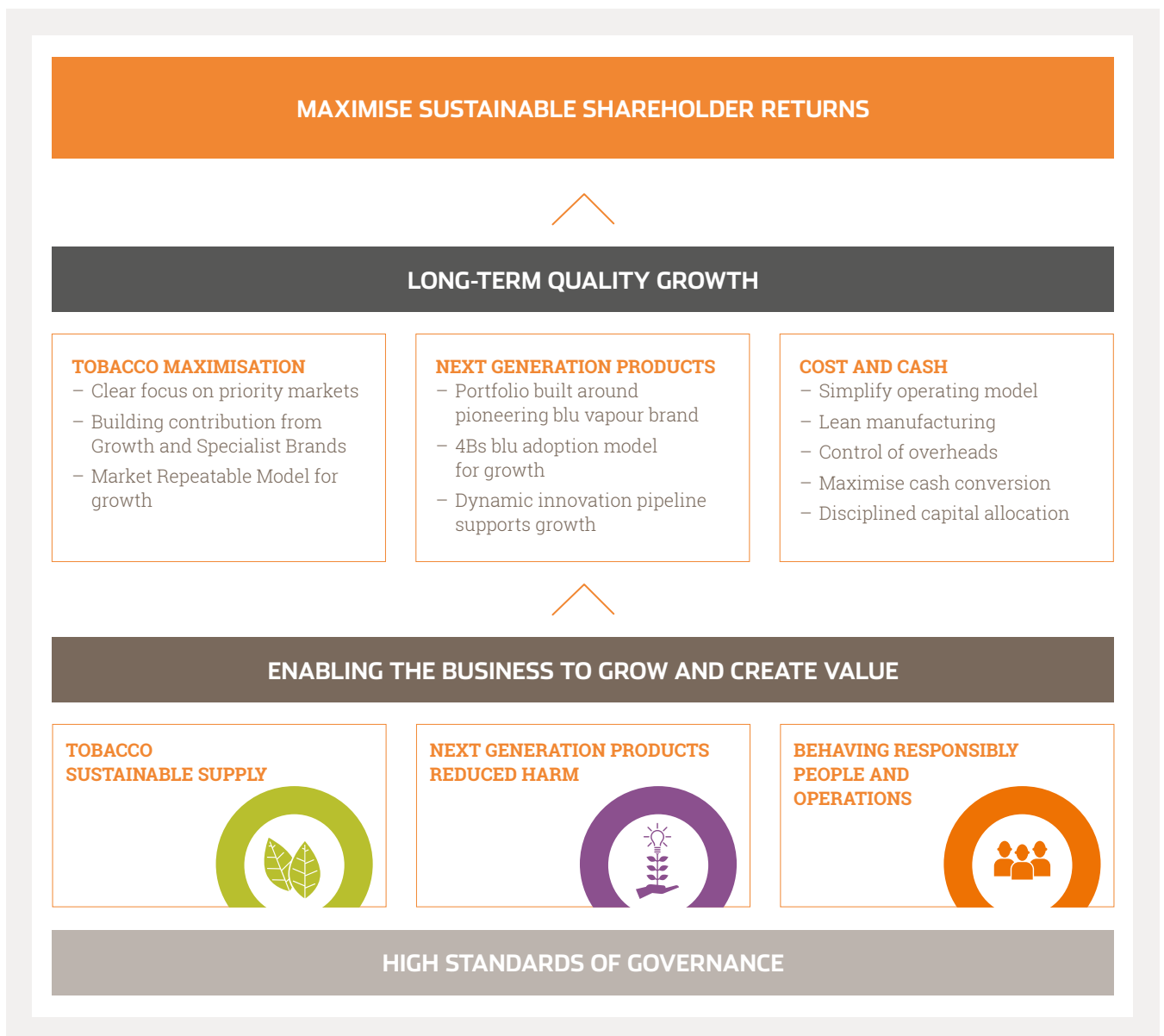


FOCUSED ON QUALITY GROWTH

OUR STRATEGY

Our strategy is aligned to our purpose of creating something better for the world's smokers and focuses on driving results in three key areas. In Tobacco we are maximising opportunities for our Growth Brands in priority markets. Through our growing portfolio of Next Generation Products we are providing adult smokers with a range of less harmful alternatives to cigarettes, with a particular focus on the vapour category. The disciplined approach we take to managing cost and cash provides the funds to invest in growth. Our updated sustainability strategy supports our commercial and public health ambitions, and everything we do is underpinned by high standards of governance.

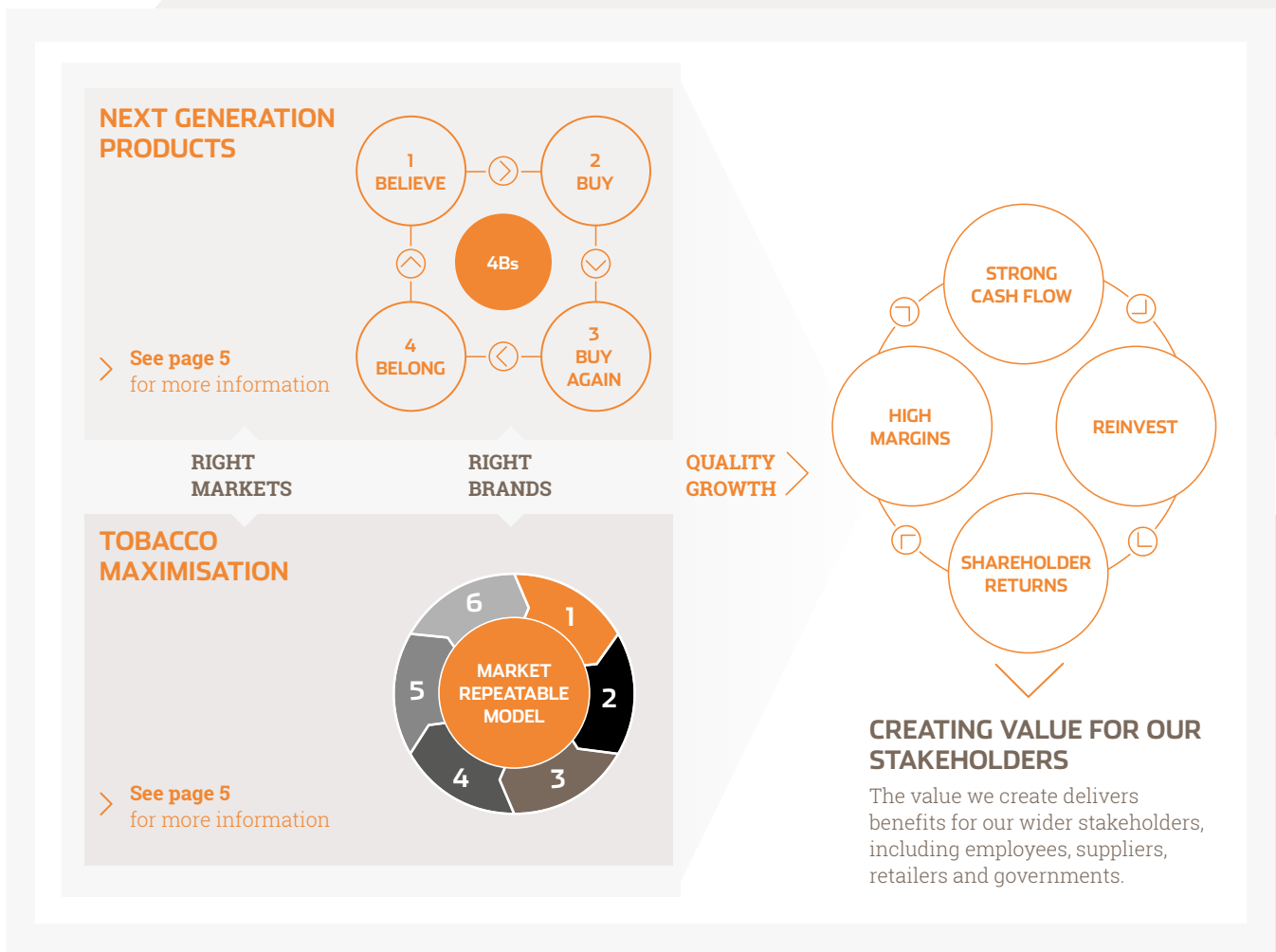


> **Turn to page 30**
for more on our sustainability strategy

HOW WE CREATE VALUE

OUR BUSINESS MODEL

We have also evolved our business model to more clearly explain how Tobacco Maximisation and Next Generation Products (NGP) create value. We have two distinct growth models, our Market Repeatable Model for tobacco and the 4Bs for NGP. Consistently applying these models to the right markets and the right brands is key for delivering quality growth. Our high operating margins drive the strong cash flows that are a hallmark of our business and although NGP may initially dilute these margins we expect to see profitability improve over time. We use the cash we generate to reinvest to support growth, pay down debt or return to shareholders through dividends.





'Believe' is the first element of our 4Bs blu adoption model. This is about triggering connections and raising awareness of the brand amongst adult smokers through a variety of methods, including responsible marketing. The aim is to encourage smokers to understand that blu truly does offer something better than cigarettes.



Smokers who believe are inspired to buy. We take an omnichannel approach, with sales across traditional retail outlets, specialist vape stores and online. Online sales are age verified and we insist that our retail outlet and vape store partners only ever sell to adults.



We want smokers to stay with blu and not revert to smoking, so we welcome blu users to belong to a thriving community (blu.com). It is here that we deepen our connection with consumers and increase the level of interaction. This includes offering exclusive access to products and promotions and the chance to participate in our bluNation loyalty programme.



'Buy again' is about generating repeat purchase. A smoker who has had a positive initial experience with blu will have the confidence to buy again. It is the start of building brand loyalty and relies on a frictionless omnichannel experience, ensuring our products are always available when and where smokers want to buy them.

1 SIMPLE MARKET FOCUSED PORTFOLIO

Our Market Repeatable Model starts with a simple market focused portfolio that is built around an optimal number of brands and stock keeping units that are aligned with consumer needs. Our strongest assets are our Growth and Specialist Brands and we focus on driving their performance to generate quality market share growth.

2 SUSTAINABLE BRAND INVESTMENTS

Our simple portfolios drive a sharper focus on investments, as the lack of complexity makes it easier to prioritise investment behind our Growth and Specialist Brands. We build brand equity through a regular drumbeat of targeted initiatives, including above-the-line and point of sale advertising and consumer activations to create brand awareness.

6 HONEST ACCURATE LEARNING

The final step of the model is about continuous improvement through honest and accurate learning. Markets measure their performance against agreed metrics and learnings are shared with the wider business. This includes being honest, both when things go well and when things do not turn out as planned, ensuring we build capabilities, improve together and continually optimise the model.

3 ALWAYS ON PRICE STRATEGY

The third element of this dynamic growth model is about the pricing of our brands. We make sure that all markets across our geographic footprint develop and implement a consistent pricing strategy for their portfolios and continually monitor our operating environment to ensure that the pricing of our brands remains competitive.

5 TAILOR CUSTOMER SOLUTIONS

In a continually evolving regulatory environment, retailers are an increasingly important part of the shopper brand purchasing experience. We focus on developing strong retail partnerships, creating tailored customer solutions that provide retailers with real commercial benefits and encourage them to become advocates for our brands.

4 CORE RANGE EVERYWHERE ALL THE TIME

Ensuring the core range of our brands is always available is crucial for building consumer loyalty. We make sure that the right brands are available in the right outlets at all times. This targeting is enabled by the simplicity of our portfolios, which are welcomed by retailers as they have less complexity to deal with and enjoy lower working capital.

SHAPING OUR ENVIRONMENT

The global tobacco market is evolving as more and more smokers switch from traditional combustible products to less harmful Next Generation Products (NGP).

The value of the world tobacco market remains significant at approximately US\$780 billion* (excluding China), with more than 5,400 billion cigarettes consumed a year. More than 900 million adults still choose to smoke and will continue to do so well into the future.

However, an increasing number of smokers are switching to NGP, such as vapour (also known as e-cigarettes), snus (oral tobacco) and heated tobacco.

This represents a huge public health opportunity that is completely aligned with our purpose of creating something better for the world's smokers.

In NGP our priority is to transition smokers to the blu vapour brand, a significantly less harmful product than cigarettes.

Vapour is the largest and most developed NGP category, with an estimated 36 million consumers worldwide.

As this figure continues to increase it is essential that we work with governments, regulators and public health bodies to ensure that the right regulatory and excise framework is put in place to support the conversion of smokers.

NEXT GENERATION PRODUCTS

We are actively engaged in the evolving debates and believe it is vital that NGP are regulated in a way that enables smokers to understand the benefits they offer. This requires a legislative framework that allows NGP to flourish and gives smokers the confidence to trial and ultimately switch to these less harmful products. Central to this, is regulation that allows open communication with adult smokers about the health benefits of vapour products.

Smokers should be offered a high quality vaping experience and the products they choose should be manufactured to the highest standard. Robust regulation that controls the production of NGP and is supported by scientific expertise is essential for the responsible development of the category.

It is also imperative that the sale and marketing of NGP is handled the right way. NGP are for adult smokers only and their sale to anyone underage should be prevented. We strongly believe minors should never use tobacco or nicotine products and fully support legislation that prohibits underage sales.

The responsible approach we take is enshrined in our vapour Marketing Standard, which is published in full at www.fontemventures.com and applies to all our employees, as well as the agencies who work with us.

With the NGP market still in its infancy, regulation is in its early stages and we are therefore maximising opportunities to help define legislation that will support the growth of the category. As we engage with regulators we are experiencing differing attitudes: some have expressed concerns that NGP could act as a 'gateway' to tobacco for non-smokers, although this is not supported by evidence; others take a more positive view, recognising the benefits of providing adult smokers with reduced-risk alternatives to cigarettes.

The UK is particularly encouraging from a regulatory perspective, with a number of public health bodies supporting the use of vapour products, including Public Health England, which has said vaping is at least 95 per cent less harmful than smoking.

In the US, the FDA has said it wants to strike an appropriate balance between regulation and encouraging the development of innovative products that may be less hazardous than cigarettes.

TOBACCO PRODUCTS

While working with stakeholders to shape the NGP regulatory landscape, we are also engaged in monitoring and managing tobacco regulation.

As with NGP, we market and sell tobacco products responsibly. We adhere to regulation at all times, wherever we do business and have an International Marketing Standard that also applies to all employees and agencies. It is published in full on our corporate website www.imperialbrandsplc.com

We actively support reasonable regulation, especially when it aims to reduce illicit trade and stop youth smoking. We also support appropriate ingredients disclosure and agree that tobacco products should display written health warnings.

We continue to oppose regulation that seeks to ban smoking in public or private places. We also consistently warn against the unintended consequences of extreme measures such as plain packaging which, combined with high taxes, fuel the growth of illicit trade.

The consequences of tobacco smuggling and counterfeiting are considerable: children can more easily obtain cigarettes, smokers are deprived of the quality they associate with their favourite brands, governments are deprived of substantial tax revenues and the livelihoods of independent retailers are threatened.

We are committed to tackling illicit trade, applying stringent controls to our distributors and employing a dedicated team of specialists to lead our anti-illicit trade initiatives. We also invest in systems with law enforcement agencies to improve the security and traceability of our products and share intelligence to help disrupt the supply of illegal cigarettes.

Tobacco regulation is largely driven by three organisations: the World Health Organization (WHO, through the Framework Convention on Tobacco Control, FCTC), the USA's Food and Drug Administration (FDA) and the European Commission (through the European Union Tobacco Products Directive, the EUTPD).

We encourage these regulators to draw on our expertise when considering legislative measures and oppose attempts to exclude us from the ongoing debates about tobacco.

* source: Euromonitor International

BUILDING GROWTH MOMENTUM



“Our gains in tobacco, combined with the excellent progress we made in Next Generation Products, have put us in a strong position to deliver accelerated growth.”

ALISON COOPER
Chief Executive

This year we have built strong momentum in NGP, while generating robust returns in tobacco and I am delighted with our achievements.

In tobacco we have focused on our Growth Brands and priority markets, building on the success of our additional investments over the last two years.

We have also stepped up investment in NGP. We significantly expanded our presence in vapour with a number of new product and market launches and exited the year with growing sales of our pioneering blu brand.

Tobacco growth, combined with rapidly increasing sales of blu, improved our financial results with net revenue increasing two per cent and adjusted earnings per share up by five per cent.

These are pleasing results and the actions we have taken have set us up for accelerated growth in the years ahead, which makes it an incredibly exciting time to be leading the business.

In enhancing our focus on NGP, we are supporting smokers to switch to less harmful alternatives to cigarettes.

This is aligned to our purpose: to create something better for the world's smokers. This sits at the heart of our strategy and has been embraced by our people around the world.

We want smokers to choose alternative products with lower health risks. We encourage them to make that change by providing an outstanding vaping experience, endorsed by a trusted brand in blu and underpinned by leading-edge science.

But we also understand that many smokers will decide to continue to smoke and so we also focus on creating something better for them by providing an evolving portfolio of tobacco products that offer the highest quality smoking experience.

SUBSTANTIAL NGP GROWTH AMBITIONS

We view NGP as a significant additive growth opportunity for Imperial, due to the size of our global cigarette market share.

We have substantial NGP growth ambitions and this is reflected in our management incentives to deliver compound annual revenue growth of 35-150 per cent over the three years from 2017. This equates to a range of NGP revenues by 2020 of between £250 million and £1.5 billion.

The momentum we generated with blu in 2018 resulted in an annualised exit run-rate of around £300 million of net revenue and we expect to exit next year with our NGP business beginning to add to Group profit.

GROWING SALES OF BLU

Our portfolio is focused on blu, which celebrates its tenth anniversary in 2019, and our current growth model is built around the 4Bs adoption model: Believe, Buy, Buy Again and Belong.

Our aim is to transition adult smokers through all four elements of the model, converting them to blu in the process. Once smokers belong to the blu community we keep interacting with them in order to minimise their potential to revert to tobacco. The 4Bs is explained in more detail on page 5.

The strong growth in sales of *myblu*, with an increasing rate of pod repurchase, reflects the positive response from smokers, vapers and retailers in a growing number of markets.

We started the year in four markets and are now in nine, plus duty free and travel retail. Our *myblu* geographic footprint now covers the USA, UK, Italy, France, Germany, Russia, Japan, Austria and Canada, with further market launches to come.

Aligned with our blu adoption model, we have a number of exciting brand building and awareness activities planned to support growth in 2019, which will add around £100 million to our investments in the first half.

INNOVATION TRANSFORMING PORTFOLIO

We substantially enhanced our capabilities early in the year with the acquisition of the UK NGP innovation business Nerudia. The exciting work we are doing on innovation is transforming our portfolio, ensuring we are able to provide smokers with a wide range of high quality products.

This includes tobacco-free snus, recently launched in Sweden, and a high quality heated tobacco product called Pulze, which will be launched in 2019.

A regular drumbeat of innovations such as these is essential for accelerating smoker conversion rates, building brand loyalty and ensuring smokers stay in the NGP category.

NGP SUCCESS DRIVING REPORTING CHANGE

Our focus on NGP and the growth opportunity this provides across all our markets means that our current segmental descriptors of Growth and Returns are no longer applicable.

As a result, our segmental reporting for our tobacco and NGP businesses for the year ending 30 September 2019 will be changed to: Europe, Americas and Africa, Asia & Australasia.

These three regions will include all tobacco and NGP sales in their respective geographies, reflecting the new way we run the business.

At the same time, blu will be reclassified as a Growth Brand, reinforcing our global ambitions for the brand, and all NGP revenue and profit, currently reported in Growth Markets, will be included within the countries and segments where the sales occur. We will also separately disclose our NGP revenue.

OXFORD CANNABINOID TECHNOLOGIES

We continue to explore other avenues of growth and in June announced that we had taken an equity stake in Oxford Cannabinoid Technologies (OCT).

OCT is a biopharmaceutical company focused on researching, developing, and licensing cannabinoid-based compounds and therapies. OCT's activities are licensed for operation by the UK Home Office.

We believe cannabinoid products have significant growth potential. Our investment enables us to support OCT's important research while building a deeper understanding of the cannabis market.

GROWTH BRANDS UP AND GAINS IN PRIORITY MARKETS

While driving NGP growth we have also concentrated on our tobacco performance. This is fundamental to our success as tobacco will remain an integral part of our business for many years to come and generates the funds to invest in the business.

We focus on the performance of our Growth Brands and priority markets. Our Market Repeatable Model provides a structured framework for driving quality tobacco growth and is consistently applied across our footprint. The way the model works is explained on page 5.

Tobacco highlights included excellent results from our Growth Brands, which continued to outperform the market with volume, share and net revenue growth.

Growth and Specialist Brands now account for 67 per cent of the Group's tobacco net revenue, four per cent higher than last year.

In Growth Markets, we achieved share gains in all of our priority markets except for the USA, although our share trajectory continued to improve and our fourth quarter share was up year-on-year.

In Returns Markets, we grew share in the UK and delivered strong financial results in Australia and Germany.

OUR NGP PORTFOLIO

Our NGP portfolio is built around our pioneering vapour brand, blu. Vapour products do not contain tobacco and therefore represent a less harmful alternative to smoking.



HEATED TOBACCO

As the name implies, heated tobacco products heat a portion or rod of tobacco. This releases nicotine and other tobacco emissions at substantially lower levels than cigarettes.

We have developed an outstanding product in Pulze, which we look forward to launching in 2019.

TOBACCO-FREE SNUS

We have a strong position in snus, an oral tobacco product with a long history of use in Scandinavian countries.

This year we launched a tobacco-free version of our Skruf brand in Sweden and initial consumer feedback has been extremely positive.



VAPOUR

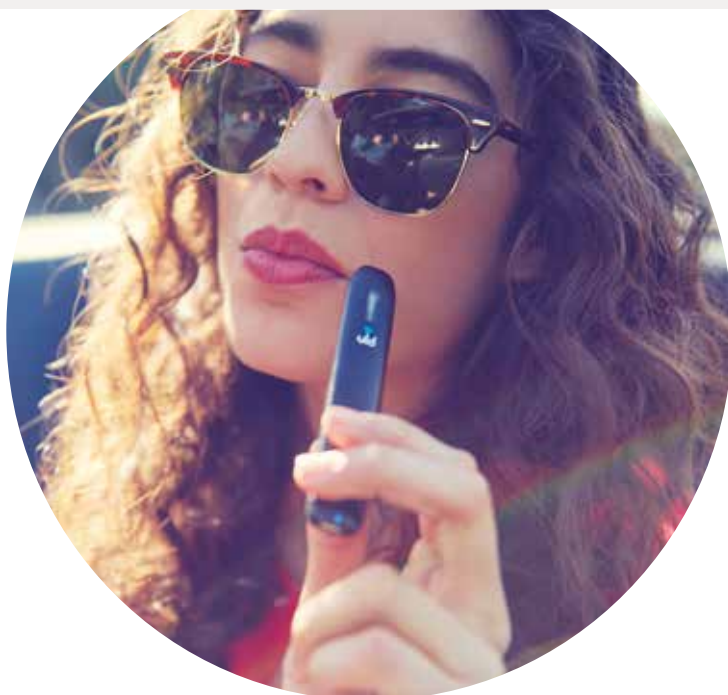
During the year we expanded the blu franchise with three exciting new launches: *myblu*, *myblu Intense* and *blu ACE*.

myblu is a pod format that delivers an exceptional vaping experience. Smokers and vapers appreciate the device's ergonomic design and rapid charging time.

myblu Intense is a nicotine salt product that more closely replicates the experience and satisfaction of smoking a cigarette. Intense is part of a broad range of different nicotine levels offered by blu, including a nicotine-free variant.

blu ACE is an open system product and the most powerful device in our portfolio. It is aimed at smokers and vapers who want to tailor their vaping experience yet retain the look and feel of a minimalist design with intuitive controls.

Flavours are a key aspect of the vaping experience and play an important role in converting smokers to vapour and keeping them in the category. Both *myblu* and *blu ACE* provide smokers with a wide range of flavours in multiple nicotine strengths, including nicotine-free offerings.



blu | SOMETHING BETTER.



DISCIPLINED COST AND CASH MANAGEMENT

Maximising cost and cash opportunities is a core element of our strategy, enabling us to improve efficiencies and release funds for investment.

We continued to make good progress with our two cost optimisation programmes, realising total savings of £110 million in the year through a range of initiatives that are further reducing complexity and enhancing the way we operate.

The first programme is now complete and is delivering annual savings of £300 million. The second programme will deliver a further £300 million of savings a year from our 2020 financial year.

We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest in the business.

Our commitment to capital discipline underpins our focus on cash generation and the effective management of our working capital.

Cash conversion remained strong at 97 per cent and we grew the dividend per share by 10 per cent for the tenth consecutive year.

ACTIVE CAPITAL ALLOCATION

As we sharpened our focus on the brands, products and markets that are essential to our long-term success, we have identified assets that are less central to our growth ambitions.

We aim to exit or divest these assets to create further value for our shareholders and in the process, expect to generate proceeds of up to £2 billion within the next 12-18 months.

This programme is on track and progressing well. During the year, we realised £281 million from the sale of a portfolio of other tobacco products in the USA and a further 9.99 per cent of Logista.

ACCELERATING GROWTH TO CREATE VALUE

This has been a year of building growth momentum, one in which we made further gains in tobacco and significantly expanded our NGP presence, and our success has put us in a strong position for delivering accelerated growth.

We have an outstanding NGP portfolio and in creating something better for the world's smokers, we are encouraging them to transition to less harmful alternatives to cigarettes.

Given our relatively small global cigarette market share, NGP represents an additive financial opportunity for Imperial and will deliver a substantial amount of our future revenue and profit growth.

Tobacco will continue to play a material role in our business with further low single digit revenue growth, high margins and strong cash flows supporting investment in growth and shareholder returns.

Our talented people continue to support the strategy with tremendous energy and I would like to thank them all for their hard work and support.

We have the strategy, assets and capabilities for accelerating growth in NGP and generating further significant returns from our tobacco business.



ALISON COOPER
Chief Executive

WHY INVEST IN IMPERIAL BRANDS?

We offer a compelling investment proposition. We are delivering quality growth from tobacco and additive growth from Next Generation Products (NGP). Our ways of working are efficient and cost effective and we take a rigorous approach to capital discipline and cash generation. Everything we do is underpinned by high standards of governance and a robust sustainability strategy.

QUALITY GROWTH FROM TOBACCO MAXIMISATION

INVESTING FOR QUALITY GROWTH

Imperial Brands has an attractive portfolio of brands and markets to deliver long-term profitable growth.

The successful implementation of our strategy prioritises investment behind our Market Repeatable Model in those markets and products that offer the best returns.

Over many years we have developed a proven track record of achieving strong price/mix growth to offset industry volume declines and enhance profitability.



SIGNIFICANT ADDITIVE GROWTH OPPORTUNITY FROM NGP

CREATING SOMETHING BETTER

In creating something better for the world's smokers we are encouraging smokers to switch to less harmful NGP.

In doing so, we are considerably enhancing our revenue delivery and view NGP as a significant additive growth opportunity for Imperial Brands, given our low global cigarette market share.

We have assembled a strong NGP portfolio, built around our blu vapour brand. This, combined with excellence in science and innovation, positions us well to deliver accelerated growth in the years ahead.



NEW WAYS OF WORKING DRIVING COST EFFICIENCIES

SIMPLIFICATION AND COST EFFICIENCIES CREATE VALUE

The changes we are making to our ways of working have created a business that is better equipped to deliver quality growth in both tobacco and NGP.

Our focus on business simplification and complexity reduction is enabling us to drive cost efficiencies and improve agility.

CAPITAL DISCIPLINE AND CASH GENERATION

RIGOROUS CAPITAL ALLOCATION AND STRONG CASH GENERATION

Our business generates strong cash flows as a result of our intrinsically high operating profit margins, coupled with our ability to convert a substantial proportion of profits to cash.

Although NGP may initially dilute margins we expect to see profitability improve over time.

To sharpen our focus on the brands, products and markets that are core to our strategy, we are divesting assets that are less central to our strategic agenda.

RESPONSIBLE BEHAVIOUR

STRONG GOVERNANCE AND SUSTAINABILITY AGENDA

We recognise some of our products are controversial but the way we operate is not.

High standards of governance are integral to our long-term success and we ensure the business is governed and managed in an open and transparent manner at all times.

We have a sustainability strategy that is fully aligned with our commercial objectives and enables the business to grow and create value.



SUSTAINABLE SHAREHOLDER RETURNS

ANNUAL 10% DIVIDEND GROWTH OVER MEDIUM TERM

We have grown the dividend by 10 per cent per annum for 10 consecutive years, reflecting our ability to improve profitability and generate strong cash flows.

The Board is committed to growing shareholder returns and regularly reviews our dividend policy to ensure it is aligned to performance, the balance sheet and the investment needs of the business.



HOW WE MEASURE OUR PERFORMANCE

We use these key performance indicators and the metrics in the Operating Review to measure the progress we make in delivering our strategy. As our Next Generation Products business continues to grow, these measures will change to reflect our evolving strategic priorities.

TOBACCO & NGP NET REVENUE¹ (£BN)



PERFORMANCE

Tobacco & NGP net revenue was up 2.1 per cent on a constant currency basis and down 0.3 per cent at actual rates. Growth and Specialist Brands now account for 66.9 per cent of our revenue, up from 62.7 per cent last year.

DEFINITION

Tobacco net revenue comprises tobacco and Fontem Ventures revenue less duty and similar items, excluding peripheral products.

ADJUSTED EARNINGS PER SHARE¹ (PENCE)



PERFORMANCE

Adjusted earnings per share increased by 5 per cent on a constant currency basis. Reported earnings per share declined by 2.7 per cent.

DEFINITION

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

GROWTH BRAND VOLUMES¹ (BN)



PERFORMANCE

We continued to focus on driving the performance of our Growth Brands, increasing volumes by 2.1 per cent and market share by 70 basis points.

DEFINITION

Volumes are measured on a stick equivalent basis to reflect combined cigarette and fine cut tobacco volumes.

TOBACCO & NGP OPERATING MARGIN (%)



PERFORMANCE

We have delivered consistently high operating margins despite increasing investment in the business. Excluding our NGP operations, our tobacco operating margin increased by 100 basis points.

DEFINITION

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

1. KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 56 for more information.

DIVIDEND PER SHARE (PENCE)



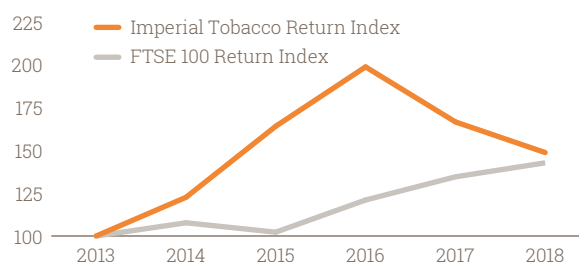
PERFORMANCE

Dividend per share increased by 10 per cent for the tenth consecutive year.

DEFINITION

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

TOTAL SHAREHOLDER RETURN¹



PERFORMANCE

Over a five year period we have outperformed the FTSE 100 but underperformed by 13 per cent in 2018. With dividends reinvested, £100 invested in Imperial Brands in 2013 would now be worth £149 compared with £143 if invested in the FTSE Index.

DEFINITION

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

RETURN ON INVESTED CAPITAL (%)



PERFORMANCE

Return on invested capital remained strong, underlining our continued focus on capital discipline and our capital-light approach to NGP.

DEFINITION

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

CASH CONVERSION RATE^{1*} (%)



PERFORMANCE

Strong cash generation and effective working capital management delivered cash conversion above 90 per cent for the fifth consecutive year.

DEFINITION

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

* Cash conversion has been restated to exclude restructuring cash.