I am satisfied with the funding arrangements given the Company covenant is believed to be strong, the dynamic contribution schedule provides protection against future deficits arising and there are significant contingent funding arrangements in place.

Ongoing funding objectives

Statutory funding objective

The Trustee's statutory funding objective under the Pensions Act 2004 is to have sufficient and appropriate assets to cover the Fund's technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Fund over the next 80 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2022 have been agreed between the Trustee and Company based on my recommendations and are documented in the Statement of Funding Principles dated 20 April 2023.

The table below summarises the main assumptions used to calculate the Fund's technical provisions for this and the previous actuarial valuation.

Financial assumptions	**31 March 2022** **% pa**	31 March 2019 % pa
Discount rate	**Full nominal gilt yield curve plus 0.6% pa**	Full nominal gilt yield curve plus 0.8% pa
Price inflation:		
RPI inflation	**Full break-even inflation curve implied by the difference between fixed and index-linked gilt yields**	Full break-even inflation curve implied by the difference between fixed and index-linked gilt yields
CPI inflation	**RPI less a margin (1% pa up to 2030 and nil thereafter)**	RPI less 1% pa
Pay escalation	**5% on average for December 2022 and CPI each year thereafter**	RPI +0% pa
Fund increases:		
- Pre-2002 members	**RPI curve**	RPI curve plus 0.1% pa
- Post-2002 members	**RPI curve less 0.2% pa**	Full RPI curve

Demographic assumptions	31 March 2022	31 March 2019
Mortality base tables (Pensioners)	**75%/25% weighting between best fit tables based on 6-year experience over 2015 to 2022 excluding 2020/2021, and best estimate tables implied by postcode analysis for pensioners**	Best fit over 2013 to 2019 less 4%
Mortality base tables (Non-pensioners)	**35%/65% weighting between best fit tables based on 6-year experience over 2015 to 2022 excluding 2020/2021, and best estimate tables implied by postcode analysis for non-pensioners**	Best fit over 2013 to 2019 less 4%
Future improvements in longevity	**CMI 2021 core model with a long-term rate of 1.5%, smoothing parameter of 7, and initial addition of 0.75% for Male Staff members, 0.25% for Female members and dependants and 0% for Male Works members**	CMI 2018 projections with a long-term rate of 1.5%, smoothing parameter of 7, and initial improvements adjustment of 0.5% for both males and females
Allowance for commutation	**15%**	15%

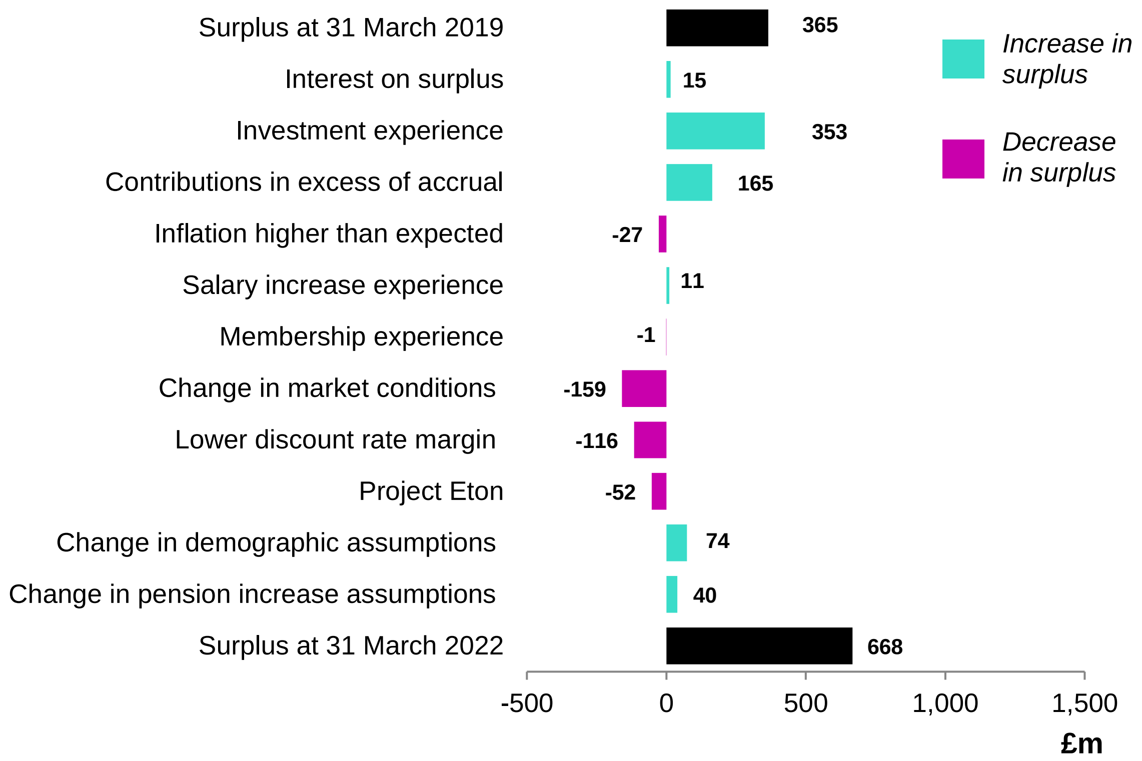
The table below compares the Fund's technical provisions as at the date of the actuarial valuation (31 March 2022) with the market value of the Fund's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 March 2022 £m	31 March 2019 £m
Amount required to provide for the Fund's liabilities for:		
Employed members	**218**	303
Deferred pensioners	**751**	776
Pensioners (non-buy-in)	**1,028**	2,646
Pensioners (buy-in)	**1,628**	-
GMP equalisation	**7**	7
Expenses	**36**	37
AVCs and other money purchase benefits	**3**	3
Technical provisions	**3,671**	3,772
Market value of assets	**4,338**	4,137
Past service (deficit)/surplus (technical provisions less assets)	**668**	365
Funding level (assets ÷ technical provisions)	**118%**	110%

Figures may not sum due to rounding

Developments since the previous valuation

The funding level has increased to 118% from 110% at the previous valuation. The main factors contributing to this increase are shown below:



Relationship between the cost of winding up and the technical provisions

My estimate of the cost of winding up with an insurance company of £4,177 million is £506 million higher than the Fund's technical provisions of £3,671 million.

The technical provisions are intended to be a prudent assessment of the assets required under the Fund's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Company being able to support the Fund in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Fund without having recourse to future contributions from the Company.

If the statutory funding objective had been exactly met on 31 March 2022 (ie there had been no funding surplus or deficit), I estimate that the winding up level of the Fund would have been 88%. This compares with 84% at the 31 March 2019 actuarial valuation.

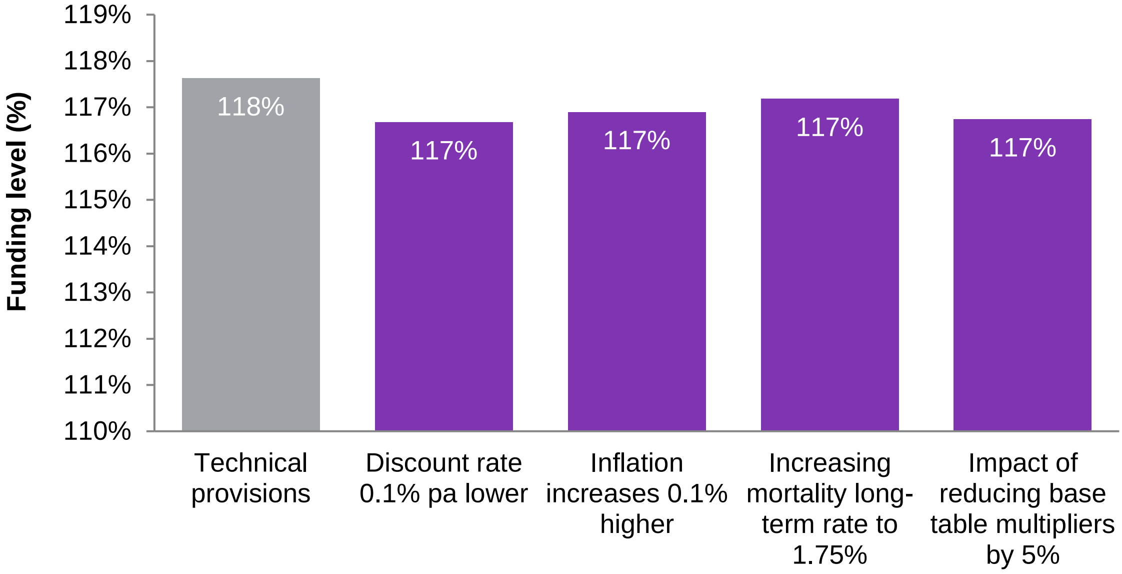
Recovery plan

As there were sufficient assets to cover the Fund's technical provisions at the valuation date, the Trustee and the Company are not required by legislation to agree a formal recovery plan specifying how, and by when, the statutory funding objective is expected to be met.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Fund's technical provisions as at 31 March 2022 the funding level is expected to improve (since the Scheme has a technical provisions surplus at the valuation date and the Fund's investment strategy currently targets an investment return above the technical provisions discount rate).

The table below illustrates the sensitivity of the Fund's technical provisions as at 31 March 2022 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



The winding up funding level is slightly more sensitivite to the above assumptions due to the longer duration of the liabilities compared to the technical provisions measure.

Total service objective

The total service objective uses the same assumptions that are used for the technical provisions. The only difference in the calculation is that the expected future service of the current employed members is taken into account in the calculations.

Allowing for a future service liability for employed members of £80 million, the liabilities on the total service basis amount to £3,751 million. This results in a funding level of 116% (2019: 106%) and a surplus of £588 million (2019: shortfall of £220 million).

The development of the total service basis funding level since 2019 largely follows that of the technical provisions basis. The main difference is that future service liabilities have reduced over the period as a result of a reduction in the active membership. This has resulted in a greater improvement in the total service funding level than seen in the technical provisions past service funding level. The sensitivity of the total service liabilities to variations in individual assumptions is similar to that of the technical provisions

Additional information

Risks

The table below summarises the main risks to the financial position of the Fund and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Company and Imperial Brands PLC to pay contributions to the Fund and, in particular, to make good any shortfall that may arise if the experience of the Fund is adverse. This advice is taken into account when determining the level of the ongoing basis liabilities and in considering the appropriateness of any plan to remove a deficit of any on the funding bases. Between valuations the Trustee regularly monitors the financial strength of the Company and Imperial Brands PLC and the funding position of the Fund. As part of the valuation package the Company has agreed to put in place surety guarantees totalling £120 million which would be payable to the Fund if the Company were to default on their obligation.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Fund's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Fund assets. The Scheme Actuary can require further contributions from the Company at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Fund's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Fund currently part hedges its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Fund hedges a high proportion of its exposure to inflation risk.The Trustee also invests in assets, such as property, that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation.
Falls in asset values might not be matched by similar falls in the value of the Fund's liabilities	The Trustee considers this risk when determining the Fund's investment strategy. It consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. There is a particular mismatch risk for the Fund in terms of the different funding objectives, with the assumed investment strategy for the ongoing bases being very different from the gilts-based cost of purchasing annuities To the extent that such falls in asset values result in deficits at future valuations, the Company would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Increase in the price of annuities may not be matched by similar increases in asset value	The Trustee holds bonds which typically move in line with insurer pricing, but the remaining assets are mismatched with insurer pricing. In addition, there is the risk of changes in the insurance market, for example prices increasing if there is less competition. The Scheme Actuary can require further contributions from the Company at subsequent valuations if the winding up shortfall increases.
Fund members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary.
Options exercised by members could lead to increases in the Fund's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Fund's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.

Risk	Approach taken to risk
Legislative changes could lead to increases in the Fund's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Company, where relevant.
Changing patterns of weather, temperature or disease could adversely affect the funding of the Fund	The Trustee recognises that climate-related issues represent a material risk to future economic stability in the long term, with potentially wide-ranging impacts on environmental, societal and governance matters. From the perspective of the funding of the Fund the key ways these risks could manifest themselves are through unmatched falls in asset values, Fund members living longer than assumed or a reduction in the strength of the Company covenant. Each of these particular risks are separately addressed above.

Economic risk | Demographic risk | Legal risk | Climate risk

Augmentations

The liabilities of the Fund can be increased by the operation of the augmentation provisions of Rule 24. These provisions are designed to protect the pre-existing rights and interests of all members and monitoring arrangements are in place in respect of such augmentations.

The provision of augmentations in the period since the previous valuation has had an impact of around 0.1% of the total service liabilities which has been more than offset on the total service basis by the reduction in liabilities for those members who have withdrawn to deferred pensioner status.

Opinion

Overall having regard to the valuation results, it is my opinion that there has been no substantial prejudice in the terms of the relevant provisions of the Trust Deed & Rules during the three-year period since the 2019 valuation. The count for monitoring purposes can therefore begin again with effect from 1 April 2022.

Benefits summary

The Fund is a registered pension scheme under the Finance Act 2004 and was contracted-out of the State Second Pension.

The main benefits for joinrs pre and post 1 April 2002 are summarised in the member booklet for each group. Additional benefit scales apply for certain other legacy groups of members.

Discretionary benefits

As far as we are aware, establishd administrative practices follow the requirements of Trust Deed and Rules. As such, no future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation.

Changes to the benefits

Since the valuation as at 31 March 2019 no changes have been made to the Fund's benefits.

Uncertainty about the benefits

An allowance of 0.2% of liabilities has been made in the calculation of the technical provisions, winding up liabilities and total service liabilities as an estimate for the possible changes to the benefits that may be required to ensure that the Fund provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Number of members

Number	31 March 2022			31 March 2019		
	Males	Females	Total	Males	Females	Total
Active members	143	109	252	193	144	337
Deferred pensioners	2,559	1,296	3,855	3,767	2,187	5,954
Pensioners	5,860	5,092	10,952	6,711	5,475	12,186
Dependants	303	2,588	2,891	441	3,571	4,012
Total	8,865	9,085	17,950	11,112	11,377	22,489

Annual salary or pension

£m	31 March 2022			31 March 2019		
	Males	Females	Total	Males	Females	Total
Pensionable salaries	10.2	6.2	16.4	15.6	9.0	24.6
Deferred pensions	14.2	5.5	19.7	14.6	6.5	21.1
Pensioners' pensions	78.8	30.4	109.3	80.3	29.2	109.5
Dependants' pensions	1.5	29.4	30.9	1.6	29.5	31.1

Average age

Years	31 March 2022			31 March 2019		
	Males	Females	All	Males	Females	All
Active members	48.8	48.7	48.8	47.0	47.5	47.1
Deferred pensioners	51.3	52.1	51.5	50.1	52.0	50.7
Pensioners	74.1	71.7	73.4	73.0	70.9	72.5
Dependants	74.8	82.2	81.8	76.0	81.7	81.4

Notes on data tables:

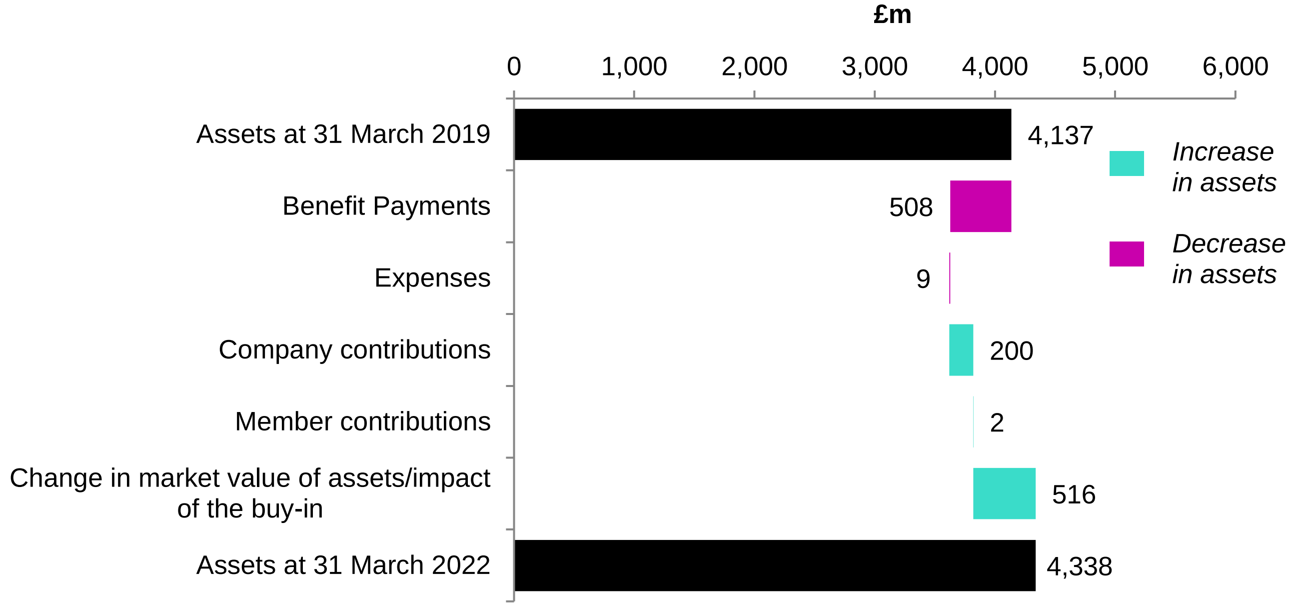
- Figures in respect of dependants include children.
- Deferred pension amounts include revaluation to the valuation date.
- Pension amounts include the 1 April increases just after the respective valuation dates.
- Average ages are weighted by annual pension or salary.
- Excluded from this summary are the group of untraced members over NRA whose pensions are not yet in payment. There are approximately 9,000 such members and we have estimated the total liability associated with these members to be around £31m (on the winding up basis).
- There are 205 members whose pension is currently suspended. They are included in the figures above. We have estimated the total liability associated with these members to be around £7.5m (on the winding up basis).

Asset information

Movements in the market value of assets

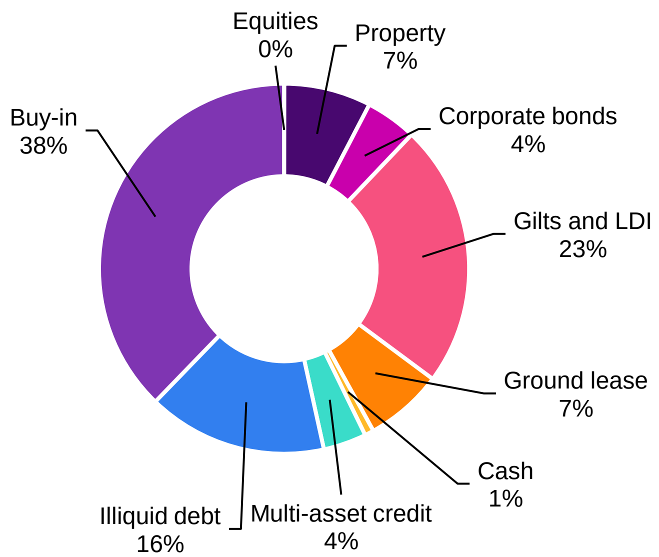
The audited accounts supplied as at 31 March 2022 show that the market value of the Fund's assets was £4,338 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £3 million.

The change in the Fund's assets from £4,137 million as at 31 March 2019 to £4,338 million as at 31 March 2022 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (including AVCs):



Investment strategy

A summary of the Fund's investment allocation at 31 March 2022 is set out below:



Contingent funding arrangements

Principle of a contingent funding arrangement

In accordance with Clause 11(3) of the Trust Deed & Rules, I may take into account a contingent funding arrangement for the purpose of the valuation. Any such arrangement must be in place before I formally report on the results of the valuation.

It is my decision how to take any contingent asset into account, but it needs to be capable, in my opinion, of granting to the Trustee on the happening of a certain event (or events) the unfettered and immediate right to the transfer of assets into the Fund.

For this valuation, in considering the winding up position it has been agreed that surety guarantees should continue to be used. In addition the dynamic contribution schedule has also been retained based on the level of the winding-up surplus/deficit position alongside an agreement for a threefold increase in deficit contributions should the Company lose its investment grade rating. These contingent arrangements are described in more detail below. Further to these arrangements, a parent company guarantee is in place under which Imperial Brands PLC agrees to meet any of the Company's obligations if required to do so. Given the Fund is in surplus at 31 March 2022 on the winding up basis, the Company would not be expected to meet a winding up shortfall at that date.

Surety guarantees

As part of the 2019 valuation the Company put in place a contingent funding arrangement which takes the form of five surety guarantees in favour of the Trustee, issued by five different insurers. The maximum total amount that can be claimed across the five guarantees is £225 million. The guarantees are accompanied by a Trustee agreement, dated 2 July 2020.

As part of the 2022 valuation discussions the Company has agreed to replace these surety guarantees with three new guarantees, from three different insurers, with a maximum total amount of £120m. This has been taken into account by the Trustee and by me, in signing the valuation documentation.

Structure of the surety guarantees

The surety guarantees will make a payment into the Fund in circumstances described in more detail later in this section.

In considering the extent to which I can take into account the surety gurantees the financial strength/credit rating of the relevant insurers is a key factor. The financial strength ratings of the individual issuing insurers range from A+ to AA as at 31 December 2022, as measured by Standard & Poor's Rating Services (or the equivalent by Moody's or Fitch where available).

Arrangements are in place to replace any insurer which falls below a credit rating of BBB+ (or its equivalent by Moody's or Fitch) with an alternative financial institution, or to ensure its exposure is placed in an appropriate cash collateral deposit. These arrangements become effective if any of the relevant rating agencies has downgraded the insurer below BBB+. Furthermore, no financial institution can be exposed to more than £75 million.

Payment conditions

Under the surety guarantees the Trustee can make a demand for payment in the following circumstances:

a the Company has gone into liquidation and that liquidation is not for the purpose of reconstruction or amalgamation with any other Company pursuant to which the reconstructed or amalgamated Company has undertaken all the liabilities of the Company in accordance with the provisions of clause 17

b notice has been given by the Company to reduce, suspend or terminate its liability to contribute to the Fund (subject to clause 17), and such notice has expired

c following the next valuation conducted under clause 11, the Company has failed to make funding arrangements to address a winding up deficiency that are satisfactory to the Trustee and actuary

d one of the issuing insurers has ceased to have an acceptable financial strength/credit quality (or has become exposed to more than £75 million)

e a payment has been made by the Company, which otherwise would have been demanded under (a) – (d) or which has been made for the purpose of securing the release of the surety guarantee, which had been identified as being at risk of being set aside under the relevant insolvency legislation and such an event has occurred.

Under (a) to (c), the total amount claimed would be the maximum total amount, unless that amount has been reduced with the agreement of the trustee and the actuary. Under (d) the amount claimed would be the exposure (or excess exposure) associated with the specific issuing insurer, unless other arrangements of acceptable credit-worthiness have been implemented. Under e, the amount claimed would be the payment set aside by the insolvency practitioner.

Step up trigger

A contingent trigger has been agreed for Company contributions to increase if Imperial Brands PLC's credit rating becomes non-investment grade, with this trigger applying when the first of the two rating agencies used (S&P and Moody's) reduces the rating of Imperial Brands PLC's below investment grade ("Step up Rating Change"). It is also a two way trigger that allows for contributions reducing again if Imperial Brands PLC moves back to investment grade status with both rating agencies ("Step up Rating Change"). The trigger mechanism would then continue to apply as previously.

In the event of a "Step up Rating Change", additional deficit contributions will be payable to the Fund of double the monthly rate of contributions (payable at the end of each month), in addition to the half-yearly deficit payments.

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Imperial Tobacco Pension Fund**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Fund's technical provisions as at 31 March 2022 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Fund and set out in the Statement of Funding Principles dated 20 April 2023.

Tim Panter
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, WTW
20 April 2023

Towers Watson Limited, a WTW Company
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Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Fund's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

CMI projections: A set of longevity improvement rates by the Continuous Mortality Investigation.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Fund members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Fund and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Fund. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Fund, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Fund. See also statutory funding objective.

Gilt yield curve: The yields available on UK Government bonds over all durations.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Fund.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Secondary funding target: The secondary funding target is a stronger target than the statutory funding objective, and one to which the trustees aspire over the longer term. Once 100% funding on the technical provisions basis is reached, the secondary funding target may be expected to be achieved by a combination of investment returns and contributions.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Fund's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Fund (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Fund's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Fund.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Total service: The amount of assets required to make provisions for the accrued liabilities of the Fund on a ongoing basis and the additional liability in respect of the expected future service of current employed members.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.