IMPERIAL BRANDS PLC
PRELIMINARY RESULTS FOR THE 12 MONTHS ENDED 30 SEPTEMBER 2016

DELIVERING AGAINST OUR STRATEGY WITH ADJUSTED EPS UP 12%

Performance Headlines

Delivering against strategy

- Tobacco net revenue up 9.7%
- Total adjusted operating profit up 10.4%
- Adjusted EPS up 12.0%
- Cash conversion 95%
- Dividend growth of 10%

Next Phase of Strategy to Support Sustainable Quality Growth

- Strategy is delivering a stronger business providing a solid foundation for the next decade of growth
- Maintaining focus on our same four strategic priorities to drive growth in both revenue and profit
- New investment of £300m in FY17 behind selected quality growth opportunities
- Supported by a further phase of cost optimisation with an additional £300m of annual savings by 2020

Alison Cooper, Chief Executive, commented

"We delivered another strong performance this year with great results from our expanded US business, and we further improved the quality of our growth. We grew the dividend by 10 per cent for the eighth consecutive year and remain committed to this level of increase over the medium term. Our strategy is delivering and we see scope for significant further shareholder value creation by remaining relentlessly focused on the same four strategic priorities. We are today also announcing further investment behind our strategy to support revenue growth over the medium term. This investment will be supported by a new phase of cost optimisation, targeting a further £300 million of annual savings by 2020, at a cost of £750 million. We have established an excellent platform for sustainable quality growth, which will continue to provide growing returns for shareholders."

Headline Financials

Overview – Adjusted Basis		Full Year Result		Change	
		2016	2015	Actual	Constant Currency[1]
Total tobacco volume	bn SE	**276.5**	285.1	-3.0%	
Growth Brand volume	bn SE	**151.3**	145.1	+4.3%	
Tobacco net revenue	£m	**7,167**	6,251	+14.7%	+9.7%
Tobacco adjusted operating profit	£m	**3,360**	2,895	+16.1%	+10.4%
Logistics adjusted operating profit	£m	**176**	154	+14.3%	+9.1%
Total adjusted operating profit	£m	**3,541**	3,053	+16.0%	+10.4%
Adjusted earnings per share	pence	**249.6**	212.5	+17.5%	+12.0%
Dividend per share	pence	**155.2**	141.0	+10.1%	
Adjusted net debt	£m	**(12,882)**	(11,646)		

Overview – Reported Basis		Full Year Result		Change
		2016	2015	Actual
Revenue	£m	**27,634**	25,289	+9.3%
Operating profit	£m	**2,229**	1,988	+12.1%
Basic earnings per share	pence	**66.1**	177.4	-62.7%

See page 5 for basis of preparation.

[1] Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations

Delivering Against Strategic Priorities

Strengthening our Portfolio

- Growth Brand volumes up 4.3 per cent with a 50 bps increase in market share
- Growth and Specialist Brands up to 60.1 per cent of reported tobacco net revenue
- Further success of brand migrations
- Good progress with blu Plus+ as we invest in brand building and technology development

Developing our Footprint

- Excellent result in USA from ITG Brands; Winston and Kool growing share
- Overall Group market share up 30 bps, including contribution from our enhanced US business
- Progress in Growth Markets with net revenue up 4.3 per cent (up 8.0 per cent ex Iraq & Syria)
- Returns Markets net revenue down 2.7 per cent due to investment choices and the end of PMI contracts

Cost Optimisation

- Cost optimisation programme on track; incremental savings of £65m
- Continued focus on reducing business complexity driving effectiveness and efficiency
- Adjusted tobacco operating margins up 60bps to 46.9%

Capital Discipline

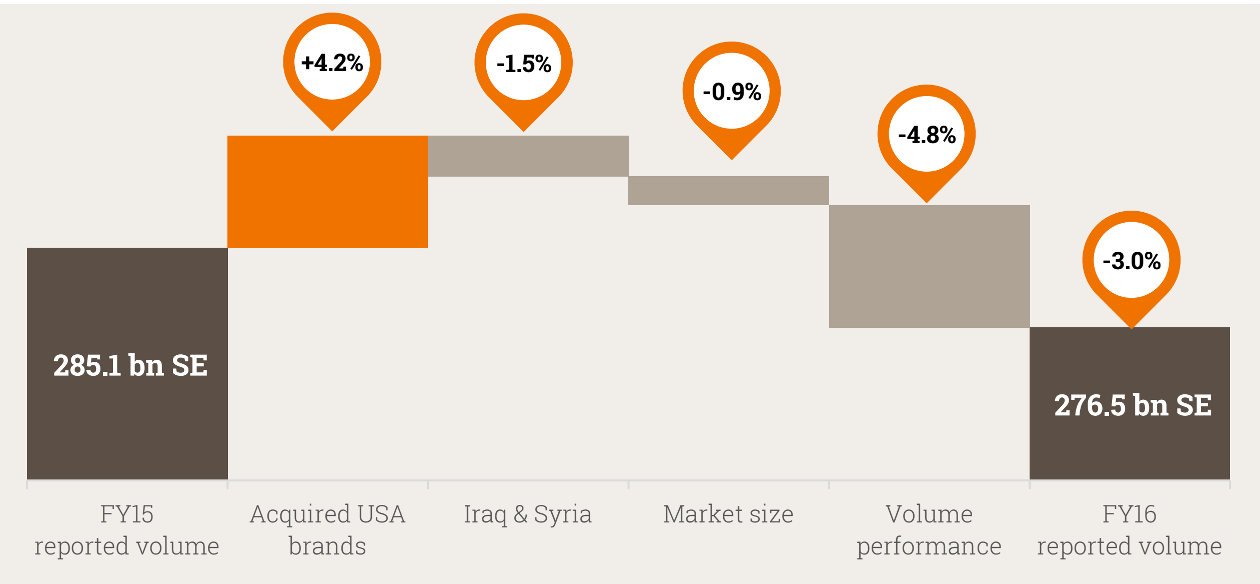
- Cash conversion of 95 per cent
- Net debt reduction of £1bn before adverse FX of £2.3bn: adjusted net debt of £12.9bn
- Full year dividend up 10 per cent; dividend payout ratio of 62%

Highlights show movements based on adjusted numbers at constant currency

---

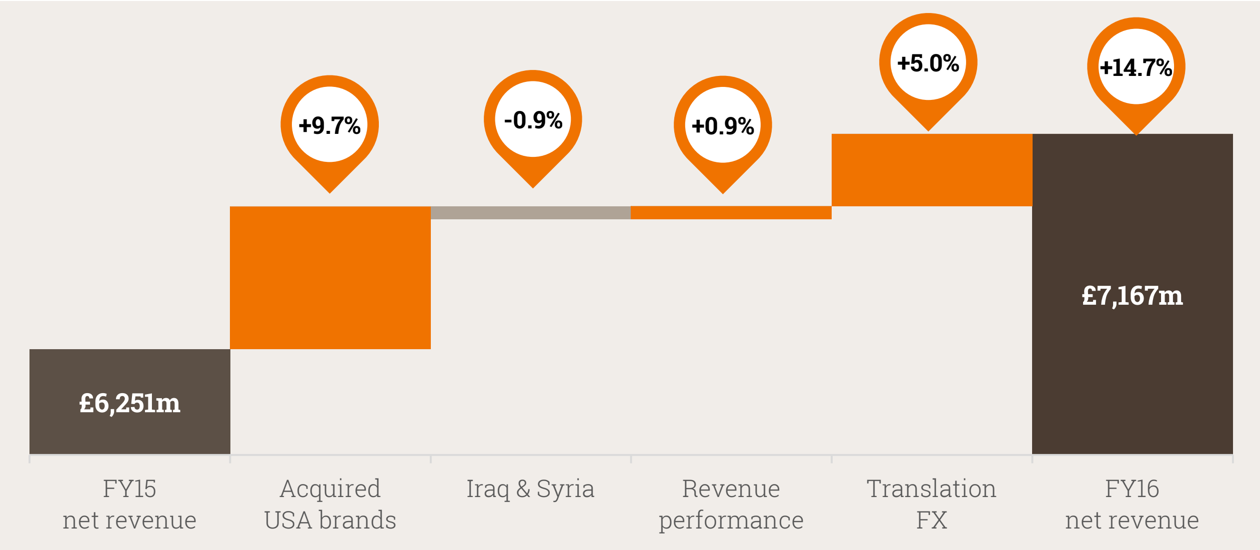
Volumes Benefiting from US Acquisition

- Reported volume 276.5bn SE; decline of 3.0%
- Acquired US cigarette brands contributed an incremental 12.1bn SE (FY16: 17.5bn SE, FY15: 5.4bn SE)
- Iraq & Syria impact of 4.4bn SE; all in the first half
- Decline in market footprint of 0.9%; broadly flat in Returns, 1.3% down in Growth and 1.8% down in US
- Volume from the rest of the business declined 4.8% due to:
  - Footprint investment decisions resulting in deprioritisation of markets where economics and profitability have deteriorated e.g. Ukraine, Azerbaijan, Turkey (-2%)
  - Morocco, following loss of PMI contract and continued market share pressure (-1%)
  - Russia, reflecting temporary price disadvantage earlier in the year and an improving recent trend (-1%)
  - Year-on-year share decreases in other markets incuding UK and Germany offset by gains in Algeria, Saudi Arabia, Italy & Japan (-1%)
- Continued momentum in Growth Brand volumes and share



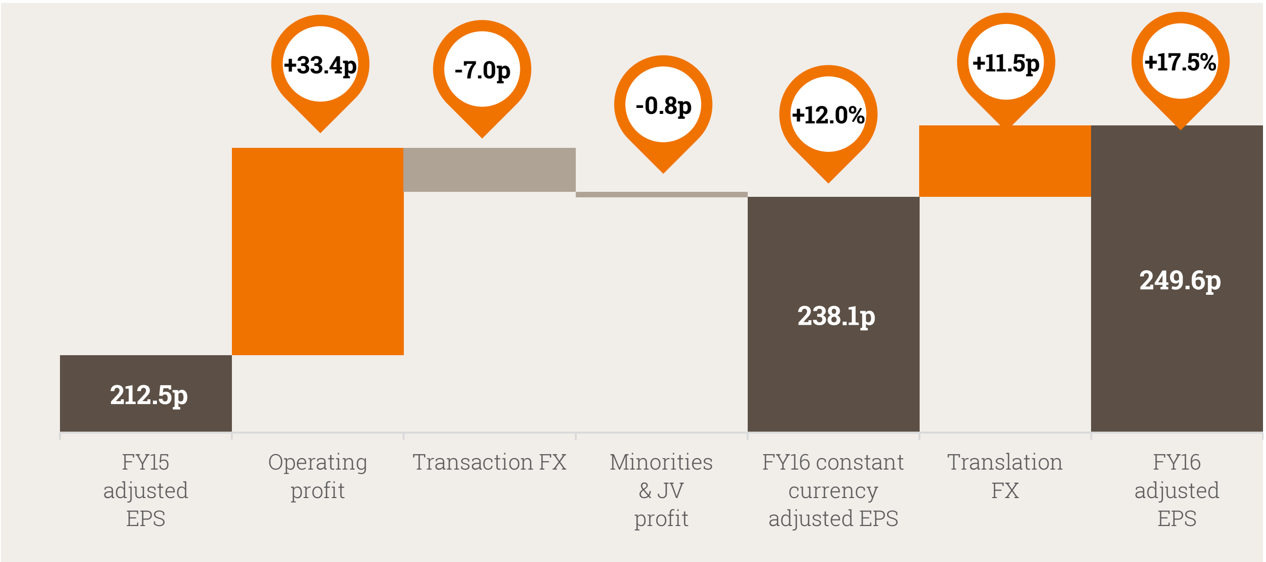
Significant Net Revenue Growth

- Net revenue of £7.2bn; increase of 14.7%
- Contribution from acquired US cigarette brands of £682m reported (£607m at constant currency)
- Iraq & Syria impact of £52.3m in year; effect now fully annualised
- Organic price/mix of 6.6% in line with medium term guidance
- 5.0% benefit from foreign exchange on translation; net revenue up 9.7% on a constant currency basis



Adjusted Earnings per Share up 12 per cent

- Constant currency adjusted EPS up 12.0%
- Adjusted EPS of 249.6p after foreign exchange benefit of 5.5%
- Constant currency operating profit up 10.4% with operating margin growth of 60bps to 46.9%
- Operating profit improvements added 33.4p benefiting from the US acquisition and a positive contribution from Growth Markets offsetting headwinds of 6.4p from the loss of the PMI distribution contract, impact of Iraq & Syria and EUTPD investment
- Adverse transaction FX of 7.0p (Ukraine and Russia) and translation FX benefit of 11.5p
- Reported EPS down 62.7% primarily due to the impact of foreign exchange and interest rates on the fair value of derivatives as well as increased amortisation of acquired intangibles from the US acquisition



The Next Decade of Growth

During the year, the Board and and senior leadership team spent time reviewing our strategy for creating shareholder value over the next 10 years.

This reinforced the strength of our strategy and highlighted opportunities to drive even greater focus on our strategic priorities: strengthening our portfolio, developing our footprint, optimising our cost base and embedding capital discipline.

To support the delivery of further quality revenue growth in 2017 and subsequent years we will invest an additional £300 million in our Growth and Specialist Brands in the key markets that offer the best opportunities for quality growth.

Investments will be prioritised and focused on areas where we have a proven track record of generating quality revenue growth, including brand building, customer engagement and sales execution.

This increased investment will be supported by a new phase of cost optimisation, which will deliver additional savings of £300 million per annum by 2020, at a cost of £750 million.

These savings will be generated by implementing further initiatives to reduce complexity and drive operational efficiencies.

Outlook

We have a track record of consistently delivering against our strategy, which has generated significant returns to shareholders and created a strong platform for future value creation.

To further drive delivery of our strategic priorities and underpin revenue growth over the medium term, we will invest an additional £300 million, which, net of investment returns, will have a £200 million impact in 2017. This will be partly offset by £90 million of cost optimisation savings resulting in a 4 per cent net impact on 2017 constant currency earnings. However, foreign exchange translation is expected to benefit earnings by around 14 per cent based on current rates, and supports the continued delivery of our financial targets in 2017.

The phasing of the increased investment will be biased to the early part of 2017, resulting in lower revenue and profit in the first half, offset by a stronger second half performance.

We intend to sustain an increased level of investment in subsequent years and we expect a return to constant currency earnings growth in line with our medium-term guidance of 4-8 per cent from the 2018 financial year.

We continue to prioritise capital discipline and strong cash conversion to underpin our commitment to deliver dividend growth of at least 10 per cent next year and over the medium term.

We have a strong track record of delivering sustainable shareholder returns over many years and we are well-placed to build on this in 2017 and over the next decade.

OTHER INFORMATION

Investor Contacts		Media Contacts	
Peter Durman	+44 (0)7970 328 093	Alex Parsons	+44 (0)7967 467 241
Matt Sharff	+44 (0)7964 110 921	Simon Evans	+44 (0)7967 467 684

Webcast and Conference Call

Imperial Brands PLC will be hosting a live webcast for investors and investment analysts with senior management following the publication of our Full Year Results on 8 November 2016. The webcast will be hosted by Alison Cooper, Chief Executive, and available on www.imperialbrandsplc.com from 9.00am (GMT). An archive of the webcast and the presentation script and slides will also be made available.

A media conference call will be hosted at 7.30am, at which there will be the opportunity for questions.
Dial-in Number: +44(0)20 3043 2002
Participant code: 5873716
A replay of this call will be available for one week. To listen, please dial:
Replay Number: +44(0)20 7984 7568
Access Code: 5873716

Basis of Presentation

- To aid understanding of our results, we use 'adjusted' (non-GAAP) measures in accordance with our usual practice. Reconciliations between adjusted and reported (GAAP) measures are also included in the relevant notes.
- Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.
- 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.
- Reported and constant currency include the contribution from the US asset acquisition which completed on 12 June 2015. Organic additionally removes the incremental contribution from the US acquisition.
- Market share is presented as a 12 month average (MAT). Aggregate market share is a weighted average across markets within our footprint. The number of markets used to compile the aggregate market share calculation has changed for FY16 reporting and prior periods have been restated for comparability.

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.

This was another year of strong value creation and I'd like to thank our people across the business for all their hard work and dedication. Their focus on driving quality growth, embracing new ways of working and effectively managing cost and cash has been integral to our success.

Consistently delivering against our strategy has been a hallmark of our performance in recent years and is enabling us to build a stronger, higher quality business with even greater capacity for generating sustainable shareholder returns.

Highlights in the year included further enhancing the contribution from our Growth and Specialist Brands, which now account for 60.1 per cent of the Group's tobacco net revenue. We also made excellent progress in the USA, with ITG Brands performing strongly in line with our plans.

Elsewhere, we maintained good momentum across our market footprint, with results in Growth Markets also benefiting from revenue growth from Fontem Ventures. We further emphasised our focus on quality revenue by prioritising investment in brands and markets that offer the best returns.

Our strong financials were characterised by another year of adjusted earnings per share and dividend growth. On a constant currency basis adjusted operating profit was up by 10.4 per cent and we grew adjusted earnings per share by 12.0 per cent. Return on invested capital improved to 13.9 per cent and we increased the dividend by 10 per cent for the eighth consecutive year.

Delivering Sustainable Quality Growth

Our strategic transition has created a stronger business that is generating a higher quality of growth. Like many businesses, we operate in a challenging, volatile environment and the companies that are successful in these conditions are the ones that adapt and change. In recent years we've taken decisive action to improve our results and our ways of working, and our focus on optimising our brand portfolio has been at the heart of our change agenda.

Our portfolio consists of Growth, Specialist and Portfolio Brands. Growth Brands have strong equity and broad consumer appeal, Specialist Brands also enjoy strong equity but typically appeal to more specific consumer groups. Our priority is to build the contribution these brands make to our results. Portfolio Brands are a mix of local and regional offerings. Those with strong equity support our volume and revenue progression, while weaker brands are delisted or migrated into higher quality Growth Brands.

We have a very high success rate when it comes to these migrations, with over 95 per cent of consumers completing the transition from one brand to another. During the year we completed 17 additional brand migrations across multiple markets. A total of 49 migrations have now been completed and another 15 are in progress.

We have identified significant opportunities to further simplify our brands and products and we will start driving this next phase of portfolio optimisation in 2017.

In simplifying our portfolio we are reducing complexity and cost, which reflects our approach to developing new ways of working: everything needs to be simpler and more effective than before. This is providing greater clarity on roles and responsibilities, enabling our people to prioritise and focus on work that really matters to our success.

Opportunities to enhance the way we work are identified through the continual refinement of our operating model, which involves looking at how we can change systems, processes and structures to improve performance.

In 2016 we focused on improving sales and marketing processes across 58 markets and we launched a new Customer Relationship Management solution in 19 markets. We also transitioned to a single global HR platform and introduced shared services in Finance in a number of markets.

Strengthening our Portfolio

Our drive to improve our quality of growth was reflected in the excellent results we achieved with our Growth Brands.

Growth Brands outperformed the market, with strong growth in volumes, share and net revenue.

Growth Brands continue to benefit from migrations, with multiple markets successfully migrating Portfolio Brands to JPS, West and Parker & Simpson.

We also further invested in building brand equity with marketing campaigns for JPS, West, Davidoff and Gauloises Blondes.

The excellent progress we are making with our Growth Brands was supported by strong results from our Specialist Brands, which account for almost 15 per cent of our tobacco net revenue. Net revenue increased by 44 per cent, benefiting from the contribution of the Kool and blu brands which we acquired last year.

Fontem Ventures

blu is a high quality e-vapour brand that is proving to be a tremendous addition to our portfolio. blu is managed by our non-tobacco subsidiary Fontem Ventures, which is focused on developing new consumer experiences and opportunities for sustainable revenue growth. Fontem's current priority is to capitalise on the growth in the e-vapour sector by building sales of blu and licensing a range of patented technologies.

blu sales are currently concentrated in the USA, UK, France and Italy, the four core e-vapour markets that together account for around 70 per cent of global e-vapour sales.

blu is the established number two brand in the UK and USA and has a growing presence in France and Italy.

We are investing to support growth, funding brand equity building with a new marketing campaign in the USA and UK, and allocating additional funds for technological research and development to continue to improve the blu vaping experience. During the year Fontem further enhanced revenues by licensing its first generation technology to a number of other e-vapour companies.

Developing our Footprint

Our excellent Growth and Specialist Brand performances were complemented by good results across our geographic footprint.

We delivered a positive revenue and profit performance in Growth Markets, with the benefit of additional revenue from blu and royalties from the licensing of Fontem's technology and good results in Italy, Russia, Japan and Taiwan more than offsetting declines caused by Iraq and Syria.

The integration of our US operations was completed as planned during the year and ITG Brands continued to perform strongly. We are investing to support growth, funded by the acquisition synergies, to drive long-term sustainable value. These prioritised investments have driven steady improvements in the market shares of Winston and Kool. Towards the end of the year we also launched a new pack design for Winston, coupled with a new advertising campaign, to further build brand equity. We also significantly improved the performance of our mass market cigar business as we changed our route to market to a retail focused business model, aligning it with our cigarette business.

In Returns Markets we focused on improving our quality of growth by making investment choices to underpin long-term sustainable profit growth. We have actively directed investment into markets where we see the best returns and avoided low quality or unprofitable volume. We achieved good results in Germany, Australia and Algeria, and continued to invest in the UK to defend our position in an extremely competitive environment.

Good Results from Logista

Our European distribution business Logista has a history of delivering good results and 2016 was no exception. Distribution fees and adjusted operating profit both increased and the Logista team continues to focus on cost management and new growth opportunities to further drive the profitable development of the business.

Cost Optimisation and Capital Discipline

Our current cost optimisation programme remains on track to save £300 million per annum from September 2018. A range of initiatives have been successfully deployed to optimise our cost base, realising £65 million in the year, and bringing the total annualised savings to £240 million.

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

Cash conversion remained strong at 95 per cent compared to 97 per cent last year, which benefited from one-off working capital benefits associated with the US acquisition. We reduced adjusted net debt by £1.0 billion, excluding the adverse impact of currency translation, taking the total reduction over the last two years to £2.1 billion.

For the eighth consecutive year we delivered strong dividend growth of 10 per cent and we remain committed to continuing to grow the dividend by at least 10 per cent a year over the medium term.

The Next Decade of Growth

During the year, I spent time with the Board and my senior leadership team reviewing our strategy for creating shareholder value over the next 10 years.

This reinforced the strength of our strategy and highlighted opportunities to drive even greater focus on our strategic priorities: strengthening our portfolio, developing our footprint, optimising our cost base and embedding capital discipline.

To support the delivery of further quality revenue growth in 2017 and subsequent years we will invest an additional £300 million in our Growth and Specialist Brands in the key markets that offer the best opportunities for quality growth.

Investments will be prioritised and focused on areas where we have a proven track record of generating quality revenue growth, including brand building, customer engagement and sales execution.

This increased investment will be supported by a new phase of cost optimisation, which will deliver additional savings of £300 million per annum by 2020, at a cost of £750 million.

These savings will be generated by implementing further initiatives to reduce complexity and drive operational efficiencies.

Outlook

We have a track record of consistently delivering against our strategy, which has generated significant returns to shareholders and created a strong platform for future value creation.

To further drive delivery of our strategic priorities and underpin revenue growth over the medium term, we will invest an additional £300 million, which, net of investment returns, will have a £200 million impact in 2017. This will be partly offset by £90 million of cost optimisation savings resulting in a 4 per cent net impact on 2017 constant currency earnings. However, foreign exchange translation is expected to benefit earnings by around 14 per cent based on current rates, and supports the continued delivery of our financial targets in 2017.

The phasing of the increased investment will be biased to the early part of 2017, resulting in lower revenue and profit in the first half, offset by a stronger second half performance.

We intend to sustain an increased level of investment in subsequent years and we expect a return to constant currency earnings growth in line with our medium-term guidance of 4-8 per cent from the 2018 financial year.

We continue to prioritise capital discipline and strong cash conversion to underpin our commitment to deliver dividend growth of at least 10 per cent next year and over the medium term.

We have a strong track record of delivering sustainable shareholder returns over many years and we are well-placed to build on this in 2017 and over the next decade.

Alison Cooper
Chief Executive

We drive the performance of our brands and markets to deliver quality growth. Our markets prioritise either Growth or Returns, depending on their strategic role and our portfolio focus is on maximising opportunities for our Growth and Specialist Brands.

Brand Performances

We delivered excellent performances from our Growth and Specialist Brands. These are the most important assets in our portfolio and together they account for 60.1 per cent of our tobacco net revenue, up 320 basis points on last year, reflecting the improving quality of growth that we are consistently delivering. The rest of our portfolio consists of Portfolio Brands, which are local and regional brands that fulfil a variety of roles. Some add to our revenue momentum, while others will create more value by being migrated into Growth Brands.

Total Group tobacco volumes were 276.5 billion stick equivalents (2015: 285.1 billion), which includes an incremental 12.1 billion from our USA acquisition. Volumes were down 3.0 per cent, reflecting declines in Iraq and Syria and lower organic volumes, which offset the benefit of the contribution from ITG Brands.

Growth Brands

		Full Year Result		Change	
		2016	2015	Actual	Constant Currency
Market share	%	**7.7**	7.2[R]	+50 bps	
Net revenue	£m	**3,265**	2,862	+14.1%	+10.1%
Percentage of Group volumes	%	**54.7**	50.9	+380 bps	
Percentage of tobacco net revenue	%	**45.6**	45.8	-20 bps	

[R] See basis of presentation on page 5 for details of restatements

As a result of the US acquisition our Growth and Specialist Brands were reclassified, effective 1 October 2015. USA Gold was replaced by Winston as a Growth Brand, and instead became a Portfolio Brand, and Kool and blu joined our Specialist Brands. With the exception of market share, prior year comparatives have not been adjusted for this reclassification.

Our Growth Brands are: Davidoff, Gauloises Blondes, JPS, West, Fine, News, Winston, Bastos, Lambert & Butler and Parker & Simpson. These are quality brands with broad consumer appeal that are generating an increasing amount of our volume and revenue.

Growth Brands outperformed the market in the year, with volumes growing 4.3 per cent, against a backdrop of market volume declines in our geographic footprint of 0.9 per cent. We also grew Growth Brands net revenue by 10.1 per cent.

Excluding Iraq and Syria, underlying Growth Brand volumes increased by 7.8 per cent and underlying net revenue increased by 11.2 per cent.

We improved the share of Growth Brands from 7.2 per cent to 7.7 per cent. As part of our drive to prioritise Growth Brands and improve the quality of our growth we deliberately ceded some share in lower value Portfolio Brands, contributing to a 60 basis point decline in the Group share to 13.9 per cent.

Growth Brands now account for 54.7 per cent of total Group tobacco volumes, an increase of 380 basis points, and 45.6 per cent of overall tobacco net revenue, a decrease of 20 basis points.

Brand Chassis	**Highlights**
JPF *(JPS, Parker & Simpson and Fine)*	Share growth in the chassis was driven by JPS and Parker & Simpson with the continued strength of JPS in Australia and Players in the UK, as well as the ongoing success of brand migrations in a number of markets including Russia where we migrated Balkan Star. In Germany we took action to strengthen our share with the launch of larger JPS pack formats.
West *(West, L&B, News and Bastos)*	In Germany we migrated Route 66 into West and continued to grow West share in Saudi Arabia and Japan. Successful brand migrations in France have supported the growth of News and in the UK another good performance from Lambert & Butler was helped by growth in crushball.
Winston	The success of our new retailer contracts and promotional support is underpinning Winston's good results and consistent share growth. A rejuvenated pack design and new consumer marketing is further enhancing brand equity.
Davidoff	We delivered further share growth in Greece and maintained Davidoff's share position in Taiwan's premium segment with the launch of Davidoff Absolute. We also introduced Fresh Box formats in key Middle East markets, such as Saudi Arabia.
Gauloises	A successful brand campaign supported good results in Germany. An excellent performance in Algeria, supported by the launch of Gauloises L'Autre, consolidated the brand's market leading position. These positive performances more than offset the impact of Iraq and Syria.

Specialist Brands

		Full Year Result		**Change**	
		2016	2015	Actual	Constant Currency
Net revenue	£m	**1,042**	693	+50.2%	+43.6%
Percentage of tobacco net revenue	%	**14.5**	11.1	+340 bps	

Specialist Brands appeal to specific consumer groups and include: blu (e-vapour), Style, Gitanes, Kool (cigarettes), Golden Virginia, Drum, Route 66 (fine cut tobacco), Cohiba, Montecristo, Romeo Y Julieta (premium cigars), Backwoods (cigars), Skruf (snus) and Rizla (papers).

We achieved great results with our Specialist Brands, reflected in very strong net revenue growth, enhanced by contributions from blu, Kool and Backwoods. There was also good growth from Skruf in Scandinavia and premium cigars in the USA. This more than offset the impact of Iraq and Syria, which held back Gitanes. Specialist Brands, now represent a greater proportion of the business at 14.5 per cent of net revenue.

Market Performances

We divide our footprint into Growth Markets, the USA Market and Returns Markets. We manage these markets based on their strategic roles, with Growth Markets and the USA Market prioritising long-term share and profit growth. In Returns Markets the focus is on sustainable profit delivery and effective management of our strong share positions.

Growth Markets

		Full Year Result		Change	
		2016	2015	Actual	Constant Currency
Market share	%	**6.4**	6.9[R]	-50 bps	
Net revenue	£m	**1,568**	1,449	+8.2%	+4.3%
Adjusted operating profit	£m	**443**	409	+8.3%	+2.2%
Growth Brand % of net revenue	%	**47.2**	47.0	+20 bps	
Growth Brand volume	bn SE	**46.0**	46.4	-0.8%	

[R] See basis of presentation on page 5 for details of restatements

We continued to build good momentum in Growth Markets, increasing net revenue by 4.3 per cent and adjusted operating profit by 2.2 per cent. This growth reflected an enhanced contribution from blu, the benefit of intellectual property royalties from Fontem Ventures and rising profits in key markets, offsetting increased investment in blu, transaction currency costs and the impact of Iraq and Syria.

Our overall market share decline was mainly driven by Maxim's price disadvantage in Russia in the first half. We addressed this and delivered a stronger second half performance, stabilising our share in the process.

Excluding Iraq and Syria, underlying net revenue was up 8.0 per cent and adjusted operating profit was up 8.7 per cent. We increased the proportion of net revenue generated by Growth Brands by 20 basis points.

Country	**Performance**
Russia	Strong pricing during the year offset share declines and supported revenue growth. Our Growth Brands achieved excellent results with growth from West and the successful launch of Parker & Simpson.
Saudi Arabia	Our share was up as we delivered consistent growth in West, with recent excise changes benefiting the lower price segment of the market. The recent launch of the Fresh Box format supported the performance of Davidoff.
Italy	We increased our share in Italy, driven by a continued strong performance with JPS.
Greece	We delivered further share growth in Davidoff to maintain the brand's positive momentum.
Sweden and Norway	We delivered good share and revenue growth in both Sweden and Norway, against a backdrop of positive pricing and a growing snus market.
Turkey	We improved profitability after restructuring our operations and continued to progress a focused growth strategy with Davidoff and West in key cities. Recent positive pricing has supported revenue growth.
Japan	We grew revenue and the share of West as we continued to invest in expanding our retailer coverage.
Taiwan	We generated further profit growth, driven by the success of Davidoff equity activations and positive pricing, although our overall market share was down as the premium segment declined.
Iraq and Syria	Continued instability in the region held back trading particularly in Gauloises and Gitanes in the first half.

USA Market

		Full Year Result		Change	
		2016	2015	Actual	Constant Currency
Market share	%	**9.2**			
Net revenue	£m	**1,477**	707	+108.9%	+92.9%
Adjusted operating profit	£m	**823**	375	+119.5%	+102.4%
Growth Brand % of net revenue	%	**18.6**	13.7	+490 bps	
Growth Brand volume	bn SE	**6.1**	3.1	+99.4%	

Group revenue and profit benefited significantly from the contribution from ITG Brands following the acquisition of assets from Reynolds American last year. The incremental contribution of the acquisition to the USA performance in the current financial year was tobacco net revenue of £682 million and volumes of 12.1 billion. Our total USA volumes for the year were 24.9 billion stick equivalents.

Adjusted operating profit more than doubled with the benefit of the acquisition. Adjusted operating margins improved 270 basis points to 55.7 per cent, despite increased brand investment.

The percentage of tobacco net revenue generated by Growth Brands increased to 18.6 per cent, as we reshaped our portfolio following the acquisition. From 1 October 2015, we reclassified our Growth and Specialist Brands, replacing USA Gold with Winston in Growth Brands and adding Kool to our Specialist Brands. USA Gold is now a Portfolio Brand.

Around 165,000 stores, representing around 90 per cent of USA cigarette volumes, have signed up to our new retailer agreements. These agreements support our new promotional arrangements, which have already delivered steady improvements in the market shares of Winston and Kool, almost offsetting the declines from our Portfolio Brands. Towards the end of the year we also launched a new pack design for Winston, coupled with a new advertising campaign, to further build brand equity.

Growth Brand volume benefited from the replacement of USA Gold with Winston, as did the percentage of net revenue generated by Growth Brands.

In addition, the action we have taken to improve our mass market cigar business, which includes the Dutch Masters and Backwoods brands, continued to strengthen our results.

Returns Markets

		Full Year Result		Change	
		2016	2015	Actual	Constant Currency
Market share	%	**26.1**	27.0[R]	-90 bps	
Net revenue	£m	**4,122**	4,095	+0.7%	-2.7%
Net revenue per '000 SE	£	**23.51**	22.08	+6.5%	+2.9%
Adjusted operating profit	£m	**2,094**	2,111	-0.8%	-4.3%
Growth Brand % of net revenue	%	**54.6**	50.9	+370 bps	

[R] See basis of presentation on page 5 for details of restatements

Our priority in our Returns Markets is to maximise profit while managing our share.

We grew net revenue per thousand stick equivalents by 2.9 per cent and further improved the quality of our portfolio with Growth Brands now generating 54.6 per cent of tobacco net revenue, an increase of 370 basis points.

Against a backdrop of flat industry volumes, our market share declined by 90 basis points to 26.1 percent. Net revenue was also down. Results were impacted by share declines in Returns North, particularly Ukraine, the UK and Germany, offsetting the share growth we delivered in Returns South, particularly in Algeria.

Adjusted operating profit was down 4.3 per cent, impacted by the conclusion of the distribution contract for Philip Morris International in the UK and Morocco, adverse transaction exchange and the cost of complying with EUTPD legislation.

Excluding these impacts, adjusted operating profit for Returns Markets overall grew 0.9 per cent, with Returns North flat and Returns South up 3.1%.

Returns Markets North

		Full Year Result		Change	
		2016	2015	Actual	Constant Currency
Market share	%	**24.0**	25.6[R]	-160 bps	
Net revenue	£m	**2,645**	2,649	-0.2%	-2.6%
Net revenue per '000 SE	£	**28.01**	25.76	+8.7%	+6.1%
Adjusted operating profit	£m	**1,439**	1,475	-2.4%	-5.1%
Growth Brand % of net revenue	%	**57.2**	53.6	+360 bps	

[R] See basis of presentation on page 5 for details of restatements

We made good progress in improving our quality of growth in Returns Markets North, increasing net revenue per thousand stick equivalents by 6.1 per cent. Growth Brands delivered 57.2 per cent of tobacco net revenue, up from 53.6 per cent.

We made a strategic decision to lower investment in Ukraine and Azerbaijan, where economic conditions and competitor discounting resulted in reduced profit opportunities. Overall profitability in Returns North was affected by the same factors outlined above in the Returns Markets overview.

Country	**Performance**
UK	Our overall share declined, although we continued to invest to defend our position. Our fine cut tobacco share increased during the year, led by good growth from Gold Leaf and we also grew sales of Rizla. In cigarette we generated positive momentum with JPS, Players and Lambert & Butler crushball variants, although investment to grow our share in the sub-economy segment impacted revenue and profit.
Germany	Growth in revenue and profit was supported by stable market size and the continued positive performance from Gauloises. Our success with large format variants is stabilising the share of JPS and West benefited from the migration of Route 66, which we completed in the year. Our overall share was down but strengthened in the second half, due to the actions we took.
Benelux	Brand migrations supported the good performance of JPS in fine cut tobacco, although the market size and our overall share declined following significant excise increases.
Australia	We delivered another excellent performance from JPS, resulting in further strong share, revenue and profit growth.
Ukraine	Investment was moderated in response to significant competitor discounting and currency devaluation that eroded market profitability. Our share improved in the second half as pricing conditions normalised.

Returns Markets South

		Full Year Result		Change	
		2016	2015	Actual	Constant Currency
Market share	%	**29.1**	29.0[R]	+10 bps	
Net revenue	£m	**1,477**	1,446	+2.1%	-2.9%
Net revenue per '000 SE	£	**18.27**	17.51	+4.3%	-0.8%
Adjusted operating profit	£m	**655**	636	+3.0%	-2.5%
Growth Brand % of net revenue	%	**50.0**	46.0	+400 bps	

[R] See basis of presentation on page 5 for details of restatements

Strong results in Algeria more than offset the impact of the weak operating environment in Morocco. We also saw improved market size trends in markets such as Spain and France, where the actions we have taken to strengthen performance continued to gain traction.

We improved our market share by 10 basis points, primarily due to the strong gains we made in Algeria, and we improved our market share trends in Morocco in the second half, driven by the launch of Fox. We made good progress in further building the contribution from our Growth Brands, with these brands now generating 50.0 per cent of our tobacco net revenue, up from 46.0 per cent last year. Profitability was affected by the same factors outlined in the Returns Markets overview.

Country	Performance
Spain	We continued to focus on customer engagement initiatives to strengthen our ties with retailers, while maintaining good growth momentum with West. The on-going migration of Ducados to JPS is also enhancing the quality of our portfolio.
France	News continues to grow share following the success of the Fortuna migration and the launch of several new variants in fine cut tobacco. The next phase of portfolio simplification is generating strong initial results.
Algeria	We delivered an excellent performance, generating significant share and profit growth, driven by Gauloises, which we have established as the market-leading brand.
Morocco	Our recently launched value brand Fox reached 10% share, helping to address volume declines in Marquise. Revenue and profit was affected by the conclusion of the Philip Morris International agreement.

We delivered another year of strong financial performance, with growth in revenue and adjusted profit and consistently high cash conversion. Our relentless focus on cost efficiencies and capital discipline is providing resources to reinvest to support growth, generate returns for shareholders and pay down debt.

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 performance from one period to the next. 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 our accounting policies accompanying our financial statements, and reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements. Percentage growth figures for adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

Excellent Track Record of Delivery

The excellent progress we are making in simplifying our brand portfolio and reducing complexity across the business is central to our cost optimisation and capital discipline agenda.

As we reduce the number of brands, we are able to align our manufacturing and supply chain to deliver operating efficiencies and optimise our working capital needs. At the same time, we are adopting new ways of working and embracing lean principles to reduce overheads and improve our effectiveness.

This is delivering tangible savings that we are able to reinvest in driving top-line growth. We have established a track record of increasing operating profit margins and adjusted earnings per share in each of the past three years. Our capital discipline has driven high cash conversion which underpins our commitment to grow dividends, repay debt and invest in the business.

Group Results – Constant Currency Analysis

£ million (unless otherwise indicated)	Year ended 30 September 2015	Foreign Exchange	**Constant currency movement**	**Year ended 30 September 2016**	**Change**	**Constant currency change**
Tobacco Net Revenue						
Growth Markets	1,449	57	**62**	**1,568**	**+8.2%**	**+4.3%**
USA Market	707	113	**657**	**1,477**	**+108.9%**	**+92.9%**
Returns Markets North	2,649	64	**(68)**	**2,645**	**-0.2%**	**-2.6%**
Returns Markets South	1,446	73	**(42)**	**1,477**	**+2.1%**	**-2.9%**
Total Group	6,251	307	**609**	**7,167**	**+14.7%**	**+9.7%**
Tobacco Operating Profit						
Growth Markets	409	25	**9**	**443**	**+8.3%**	**+2.2%**
USA Market	375	64	**384**	**823**	**+119.5%**	**+102.4%**
Returns Markets North	1,475	39	**(75)**	**1,439**	**-2.4%**	**-5.1%**
Returns Markets South	636	35	**(16)**	**655**	**+3.0%**	**-2.5%**
Total Group	2,895	163	**302**	**3,360**	**+16.1%**	**+10.4%**
Logistics						
Logistics distribution fees	749	39	**21**	**809**	**+8.0%**	**+2.8%**
Logistics adjusted operating profit	154	8	**14**	**176**	**+14.3%**	**+9.1%**
Group Adjusted Results						
Adjusted operating profit	3,053	171	**317**	**3,541**	**+16.0%**	**+10.4%**
Adjusted net finance costs	(467)	(30)	**(27)**	**(524)**	**+12.2%**	**+5.8%**
Adjusted EPS (pence)	212.5	11.5	**25.6**	**249.6**	**+17.5%**	**+12.0%**

Group Earnings Performance

£ million unless otherwise indicated	Adjusted 2016	Adjusted 2015	Reported 2016	Reported 2015
Operating profit				
Tobacco	**3,360**	2,895	**2,126**	1,910
Logistics	**176**	154	**98**	74
Eliminations	**5**	4	**5**	4
Group operating profit	**3,541**	3,053	**2,229**	1,988
Net finance costs	**(524)**	(467)	**(1,350)**	(261)
Share of profit of investments accounted for using the equity method	**28**	29	**28**	29
Profit before taxation	**3,045**	2,615	**907**	1,756
Taxation	**(609)**	(541)	**(238)**	(33)
Profit for the year	**2,436**	2,074	**669**	1,723
Earnings per ordinary share (pence)	**249.6**	212.5	**66.1**	177.4

Reconciliation of Adjusted Performance Measures

£ million unless otherwise indicated	Operating profit 2016	Operating profit 2015	Net finance costs 2016	Net finance costs 2015	Earnings per share (pence) 2016	Earnings per share (pence) 2015
Reported	**2,229**	1,988	**(1,350)**	(261)	**66.1**	177.4
Acquisition costs	**–**	40	**–**	–	**–**	4.2
Amortisation of acquired intangibles	**1,005**	697	**–**	–	**78.0**	57.5
Fair value losses/(gains) on derivative financial instruments	**–**	–	**807**	(226)	**76.2**	(22.7)
Post-employment benefits net financing costs	**–**	–	**19**	20	**1.3**	1.5
Restructuring costs	**307**	328	**–**	–	**23.9**	24.9
Tax on unrecognised losses	**–**	–	**–**	–	**5.9**	(28.6)
Items above attributable to non-controlling interests	**–**	–	**–**	–	**(1.8)**	(1.7)
Adjusted	**3,541**	3,053	**(524)**	(467)	**249.6**	212.5

Strong Financial Performance

Our results benefited from the acquisition of assets in the USA last year, with an additional volume of 12.1 billion stick equivalents and £682 million of net revenue in the year.

Outside the USA, volumes were affected by market size declines, difficult trading caused by the conflict in Iraq and Syria and by our decision to deprioritise volume in markets such as Ukraine where profitability has been affected by competitor discounting and adverse currencies. Positive price/mix and cost control initiatives mitigated these impacts. Reported tobacco net revenue was up 14.7 per cent, reflecting our market choices and the benefit of currency exposures.

Tobacco net revenue was up by 9.7 per cent at constant currency. The proportion of Group net revenue from our Growth and Specialist Brands increased to now represent 60.1 per cent, improving the quality of our revenue and strengthening our sustainability. Tobacco adjusted operating profit increased 10.4 per cent to £3.36 billion and on a reported basis increased 12.1 per cent.

Logista again delivered an encouraging performance in a challenging environment with adjusted operating profit of £176 million compared with £154 million last year, partly as a result of foreign exchange movements; on a constant currency basis adjusted operating profit grew 9.1 per cent. The improvement was driven by the development of its non-tobacco business, particularly pharmaceutical, wholesale and transport, a stronger tobacco market, as well as the benefit of continued cost controls.

Adjusted net finance costs were higher at £524 million (2015: £467 million) reflecting the full year impact of the cost of the USA acquisition debt partially offset by a reduction in our all in cost of debt.

Reported net finance costs were £1,350 million (2015: £261 million), incorporating the impact of the net fair value and exchange losses on financial instruments of £807 million (2015: gains of £226 million) and post-employment benefits net financing costs of £19 million (2015: costs of £20 million).

After tax at an effective adjusted rate of 20.0 per cent (2015: 20.7 per cent), adjusted earnings per share grew by 17.5 per cent to 249.6 pence. The effective reported tax rate is 26.2 per cent (FY15: 1.9 per cent). The effective reported tax rate for 2015 was unusually low, largely due to the recognition of previously unrecognised tax losses as a deferred tax asset, on the basis that taxable profits would arise in the relevant entities following the acquisition of assets in the USA.

The tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets, such as the USA, and lower rates in other markets, such as the UK. The rate is also sensitive to future legislative changes affecting international businesses, such as changes arising from the OECD's (Organisation for Economic Co-operation and Development) Base Erosion Profit Shifting (BEPS) work.

Reported earnings per share were 66.1 pence (2015: 177.4 pence) reflecting non-cash amortisation of £1,005 million (2015: £697 million) and restructuring costs of £307 million (2015: £328 million), as well as the effects of fair value and exchange losses in finance costs mentioned above. The difference between reported (66.1p) and adjusted earnings per share (249.6p) is materially due to the same three items.

The weakening of sterling versus the euro and US dollar positively impacted reported and adjusted measures. On a constant currency basis, adjusted earnings per share grew 12.0 per cent.

The restructuring charge for the year of £307 million (2015: £328 million) relates mainly to our cost optimisation programme announced in 2013 (£188 million) and integration costs relating to the assets acquired in FY15 (£49 million).

The total restructuring cash flow in the year ended 30 September 2016 was £268 million (2015: £256 million).

Cost Optimisation

The first phase of our cost optimisation programme is still expected to deliver savings of £300 million per annum from September 2018 and to have a cash implementation cost of in the region of £600 million. £65 million was realised in 2016 through a range of initiatives focused on reducing overheads and product cost.

As we simplify the business, optimise our manufacturing footprint and leverage our global scale through procurement we have been able to realise operational efficiencies. The cumulative savings to date are £240 million. In 2016, the cash cost of the programme was £80 million (2015: £169 million) bringing the cumulative net cash cost of the programme to £420 million.

We have identified further opportunities to extend this programme and have announced a second phase of cost optimisation that is expected to drive a further £300 million of annual savings from September 2020, at a cash cost in the region of £750 million.

Capital Discipline

Our continued focus on capital discipline is driving free cash flow that has enabled a further £1 billion of debt reduction at constant currency. Our dividend pay-out ratio of 62 per cent is among the lowest among our tobacco peers, leaving significant headroom for future dividend growth.

Reported net debt increased by £1.4 billion, with adjusted net debt increasing by £1.3 billion. The increase in adjusted net debt represents a £1.0 billion debt reduction from our continued focus on capital discipline before taking into account a £2.3 billion adverse impact of foreign exchange and fair value of derivatives.

The denomination of our closing adjusted net debt was split approximately 56 per cent euro and 44 per cent US dollar. As at 30 September 2016, the Group had committed financing in place of around £17.3 billion. Some 24 per cent was bank facilities, 6 per cent was commercial paper and 70 per cent was raised through capital markets.

Following targeted cancellation of certain bank facilities during the financial year, enabled by free cash flow generation, the outstanding syndicated acquisition facilities through which we funded our 2015 USA acquisition have been reduced to $0.9 billion.

Our all-in cost of debt reduced 40 basis points to 3.9 per cent (2015: 4.3 per cent) as older debt matured and was repaid. Our interest cover was 7.1 times (2015: 6.3 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

All of our capital allocation decisions are subject to relevant commercial analysis and hurdle rates to ensure they deliver appropriate levels of return, and potential acquisitions are judged on strict financial and commercial criteria including the ability to enhance the Group’s return on invested capital (ROIC). Typically, we seek an overall internal rate of return in excess of 13 per cent across the investments we make in our existing business. This disciplined approach is supporting our investment choices and underpins returns for shareholders. Our ROIC measure increased this year to 13.9 per cent (2015: 11.0 per cent) as a result of continued discipline and the full year effect of the US acquisition.

During the financial year, we further enhanced our investment appraisal framework to even more closely align the risks and expected returns from capital allocation decisions, to ensure that investment is focused on delivering our strategic objectives whilst generating attractive returns.

Taxation Policy

Our global tax contribution through both indirect and direct taxation exceeds £17 billion annually (excluding Logistics).

Our policy is to ensure compliance with tobacco taxation and product supply legislation and to engage constructively with revenue authorities worldwide to help combat illicit trade. We also engage with revenue authorities and governments more widely on policy issues to voice opposition to aspects of regulation and excessively high tobacco taxation that are likely to increase illicit trade to the detriment of consumers, governments and the Group.

In the field of direct taxation, it is our policy to maintain a sustainably low effective tax rate in order to enhance shareholder value whilst having due regard to financial and reputational risk.

In pursuing this policy it is of paramount importance that our actions comply with all national and international laws on corporate and tobacco taxation and that there is full disclosure and transparency in our dealings with all revenue authorities.

The Board is kept informed of all material developments relating to our taxation position with updates on tax matters regularly provided to the Audit Committee.

Further Strong Dividend Growth

We have delivered another year of 10 per cent growth in our dividend, demonstrating our commitment to growing shareholder returns. This is our eighth consecutive year of double digit dividend growth.

The Group has paid two interim dividends of 23.5 pence per share each in June 2016 and September 2016, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board has approved a further interim dividend of 54.1 pence per share and will propose a final dividend of 54.1 pence per share, bringing the total dividend for the year to 155.2 pence per share, up 10 per cent and in line with our policy of growing dividends by at least 10 per cent per year over the medium term.

The third interim dividend will be paid on 30 December 2016 with an ex-dividend date of 17 November 2016. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2017, with an ex-dividend date of 16 February 2017.

Liquidity and 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.

In reviewing the Group's committed funding and liquidity positions, the Board considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group in the context of the maturity profile of the Group's facilities. The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available when required.

Based on its review, 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 operational needs for a period of at least 12 months from the date of this report and conclude that it is appropriate to prepare the financial statements on a going concern basis.

Oliver Tant
Chief Financial Officer

SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Full Year Result		Change		
		2016	2015	Actual	Constant Currency	Constant Currency excl. Iraq & Syria
Volume						
Growth Markets	bn SE	**76.3**	86.5	-11.8%		-6.7%
US Market	bn SE	**24.9**	13.2	+89.5%*		
Returns Markets North	bn SE	**94.4**	102.8	-8.2%		
Returns Markets South	bn SE	**80.9**	82.6	-2.1%		
Returns Markets Total	bn SE	**175.3**	185.4	-5.5%		
Total Group	bn SE	**276.5**	285.1	-3.0%		-1.5%
Tobacco Net Revenue						
Growth Markets	£m	**1,568**	1,449	+8.2%	+4.3%	+8.0%
US Market	£m	**1,477**	707	+108.9%	+92.9%*	
Returns Markets North	£m	**2,645**	2,649	-0.2%	-2.6%	
Returns Markets South	£m	**1,477**	1,446	+2.1%	-2.9%	
Returns Markets Total	£m	**4,122**	4,095	+0.7%	-2.7%	
Total Group	£m	**7,167**	6,251	+14.7%	+9.7%	+10.6%
Net Revenue per '000 SE						
Growth Markets	£	**20.56**	16.75	+22.7%	+18.3%	
US Market	£	**59.23**	53.73	+10.2%	+1.8%	
Returns Markets North	£	**28.01**	25.76	+8.7%	+6.1%	
Returns Markets South	£	**18.27**	17.51	+4.3%	-0.8%	
Returns Markets Total	£	**23.51**	22.08	+6.5%	+2.9%	
Total Group	£	**25.92**	21.93	+18.2%	+13.1%	
Price/Mix						
Growth Markets	%			+20.0%	+16.1%	+14.7%
US Market	%			+19.4%*	+3.4%	
Returns Markets North	%			+8.0%	+5.6%	
Returns Markets South	%			+4.2%	-0.8%	
Returns Markets Total	%			+6.2%	+2.8%	
Total Group	%			+17.7%	+12.7%	+12.1%
Adjusted Tobacco Operating Profit						
Growth Markets	£m	**443**	409	+8.3%	+2.2%	
US Market	£m	**823**	375	+119.5%	+102.4%	
Returns Markets North	£m	**1,439**	1,475	-2.4%	-5.1%	
Returns Markets South	£m	**655**	636	+3.0%	-2.5%	
Returns Markets Total	£m	**2,094**	2,111	-0.8%	-4.3%	
Total Group	£m	**3,360**	2,895	+16.1%	+10.4%	
Logistics						
Logistics Distribution Fees	£m	**809**	749	+8.0%	+2.8%	
Logistics Operating Profit	£m	**176**	154	+14.3%	+9.1%	
Logistics Operating Margin	%	**21.8**	20.6	+120 bps	+120 bps	

US acquisition*	**2016**	2015
Volume (bn)	**17.5**	5.4
Net Revenue (£m)	**961.4**	279.7

*cigarette brands only

SUMMARY OF KEY PORTFOLIO FINANCIALS & METRICS

PORTFOLIO		Full Year Result 2016	2015	Change Actual	Constant Currency	Constant Currency excl. Iraq & Syria
Growth Brand Volume						
Growth Markets	bn SE	**46.0**	46.4	-0.8%		+10.1%
US Market	bn SE	**6.1**	3.1	+99.4%		
Returns Markets North	bn SE	**55.7**	54.4	+2.3%		
Returns Markets South	bn SE	**43.5**	41.2	+5.5%		
Returns Markets Total	bn SE	**99.2**	95.6	+3.7%		
Total Group	bn SE	**151.3**	145.1	+4.3%		+7.8%
Growth Brands as % of Volume						
Growth Markets	%	**60.4**	53.6	+680 bps		+1,030 bps
US Market	%	**24.5**	23.3	+120 bps		
Returns Markets North	%	**58.9**	52.9	+600 bps		
Returns Markets South	%	**53.8**	49.9	+390 bps		
Returns Markets Total	%	**56.6**	51.6	+500 bps		
Total Group	%	**54.7**	50.9	+380 bps		+480 bps
Growth Brand Tobacco Net Revenue						
Growth Markets	£m	**741**	681	+8.8%	+7.2%	+11.5%
US Market	£m	**274**	97	+183.0%	+160.9%	
Returns Markets North	£m	**1,512**	1,420	+6.5%	+3.4%	
Returns Markets South	£m	**738**	665	+11.1%	+5.6%	
Returns Markets Total	£m	**2,250**	2,085	+7.9%	+4.1%	
Total Group	£m	**3,265**	2,862	+14.1%	+10.1%	+11.2%
Growth Brands as % of Tobacco Net Revenue						
Growth Markets	%	**47.2**	47.0	+20 bps		
US Market	%	**18.6**	13.7	+490 bps		
Returns Markets North	%	**57.2**	53.6	+360 bps		
Returns Markets South	%	**50.0**	46.0	+400 bps		
Returns Markets Total	%	**54.6**	50.9	+370 bps		
Total Group	%	**45.6**	45.8	-20 bps		
Specialist Brand Net Revenue						
Total Group	£m	**1,042**	693	+50.2%	+43.6%	+46.1%
Specialist Brands as % of Tobacco Net Revenue						
Total Group	%	**14.5**	11.1	+340 bps		
Growth & Specialist Brands as a percentage of Group net revenue		**60.1**	56.9	+320 bps		

FINANCIAL STATEMENTS

The figures and financial information for year ended 30 September 2016 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the Auditors yet reported on them. 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

£ million unless otherwise indicated	Notes	**2016**	2015
Revenue	3	**27,634**	25,289
Duty and similar items		**(13,535)**	(12,585)
Other cost of sales		**(8,143)**	(7,533)
Cost of sales		**(21,678)**	(20,118)
Gross profit		**5,956**	5,171
Distribution, advertising and selling costs		**(2,070)**	(1,857)
Acquisition costs		**-**	(40)
Amortisation of acquired intangibles		**(1,005)**	(697)
Restructuring costs	4	**(307)**	(328)
Other expenses		**(345)**	(261)
Administrative and other expenses		**(1,657)**	(1,326)
Operating profit	3	**2,229**	1,988
Investment income		**634**	948
Finance costs		**(1,984)**	(1,209)
Net finance costs	5	**(1,350)**	(261)
Share of profit of investments accounted for using the equity method		**28**	29
Profit before tax		**907**	1,756
Tax	6	**(238)**	(33)
Profit for the year		**669**	1,723
Attributable to:			
Owners of the parent		**631**	1,691
Non-controlling interests		**38**	32
Earnings per ordinary share (pence)			
- Basic	8	**66.1**	177.4
- Diluted	8	**66.0**	176.9

Consolidated Statement of Comprehensive Income
for the year ended 30 September

£ million	2016	2015
Profit for the year	**669**	1,723
Other comprehensive income		
Exchange movements	**1,260**	(198)
Items that may be reclassified to profit and loss	**1,260**	(198)
Net actuarial losses on retirement benefits	**(604)**	(28)
Deferred tax relating to net actuarial losses on retirement benefits	**115**	5
Items that will not be reclassified to profit and loss	**(489)**	(23)
Other comprehensive income/(expense) for the year, net of tax	**771**	(221)
Total comprehensive income for the year	**1,440**	1,502
Attributable to:		
Owners of the parent	**1,336**	1,489
Non-controlling interests	**104**	13
Total comprehensive income for the year	**1,440**	1,502

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2016	2015
Operating profit		**2,229**	1,988
Acquisition costs		**-**	40
Amortisation of acquired intangibles		**1,005**	697
Restructuring costs	4	**307**	328
Adjusted operating profit		**3,541**	3,053

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2016	2015
Net finance costs		**(1,350)**	(261)
Net fair value and exchange losses/(gains) on financial instruments	5	**807**	(226)
Post-employment benefits net financing cost	5	**19**	20
Adjusted net finance costs	5	**(524)**	(467)

Consolidated Balance Sheet
at 30 September

£ million	Notes	**2016**	2015
Non-current assets			
Intangible assets		**20,704**	18,690
Property, plant and equipment		**1,959**	1,768
Investments accounted for using the equity method		**744**	598
Retirement benefit assets		**5**	92
Trade and other receivables		**89**	84
Derivative financial instruments	10	**1,063**	901
Deferred tax assets		**631**	533
		25,195	22,666
Current assets			
Inventories		**3,498**	2,842
Trade and other receivables		**2,671**	2,454
Current tax assets		**45**	56
Cash and cash equivalents	9	**1,274**	2,042
Derivative financial instruments	10	**46**	74
		7,534	7,468
Total assets		**32,729**	30,134
Current liabilities			
Borrowings	9	**(1,544)**	(1,957)
Derivative financial instruments	10	**(118)**	(25)
Trade and other payables		**(7,991)**	(6,795)
Current tax liabilities		**(284)**	(167)
Provisions	4	**(188)**	(197)
		(10,125)	(9,141)
Non-current liabilities			
Borrowings	9	**(12,394)**	(12,250)
Derivative financial instruments	10	**(1,646)**	(735)
Trade and other payables		**(17)**	(13)
Deferred tax liabilities		**(1,034)**	(1,170)
Retirement benefit liabilities		**(1,484)**	(909)
Provisions	4	**(287)**	(220)
		(16,862)	(15,297)
Total liabilities		**(26,987)**	(24,438)
Net assets		**5,742**	5,696
Equity			
Share capital		**104**	104
Share premium and capital redemption		**5,836**	5,836
Retained earnings		**(1,525)**	(315)
Exchange translation reserve		**896**	(298)
Equity attributable to owners of the parent		**5,311**	5,327
Non-controlling interests		**431**	369
Total equity		**5,742**	5,696

Consolidated Statement of Changes in Equity
for the year ended 30 September

£ 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 2015	**104**	**5,836**	**(315)**	**(298)**	**5,327**	**369**	**5,696**
Profit for the year	**-**	**-**	**631**	**-**	**631**	**38**	**669**
Other comprehensive income	**-**	**-**	**(489)**	**1,194**	**705**	**66**	**771**
Total comprehensive income	**-**	**-**	**142**	**1,194**	**1,336**	**104**	**1,440**
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	**-**	**-**	**9**	**-**	**9**	**-**	**9**
Purchase of shares by Employee Share Ownership Trusts	**-**	**-**	**(7)**	**-**	**(7)**	**-**	**(7)**
Costs of employees' services compensated by share schemes	**-**	**-**	**26**	**-**	**26**	**-**	**26**
Current tax on share-based payments	**-**	**-**	**6**	**-**	**6**	**-**	**6**
Dividends paid	**-**	**-**	**(1,386)**	**-**	**(1,386)**	**(42)**	**(1,428)**
At 30 September 2016	**104**	**5,836**	**(1,525)**	**896**	**5,311**	**431**	**5,742**
At 1 October 2014	104	5,836	(756)	(119)	5,065	398	5,463
Profit for the year	-	-	1,691	-	1,691	32	1,723
Other comprehensive income	-	-	(23)	(179)	(202)	(19)	(221)
Total comprehensive income	-	-	1,668	(179)	1,489	13	1,502
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	-	-	7	-	7	-	7
Costs of employees' services compensated by share schemes	-	-	22	-	22	-	22
Current tax on share-based payments	-	-	3	-	3	-	3
Dividends paid	-	-	(1,259)	-	(1,259)	(42)	(1,301)
At 30 September 2015	104	5,836	(315)	(298)	5,327	369	5,696

Consolidated Cash Flow Statement
for the year ended 30 September

£ million	2016	2015
Cash flows from operating activities		
Operating profit	**2,229**	1,988
Dividends received from investments accounted for under the equity method	**19**	24
Depreciation, amortisation and impairment	**1,244**	940
Loss/(profit) on disposal of property, plant and equipment and software	**6**	(2)
Profit on disposal of intellectual property	**-**	(31)
Post-employment benefits	**(111)**	(50)
Costs of employees' services compensated by share schemes	**29**	25
Movement in provisions	**4**	(67)
Operating cash flows before movement in working capital	**3,420**	2,827
(Increase)/decrease in inventories	**(149)**	21
Decrease in trade and other receivables	**171**	218
Increase in trade and other payables	**116**	89
Movement in working capital	**138**	328
Tax paid	**(401)**	(408)
Net cash flows generated from operating activities	**3,157**	2,747
Cash flows from investing activities		
Interest received	**7**	10
Purchase of property, plant and equipment	**(164)**	(194)
Proceeds from sale of property, plant and equipment	**42**	39
Proceeds from the sale of intellectual property	**-**	31
Purchase of intangible assets - software	**(51)**	(44)
Purchase of intellectual property rights	**(14)**	-
Internally generated intellectual property rights	**(2)**	(16)
Purchase of brands and operations	**-**	(4,613)
Net cash used in investing activities	**(182)**	(4,787)
Cash flows from financing activities		
Interest paid	**(547)**	(459)
Cash from employees on maturity/exercise of share schemes	**9**	7
Purchase of shares by Employee Share Ownership Trusts	**(7)**	-
Increase in borrowings	**897**	4,720
Repayment of borrowings	**(2,637)**	(380)
Loan to joint ventures	**(9)**	-
Cash flows relating to derivative financial instruments	**(209)**	139
Dividends paid to non-controlling interests	**(42)**	(42)
Dividends paid to owners of the parent	**(1,386)**	(1,259)
Net cash (used in)/generated from financing activities	**(3,931)**	2,726
Net (decrease)/increase in cash and cash equivalents	**(956)**	686
Cash and cash equivalents at the start of year	**2,042**	1,413
Effect of foreign exchange rates on cash and cash equivalents	**188**	(57)
Cash and cash equivalents at the end of year	**1,274**	2,042

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

New Accounting Standards and Interpretations

There have been no new standards which became effective for the current reporting period, that have had a material effect on the Group.

Certain changes to IFRS will be applicable to the consolidated financial statements in future years. IFRS 15 Revenue from Contracts with Customers which is effective for the Group for its 2019 financial statements will result in some items currently classified as costs being netted against revenue. It is not expected to have material effect on the Group's net asset or results. Management has yet to fully assess the impact of IFRS 9 Financial Instruments which is also effective for the Group for its 2019 financial statements. Our initial assessment of IFRS 16 Leases, effective for the Group for its 2020 financial statements, is that it will not have a material effect on the Group's net assets or results. There are no other standards or interpretations that are expected to have a material effect on the Group's net assets or results.

2. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in the financial statements for the year ended 30 September 2016, which will be available on our website www.imperialbrandsplc.com in due course.

3. Segment Information

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

The Tobacco business is managed based on the strategic role of groups of markets rather than their geographic proximity, with divisions focused on prioritising growth or returns. Returns Markets are typically mature markets where we have relatively large market shares and our objective is to maximise returns over the long term by growing profits while actively managing market share. Growth Markets are mainly large profit or volume pools where we typically have market shares below 15 per cent and where our total tobacco approach provides many opportunities for share and profit growth both now and in the future. Following the 2015 acquisition, the USA has become a significant market and is therefore disclosed separately.

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive. Our reportable segments are Growth Markets (which includes premium cigar and Fontem Ventures), USA, Returns Markets North, Returns Markets South and Logistics. Prevailing market characteristics such as maturity, excise structure and the breadth of the distribution networks determine the allocation of Returns Markets between Returns Markets North and Returns Markets South.

Operating segments are considered to be business markets. The main tobacco business markets within the Growth, Returns Market North and Returns Market South reportable segments are:

- Growth Markets - Iraq, Norway, Russia, Saudi Arabia, Taiwan (also includes premium cigar and Fontem Ventures);
- Returns Markets North - Australia, Belgium, Germany, Netherlands, Poland, United Kingdom; and
- Returns Markets South - France, Spain and our African markets including Algeria, Ivory Coast, Morocco.

Tobacco

£ million unless otherwise indicated	2016	2015
Revenue	20,890	19,011
Net revenue	7,167	6,251
Operating profit	2,126	1,910
Adjusted operating profit	3,360	2,895
Adjusted operating margin %	46.9	46.3

Logistics

£ million unless otherwise indicated	2016	2015
Revenue	7,505	7,025
Distribution fees	809	749
Operating profit	98	74
Adjusted operating profit	176	154
Adjusted operating margin %	21.8	20.6

Revenue

	2016		2015	
£ million	Total revenue	External revenue	Total Revenue	External revenue
Tobacco				
Growth Markets	3,137	3,085	3,019	2,970
USA	2,942	2,942	1,415	1,415
Returns Markets North	12,537	12,504	12,332	12,303
Returns Markets South	2,274	1,598	2,245	1,576
Total Tobacco	20,890	20,129	19,011	18,264
Logistics	7,505	7,505	7,025	7,025
Eliminations	(761)	-	(747)	-
Total Group	27,634	27,634	25,289	25,289

Tobacco net revenue

£ million	2016	2015
Growth Markets	1,568	1,449
USA	1,477	707
Returns Markets North	2,645	2,649
Returns Markets South	1,477	1,446
Total Tobacco	7,167	6,251

Tobacco net revenue excludes revenue from the sale of peripheral products of £190 million (2015: £175 million).

Adjusted operating profit and reconciliation to profit before tax

£ million	2016	2015
Tobacco		
Growth Markets	443	409
USA	823	375
Returns Markets North	1,439	1,475
Returns Markets South	655	636
Total Tobacco	3,360	2,895
Logistics	176	154
Eliminations	5	4
Adjusted operating profit	3,541	3,053
Acquisition costs - Tobacco	-	(40)
Amortisation of acquired intangibles - Tobacco	(927)	(617)
Amortisation of acquired intangibles - Logistics	(78)	(80)
Restructuring costs - Tobacco	(307)	(328)
Operating profit	2,229	1,988
Net finance costs	(1,350)	(261)
Share of profit of investments accounted for using the equity method	28	29
Profit before tax	907	1,756

4. Restructuring Costs and Provisions

Restructuring costs

£ million	2016	2015
Employment related	144	100
Asset impairments	51	113
Other charges	112	115
	307	328

The charge for the year ending 30 September 2016 was £307 million (2015: £328 million) and relates mainly to our cost optimisation programme announced in 2013 (£188 million); this includes the closure of the Logrono (£108 million) and Mullingar (£21 million) factories, which were communicated earlier in the year. An additional £49 million was charged for integration costs relating to the assets acquired from Lorillard in 2015. The balance of £70 million covers all other restructuring activities across the Group.

The cost optimisation programme is expected to have a cash implementation cost in the region of £600 million and generate savings of £300 million by 2018. In 2016 the cash cost of the programme was £80 million (2015: £169 million), bringing the cumulative net cash cost of the programme to £420 million.

Provisions

	2016		
£ million	Restructuring	Other	Total
At 1 October 2015	278	139	417
Additional provisions charged to the consolidated income statement	128	67	195
Amounts used	(137)	(19)	(156)
Unused amounts reversed	(2)	(39)	(41)
Exchange movements	37	23	60
At 30 September 2016	304	171	475

Analysed as:

£ million	2016	2015
Current	188	197
Non-current	287	220
	475	417

5. Net Finance Costs and Reconciliation to Adjusted Net Finance Costs

£ million	2016	2015
Reported net finance costs	1,350	261
Fair value gains on derivative financial instruments	484	691
Fair value losses on derivative financial instruments	(825)	(578)
Exchange (losses)/gains on financing activities	(466)	113
Net fair value and exchange (losses)/gains on financial instruments	(807)	226
Interest income on net defined benefit assets	143	138
Interest cost on net defined benefit liabilities	(162)	(157)
Unwind of discount on redundancy and other long-term provisions	-	(1)
Post-employment benefits net financing cost	(19)	(20)
Adjusted net finance costs	524	467
Comprising		
Interest on bank deposits	(7)	(6)
Interest on bank loans and other loans	531	473
Adjusted net finance costs	524	467

6. Taxation and Reconciliation to Adjusted Tax Charge

Analysis of charge in the year

£ million	**2016**	2015
Current tax		
UK Corporation tax	**33**	36
Overseas tax	**467**	449
Total current tax	**500**	485
Deferred tax movement	**(262)**	(452)
Total tax charged to the consolidated income statement	**238**	33

Reconciliation from reported tax to adjusted tax

The table below shows the taxation impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 8.

£ million	**2016**	2015
Reported tax charge	**238**	33
Deferred tax on amortisation of acquired intangibles	**261**	149
Tax on net fair value and exchange movements on financial instruments	**80**	(11)
Tax on post-employment benefits net financing cost	**7**	6
Tax on restructuring costs	**79**	91
Tax on unrecognised losses	**(56)**	273
Adjusted tax charge	**609**	541

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 of the enacted UK corporation tax rates for the year of 20.0 per cent (2015: 20.5 per cent) as follows:

£ million	**2016**	2015
Profit before tax	**907**	1,756
Tax at the UK Corporation tax rate	**181**	360
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(90)**	(110)
Movement in provision for uncertain tax positions	**43**	44
Remeasurement of deferred tax balances	**(101)**	(310)
Remeasurement of deferred tax balances arising from changes in tax rates	**-**	(13)
Permanent differences	**170**	68
Adjustments in respect of prior years	**35**	(6)
Total tax charged to the consolidated income statement	**238**	33

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 20 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties. The movement between 2015 and 2016 is largely driven by increased earnings in the USA and other jurisdictions where the tax rate is higher than 20 per cent.

Remeasurement of deferred tax balances mainly represents the recognition of deferred tax assets previously not recognised. Of the £101 million (2015: £310 million) remeasurement, most of which relates to the Group's Spanish business, £89 million (2015: nil) relates to tax deductible amortisation and the balance of £12 million (2015: £310 million) relates to losses and other deferred tax assets. The 2015 remeasurement related to the recognition of deferred tax assets following the USA acquisition. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

Permanent differences include £79 million in respect of non-deductible exchange losses (2015: £33 million gains) and £31 million (2015: £18 million) in respect of non-deductible interest expenses.

Movement on current tax account

£ million	**2016**	2015
At 1 October	**(111)**	(32)
Charged to the consolidated income statement	**(500)**	(485)
Charged to equity	**(6)**	(3)
Cash paid	**401**	408
Exchange movements	**(24)**	-
Other movements	**1**	1
At 30 September	**(239)**	(111)

The cash tax paid in the year is £99 million (2015: £77 million) less than the current tax charge. 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.

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. The Group is also monitoring developments in relation to EU State Aid investigations but does not currently consider any provision is required. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2016 the total value of these provisions, including foreign exchange movements, was £165 million (2015: £114 million). It is possible that amounts paid will be different from the amounts provided.

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

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £253 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra group transfer of the shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. Based on professional advice, an amount of £41 million (2015: £23 million) is included in the provision for uncertain tax positions.

7. Dividends

Distributions to ordinary equity holders

£ million	**2016**	2015	2014
Paid interim of 47.0 pence per share (2015: 91.9p, 2014: 38.8p)			
- Paid August 2014	**-**	-	370
- Paid June 2015	**-**	204	-
- Paid September 2015	**-**	204	-
- Paid December 2015	**-**	468	-
- Paid June 2016	**225**	-	-
- Paid September 2016	**225**	-	-
Interim dividend paid	**450**	876	370
Proposed interim of 54.1 pence per share (2015: nil, 2014: nil)			
- To be paid December 2016	**516**	-	-
Interim dividend proposed	**516**	-	-
Proposed final of 54.1 pence per share (2015: 49.1p, 2014: 89.3p)			
- Paid February 2015	**-**	-	851
- Paid March 2016	**-**	468	-
- To be paid March 2017	**516**	-	-
Final dividend	**516**	468	851
Total ordinary share dividends of 155.2 pence per share (2015: 141.0p, 2014: 128.1p)	**1,482**	1,344	1,221

The third interim dividend for the year ended 30 September 2016 of 54.1 pence per share amounts to a proposed dividend of £516 million, which will be paid in December 2016.

The proposed final dividend for the year ended 30 September 2016 of 54.1 pence per share amounts to a proposed dividend payment of £516 million in March 2017 based on the number of shares ranking for dividend at 30 September 2016, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2016 will be £1,482 million (2015: £1,344 million). The dividend paid during 2016 is £1,386 million (2014: £1,259 million).

8. Earnings per Share

Basic earnings per share is based on the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the year 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	**2016**	2015
Earnings: basic and diluted – attributable to owners of the Parent Company	**631**	1,691
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**954.0**	953.4
Potentially dilutive share options	**2.7**	2.5
Shares for diluted earnings per share	**956.7**	955.9
Pence		
Basic earnings per share	**66.1**	177.4
Diluted earnings per share	**66.0**	176.9

Reconciliation from reported to adjusted earnings and earnings per share

£ million unless otherwise indicated	**2016** Earnings per share (pence)	**2016** Earnings	2015 Earnings per share (pence)	2015 Earnings
Reported basic	**66.1**	**631**	177.4	1,691
Acquisition costs	**-**	**-**	4.2	40
Amortisation of acquired intangibles	**78.0**	**744**	57.5	548
Net fair value and exchange movements on financial instruments	**76.2**	**727**	(22.7)	(215)
Post-employment benefits net financing cost	**1.3**	**12**	1.5	14
Restructuring costs	**23.9**	**228**	24.9	237
Tax on unrecognised losses	**5.9**	**56**	(28.6)	(273)
Adjustments attributable to non-controlling interests	**(1.8)**	**(17)**	(1.7)	(16)
Adjusted	**249.6**	**2,381**	212.5	2,026
Adjusted diluted	**248.9**	**2,381**	211.9	2,026

9. Net Debt

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

£ million	**Cash and cash equivalents**	**Current borrowings**	**Non-current borrowings**	**Derivative financial instruments**	**Total**
At 1 October 2015	**2,042**	**(1,957)**	**(12,250)**	**215**	**(11,950)**
Reallocation of current borrowings from non-current borrowings	**-**	**(471)**	**471**	**-**	**-**
Cash flow	**(956)**	**1,017**	**723**	**209**	**993**
Accretion of interest	**-**	**94**	**(13)**	**(23)**	**58**
Change in fair values	**-**	**-**	**-**	**(1,056)**	**(1,056)**
Exchange movements	**188**	**(227)**	**(1,325)**	**-**	**(1,364)**
As at 30 September 2016	**1,274**	**(1,544)**	**(12,394)**	**(655)**	**(13,319)**

Adjusted net debt

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

£ million	**2016**	2015
Reported net debt	**(13,319)**	(11,950)
Accrued interest	**221**	279
Fair value of derivatives providing commercial hedges	**216**	25
Adjusted net debt	**(12,882)**	(11,646)

10. Derivative Financial Instruments

	2016			2015		
£ million	**Assets**	**Liabilities**	**Net Fair Value**	Assets	Liabilities	Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**32**	**(60)**	**(28)**	55	(20)	35
Foreign exchange contracts	**9**	**(11)**	**(2)**	13	(5)	8
Cross-currency swaps	**5**	**(121)**	**(116)**	6	-	6
Total current derivatives	**46**	**(192)**	**(146)**	74	(25)	49
Collateral	**-**	**74**	**74**	-	-	-
	46	**(118)**	**(72)**	74	(25)	49
Non-current derivative financial instruments						
Interest rate swaps	**1,063**	**(1,279)**	**(216)**	666	(753)	(87)
Cross-currency swaps	**-**	**(427)**	**(427)**	235	(23)	212
Total non-current derivatives	**1,063**	**(1,706)**	**(643)**	901	(776)	125
Collateral	**-**	**60**	**60**	-	41	41
	1,063	**(1,646)**	**(583)**	901	(735)	166
Total carrying value of derivative financial instruments	**1,109**	**(1,764)**	**(655)**	975	(760)	215
Analysed as						
Interest rate swaps	**1,096**	**(1,339)**	**(244)**	721	(773)	(52)
Foreign exchange contracts	**9**	**(11)**	**(2)**	13	(5)	8
Cross-currency swaps	**5**	**(548)**	**(543)**	241	(23)	218
Collateral	**-**	**134**	**134**	-	41	41
Total carrying value of derivative financial instruments	**1,109**	**(1,764)**	**(655)**	975	(760)	215

The Groups' derivative financial instruments are held at fair value. Fair values are determined based on observable market data (Level 2 classification hierarchy) and are consistent with those applied during the year ended 30 September 2015.