Slide 1

Preliminary Results 2016

Slide 2

Disclaimer

Slide 3

Alison Cooper – *Chief Executive*

Good morning and welcome to our 2016 results presentation.

Joining me this morning are Oliver Tant, Chief Financial Officer and Matthew Phillips, our Chief Development Officer and in the audience is Mark Williamson, our Chairman.

Slide 4

Key Themes

2016 has been another year of consistent delivery and our focus on improving our quality of growth is reflected in a number of pleasing brand and market performances. These have underpinned another year of 10% dividend growth, making this the eighth consecutive year… and we will continue to maintain this level of growth over the medium term.

This commitment reflects the strength of our strategy. We are building a stronger, higher quality business with an even greater capacity for generating shareholder returns.

And we have established a solid foundation for the next chapter of our growth.

During the year, we spent time reviewing our strategy for the next decade of value creation for our stakeholders: for our consumers, customers, employees and shareholders. Our review reinforced the strength of our strategy and our track record in driving financial performance but we recognise we have an opportunity to deliver more quality top-line growth. To realise these opportunities we have decided to invest an additional £300m in our Growth and Specialist Brands in key geographies in 2017.

This investment will be supported by a new phase of cost optimisation that will further simplify the business by reducing complexity, lowering product cost and optimising overheads.

So my focus this morning, will be on our strategic agenda for delivering the next decade of sustainable quality growth…

Slide 5

Our Strategy – *A reminder*

First, a brief reminder of our strategic priorities, which we consistently report against.

They are focused on four areas….

The first is about building the contribution from our Growth and Specialist Brands as we simplify and strengthen our portfolio, and invest in new consumer experiences and adjacencies.

This is combined with a focused approach to our market footprint. The US is a clear priority as we invest behind the enhanced portfolio and continue to grow our key brands. In our Growth Markets we are also focused on realising growth opportunities, while in Returns Markets, we balance our share and profit objectives.

Our cost optimisation programme supports our investment choices… as we continue to simplify our ways of working and improve efficiencies.

And our focus on strong cash and disciplined use of capital underpins deleveraging and supports dividend growth.

These strategic priorities have resulted in improvements in the consistency and quality of our performance, creating a stronger business and a solid foundation for our next decade of growth.

Slide 6

Delivering on our Priorities – *Track record of consistent delivery*

Looking at our results in 2016, we have had another good year with strong delivery against our strategic agenda. A big thank you to the team at Imperial for delivering these results.

We delivered strong growth in revenue and profit – supported by our US acquisition.

We further improved the quality of revenue as our Growth Brands continued to outperform the market with volume and share growth. We further simplified the portfolio through our successful brand migration programme so our Growth & Specialist Brands now represent more than 60% of net revenues. We also continued to invest in our e-vapour technology and in building the brand equity of blu.

Across our footprint… we achieved revenue and profit growth in our Growth Markets… and we prioritised quality volume in our Returns Markets while also investing in the UK to defend our share. In the US, our enlarged business had an excellent first full year, with our key cigarette brands gaining share and a turnaround delivered in our mass market cigar business. I am delighted with the performance of the US business. It is a great addition to the portfolio with returns on investment already exceeding 10% in its first year.

We delivered a further £64 million of savings through our cost optimisation programme as we continued to refine our operating model and simplify our ways of working. This is creating a stronger, more agile business that's better placed to respond to changing market conditions.

And our focus on capital discipline has delivered another strong year of cash conversion at 95% and a £1bn reduction in net debt – at constant currencies.

And, as I mentioned earlier, we delivered our eighth consecutive year of double digit dividend growth.

Slide 7

The Next Chapter: The next decade of growth *– More, more, more, more*

So a strong foundation as we look to the next 10 years.

And as I highlighted at our investor day in June, the agenda, simply put, is about more. More work on strengthening the portfolio, more simplification, more focus…. and more investment, as we see opportunities to invest behind our strongest brand equities.

From a footprint perspective, it's about more prioritisation linked to our detailed profit pool analysis, which informs our priorities for further growth.

From a cost perspective, it is about more optimisation – realising benefits from the further simplification of our portfolio and the way we work to drive complexity out of the business.

From a capital perspective, again, more discipline, more prioritisation of investment choices…. all delivering more returns.

Now, let me provide a bit more detail behind our strategic priorities and investment choices.

Slide 8

Strengthen Portfolio: Migrations *– More simplification and focus, more quality*

At the core of our strategy is the optimisation of our brand portfolio, to build a portfolio of fewer, bigger and stronger brands.

And our Growth Brands continued to outperform, growing volume, share and revenue.

Focusing on the right brands with the right execution, enables targeted and consistent investment across our brand chassis and drives simplicity for retailers, and our sales teams. It also delivers economies of scale and cost benefits.

Our goal is to halve the number of brands and to generate 75% of our net revenue from our Growth and Specialist Brands. To date, we have cut the brands by a quarter and are delivering 60% of net revenue from these brands

Our migrations have been key to this transition, cutting portfolio complexity and building scale in our Growth Brands. We have successfully completed 49 migrations to date, with a further 15 underway. These have achieved excellent consumer retention rates, continuing to average more than 95%.

BUILD

And looking ahead, we will continue to invest in migrations but there is more we can do to simplify and strengthen the portfolio…

Slide 9

Strengthen Portfolio – *More radical simplification*

We are also planning to radically cut the number of SKUs to further reduce complexity.

The concept is simple… In many markets we have too many SKUs – sometimes even for the shelf space available – as this example shows.

And there is, therefore, an opportunity to prioritise more effectively. We start by defining the optimal brand assortment of SKUs in each market by selecting those SKUs that will drive quality growth. Then we remove SKUs that don't sell and replace them with the optimal assortment. This enhances distribution and drives better on shelf availability and better visibility – helping retailers and consumers, as well as us.

We have tested this approach in pilot markets and the results were very encouraging. We have achieved increases in volumes, share and gross margin despite reducing the number of SKUs by between 40 and 60%.

We are rolling this approach out across our market footprint from 2017 to support our drive for quality growth, and over time we will also see additional cost benefits coming through as the complexity of our portfolio reduces.

Slide 10

Strengthen Portfolio – *More brand building and activations*

We are also strengthening our portfolio by investing consistently behind our Growth and Specialist Brands.

Our brand chassis approach enables us to leverage our marketing spend across a range of Growth Brands – as you see here with point of sale materials for News – part of the West chassis.

Or the; Vive le Moment' campaign which has driven share gains for Gauloises in Germany… or for JPS– the 'Born that Way' campaign– which has been consistently implemented across point of sale, on-line and activation events.

We have invested in a drumbeat of brand initiatives to meet changing consumer preferences. This has included new product offerings such as crushball across many of our Growth Brands such as West Ice Extreme in Taiwan for the growing super menthol segment. And new packaging such as Fresh Box for Davidoff in the Middle East, as well as the launch of Pocket Plus on the gV Bright range.

And we've been successfully extending the consumer appeal of our Growth Brands with fine cut tobacco variants for News, JPS, West and Gauloises.

Looking forward, we have identified further opportunities to increase investment behind our Growth and Specialist Brands, combined with a relevant drumbeat of initiatives to build consumer awareness.

Slide 11

Strengthen Portfolio – *Building the blu brand*

We are also investing in new consumer experiences currently focused on e-vapour and this year's revenues benefited from the inclusion and growth of blu.

In April, we launched a new print, TV and cinema campaign to raise awareness and build equity in blu. It has been a great success with our brand tracking scores improving across all our key metrics. We believe blu is a very powerful brand in a nascent category – well positioned as a premium offering – and it is encouraging to see its brand equity building and how well it compares with competitor brands.

Slide 12

Strengthen Portfolio – *More investment in new consumer experiences*

We have a clear set of priorities to step up our investment… we have consolidated our presence around our second generation product – blu Plus+, which we believe is the best closed system vaping experience in the market.

We are leveraging our distribution across four target markets… and are trialling some new consumer engagement activities in the US and UK designed at driving brand awareness and consumer education.

…and we have launched an on-line consumer loyalty programme called blu Nation to build a community of consumers, offer promotions and generate loyalty.

As regards technology, we are investing in our third generation product blu MAX, which we believe will further improve the consumer experience.

Slide 13

Develop Footprint – *More investment in markets that matter*

Turning to our footprint strategy…

For us… this is about market prioritisation and driving quality growth. To put this in to perspective… we generate almost 95% of our profit from 32 markets… and so we have a clear framework that informs our evaluation of market investment choices – based on two perspectives: the attractiveness of a market and our ability to win in that market.

The attractiveness of a market is a quantitative analysis of market size, profitability, affordability, economic outlook, as well as other qualitative factors including regulation.

In relation to our ability to win… we assess the strength of our portfolio, customer relationships and our distribution capabilities.

These are medium to long-term assessments, taking into account how the market is likely to evolve over time.

It shapes our medium-term investment plans for our markets – which we would only revisit if there were any significant changes that affect the attractiveness or our ability to win. This allows us to invest for the long term but also be agile in our response to changing market conditions where appropriate.

Slide 14

Develop Footprint – *Market affordability supports future quality growth*

This chart illustrates the relative attractiveness of some key tobacco markets based on market affordability, profitability and size, which supports our market investment choices.

As you know, the US is a large, profitable market with high affordability – and further pricing opportunities over time – which supports our decision to expand our presence in the market last year… and to continue investing in our US business.

Russia is also a large market where affordability is good and profitability will grow over time.

We plan to invest to grow but we will also invest to defend share where needed. The best current example is the UK, which is an attractive market with a large profit pool and where we also have strong in-market capabilities. As you know it's very competitive and we are investing to grow in the sub-economy segment.

In contrast, we have highlighted markets such as Ukraine and Turkey, where a combination of competitor discounting and adverse currency movements, have caused us to re-assess our investment plans in the short-term. We have not withdrawn from these markets but have decided that investment to grow or defend at this time does not meet our criteria.

Looking ahead, you should expect even more market prioritisation as we increase investment in markets to drive quality growth through quality share. We are not interested in chasing poor quality volume but in ensuring we're pursuing high quality, sustainable volume in markets that matter.

We will be investing to grow in targeted markets and we are also prepared to invest to defend our share in markets which we consider to be strategically important.

Slide 15

Develop Footprint – *More investment in sales execution excellence*

We also assess our ability to win in-market… and how we leverage our 'go to market' model.

I have already talked about our focus on ensuring we have the right brands and SKUs in each of our markets.

We have also invested in customer engagement to build strong retailer partnerships. We work with retailers to support their business and maximise the availability and advocacy of our brands at the point of sale.

We believe that this has been a point of competitive differentiation in many of our markets - and our team in Australia would be a notable example of this capability in action. We have successfully worked in partnership with the retailers to create a compelling narrative around our brands. This has helped us to communicate with consumers through our retailers and build brands in dark markets.

And Spain is another example where, in response to recent regulatory changes, we've introduced innovative ways of working with retailers to drive consumer interest in our brands.

Looking ahead, we plan to do yet more to excel at sales execution. We are stepping up our investment behind our sales teams and key accounts in our priority markets enabled by technology and by facilitated learning across our footprint… and all applied to a more focused portfolio.

Slide 16

More Cost Optimisation – *More Efficiencies*

And as we focus more and prioritise more we drive more cost optimisation… We have already made significant progress in optimising our cost structure to create a leaner and more flexible cost base that is better able to support the growth of the business and enable us to adapt swiftly to changing market demands.

Our cost programme is aligned with our portfolio and footprint priorities. As we simplify our portfolio and reduce complexity across our operations, we have continued to realise efficiencies in product cost and overheads.

We have continued to review our manufacturing capacity and are adopting lean operating principles across our factory footprint.

And on overheads, we are embedding new ways of working aligned with our strategic priorities including shared services for Finance, HR and IT to improve effectiveness.

We remain on track to deliver £300m of annual savings by 2018. And building on the success of this programme, we have identified a new phase of cost optimisation that will deliver a further £300m of savings by 2020 to support our investment plans.

Slide 17

More Capital Discipline – *More prioritisation of investment opportunities*

All of these choices sit within a clear financial framework with clear capital discipline. Over recent years, we have driven significant improvements in working capital management and cash conversion.

This has increased our capacity to invest in the business, reduce debt and support our 10% dividend commitment.

We have also strengthened our capabilities in the evaluation and prioritisation of our investment opportunities.

Across the investments we make within our business, we are typically seeking an internal rate of return in excess of 13%, adjusting our return expectations based on market risk profiles and their prioritisation. Our disciplined approach to capital allocation supports our investment choices and will underpin returns for shareholders.

Slide 18

More Investment: – *More sustainable quality growth*

So to summarise our investment agenda…

For our portfolio, it's about more migrations and further radical SKU rationalisation, with more investment in the equity of our Growth and Specialist Brands and consumer activations… and more investment in the development of e-vapour technology and blu.

For our footprint, it's about more market prioritisation and increased investment behind our brands and sales execution – building on our customer engagement successes.

We are supporting this additional £300m investment over the medium-term via a new phase of cost optimisation, which will drive further effectiveness and efficiency. As we increase our investment, we have also strengthened our capital discipline and our approach to prioritising and monitoring returns.

Slide 19

The Next Decade of Growth – *Growing shareholder returns*

We are building on the success of our strategy, leveraging the experience of the last five years.

While our strategic focus is unchanged, this marks an exciting new phase of investment to generate sustainable quality growth over the next decade… and to further underpin our commitment to consistently grow shareholder returns.

We have established a strong track record in driving financial performance but we recognise we have an opportunity to deliver a higher level of quality top-line growth. So we are stepping up our investment in FY17 through a series of targeted initiatives to generate top-line growth over the coming years.

I will now hand over to Oliver who will take you through the FY16 results and explain the financial implications of our investment choices.

Slide 20

Oliver Tant – *Chief Financial Officer*

Thank you Alison. Good morning everyone.

Slide 21

Group Adjusted Results – *Continued strategic delivery*

Our strategy is working well and we have had another year of strong financial performance. This is another year where we have met expectations and delivered on our financial promises. And we have made good progress from a revenue, profit, cash and balance sheet perspective.

Our results benefited from the US acquisition which made a very positive contribution to revenue and profit.

Performance was strong on a constant currency basis with both revenue and adjusted operating profit up around 10%... and margins gained 60 basis points to 46.9%.

EPS grew 12% and the dividend increased again by 10% - in line with our commitment to shareholder returns.

I would also like to highlight the strength of the actual growth, which has benefited from currency translation and reflects the benefit of our footprint choices. Actual tobacco net revenue grew nearly 15%; adjusted operating profit was up 16% and EPS grew 17.5%... and this contributes to the strength of our balance sheet.

We've remained relentlessly focused on capital discipline through our use of working capital and investment to deliver another period of strong cash conversion at 95%. This has generated another billion of free cash after dividends – the increased debt reflects the effect of FX translation, which I will come back to later.

Slide 22

FY16 Volume – *USA Acquisition adds 12.1bn SE*

Volumes for the period were 276bn sticks, down 3%.

The acquired US brands contributed over 12bn sticks, or a little above 4%. Iraq and Syria accounted for around 4bn sticks, or 1.5% of the decline. This was entirely in the first half of the year – and these markets now represent just under 1% of Group volume. The size of the markets in which we operate fell by 1% on a 12 month average basis but the recent positive trends in the USA and some European markets such as Spain are beginning to revert to declines more in line with historic norms.

Our like-for-like volumes declined almost 5%.

As Alison highlighted, we continue to make very clear market investment choices – pursuing quality volume but not chasing share for share's sake. As we highlighted as the interim results, the significant deterioration in the economics and profitability of some segments of some geographies is influencing our investment decisions in markets such as Ukraine, Azerbaijan, Turkey and the Adriatic. Volumes declined 2% as result of these footprint choices.

The conclusion of the PMI contract in Morocco contributed another 1%. In Russia, we grew revenue but volumes were affected by a temporary price disadvantage for Maxim in the first half and the loss of large pack formats in the second. And there were share pressures in markets such as the UK and Germany which offset gains in markets such as Algeria, Saudi Arabia, Italy and Japan.

We further strengthened our portfolio with our Growth Brands gaining 50 basis points of share and growing revenues. Our overall share declined 60 basis points reflecting our simplification agenda, and as we grow our Growth Brand market share, we have ceded some share in our Portfolio Brands.

Slide 23

FY16 Net Revenue – *Organic Revenue Growth +1%*

From a revenue perspective… the acquired US cigarette brands added around 10% to net revenue, such that ITG Brands contributed just over 20% of our total tobacco net revenues.

I will cover the US in more detail shortly and provide an update on the excellent progress we continue to make.

Revenue was affected by Iraq & Syria but the impact was less significant than on volume, given the lower relative sales value in those markets.

The impact of a 5% volume decline elsewhere in the business has been more than offset by price/mix of over 6%, which, as expected, was particularly strong in the first half of the year.

This resulted in organic revenue growth of 1% and translation FX added another 5%.

Slide 24

FY16 EPS Growth – *Constant Currency EPS up 12%*

Adjusted EPS for the year was up 12% in constant currency terms. This has been largely driven by the operating profit increase from the acquired US business and a positive contribution from Growth Markets.

This was offset by 7 pence of adverse transaction FX – I will come back to talk about the impact of currency on our results in a moment. We also had a slightly lower contribution from minorities.

Currency translation was a strong positive, particularly in the second half, resulting in adjusted EPS of 249.6 pence, this is a 17.5% increase on our 2015 EPS.

Slide 25

Developing Footprint: Growth Markets – *Revenue and profit momentum*

In our Growth Markets…we focus on maximising long-term growth opportunities. This year we achieved revenue and profit growth while strengthening the portfolio through migrations and the addition of blu.

Revenue grew by 4.3% and excluding Iraq and Syria, was up 8%. Price/mix was strong at 16.1% - reflecting the acquired contribution from blu and the benefit of patent royalty income as we leverage our e-vapour intellectual property. We also achieved notable price gains in Russia, Taiwan and Scandinavia.

Operating profit grew over 2% with profit growth in Norway, Japan and Taiwan… and the contribution of Fontem IP royalties. Excluding Iraq and Syria and adverse transaction FX, profit was up over 14%.

The contribution of our Growth Brands increased 20 basis points with successful migrations in Russia and growth in Italy and Japan… more than offsetting the impact on Gauloises of Iraq and Syria.

Our market share grew in Saudi Arabia, Italy and Japan but was offset by declines in Russia. Although Russia's share was affected by a temporary price disadvantage and by the end of big box formats, it has stabilised during the year.

Slide 26

Developing Footprint: USA Market – *Strong Results from ITG Brands*

We have been very pleased by the first full year performance of our expanded US business. Our acquired brands contributed an incremental 12.1bn sticks and £682m of revenue in FY16.

Our retailer merchandising programme is delivering improved visibility of our brands, better point of sale and promotional support.

This is driving the performance of our cigarette brands – Winston and Kool – but first I'd like to highlight the turnaround in our US mass market cigar business.

The US acquisition provided an opportunity to change to a consumer pull model and refocus our portfolio priorities.

We are focusing on our primary brands, Dutch Masters, Dutch and Backwoods, and are strengthening the consumer appeal of those brands with new campaigns and an events programme.

The long term decline trends have now been stabilised and in the last quarter we see both retail shipments and share growing, while improving net revenue and operating profit.

If I now turn to our cigarette brand performance…

Slide 27

Developing Our Footprint – *Positive share trends in Winston and Kool*

We're pleased by the market share growth in Winston and Kool as they have continued to respond well to our investment.

As you can see there is real momentum in the brands since we signed our new retailer agreements in November last year. The agreements with around 165,000 retailers now represent almost 90% of industry volume, and over 90% of our Winston volume is sold through these retailers. Winston has gained 23 basis points of share since November 2015.

In the last quarter, we have also launched the new packaging for Winston combined with a new advertising campaign. This will also be supported by direct mail and a new digital platform to improve awareness.

All in all, these are a very solid set of results in our first full year of ownership – and already delivering returns on investment in excess of 10% and meeting our original deal expectations.

We're making great progress with both our cigarette, mass market cigar brands and blu in the US.

Slide 28

Developing Footprint: Returns Markets – *Increased contribution from Growth Brands*

Turning to our Returns Markets where we continued to focus on quality growth and are making clear investment choices.

Our Growth Brands performed well with the proportion of net revenue up 370 basis points, supported by successful migrations across a number of markets such as France, Spain and Germany. Price/mix of 2.8% helped to partially offset the volume declines.

In Returns North, markets such as Australia and Poland and Germany delivered good growth in revenue and profit. The UK remains a competitive market and we continue to invest in the sub economy segment. In Ukraine, we deprioritised our investment activities at the beginning of the year in a market where the profit opportunity has been affected by currency devaluation and competitor price discounting. More recently, however, this discounting has abated and our share has been recovering.

Share declines in Returns North affected the overall share performance of the Returns division.

Results in Returns South benefited from strong performances in markets such as Algeria, which mitigated the on-going challenges in Morocco. While in France and Spain, we benefitted from brand migrations.

Across the Division, we achieved good profit increases in markets such as Australia, Algeria and Germany but overall profitability was affected by adverse transaction FX in Ukraine, EUTPD investment costs and the conclusion of the PMI contract in the UK and Morocco. Excluding these factors, operating profit grew 1%.

Overall, this was a robust performance, given these one-off headwinds and some of the market challenges which have influenced our investment choices and focus on quality volume.

Slide 29

More Cost Optimisation – *Simplification and new ways of working*

On cost optimisation… we have made excellent progress We saved a further £65m this year to bring cumulative savings to £240m of annual savings… leaving £60m to deliver over the next two years.

As Alison has already outlined we have today announced a second phase in our cost optimisation programme.

Phase 2 will again be achieved through a focus on product costs and overheads. We are expecting £90m of savings in FY17 – with £30m from Phase 1 and £60m from Phase 2, which will run in parallel with Phase 1.

We have robust plans in place for delivery of these savings and we will provide regular updates on progress.

Slide 30

Capital Discipline – *Consistent cash conversion*

Our cash conversion rate of 95% adds another year to our track record of consistent delivery. It has been achieved by a relentless focus on working capital management, and careful control of capex and restructuring spend… with further improvements in working capital, driven by better management of payables and receivables.

Our strategic agenda is geared to the efficient use of capital – through simplification, focus and effectiveness – and we remain very well placed to deliver cash conversion of at least 90% over the medium-term.

Slide 31

Foreign Exchange – *Currency translation benefit strengthens in FY17*

Foreign exchange translation, driven by the weaker pound have helped actual earnings in FY16 by 5.5%.

We estimate that this will add around 14% to FY17 earnings numbers if current spot rates persist, although FX markets remain highly volatile.

As I highlighted at the half year transaction FX impact driven by the devaluation of various Eastern European currencies has resulted in a transactional currency impact of 3% in FY16.

We haven't seen any further deterioration to these rates and consequently wouldn't expect any material change in our transaction FX exposure in FY17 at current rates.

Slide 32

Strengthening Balance Sheet – *£1bn reduction at constant currency*

Our strong operating cash performance supported a £1 billion reduction in net debt – before taking into account the £2.3bn of adverse currency translation due to recent sterling weakness.

The denomination of our closing adjusted net debt was 56% in EUR and 44% in US dollars – materially matching the currency split of our profit streams. The recent weakness in sterling has caused an adverse translation effect on our debt of just over £2 billion. If FX rates stay at current levels the resulting profit increases in FY17 should mean our leverage reduces next year despite the increased debt.

We are taking the opportunity to repay facilities as they come due and we repaid around £1.5 billion of bonds in the year.

The headroom created by our remaining bonds and bank facilities ensures that we do not have any further financing requirements in the medium term, although we may consider refinancing some shorter term bank debt into the capital markets through FY17 to manage duration and reduce our reliance on bank lending.

We have a strong balance sheet to fund the investment plans announced today and, as a result, we don't expect any change in credit rating or outlook.

Slide 33

Capital Discipline Supports Dividend Growth – *Underpinning shareholder returns*

Our strategy and, in particular, our capital discipline underpins our commitment to growing shareholder returns. This chart tells a compelling story demonstrating the strength of our free cash flow and dividend yield relative to consumer peers.

Our current pay-out ratio of 62% also compares very favourably against the average for FTSE100.

We have a strong track record of double digit dividend growth and we are well-placed to build further returns into the next decade.

Slide 34

Investment and savings profile – *Outlook for FY17*

As Alison outlined, to drive further sustainable quality growth over the next decade we are embarking on a new chapter of investment…

We have identified around £300m of investment opportunities for FY17. These investments will start to make a contribution within this financial year resulting in a net investment impact in FY17 of around £200m.

We will support this investment with the £90m of savings from our cost optimisation programmes, resulting in a net impact of £110m or 4% to our earnings in FY17.

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 metrics in 2017.

We intend to sustain an increased level of investment in subsequent years supported by further cost savings and the returns from the investment.

From 2018… We expect a return to constant currency earnings growth in line with our medium term guidance of 4-8 per cent. We also remain committed to our 10% dividend growth policy.

Slide 35

FY17 Outlook – Phasing of investment & savings drives stronger H2

Finally, I want to highlight the phasing difference between investment and savings this year.

The additional investment will be weighted to the first half whereas any in-year returns and the cost savings will be biased to the second half.

In addition, the phasing of price/mix will favour the second half – partly driven by a strong comparator period in the first half of last year of 10%, helped also by the Fontem IP royalties.

As a result, on a constant currency basis, we do not expect any price/mix improvement in the first half and profit will be down – although this will be more than offset by a strong currency translation benefit, assuming current rates are maintained.

In the second half, we expect a return to price mix of around 5% and improvement in profitability.

As a consequence, at actual exchange rates the profit split is expected to be 43:57 between the first and second half compared with the 46 and 54 that we achieved this year.

In summary, we have had another year where we have delivered on our promises and have further strengthened the business. I am excited by our investment opportunities and I believe we have the right financial framework and strong balance sheet to fund these plans and deliver growing returns for shareholders for many years to come.

I will now hand you back to Alison….

Slide 36

Alison Cooper *– Chief Executive*

Thank you. Oliver

Slide 37

Our Priorities for FY17 – *On track to deliver*

So to conclude… 2017 is about more focus on our four strategic pillars, with more investment behind our quality growth agenda.

We will continue to strengthen our portfolio through migrations and SKU rationalisation, while also investing in brand building and consumer initiatives in tobacco, e-vapour and other consumer adjacencies.

Investments in markets and sales execution will further support our drive for quality sustainable growth…. Continued delivery of our cost optimisation programme and enhanced capital discipline will support the step change in investment.

Slide 38

A Strong Track Record – *Our strategy is strengthening the business*

Our agenda is clear…. More quality and more growth.

The actions we've taken to strengthen the business have improved our ability to consistently deliver against our strategic priorities creating a strong platform to build on in the years ahead.

Here are a few of the key metrics which demonstrate our progress. We are improving the quality of growth with an increasing proportion of revenue from our Growth and Specialist Brands. We have delivered growth in profitability, cash and returns on invested capital.

I am proud of the progress the Imperial team have made over the past five years and I believe there is significant opportunity to deliver even more over the next ten years… with an increased focus on more quality growth.

Slide 39

Our Themes

So I will finish where I started…. with our key themes…

2016 has been another strong year of value creation by the Imperial Brands team. We've shared our plans for delivering the next decade of growth and there's a real appetite across the business to realise our ambition.

We bring our strategy to life by applying the right focus. A focus on the right brands and consumer experiences, the right markets, the right ways of working, the right investment and the right capabilities.

We have built a strong foundation for the next chapter of Imperial's growth story and I am confident of adding to our returns record over the coming years.

Slide 40

Preliminary Results 2016

Thank you. That concludes today's presentation and we'll now take any questions you may have.

The presentation is being webcast so please wait for a microphone and give your name and organisation before asking your question. May I have your first question…?