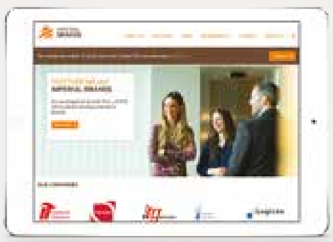
IMPERIAL BRANDS

SOMETHING BETTER

ANNUAL REPORT AND ACCOUNTS **2018**

CONTENTS



For a more interactive experience visit: **www.imperialbrandsplc.com**

Keep up to date with our news via Twitter **@ImperialBrands**

OUR PURPOSE

Our purpose is to create something better for the world's smokers with a portfolio of high quality next generation and tobacco products. In doing so we are transforming our business and strengthening our sustainability and value creation.

OUR VALUES

Our values express who we are and what we stand for, and capture the behaviours we expect from everyone who works for us.

We can: Everything is possible, together we win

I own: See it, seize it, make it happen

We surprise: New thinking, new actions, exceed what's possible

I am: My contribution counts, think free, speak free, act with integrity

We enjoy: Thrive on challenge, make it fun

I engage: Listen, share, make connections

NON-FINANCIAL INFORMATION STATEMENT

The information required for this statement is included in:

- Strategy on pages 3 to 13;
- Principal Risks and Uncertainties on pages 24 to 29;
- The Sustainability Review on pages 30 to 34, which reports on environmental performance, employees, and human rights; and
- Governance, Risk Management and Internal Control on pages 45 and 46.

Additional non-financial information is also available on our website www.imperialbrands.com

2018 AT A GLANCE

GROWTH BRAND VOLUMES

+2.1%

162.9bn

TOBACCO & NGP NET REVENUE*

+2.1%

£7.7bn

ADJUSTED EARNINGS PER SHARE*

+5%

272.2p

REPORTED EARNINGS PER SHARE

-2.7%

143.6p

DIVIDEND PER SHARE

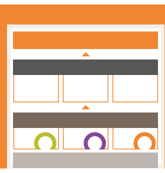
+10%

187.8p

* movement on a constant currency basis

DELIVERING AGAINST OUR STRATEGY

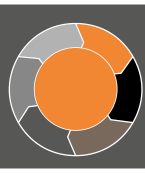
Turn to page 3 for more details



STEPPING UP IN NEXT GENERATION PRODUCTS

Turn to page 8 for more details

FURTHER SHARE GROWTH IN PRIORITY MARKETS AND BRANDS



Turn to page 14 for more details

ROBUST FINANCIAL DELIVERY

Turn to page 20 for more details

REFOCUSING OUR SUSTAINABILITY STRATEGY

Turn to page 30 for more details

Turn to page 12
to see results against our Key Performance Indicators

PERFORMANCE MEASURES (USED THROUGHOUT THE REPORT)

Measure	Explanation
Reported (GAAP)	Complies with International Financial Reporting Standards and the relevant legislation.
Adjusted (Non-GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next. Reconciliations can be found in notes 3, 8, 10 and 29.
Constant currency basis	Removes the effect of exchange rate movements on the translation of the results of our overseas operations. We translate current year results at prior year foreign exchange rates.
Market share	Market share data is presented as a 12 month moving average weighted across the markets in which we operate.
Stick equivalent	Stick equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.

"Welcome to our 2018 Annual Report and Accounts. This was an important year in which we delivered pleasing results in tobacco and significantly enhanced our position in Next Generation Products."

MARK WILLIAMSON
Chairman

Our purpose is to create something better for the world's smokers and I am delighted with how this is being brought to life in Imperial. There is a tangible sense of excitement about how our Next Generation Products (NGP) operations are developing and the contribution our products are making to the global harm reduction agenda.

Many smokers currently continue to choose to enjoy tobacco and we will keep providing them with the high quality products they expect. But our aim is to increasingly transition smokers to our NGP portfolio, which consists of products that are significantly less harmful than cigarettes.

Vapour is by far the largest and most developed NGP category and we have made excellent progress in expanding our presence with our blu brand during the year. I was also pleased to see us achieve further share gains in priority tobacco markets with our Growth Brands, which together with our Specialist Brands, now account for 67 per cent of the Group's tobacco net revenue.

GROWING RETURNS FOR SHAREHOLDERS

These good brand and market performances are reflected in our financial results. On a constant currency basis we grew tobacco and NGP net revenue by two per cent and adjusted operating profit by three per cent. In addition, reported operating profit increased by six per cent at actual rates. Cash conversion was strong at 97 per cent and we increased the dividend by 10 per cent for the tenth consecutive year.

The Board recognises how important the dividend is to many shareholders and regularly reviews the dividend policy to ensure it is aligned to performance, the balance sheet and the investment needs of the business. Our strong cash flows underpin our dividend pay-out and investment needs, and our dividend policy is to deliver annual 10 per cent growth over the medium term.

CREATING ADDITIONAL VALUE

We have developed a greater focus on the products, brands and markets that are essential for delivering long-term sustainable growth.

We have also identified assets that are less central to our strategic agenda, which we can exit or divest on behalf of our stakeholders to simplify the business, enhance our focus and allocate capital effectively.

As part of this process, we realised £281 million from the sale of a portfolio of other tobacco products in the USA and a further 9.99 per cent of our European distribution business Logista, reducing our holding to 50.01 per cent of Logista's issued share capital. In total we expect divestments to generate proceeds of up to £2 billion within the next 12-18 months.

GOVERNANCE AND RESPONSIBILITY

Our Governance Report on pages 35-55 provides an overview of our governance framework and the work of the Board and its Committees.

High standards of governance are integral to our long-term sustainability and the Board remains focused on ensuring Imperial is governed and managed in an open and transparent manner.

The responsible way we run the business is also reflected in our Sustainability Review. During the year we refocused our sustainability strategy to more closely align it with the Group strategy and our expanding NGP operations.

An overview of the progress we are making against our sustainability priorities is set out on pages 30-34, with more detailed information available on our corporate website www.imperialbrandsplc.com

DELIVERING FUTURE GROWTH

The progress we made this year has put the Group in a strong position to deliver growing returns for shareholders and I would like to thank our employees around the world for all their hard work and support.

Our operating environment is changing and we are changing too, transforming into a leaner and more agile business that looks to the future with confidence.

Our global cigarette share is relatively small and we therefore see NGP as an additive financial opportunity for the Group. This is an exciting new chapter for Imperial and we look forward to delivering continued quality growth in the years ahead.

M Williamson

MARK WILLIAMSON
Chairman

FOCUSED ON QUALITY GROWTH

OUR STRATEGY

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

MAXIMISE SUSTAINABLE SHAREHOLDER RETURNS

LONG-TERM QUALITY GROWTH

TOBACCO MAXIMISATION
- Clear focus on priority markets
- Building contribution from Growth and Specialist Brands
- Market Repeatable Model for growth

NEXT GENERATION PRODUCTS
- Portfolio built around pioneering blu vapour brand
- 4Bs blu adoption model for growth
- Dynamic innovation pipeline supports growth

COST AND CASH
- Simplify operating model
- Lean manufacturing
- Control of overheads
- Maximise cash conversion
- Disciplined capital allocation

ENABLING THE BUSINESS TO GROW AND CREATE VALUE

TOBACCO
SUSTAINABLE SUPPLY

NEXT GENERATION PRODUCTS
REDUCED HARM

BEHAVING RESPONSIBLY
PEOPLE AND OPERATIONS

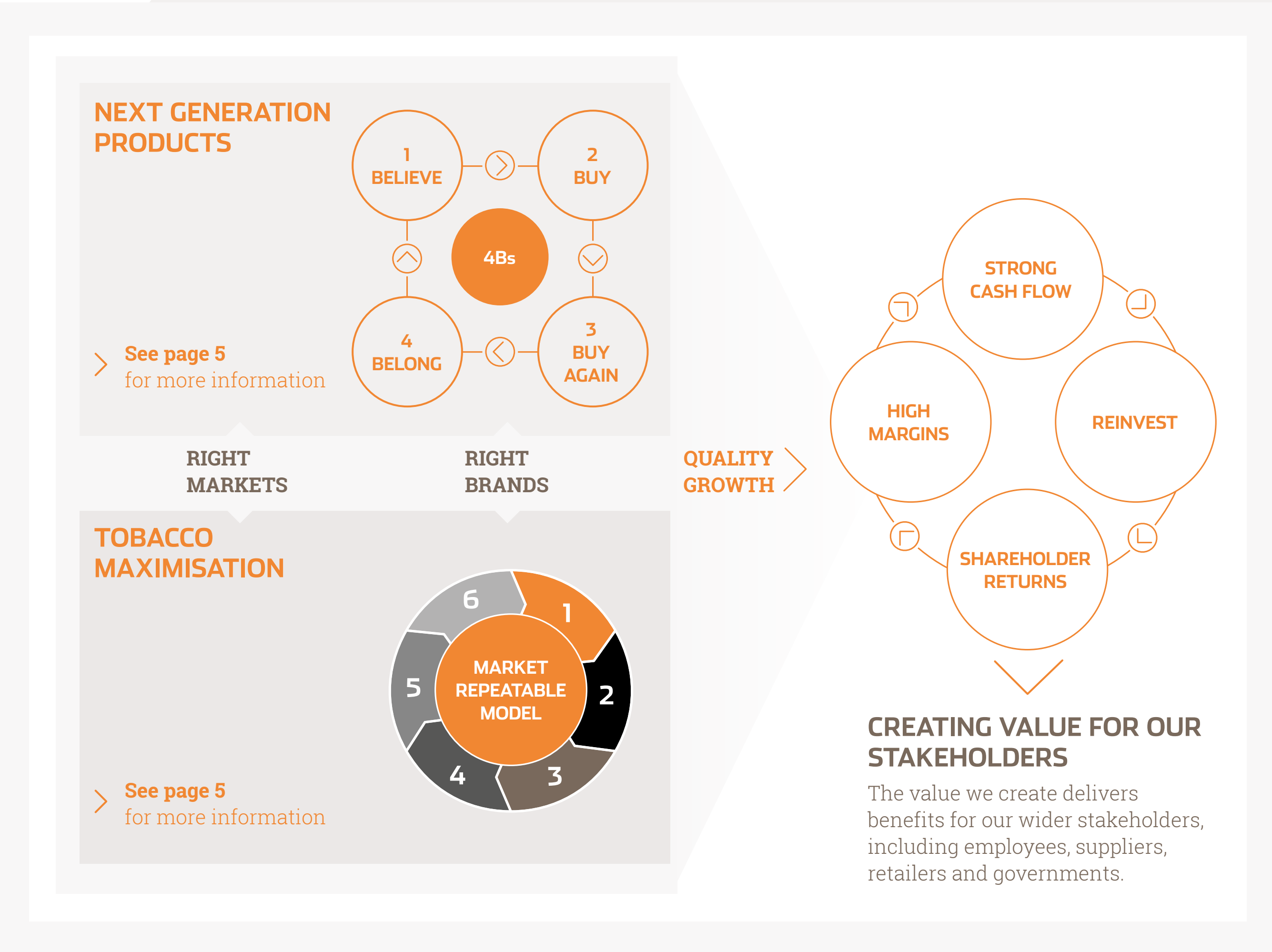
HIGH STANDARDS OF GOVERNANCE

Turn to page 30
for more on our sustainability strategy

HOW WE CREATE VALUE

OUR BUSINESS MODEL

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



1 BELIEVE

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

2 BUY

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

3 BUY AGAIN

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

4 BELONG

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

1 SIMPLE MARKET FOCUSED PORTFOLIO

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

2 SUSTAINABLE BRAND INVESTMENTS

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

3 ALWAYS ON PRICE STRATEGY

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

4 CORE RANGE EVERYWHERE ALL THE TIME

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

5 TAILOR CUSTOMER SOLUTIONS

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

6 HONEST ACCURATE LEARNING

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

SHAPING OUR ENVIRONMENT

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

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

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

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

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

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

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

NEXT GENERATION PRODUCTS

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

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

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

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

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

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

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

TOBACCO PRODUCTS

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

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

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

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

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

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

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

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

* source: Euromonitor International

BUILDING GROWTH MOMENTUM

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

ALISON COOPER
Chief Executive

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

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

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

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

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

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

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

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

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

SUBSTANTIAL NGP GROWTH AMBITIONS

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

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

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

GROWING SALES OF BLU

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

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

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

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

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

INNOVATION TRANSFORMING PORTFOLIO

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

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

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

NGP SUCCESS DRIVING REPORTING CHANGE

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

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

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

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

OXFORD CANNABINOID TECHNOLOGIES

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

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

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

GROWTH BRANDS UP AND GAINS IN PRIORITY MARKETS

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

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

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

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

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

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

OUR NGP PORTFOLIO

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

HEATED TOBACCO

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

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

TOBACCO-FREE SNUS

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

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

PULZE
HEATED TOBACCO THE WAY IT SHOULD BE

skruf

VAPOUR

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

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

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

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

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

DISCIPLINED COST AND CASH MANAGEMENT

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

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

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

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

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

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

ACTIVE CAPITAL ALLOCATION

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

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

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

ACCELERATING GROWTH TO CREATE VALUE

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

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

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

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

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

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

ALISON COOPER
Chief Executive

WHY INVEST IN IMPERIAL BRANDS?

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

QUALITY GROWTH FROM TOBACCO MAXIMISATION

INVESTING FOR QUALITY GROWTH

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

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

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

SIGNIFICANT ADDITIVE GROWTH OPPORTUNITY FROM NGP

CREATING SOMETHING BETTER

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

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

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

NEW WAYS OF WORKING DRIVING COST EFFICIENCIES

SIMPLIFICATION AND COST EFFICIENCIES CREATE VALUE

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

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

CAPITAL DISCIPLINE AND CASH GENERATION

RIGOROUS CAPITAL ALLOCATION AND STRONG CASH GENERATION

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

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

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

RESPONSIBLE BEHAVIOUR

STRONG GOVERNANCE AND SUSTAINABILITY AGENDA

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

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

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

SUSTAINABLE SHAREHOLDER RETURNS

ANNUAL 10% DIVIDEND GROWTH OVER MEDIUM TERM

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

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

HOW WE MEASURE OUR PERFORMANCE

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

TOBACCO & NGP NET REVENUE[1] (£BN)

PERFORMANCE

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

DEFINITION

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

ADJUSTED EARNINGS PER SHARE[1] (PENCE)

PERFORMANCE

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

DEFINITION

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

GROWTH BRAND VOLUMES[1] (BN)

PERFORMANCE

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

DEFINITION

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

TOBACCO & NGP OPERATING MARGIN (%)

PERFORMANCE

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

DEFINITION

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

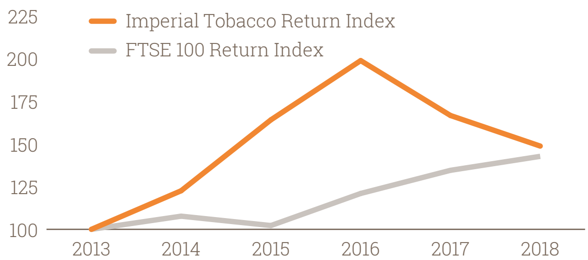
1. KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 56 for more information.

DIVIDEND PER SHARE (PENCE)

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

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

TOTAL SHAREHOLDER RETURN[1]



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

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

RETURN ON INVESTED CAPITAL (%)

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

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

CASH CONVERSION RATE[1]* (%)

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

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

* Cash conversion has been restated to exclude restructuring cash.

DELIVERING QUALITY GROWTH

GROWTH BRANDS

We achieved another excellent performance with our Growth and Specialist Brands. These are the most important assets in our portfolio and together they now account for 66.9 per cent of our tobacco & NGP net revenue, up 420 basis points on last year.

SPECIALIST BRANDS

OUR BRANDS

The rest of our portfolio consists of Portfolio Brands; some of these are strong local brands that support our volume and revenue development, while others are delisted or migrated into Growth Brands. A number of migrations were completed in the year, as we continued to streamline our portfolio and improve our quality of growth.

Total Group tobacco volumes were 255.5 billion stick equivalents (2017: 265.2 billion), with volumes down by 3.6 per cent, outperforming industry volume declines of 5.0 per cent.

Growth Brands increased volume by 2.1 per cent and market share by 70 basis points, with share gains in all divisions. Excluding the benefit of brand migrations, Growth Brands also outperformed the industry.

GROWTH BRANDS

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Market share	%	**9.2**	8.5	+70 bps	
Net revenue	£m	**3,799**	3,690	+2.9%	+3.9%
Percentage of Group volumes	%	**63.8**	60.2	+360 bps	
Percentage of tobacco & NGP net revenue	%	**49.1**	47.6	+150 bps	

Growth Brands have broad consumer appeal and are comprised of: Davidoff, Gauloises Blondes, JPS, West, Lambert & Butler, Bastos, Fine, Winston, News and Parker & Simpson.

Growth Brand volumes outperformed the market in the period and net revenue grew by 3.9 per cent at constant currency. Growth Brand investment was prioritised behind equity building campaigns and key consumer growth segments such as queen size, low tar and crushball.

Growth Brands now account for 63.8 per cent of total Group tobacco volumes, an increase of 360 basis points, and 49.1 per cent of overall tobacco & NGP net revenue, an increase of 150 basis points.

Brand Chassis	Highlights
JPF *(JPS, Parker & Simpson and Fine)*	JPF delivered excellent results in the year, driven by JPS and Parker & Simpson. JPS generated strong net revenue and profit growth in Australia and increased market share in the UK. The positive performance of Parker & Simpson reflects growth in Russia, Czech Republic and Poland, supported by investment in growth areas such as queen size, low tar and modern filter formats.
West *(West, Lambert & Butler, News and Bastos)*	West has benefitted from the growth in value-oriented variants such as make-your-own in Germany and superkings in Spain. We launched the West queen size range in a number of markets, including Saudi Arabia, to capitalise on this growing segment. In France we took the decision to increase the price of News to support our financial delivery, which affected volumes and share.
Winston	Winston continued to perform well, gaining share in the year as we supported the brand's growth trajectory with direct mail promotions and increased advertising. We also strengthened the brand franchise with the launch of Winston Black.
Davidoff	Davidoff's revenue contribution was lower than last year due to the impact of excise increases in the Middle East and Taiwan. We continued to successfully roll out our new queen size range, Davidoff Reach, which is now in 14 markets and performing well.
Gauloises	Gauloises delivered strong volume growth in a number of territories including Morocco, where volumes were up, supported by the introduction of Gauloises New Generation. These good performances were offset by Germany.

SPECIALIST BRANDS

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Net revenue	£m	1,375	1,172	+17.3%	+20.9%
Percentage of tobacco & NGP net revenue	%	17.8	15.1	+270 bps	

Specialist Brands appeal to specific consumer groups and are comprised of: blu, Kool, Gitanes, Jade, Cohiba, Montecristo, Romeo Y Julieta, Backwoods, Skruf, Golden Virginia and Drum.

Our Specialist Brands continue to perform well, with particularly strong growth from blu, Backwoods, Kool, Skruf and premium cigars. Our mass market cigar brand Backwoods delivered strong revenue and share growth in the USA. In premium cigar we achieved good growth from Cohiba, Montecristo and Romeo Y Julieta; these three brands now deliver more than half of our premium cigar revenues.

Net revenue from Specialist Brands grew 20.9 per cent at constant currency and these brands now represent 17.8 per cent of overall tobacco & NGP net revenue, up 270 basis points on last year.

BLU

We delivered a significant step change in the performance of our vapour brand blu this year through new product launches and market roll outs. Net revenue from our NGP business grew substantially to £200m or 2.6 per cent of tobacco & NGP net revenue, reflecting the growing number of smokers we are transitioning to blu.

The *my*blu pod format gathered momentum in the second half, resulting in an acceleration in revenue growth and an annualised full year exit run-rate of around £300 million. We expect this rapid growth to continue into 2019 and subsequent years as we further build the brand and extend distribution, supported by innovation and leading-edge science.

Performance highlights included the excellent progress we made in the USA, the world's biggest vapour market. Here, we focused on maximising the availability of *my*blu and leveraging our considerable distribution network in traditional retail outlets, while also building a presence in the specialist vape channel and online. Successful promotions generated added momentum behind the brand and a rapidly growing level of sales as we exited the year.

In the UK we have been very active with *my*blu and the blu ACE open system device. These are both high quality devices that resonate with smokers. Again, we are taking an omnichannel approach and the accelerating sales growth we achieved during the second half of the year clearly demonstrates repeat purchases and growing brand loyalty.

*my*blu in the USA and UK also benefitted from *my*blu Intense, a nicotine salt variant that more closely replicates the experience and satisfaction of smoking a cigarette. This is an important addition to our portfolio, which we believe will enhance our ability to transition smokers to blu.

We are taking an innovative approach to establishing blu in Japan (where the sale of nicotine-based liquids is currently prohibited), launching a non-nicotine *my*blu variant in the city of Fukuoka and generating an excellent response from smokers.

We also launched *my*blu in France, Italy, Spain, Germany, Russia and Canada and have more launches planned for 2019.

PORTFOLIO BRANDS

Volumes were down 14 per cent. Six per cent of the decline was due to migrations to Growth Brands; the rest were delistings and other market driven volume declines. Net revenue declined by 7.7 per cent at constant currency, with price mix of 6.3 per cent, as we further optimised the profitability of these brands.

GROWTH MARKETS AND USA

"We achieved a good set of results in Growth Markets and the USA as we continued to drive the performance of our strongest brand equities, while increasing investment in NGP."

DOMINIC BRISBY
Division Director, Growth

GROWTH MARKETS

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	**73.5**	74.8	-1.7%	
Net revenue	£m	**1,795**	1,768	+1.5%	+5.6%
Adjusted operating profit	£m	**364**	411	-11.3%	-4.4%
Growth Brand % of net revenue	%	**45.8**	49.1	-330 bps	
Growth Brand volume	bn SE	**50.9**	49.9	+2.2%	
Growth Brand market share	%	**4.7**	4.3	+40 bps	

Growth markets delivered strong revenue growth of 5.6 per cent at constant currency, driven primarily by the significant step up in our blu sales and a stronger performance in Russia, where we continue to gain share and have achieved price/mix gains. This has more than offset revenue pressures from Saudi Arabia and Taiwan, where tax increases have affected volumes and mix.

All blu revenue is currently reported in Growth Markets. From our next financial year our blu results will be reported in the markets and segments where they occur, following our segmental reporting changes.

Growth Brand volumes grew 2.2 per cent as we strengthened our quality of growth through further migrations and more focused investment. However, the overall percentage of Growth Brand net revenue declined, materially due to the significant increases in blu revenues, which are currently still categorised as a Specialist Brand, as well as revenue pressure in Saudi Arabia and Taiwan.

Our continued focus on Growth Brands, supported by sustained investment, has driven improved share performances in Russia, Saudi Arabia, Italy and Japan.

Adjusted operating profit fell 4.4 per cent at constant currency, mainly driven by the increased investment in blu and the negative mix in Middle Eastern markets, which was partially offset by a stronger profit performance in Russia, particularly in the second half.

Country	Performance
Russia	We delivered a strong performance, growing revenue, profit and market share, driven by Parker & Simpson and supported by the launch of Davidoff Reach. The stabilisation of Maxim's share and growth in Jade also added to our overall performance.
Saudi Arabia	Last year's significant tax increases doubled retail sale prices, leading to a significant reduction in market size and a marked reduction of the premium segment. This adversely affected Davidoff and our financial delivery. We successfully refocused investment behind West and grew market share.
Italy	Our share continues to grow in Italy, reaching another record high, driven by the continued excellent performance from JPS.
Sweden and Norway	We have grown net revenue in Norway, with Skruf maintaining its status as the leading snus brand in the market. In Sweden we launched Skruf Super White into the rapidly growing tobacco-free segment.
Japan	The Japanese tobacco market continues to decline due to the success of Next Generation Products. Against this backdrop, our share and volume continue to grow, driven by West.
Taiwan	Our portfolio performed well, with share growth from Davidoff and West. However, the market continues to be affected by last year's excise increase leading to reduced revenues and profit.

USA MARKET

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	**22.1**	23.3	-5.0%	
Net revenue	£m	**1,671**	1,665	+0.4%	+6.7%
Adjusted operating profit	£m	**1,040**	1,013	+2.7%	+9.5%
Asset Brand % of net revenue	%	**50.2**	44.5	+570 bps	
Asset Brand volume	bn SE	**11.1**	11.1	+0.0%	
Growth Brand market share	%	**2.5**	2.4	+10 bps	

Our USA strategy continues to focus on growing our strongest brand equities: Winston, Kool and Maverick in cigarettes and Backwoods in mass market cigars. We grew net revenue 6.7 per cent at constant currency reflecting cigarette revenue growth and continued strong growth in our mass market cigar business.

The percentage of tobacco & NGP net revenue generated by Asset Brands increased to 50.2 per cent as we continued to reshape the portfolio. Winston benefitted from the launch of Winston Black in August. Kool and Maverick also gained share in the period, with Kool growing strongly to a 2 per cent spot market share and Maverick back into growth for the year.

Although our overall cigarette market share was down slightly, we achieved an improving share trajectory and our fourth quarter share was up year-on-year. Results included higher Growth Brand share, as we continued to realign the portfolio around our strongest brand equities.

In mass market cigars, investment in our key brands and the changes we have made in our route to market continue to deliver excellent results, including further share gains and strong growth in revenue and profit. The mass market cigar business now represents just over 20 per cent of our USA net revenues.

Adjusted operating profit grew 9.5 per cent at constant currency, despite increases in brand and market investment, which has been more than offset by the benefit of additional revenue growth and cost efficiencies.

RETURNS MARKETS

"We continue to focus on balancing returns with market share growth and achieved a stronger second half performance, leaving us well-placed for future growth."

JOERG BIEBERNICK
Division Director, Returns

RETURNS MARKETS

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	**159.9**	167.1	-4.3%	
Net revenue	£m	**4,264**	4,324	-1.4%	-1.1%
Net revenue per '000 SE	£	**26.67**	25.88	+3.0%	+3.4%
Adjusted operating profit	£m	**2,153**	2,171	-0.9%	-0.4%
Growth Brand % of net revenue	%	**62.2**	58.0	+420 bps	
Growth Brand market share	%	**17.8**	16.7	+110 bps	

We delivered some good performances in our Returns Markets. We maintained investment behind our Growth Brands in priority markets, aligned with our Market Repeatable Model.

We grew our overall share in the UK, Netherlands and Poland. We also improved our fine cut tobacco share and strengthened our share in blonde cigarettes in Spain. In line with our strategy for Returns Markets, we balanced financial delivery with share progression in France and Australia.

First half performance was affected by the carry over of 2017's tough trading environment, resulting in net revenue declining 3.7 per cent at constant currency. The environment improved considerably in the second half and we delivered net revenue growth of 1.4 per cent, resulting in full year net revenue down 1.1 per cent.

Our quality of growth further improved with Growth Brands now generating 62.2 per cent of tobacco & NGP net revenue, an increase of 420 basis points. Growth Brand volumes increased 2.3 per cent, while industry volumes declined 3.5 per cent. Growth Brand share increased 110 basis points, supported by migrations and strong organic brand performances.

Adjusted operating profit was down 0.4 per cent at constant currency, reflecting investment and the lack of price mix in the first half. Second half adjusted profits were up 4.1 per cent at constant currency due to the improved environment and cost initiatives.

RETURNS MARKETS NORTH

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	**86.6**	89.8	-3.5%	
Net revenue	£m	**2,749**	2,755	-0.2%	+0.4%
Net revenue per '000 SE	£	**31.73**	30.69	+3.4%	+4.1%
Adjusted operating profit	£m	**1,507**	1,485	+1.5%	+2.4%
Growth Brand % of net revenue	%	**62.7**	60.2	+250 bps	
Growth Brand market share	%	**17.0**	16.6	+40 bps	

Country	Performance
UK	Players and Gold Leaf continued to perform well, improving our overall market share. Price mix improved in the second half as we lapped the impact of EUTPD regulations and increased prices.
Germany	Our financial delivery was strong, with both revenue and profit up. We grew our fine cut tobacco share with West, although this was offset by a lower cigarette share mainly as a result of Gauloises.
Benelux	We grew share in the Netherlands through the launch of larger cigarette formats, supported by consumer activation, while Belgium has seen an improving cigarette share trajectory as a result of focused investments.
Australia	Balancing financial delivery with volume and share progression ensured further good revenue and profit growth. JPS continued to perform well. Our overall share declined but our spot share recovered, reflecting the success of portfolio initiatives.
Ukraine	Increased prices and a focus on cost optimisation supported profit growth, although revenue was impacted by significant market size declines. We improved Davidoff's performance with the successful launch of Davidoff Reach queen size but share was down as we prioritised financial delivery.
Poland	We grew share in both cigarette and fine cut tobacco, driven by Parker & Simpson and supported by increased brand investment.

RETURNS MARKETS SOUTH

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	**73.3**	77.3	-5.3%	
Net revenue	£m	**1,515**	1,569	-3.4%	-3.7%
Net revenue per '000 SE	£	**20.68**	20.29	+1.9%	+1.6%
Adjusted operating profit	£m	**646**	686	-5.8%	-6.4%
Growth Brand % of net revenue	%	**61.1**	54.2	+690 bps	
Growth Brand market share	%	**18.8**	16.8	+200bps	

Country	Performance
Spain	The dark tobacco segment continues to decline. Our blonde tobacco share was supported by refocused investment and the strong performance of larger formats and fine cut tobacco, resulting in an improved share trajectory.
France	Following significant excise increases we chose to prioritise profitability and value share growth at the expense of volume share.
Algeria	Over the years we have substantially increased our market share, although our recent performance was impacted by excise pressure and disruption to local third party production.
Morocco	Positive performances from Gauloises Blondes and Marquise enhanced our financial performance, with growth in both revenue and profit.

DELIVERING SHAREHOLDER RETURNS

"A strong cost and capital discipline is at the heart of all our activities. This is providing the resources to invest in our growth agenda in both tobacco and NGP, generate returns for shareholders and pay down debt."

OLIVER TANT
Chief Financial Officer

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide an important 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.

STRONG FINANCIAL DELIVERY

This year's results demonstrate the benefit of our investment in tobacco & NGP.

In 2017 we invested an additional £310 million in Growth and Specialist Brands to improve market share and net revenue performance. The investment has strengthened our share position in many of our priority markets and enhanced our ability to deliver an improved top-line over the medium term.

This year we further increased investment in our NGP business to support the roll-out of *my*blu in new and existing markets, resulting in accelerated net revenue growth.

A strong cost and capital discipline is central to everything we do and has delivered improvements in our margin and cash generation in recent years. We have also created the headroom to invest in both tobacco and NGP, pay down debt and generate growing returns for shareholders.

This year we grew the dividend by 10 per cent for the tenth consecutive year and further reduced adjusted debt by £0.8 billion at constant currency.

BUILDING GROWTH MOMENTUM

Our performance continues to benefit from the investment we have made and we are in a strong position to generate further growth.

Tobacco volumes fell 3.6 per cent, outperforming industry volume declines of 5.0 per cent. This was driven by our Growth Brands, which achieved share gains of 70 basis points.

Price/mix improved by 5.7 per cent in the year, benefitting from a second half price/mix increase of 11 per cent. This is reflected in our net revenue growth, up 2.1 per cent, following a 6 per cent increase in the second half.

Net revenue grew 2.1 per cent driven by both tobacco and NGP. We improved the quality of our growth, with the proportion of Group net revenue from Growth and Specialist Brands increasing by 420 basis points to 66.9 per cent.

Group adjusted operating profit increased 2.9 per cent at constant currency. However, on an underlying basis, Group adjusted operating profit grew 5.9 per cent, after excluding the increased investment in NGP (£44 million), adverse transaction foreign exchange (£34 million) and the reduction in other gains included in operating profit (£34 million). Other gains of £80 million (2017: £114 million) consisted of £40 million of profit on disposal of other tobacco products in the USA and £40 million from property sales in the UK.

Group adjusted operating profit consists of tobacco & NGP adjusted operating profit which grew 1.9 per cent at constant currency and the adjusted operating profit of Logista of £212 million (2017: £181 million). This 15.5 per cent increase at constant currency reflects improved trading in tobacco, the development of their non-tobacco business and a continued focus on cost efficiencies.

Reported operating profit increased 5.7 per cent at actual exchange rates to £2,407 million, reflecting the increased adjusted operating profit and lower restructuring charges.

GROUP RESULTS – CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Year ended 30 September 2017	Foreign exchange	Constant currency movement	Year ended 30 September 2018	Change	Constant currency change
Tobacco & NGP Net Revenue						
Growth Markets	1,768	(72)	99	1,795	+1.5%	+5.6%
USA Market	1,665	(105)	111	1,671	+0.4%	+6.7%
Returns Markets North	2,755	(18)	12	2,749	-0.2%	+0.4%
Returns Markets South	1,569	4	(58)	1,515	-3.4%	-3.7%
Total Group	7,757	(191)	164	7,730	-0.3%	+2.1%
Tobacco & NGP Adjusted Operating Profit						
Growth Markets	411	(29)	(18)	364	-11.4%	-4.4%
USA Market	1,013	(69)	96	1,040	+2.7%	+9.5%
Returns Markets North	1,485	(13)	35	1,507	+1.5%	+2.4%
Returns Markets South	686	4	(44)	646	-5.8%	-6.4%
Total Group	3,595	(107)	69	3,557	-1.1%	+1.9%
Distribution						
Distribution fees	914	15	60	989	+8.2%	+6.6%
Adjusted operating profit	181	3	28	212	+17.3%	+15.5%
Group Adjusted Results						
Adjusted operating profit	3,761	(104)	109	3,766	+0.1%	+2.9%
Adjusted net finance costs	537	(93)	43	487	-9.1%	-8.0%
Adjusted EPS (pence)	267.0	(8.2)	13.4	272.2	+1.9%	+5.0%

GROUP EARNINGS PERFORMANCE

	Adjusted		Reported	
£ million unless otherwise indicated	2018	2017	2018	2017
Operating profit				
Tobacco & NGP	3,557	3,595	2,282	2,199
Distribution	212	181	128	94
Eliminations	(3)	(15)	(3)	(15)
Group operating profit	3,766	3,761	2,407	2,278
Net finance costs	(487)	(537)	(626)	(450)
Share of profit of investments accounted for using the equity method	42	33	42	33
Profit before tax	3,321	3,257	1,823	1,861
Tax	(648)	(651)	(396)	(414)
Profit for the period	2,673	2,606	1,427	1,447
Earnings per ordinary share (pence)	272.2	267.0	143.6	147.6

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	2018	2017	2018	2017	2018	2017
Reported	2,407	2,278	(626)	(450)	143.6	147.6
Amortisation of acquired intangibles	1,053	1,092	–	–	90.0	90.5
Administration of UK distributor	110	–	–	–	9.3	–
Fair value losses/(gains) on derivative financial instruments	–	–	126	(112)	10.9	(10.3)
Post-employment benefits net financing costs	–	–	13	25	0.8	1.9
Restructuring costs	196	391	–	–	14.9	28.3
Deferred tax impact of US tax reforms	–	–	–	–	(3.0)	–
Tax on unrecognised losses	–	–	–	–	8.0	11.0
Items above attributable to non-controlling interests	–	–	–	–	(2.3)	(2.0)
Adjusted	3,766	3,761	(487)	(537)	272.2	267.0

Adjusted net finance costs were lower at £487 million (2017: £537 million). This is primarily due to our management of the debt portfolio ahead of expected proceeds from divestments, in addition to lower underlying debt levels.

Reported net finance costs were £626 million (2017: £450 million), incorporating the impact of the net fair value and exchange losses on financial instruments of £126 million (2017: gains of £112 million) and post-employment benefits net financing costs of £13 million (2017: £25 million).

Our all-in cost of debt decreased to 3.7 per cent (2017: 3.9 per cent) due to our management of the debt portfolio ahead of expected proceeds from divestments. Our interest cover increased to 8.2 times (2017: 7.5 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Our effective adjusted tax rate was 19.5 per cent (2017: 20.0 per cent) and the effective reported tax rate is 21.7 per cent (2017: 22.2 per cent).

The effective 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. Our Taxation Policy is publicly available and can be found in the Governance section of our corporate website: www.imperialbrandsplc.com

Adjusted earnings per share were 272.2 pence (2017: 267.0 pence), up 5.0 per cent at constant currency (up 1.9 per cent at actual rates), reflecting increased operating profit and lower tax and interest charges. Reported earnings per share was 143.6 pence (2017: 147.6 pence) down 2.7 per cent, driven primarily by the administration of the UK distributor Palmer & Harvey of £110 million (2017: nil) and by the effects of fair value and exchange losses in finance costs of £126 million (2017: £112 million gain). The reported earnings per share is lower than adjusted due to the two impacts mentioned above as well as the amortisation of acquired intangibles of £1,053 million (2017: £1,092 million) and restructuring costs of £196 million (2017: £391 million).

The strengthening of sterling versus the US dollar has negatively impacted reported and adjusted measures, partly offset by the weakening of sterling against the euro. On a constant currency basis, adjusted earnings per share increased by 5 per cent.

The restructuring charge for the year of £196 million (2017: £391 million) relates mainly to our cost optimisation programmes announced in 2013 and 2016. The total restructuring cash flow in the year ended 30 September 2018 was £241 million (2017: £201 million).

COST OPTIMISATION

We continue to optimise our manufacturing footprint and overheads to realise operational efficiencies.

Our five year cost optimisation programme announced in January 2013 has delivered savings of £300 million per annum from September 2018 at a cash restructuring cost of around £600 million. The additional cost programme we announced in November 2016, is expected to deliver a further £300 million of annual savings from September 2020, at a cash restructuring cost in the region of £750 million.

Through our continued focus on reducing product cost and overheads we realised cost savings of £110 million in 2018 (£10 million from the first cost programme and £100 million from the second) bringing the cumulative cost savings to £480 million (£300 million for the first and £180 million for the second).

The cash restructuring cost of the first programme was £43 million (2017: £42 million) and £173 million (2017: £132 million) for the second, bringing the cumulative net cash cost to £826 million (£521 million for the first and £305 million for the second).

CAPITAL DISCIPLINE

All of our capital allocation decisions are subject to relevant commercial analysis and hurdle rates to ensure they deliver appropriate levels of return. Potential acquisitions are judged on strict financial and commercial criteria including the ability to enhance the Group's return on invested capital (ROIC). Our investment appraisal framework aims to closely align the risks and expected returns from capital allocation decisions to ensure investment is focused on delivering our strategic objectives whilst generating attractive returns.

NGP investment will initially be subject to a different set of investment thresholds as we look to grow market size and share.

We typically seek an overall internal rate of return in excess of 13 per cent across the investments we make in order to support our investment choices and underpin returns for shareholders. Our ROIC measure is in line with last year at 14.2 per cent (2017: 14.3 per cent) despite our increased investments. This was assisted by our capital light approach to NGP and our continued focus on capital discipline.

During the year we took the opportunity to realise value via a further sell-down of our Logista holding and the sale of UK properties. The proceeds were used to reduce debt.

PALMER & HARVEY

The UK distributor, Palmer & Harvey, went into administration in November 2017 and we reported an expected one-off impact on Group operating profit of £160 million.

Since its collapse, we have been working closely with the administrators, and have reduced the impact to £110 million, the majority of which still relates to non-recoverable excise duty.

CASH FLOW AND NET DEBT

The conversion of adjusted operating profit to operating cash flow remained strong at 97 per cent (2017: 96 per cent). Movements in working capital were broadly flat compared to the prior year, and there was a slight increase in capital expenditure relative to depreciation to support our growth agenda. Principal financing cash flows in 2018 comprise the payment of the final dividend, interest payments, the repayment of $1.75 billion and €850 million bonds, and the sale of Logista shares which reduced our holding by 9.99 per cent of the share capital.

Reported net debt and adjusted net debt decreased by £0.6 billion and £0.7 billion respectively, in line with our continued focus on capital discipline. The decrease in adjusted net debt reflects an underlying cash flow of £0.8 billion, offset by £0.1 billion of adverse fair valuations of interest rate derivatives.

The denomination of our closing adjusted net debt was split approximately 68 per cent euro and 32 per cent US dollar. As at 30 September 2018, the Group had committed financing in place of around £16.1 billion, which comprised 25 per cent bank facilities and 75 per cent raised from capital markets in the form of bonds and commercial paper. During the year, approximately £1 billion bilateral revolving credit facilities were put in place with minimum tenors of two years to provide flexibility in the Group's financing structure, whilst opportunities associated with the Group's capital allocation programme are considered and finalised.

STRONG DIVIDEND GROWTH

Our continued strong cash flow generation enabled a further £0.8 billion debt reduction at constant currency and delivered another year of 10 per cent dividend growth.

The Group has paid two interim dividends totalling 56.87 pence per share in June 2018 and September 2018, 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 65.46 pence per share and will propose a final dividend of 65.46 pence per share, bringing the total dividend for the year to 187.79 pence per share.

The third interim dividend will be paid on 31 December 2018 with an ex-dividend date of 22 November 2018. Subject to AGM approval, the proposed final dividend will be paid on 29 March 2019, with an ex-dividend date of 21 February 2019.

BREXIT

The Group has looked into potential Brexit impacts under a number of different scenarios: soft, hard and no deal.

The key risks that have been identified include: potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling; inventory requirements to ensure supply; impact on consumer confidence; and implications on existing international tax treaties.

NEW SEGMENTAL REPORTING AND ACCOUNTING STANDARDS

From 1 October 2018 we have decided to re-organise the management of our business on a geographic basis to reflect the growth opportunities NGP offers across our footprint.

Our financial reporting will be split into four areas: Europe, Americas and Africa, Asia & Australasia plus Distribution. Similarly, our tobacco business has been re-named Tobacco & NGP.

From 1 October 2018, we will also adopt two new accounting standards, IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".

Analysis of IFRS 15 has refined our judgement as to the treatment of MSA payments which currently net off against revenue. Going forwards MSA payments will be taken to other cost of sales. The impacts of adopting these standards and change in judgements are disclosed in Note 1 of the Accounting Policies.

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 funding arrangements. 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 concludes that it is appropriate to prepare the financial statements on a going concern basis.

The Board's statement on its assessment of longer-term viability is set out on page 29.

OLIVER TANT
Chief Financial Officer

HOW WE MANAGE RISK

RISK IDENTIFICATION

The achievement of the Group's strategic aims is underpinned by the effective management of our enterprise risks. The ability to identify, assess and act to mitigate material risks is a key element of our risk management framework. However, it is accepted that no approach can guarantee the identification and mitigation of all risks.

Risks are accepted in line with the Board's defined risk appetite in the achievement of the approved strategy, with decisions made in accordance with delegated authority.

ASSESSMENT AND EVALUATION OF RISKS

Although the Board is ultimately accountable for managing the Group's risks, risk management is the responsibility of all our people. The identification of risks and their effective mitigation forms part of our routine operational processes and practices, and is supported by our formal risk assessment process.

As part of the ongoing development of the risk management process we have introduced a broader multi-dimensional tool to enable the assessment of risks. The risk tool uses multiple factors in the assessment of risk, as represented in the diagram below.

Our risk assessment process is embedded within our business planning cycle and aligned to our strategic objectives. The evaluation of the risks against our risk assessment factors creates a balanced and informed perspective of the risk impact, and facilitates the best allocation of resources.

The assessment of risk is based on views from across the business, including an operational "bottom-up" review. The results of these assessments are subsequently reviewed by senior management to ensure an effective "top-down" input from the OPEX and the Board, ensuring both operational and strategic perspectives are considered in establishing our assessment of the risks we face as a business.

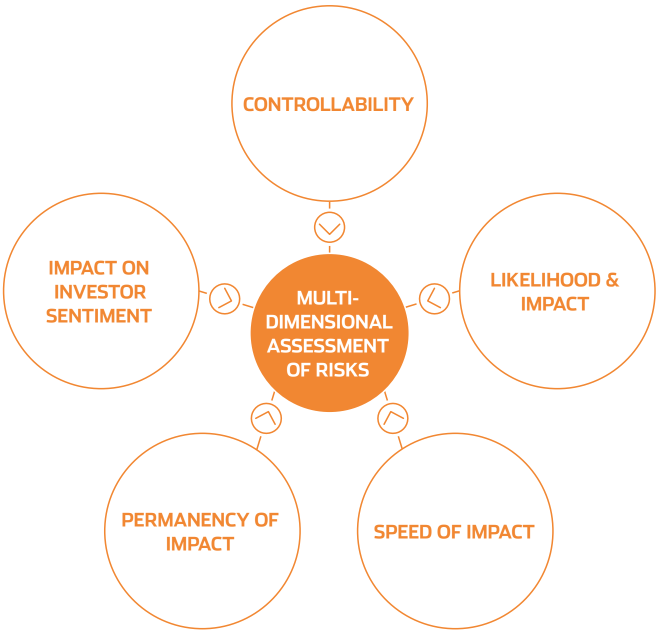
All principal risks identified through the risk assessment process could compromise the achievement of the Group's strategic objectives over any 12 month period. In line with the viability statement and our business planning processes, we further consider their impact over a longer three-year horizon.

The mitigation and management of identified risks is vital to the success of the Group. The Group's risk management and internal control framework and related reporting is further discussed in the Audit Committee Report on page 41.

RISK LANDSCAPE

The Group operates in highly competitive (multi-national) markets and so faces general commercial risks associated with a large FMCG business (including the effect of movements in foreign exchange rates).

We constantly assess and evaluate the risks posed by the changing environments in which we operate, whether geo-political, socio-economic or technological. The consideration of the potential impacts and most likely causes ensures a timely, measured and appropriate response.



BREXIT AND PROTECTIONIST POLICIES

Risks arising from the uncertainty of the terms of the UK exit from the European Union and the wider escalation of international trade tariffs between nations continues to be evaluated across the business. Possible outcomes are considered in the context of their impact on existing risks, rather than being reported as principal risks in themselves. This ensures appropriate enterprise wide assessment of impacts, and preparedness for potential outcomes through the design and implementation of effective and appropriate mitigating activities. Key areas of impact assessment include product and raw material supply, financing, foreign exchange, regulatory change, taxation, and people related risks.

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the crystallisation of such risks. Not all of these principal risks are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment. Additionally, there are risks such as cyber threats that we do not report as a principal risk. The potential impacts of such threats are considered across the business. This approach best ensures responsibility and accountability for appropriate mitigation on an enterprise basis, supported by our overall Information Systems security approach.

NEXT GENERATION PRODUCTS

Significant additive growth opportunities from NGP also require us to manage a wider variability of outcomes

Change in consumer trends

As an emerging category the NGP market place is subject to an increased likelihood of changes in consumer trends.

Impacts:

- Failure to respond to current and emerging trends could impact attractiveness of products and reduce demand.
- Brand equity could be impacted by consumer perception of brand relevance.

Mitigation

- We continually monitor consumer activity at both a local and Group level. This enables an effective means of profiling and predicting changes to best adapt the Group's product portfolio.
- The Group continues to develop its portfolio of NGP products, along with strategic acquisitions in the sector, to provide consumers with appropriate choices in the dynamic market place.

Innovation

Failure to realise portfolio opportunities in a timely manner.

Impacts:

- Portfolio fails to meet consumer demands resulting in lower sales.
- Failure to act upon consumer insights prevents opportunities from being seized and impacts growth.
- Product development and/or launch impacted by IP constraints impacting ability to respond to competitor offerings.

Mitigation

- The Group acquired Nerudia for its innovation expertise in the NGP industry.
- Innovation processes are designed to develop consumer products based upon robust analysis and testing.
- IP risks are managed by subject matter experts within the Group, ensuring protection of our own innovations and best enabling the development process.

Product supply

The scale of growth in NGP creates pressures on the ability of manufacturers to respond to demand growth.

Impacts:

- Failure to meet consumer demand resulting in lost sales opportunity.
- Supply chain pressures result in product quality issues impacting consumer satisfaction and brand equity.

Mitigation

- Product supply is managed by our experienced Manufacturing and Supply Chain function.
- Integration of our NGP manufacture and supply chain into the existing tobacco organisation facilitates best practice and experience.
- Quality control testing and monitoring is a core part of our manufacturing and supply chain processes, with robust regulatory compliance carried out.

Product regulation

Product regulatory change impacts consumer demand or trends. The pace of regulatory change on the industry could be impacted by regulator reaction to competitor actions (notably, the Federal Drug Administration in the USA).

Impacts:

- Changes to product specification or restrictions on ingredients, nicotine levels or devices could reduce consumer demand or our ability to sell.
- Restrictions on advertising or marketing of product resulting in reduced consumer interaction or awareness.

Mitigation

- We engage with regulators in an appropriate manner to create the right regulatory framework.
- We provide the results of scientific research into the risks related to NGP and the relative benefits compared to cigarettes or combustible tobacco.
- We proactively manage our product portfolio and related strategies to best ensure commercial success in a changing regulatory environment.

TOBACCO MAXIMISATION

Key risks identified as having the most likely impact on the performance of our tobacco assets

Change in excise duty

Adverse changes in the level or structure of excise duties as Governments seek to raise public funds and use affordability as a means of tobacco control.

Impacts:

- Increased cost to the consumer could influence consumer choices and potentially reduce tobacco purchases.
- Potential pressure on ability to achieve planned price increases.
- Inability to pass on an increase in excise could result in lower product margin and have negative mix impacts.

Mitigation

- We engage with authorities to provide informed input to the unintended consequences of disproportionate changes in excise.
- The Group employs subject matter experts to monitor and manage the potential impact of excise changes and align our product portfolio to a range of appropriate price points.
- We offer appropriate consumer focused choices at market level, across both our tobacco and NGP portfolio.

Economic pressure on consumption

The Group has a significant market presence in mature European markets and the USA. An increase in economic uncertainty, or related government austerity measures in those markets, could influence consumer behaviour.

Impacts:

- A material change in the economic circumstances of, and/or our related performance in, our priority markets may affect our future profit development.
- Affordability impacts could create a shift to lower priced, value driven propositions.
- A reduction in the size of the legitimate tobacco market from:
  - Lower consumer expenditure; and
  - Increased propensity to purchase cheaper non-duty paid product from illicit channels.

Mitigation

- We continually monitor and analyse economic indicators and consumption patterns to ensure that our current and future portfolio provides the consumer with a range of products across different price points.
- This analysis is completed at both a local and Group level and provides a key input to our product development, business planning and pricing strategies.
- The Group's international footprint and comprehensive portfolio of tobacco and NGP products provides an increasing balance in our exposure to both EU and non-EU markets.

Counterfeit and illicit non-duty paid product in market

The consequence of excise and regulatory regimes is a widening gap between the price of legitimate and illegitimate product.

Impacts:

- Counterfeit and illicit trade reduces the size of the legitimate market, eroding volume and market share.
- Reduction in the size of the legitimate tobacco market reduces achievable volumes and reduces Government excise revenue.
- The sale of counterfeit product and smuggled "illicit whites" provides access to product of inferior quality that could result in damage to our brands.
- Illicit trade increases the access of underage smokers to tobacco products due to the lack of regulatory controls in place.

Mitigation

- We maintain strong standards and controls for our business and our first-line customers to prevent diversion of our products.
- Our operational sales teams are supported by specialist teams employed to support the business, governments, and law enforcement agencies with targeted solutions to illicit trade.
- We work alongside the European Commission's Anti-Fraud Office (OLAF) and partner with governments and law enforcement agencies around the world on anti-illicit trade initiatives.

TOBACCO MAXIMISATION CONTINUED

Key risks identified as having the most likely impact on the performance of our tobacco assets

Risk	Mitigation
Product quality Product fails to meet regulatory or consumer requirements. Impacts: – Brand and reputational damage resulting in reduced sales. – Potential financial penalty and regulatory censure. – A requirement to recall product from a market resulting in brand damage and lost sales.	**Mitigation** – Quality control testing and monitoring is a core part of our manufacturing and supply chain processes, with robust regulatory compliance completed on a continual basis. – Customer complaints monitoring and escalation processes exist across our markets, ensuring that customer feedback is acted upon and any quality issues are managed in an effective and appropriate manner. – In the event of the requirement to recall product, effective processes exist to mitigate the risks to our supply chain.
Changes in consumer trends The Group can be affected by changes in consumer choices. Affordability is a key driver of consumer preference and the availability of NGP. Impacts: – Failure to identify threats and opportunities arising from changes in consumer preferences impacts volumes and profits.	**Mitigation** – We continually monitor consumer activity at both a local and Group level. – Profiling consumer activity and predicting changes enables us to adapt the Group's product portfolio to market preferences.
Brand equity Failure to maintain and grow brand equity, or ensure the relevance of Group brands to changing consumer trends. Impacts: – Brand and reputational damage resulting in reduced sales.	**Mitigation** – Market trends, competitor portfolio changes and consumer trends are monitored to ensure brand strength and future relevance of our portfolio of brands. – Our Market Repeatable Model supports a consistent strategic sales and marketing approach.
Product regulation Impact of product regulation on product specification, availability and consumer choice. Impacts: – Change in consumer choice reduces sales volume or margins. – Failure to prove substantial equivalence to pre-2007 product specification in the USA results in an inability to supply individual brands.	**Mitigation** – Appropriate and proactive engagement undertaken to contribute to informed and rational regulatory change. – Compliance team assesses and manages product and process change requirements in US market.

NEW WAYS OF WORKING – SIMPLIFICATION AND COST EFFICIENCIES

Simplified operating model which supports the delivery of the Group's strategy is not achieved in a timely and effective manner

Cost optimisation

Failure to appropriately align the Group's cost base in line with the operating environment.

Impacts:

- The operating model fails to support the strategy.
- Reduced profit and cash available for reinvestment in the business.
- Potential reduction in stakeholder confidence.

Mitigation

- Operating model design is governed by formal control and reporting and led by key business stakeholders to best ensure effective operational design.
- Continued focus upon cost embedded within the business planning and operational processes.
- Achievement of cost efficiencies is supported by performance monitoring and a robust and effective investment appraisal process.

RESPONSIBLE BEHAVIOUR

Risks that impact the continued delivery of a strong governance and sustainability agenda

Legal and regulatory compliance

The Group's policies and standards mandate that all employees must comply with legislation relevant to a UK listed company and in the countries in which they operate. Failure to comply with local and international laws may result in investigations and the enforcement of financial or regulatory censure.

Impacts:

- Allegations of inappropriate behaviour or related investigations could result in damage to our reputation and the potential for financial and criminal penalties for both the Group and individuals.
- The cost of responding to any investigations can be substantial and require significant resource and management focus.

Mitigation

- Expertise at a Group and local level for key areas of legal compliance to provide expert advice in the development of policy, process, training and monitoring of compliance.
- The Group's Code of Conduct and values articulate the behaviours we expect from all our people.
- Compliance with key controls is certified by management, together with an annual certification of compliance with the Code of Conduct of their area of the business.
- International sanctions are closely monitored and we actively seek external advice to ensure that we remain compliant with them.
- In the event of any investigation (which may or may not result in actions being brought against us), we cooperate fully with the relevant authority making the investigation and will continue to do so.

Litigation

Tobacco litigation and other claims are pending against the Group. To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages.

Impacts:

- If any claim against the Group was to be successful, it might result in a significant liability for damages and might lead to further claims against us. Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable.

Mitigation

- We employ internal and external lawyers specialising in the defence of product liability and other litigation.
- Advice is provided to prevent causes of litigation, along with guidance on defence strategies to direct and manage litigation risk and monitor potential claims around the Group.

CAPITAL DISCIPLINE AND STRONG CASH GENERATION

Risks impacting rigorous capital allocation and strong cash conversion

Failure to maintain strong cash flows could impact the Group's ability to invest in strategic initiatives or reduce the ability to repay committed debt.

Impacts:

- Failure to maintain cash flows could reduce the Group's ability to pay down debt levels, impacting covenants, credit ratings, and investor confidence.
- A fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt.
- Adverse movements in interest rates could result in higher funding costs and cash outflows.
- Failure of a financial counterparty (e.g. cash deposits and derivatives) could result in losses.

Mitigation

- We have a strong focus on cash generation supported by Group-wide guidance and governance processes.
- Appropriate authority and accountability is in place for investments and spend, including achievement of required return criteria.
- Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance to manage future financing needs and optimise cost and availability.
- The Treasury function operates in accordance with the terms of reference and delegated authorities set out by the Board, with independent oversight from the Treasury Committee.

VIABILITY STATEMENT

The Board has assessed the prospects of the Company over a longer period than the 12 months required by the going concern requirements of the Code. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, made on page 23.

The Group's annual corporate planning processes include completion of a strategic review, preparation of a three-year business plan and a rolling re-forecast of current year business performance and prospects.

The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding, forecast future funding requirements, banking covenants, and other key financial ratios, including those relevant to maintaining our investment grade ratings. These projections represent the Directors' best estimate of the expected future financial prospects of the business, based on all currently available information. However, the Group has also assessed the financial impact which could arise if certain risk factors crystallised.

This sensitivity analysis is undertaken to stress-test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. This stress-testing takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks.

The risk impacts which have been modelled include the following possible scenarios:

- The consequences of adverse commercial pressures, involving volume reduction and/or falls in margin, driven by reductions in the size of the legitimate tobacco market or other changes in the level of consumer demand for our products.
- The possible costs associated with legal and other regulatory challenges, including competition enquiries and tax audits.
- Failure to deliver on key strategic initiatives, including growth within our Next Generation Products business.

In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on page 45, are taken into account.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2021. This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out above, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

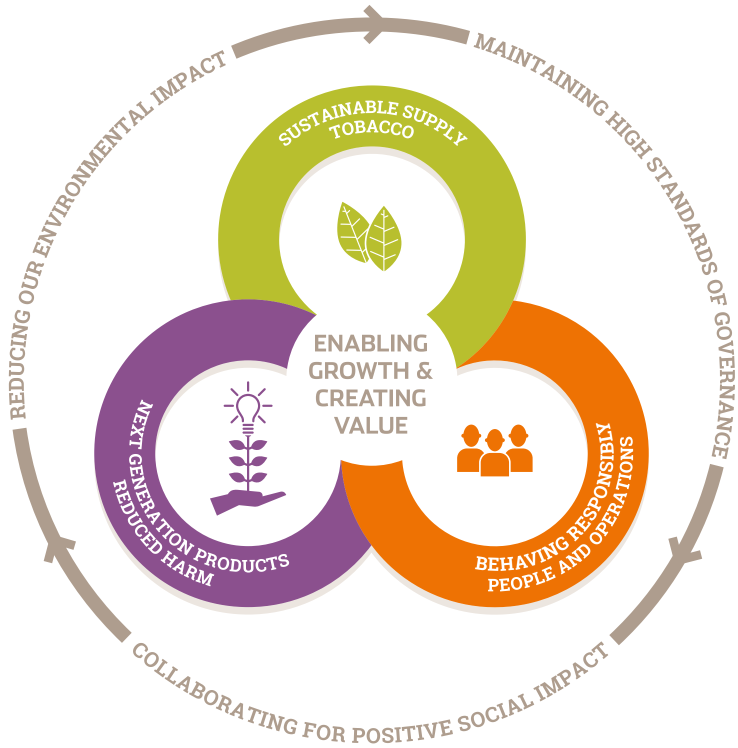
The Board confirms that its assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks and Uncertainties section on pages 24 to 29, was robust.

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2021.

ENABLING GROWTH, CREATING VALUE

Our sustainability strategy is integral to the long-term success of our business and underpins our drive to create shared value for our stakeholders.

During the year we reviewed and refocused our sustainability strategy to more closely align it with our Group strategy and the UN Sustainable Development Goals. These goals aim to have a transformational impact on the world by 2030 and we are currently developing long-term targets to enhance our reporting against them.



We identified the key areas that have the greatest significance to us and our stakeholders:

- reduced harm Next Generation Products (NGP): developing alternative products that are less harmful to health
- a sustainable tobacco supply: maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco
- responsible operations and people: behaving responsibly at all times and providing a safe and rewarding work environment for employees

The three pillars of our strategy, designed to enable growth and create value, define the approach we take to addressing our environmental, social and governance issues. We remain committed to reducing our environmental impact, collaborating with stakeholders to make a positive social impact and maintaining high standards of governance.

Our values and Code of Conduct are an essential part of our sustainability agenda and reflect the behaviours we expect from everyone who works for us and with us.

Our sustainability performance is subject to independent assurance and verification. We measure our health and safety and environmental performance by comparing our results with our 2009 baseline year, using independently assured data.

Each year we participate in the CDP (formerly the Carbon Disclosure Project) climate change, forestry and water programmes. Due to a change in CDP's reporting timeframes, CDP is unable to publish company ratings until early 2019. Once their report is published, details will be made available on our website.

The following pages provide an overview of our achievements in 2018. More information is available at www.imperialbrandsplc.com, where we also provide details of how our values shape the way we do business and publish our Code of Conduct and Supplier Code in full.

pwc

Key data reported in the Annual Report and Accounts for the year to 30 September 2018 as indicated in footnotes has been independently assured by PwC under the limited assurance requirements of the ISAE 3000 standard. The full assured data and PwC's assurance report are included in the sustainability section of our website www.imperialbrandsplc.com/sustainability.

REDUCED HARM PRODUCTS

Our leading-edge science underpins our commitment to create something better for the world's smokers. We want smokers to switch to less harmful alternatives to cigarettes and have developed a range of Next Generation Products (NGP) that have the potential to reduce smoking-related disease.

LEADING-EDGE SCIENCE

We undertake and monitor scientific research to continually improve our knowledge of tobacco and the diseases associated with tobacco consumption. We use the findings to develop and assess NGP that have lower health risks.

Our NGP portfolio is built on the blu vapour brand and therefore our NGP research is predominantly focused on vapour.

Vapour products, also known as e-cigarettes, do not contain tobacco and deliver nicotine and flavour in the form of vapour. There are also vapour products that do not contain nicotine.

There is growing public health consensus that these products offer a less harmful alternative to smoking.

Our research has shown that blu vapour is over 95 per cent less toxic than smoke from a cigarette, contains over 99 per cent fewer toxicants and carcinogens and does not negatively impact indoor air quality.

We are proud of our science credentials and open and transparent about our research. Find out more at our science websites:

www.imperialbrandsscience.com

www.fontemscience.com

HIGH QUALITY INNOVATION

Regular and high quality innovation is key to enhancing the vaping experience and improving smoker conversion rates.

Last year we acquired the UK-based NGP innovation business Nerudia to strengthen our capabilities. Our laboratory provides rapid results of testing on concept prototypes, providing the innovation team with real-time feedback as innovations progress.

Our innovation pipeline continues to develop, ensuring we have a regular supply of products that appeal to adult smokers.

During the year, we successfully completed tests on our heated tobacco product Pulze, prior to its launch in 2019.

We also developed a hybrid product that uses new-to-world technology to provide smokers with a true tobacco experience in a convenient pod system.

These are cutting-edge innovations, ground-breaking initiatives that are designed to accelerate smoker conversion rates and stop smokers reverting to tobacco.

SUSTAINABLE TOBACCO SUPPLY

We insist on high supply chain standards and are committed to purchasing tobacco from socially and environmentally responsible suppliers. We stop purchasing from any supplier who persistently fails to deliver our required performance standards.

SUSTAINABLE TOBACCO PROGRAMME

Our Sustainable Tobacco Programme (STP) defines our standards for our leaf tobacco purchases and facilitates continuous improvement through a measurement framework involving a combination of self-assessment, third party review and our own engagement with suppliers.

The STP, which all our tobacco suppliers are required to participate in, has been designed to: help the supply of tobacco leaf meet future environmental sustainability challenges, raise labour standards and provide greater levels of detail on where to focus improvement. The programme specifically addresses the issue of child labour.

Child labour is unacceptable and we continue to make every effort to stop it happening in our supply chain through the STP, our Leaf Partnership Programme and our support of the Eliminating Child Labour in Tobacco Growing Foundation.

Our Leaf Partnership Programme funds projects that enhance the livelihoods of farmers and the environmental sustainability of their activities, including reducing their overall labour requirements and improving their operational and resource-use efficiency.

This helps secure future tobacco supplies and is essential for providing farmers with a better income and higher standards of living, reducing poverty and the reliance on child labour.

RESPECTING HUMAN RIGHTS

Our respect for human rights extends throughout our operations and is reflected in our Human Rights Policy, Code of Conduct, Supplier Code and our supplier programmes STP and the Supplier Qualification Programme.

A detailed statement setting out the steps we take to mitigate the risk of slavery and human trafficking occurring within our business and supply chain can be viewed on our website. The findings and recommendations of an independent human rights impact assessment of our global operations and supply chain are also available on our website.

SUPPORTING WOOD SUSTAINABILITY

In tobacco production, wood may be used as either a fuel for curing or as construction material for barns and we work with suppliers and communities to support wood sustainability.

This includes investing in projects to increase the number of fuel-efficient curing barns and reduce the level of wood consumption.

In Africa we continue to work with our suppliers to achieve wood sustainability for our farmers by 2022. This involved planting 1.1 million trees in 2018.

Further information on the work we do to ensure a sustainable tobacco supply can be found at www.imperialbrandsplc.com

RESPONSIBLE OPERATIONS AND PEOPLE

We take pride in behaving responsibly and running our business the right way. It's not just the right thing to do, it underpins the ongoing growth and development of Imperial Brands.

YOUTH ACCESS PREVENTION

Tobacco products and NGP are for adults only and should never be sold to minors. We do not want minors to use any of our products and take youth access prevention very seriously.

Legislation that governs the way tobacco should be advertised and marketed to the public exists in most countries, and we also have our own stringent Imperial Brands International Marketing Standard (IMS), which is published in full on our corporate website: www.imperialbrandsplc.com

We insist that all Imperial Brands companies and employees, as well as the agencies who work with us, stringently adhere to our IMS and local legislation at all times. To support IMS awareness and understanding we have developed an e-learning module that is available in 11 languages.

NGP regulation is evolving and varies from market to market. We have an equally strict IMS for NGP and fully support, and advocate for, legislation prohibiting sales of NGP to minors. This IMS can be viewed at: www.fontemventures.com

NGP should not be advertised or marketed in a way that makes them appealing to minors and non-smokers. Social media has an important role to play in ensuring greater awareness of the health benefits of NGP but communication should only ever be aimed at adult smokers. Strong action should be taken against companies who use social media in an irresponsible manner.

We voluntarily implement a number of youth access prevention initiatives, including online age-verification mechanisms and clear product labelling that states 'not for sale to minors'.

We also work with retailers to reinforce the message that tobacco and NGP are solely for adults and support initiatives aimed at preventing the sale of our products to minors, including schemes that highlight the minimum age at the point of sale.

CLIMATE CHANGE

We are revising our approach to climate and energy, in line with the recommendations from the Taskforce on Climate Related Financial Disclosure (TCFD).

We have updated our previous carbon and water Life Cycle Analysis (LCA) across our global operations and supply chain, analysed our potential risks and opportunities relating to climate change, and are in the process of developing long-term targets.

These activities will enable us to incorporate robust, up-to-date information and perspectives on climate-related issues into our core business objectives and strategy. We will make our findings available during 2019.

We continue to participate in the CDP Supply Chain Programme to gather information about how our major suppliers are managing climate change and water matters. This year we also invited our strategic NGP suppliers to participate.

ENERGY CONSUMPTION

We are committed to reducing our environmental impact by minimising waste, improving energy efficiency and reducing emissions. Getting the most out of the materials and natural resources we use is good for our business and good for environmental sustainability. Additional environmental performance data can be found on the website.

In our manufacturing operations we use environmental management systems independently certified to the international standard ISO 14001 to drive environmental performance improvement. Ninety-one per cent of our factories were certified as of 30 September 2018.

GREENHOUSE GAS EMISSIONS

We report on greenhouse gas emissions resulting from the operations that fall within our consolidated financial statements, using the operational control reporting approach.

We report Scope 1 (direct) and Scope 2 (indirect) emissions for which we are responsible, using a methodology in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. We report on the seven main greenhouse gases and report in terms of tonnes of CO_2 equivalent (CO_2e).

LOGISTA

		Scope 1	Scope 2	Scope 3
CO_2 equivalent emissions (Tonnes)	FY17	38,027	527	193,611
	FY16	36,735	1,441	187,572
	FY15	35,065	4,378	199,953

We report separately on Logista, our European logistics business. Logista is managed remotely due to commercial sensitivities and has provided independently assured data for absolute Scope 1, 2 and 3 emissions since 2014.

Logista's Scope 1 emissions comprise stationary and mobile fuel combustion from transport operations for which Logista has operational control, and from the leakage of refrigerant gases at those operations. Scope 2 emissions comprise indirect emissions resulting from the use of purchased electricity at sites under Logista's operational control and are reported using market based emission factors. Scope 3 emissions comprise transport activities for which Logista does not have operational control.

Logista's 2017 relative Scope 1 and 2 emissions comprise 39 tonnes (2016: 47) of CO_2 equivalents per £million of 2017 distribution fees (our non-GAAP revenue measure for Logista). Further information on the scope of Logista's GHG reporting is available at www.grupologista.com

A DIVERSE AND ENGAGED WORKFORCE

We employ 33,300 people and take great pride in the diverse nature of our international workforce. Forty one per cent of our employees are women. At a senior leadership level, 13 per cent of the Operating Executive and 33 per cent of the Board are female, as of 30 September 2018. The Board recognises the value of gender diversity to Imperial and is committed to increasing the representation of females within senior management roles to 30 per cent by 2023.

The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct and underpinned by our values. We strive to create a work environment that allows equal opportunities for our people and ensures they are employed fairly, safely and in compliance with applicable employment laws and regulations.

Regular engagement helps motivate employees to deliver our strategy. Throughout the year we provide updates on our strategic priorities and performance through a broad range of communication channels, including meetings, emails, videos, intranet, social media, webinars, conferences and employee magazines.

We are pleased that our efforts to provide the best possible workplace and career opportunities for our people continue to be recognised externally with a number of best employer awards, including in Spain, France and the UK.

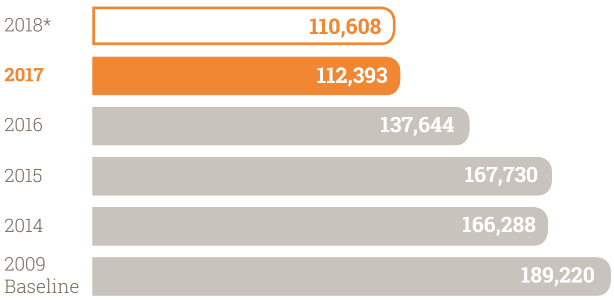
WORKPLACE HEALTH AND SAFETY

The welfare of our people is of utmost importance to us and we continue to focus on improving health and safety standards across the business.

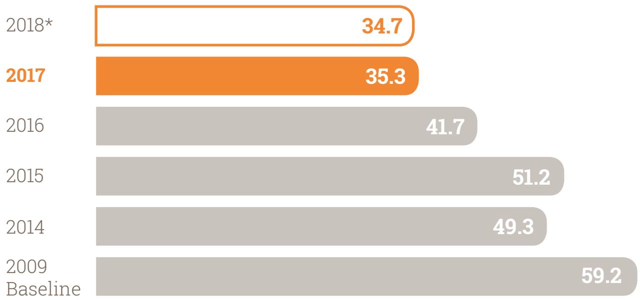
Since 2009 we have reduced our Lost Time Accident (LTA) frequency rate by 77 per cent. A successful campaign in 2016 to highlight the importance of reporting all near misses and accidents resulted in an increase for that year, which subsequently reduced.

LTAs this year were slightly higher due to a rise in minor incidents such as slips, trips and falls. We are focused on working with our people to reverse this trend in 2019.

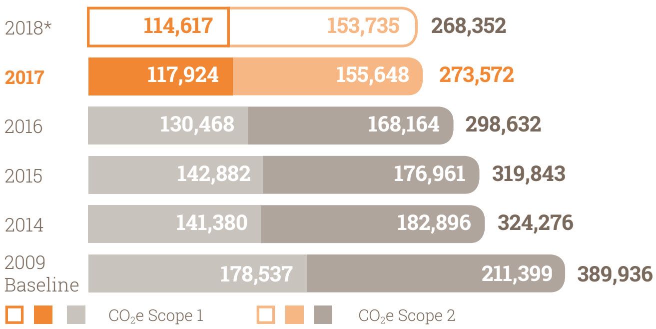
ENERGY CONSUMPTION (KWH/£MILLION)[1, 2]



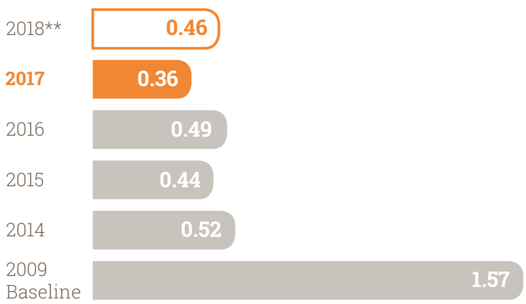
CO_2 EQUIVALENT EMISSIONS (TONNES/£MILLIONS)[1]



ABSOLUTE CO_2 EQUIVALENT EMISSIONS (TONNES)[1]



LOST TIME ACCIDENT FREQUENCY RATE (PER 200,000 HOURS)[1]



1. Environmental and LTA data is reported 12 months in arrears to allow for data collection, validation and external assurance. The monetary value '£ million' is for tobacco net revenue. 2017 data has been independently assured by PwC; see www.imperialbrandsplc.com/sustainability for more information.
2. PwC have assured energy from manufacturing sites and offices (92,418 kWh/£million); energy consumption from fleet fuel was out of scope for assurance.

* Unverified 2018 data is estimated based on data from the last six months of 2017 and the first six months of 2018. Verified data for 2018 will be published next year.

** Unverified 2018 data. Verified data for 2018 will be published next year.

DELIVERING GOOD GOVERNANCE

"Good governance underpins our strategy and supports our drive for sustainable quality growth in tobacco and NGP."

MARK WILLIAMSON
Chairman

DEAR SHAREHOLDER

The Board is responsible to shareholders and other stakeholders for the long-term sustainable delivery of our strategy.

The Board again spent a significant portion of its time this past year discussing the best allocation of resources to continue driving our strategy. This included ensuring we maximise the opportunities of our tobacco business and take advantage of the considerable opportunities offered by NGP as we pursue our purpose of creating something better for the world's smokers.

These discussions included the divestment programme which we announced at the half-year, with the subsequent disposal of a further 9.99 per cent of our holding in Logista S.A.

The Board also considered potential investments, including the acquisition of Nerudia Ltd and the opportunity to take a stake in Oxford Cannabinoid Technologies Ltd, enhancing our NGP innovation capacity and understanding of the cannabis market respectively.

The Board and its Committees are mindful of the revisions contained in the 2018 UK Corporate Governance Code which applies to the Company from its accounting period starting 1 October 2019. We have commenced a review of the Code's updated provisions and the enhancements which will be required to our current reporting and processes.

Details of the Company's governance framework and how it underpins the delivery of our sustainable growth agenda are set out in the following sections.

M Williamson

MARK WILLIAMSON
Chairman

ENSURING OUR ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

A number of long-established and embedded processes underpin the key compliance requirement for our Annual Report to be fair, balanced and understandable. These include:

- drafting of the Annual Report by appropriate senior management who monitor regulatory changes, are briefed regarding the fair, balanced and understandable regulations and ensure consistency throughout the report;
- an extensive verification process undertaken to ensure factual accuracy and a fair presentation of our performance;
- reviewing the use of adjusted measures and their appropriateness in aiding users of our financial statements to better understand our performance year-on-year;
- consideration and review of an advanced draft by Internal Audit and the Disclosure Committee to ensure accurate and balanced disclosure;
- comprehensive reviews of drafts of the Annual Report undertaken by members of the OPEX and other senior management;
- the Audit Committee discussing the draft Annual Report with both management and our auditors PwC and, where appropriate, challenging the content and any judgements and assumptions used;
- all Board members receiving drafts of the Annual Report with sufficient time for review and comment prior to the year-end meetings in October 2018; and
- the Audit Committee reviewing the final draft at its meeting in October 2018 at which time it was required to express its opinion prior to consideration by the Board.

After consideration of the above processes and review of the Annual Report, the Directors confirm that they consider, taken as a whole, that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

BOARD OF DIRECTORS

1. MARK WILLIAMSON, CA (SA)

Chairman of the Board

Skills and experience

Mark is a qualified accountant, who brings considerable financial and general managerial experience to our Board. Mark was Chief Financial Officer of International Power plc until 2012 and is experienced in managing relationships with the investor and financial communities. He is also a former Senior Independent Non-Executive Director and Chairman of the Audit Committee of Alent PLC.

Appointment

Mark joined the Board in July 2007 and was appointed Senior Independent Non-Executive Director in February 2012. He was subsequently appointed Deputy Chairman of the Board in January 2013 before being made Chairman in February 2014.

External appointments

Chairman of Spectris plc and Senior Independent Non-Executive Director and Chairman of the Audit Committee of National Grid plc.

D N Chairman

2. ALISON COOPER, BSC, ACA

Chief Executive Officer

Skills and experience

Alison is leading the business through a transformative period in its history. Having successfully implemented our tobacco strategy, she is now also focused on accelerating our growth in Next Generation Products, which represents a substantial additive opportunity for Imperial. Alison joined the Company in 1999 and, through a number of senior roles prior to her appointment as Chief Executive, has made a substantial contribution to our international expansion.

Appointment

Appointed Director in July 2007. Appointed Chief Executive in May 2010.

External appointments

No external Director appointments.

E

3. OLIVER TANT, BSC, CA (SCOTLAND)

Chief Financial Officer

Skills and experience

Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director Financial Advisory and Private Equity Division and Head of UK Audit.

He was also a member of both the UK and German boards of KPMG. He brings to Imperial international experience in change management, organisational restructuring, corporate finance and mergers and acquisitions.

Appointment

Appointed to the Board of Directors in October 2013 and became Chief Financial Officer in November 2013.

External appointments

No external Director appointments.

E

4. MATTHEW PHILLIPS, LLB
Chief Development Officer

Skills and experience

Matthew held a number of senior roles prior to his appointment to the Board as Corporate Affairs Director in June 2012 and has been integral to the development and implementation of the Group's strategy.

In his current role he is responsible for NGP innovation, product science, smokeless tobacco, corporate development and corporate and legal affairs.

Appointment

Appointed Director in June 2012. Appointed Chief Development Officer June 2015.

External appointments

No external Director appointments.

E

5. THERESE ESPERDY
Non-Executive Director

Skills and experience

Therese has significant international investment banking experience having held a number of roles at JP Morgan including Global Chairman of JP Morgan's Financial Institutions Group, Co-Head of Asia-Pacific Corporate & Investment Banking, Global Head of Debt Capital Markets, and Head of US Debt Capital Markets. She began her career at Lehman Brothers and joined Chase Securities in 1997 prior to the firm's merger with JP Morgan in 2000.

She also meets the recent and relevant financial experience requirements of the UK Corporate Governance Code.

Appointment

Appointed Non-Executive Director in July 2016.

External appointments

Non-Executive Director and Chairman of the Finance Committee of National Grid Plc.

D A N

6. SIMON LANGELIER
Non-Executive Director

Skills and experience

Simon has significant international experience within the tobacco industry. He held a number of senior commercial positions during a 30-year career with Philip Morris International, including in Latin America, Asia, Western and Eastern Europe, Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses.

Appointment

Appointed Non-Executive Director in June 2017.

External appointments

Chairman of PharmaCielo Limited and Ambassador of Lancaster University.

D A N

7. STEVEN STANBROOK
Non-Executive Director

Skills and experience

Steven brings considerable international executive experience to the Board, gained in a number of FMCG companies. This includes 18 years at SC Johnson & Sons Inc., most recently as Chief Operating Officer, where he was responsible for managing their international operations. Previously, he held senior positions at Sara Lee Corporation, including as Chief Executive Officer of Sara Lee Bakery, and at CompuServe Corp. He is also a former Non-Executive Director of Chiquita Brands International, Inc. and Hewitt Associates.

Appointment

Appointed Non-Executive Director in February 2016.

External appointments

Partner of Wind Point Partners and a Director of both Autism Speaks and The Vollrath Company LLC.

D N R

8. KAREN WITTS, FCA
Non-Executive Director

Skills and experience

Karen brings significant financial and management expertise to the Board. She is currently Chief Financial Officer and Executive Director of Kingfisher plc and has recently been appointed as Group Chief Financial Officer of Compass Group plc. Karen was previously Chief Financial Officer of the Africa, Middle East, Asia and Asia Pacific Region at Vodafone plc. Prior to that, Karen held a number of senior positions at BT, including Chief Financial Officer of BT Retail and Managing Director Operations Openreach.

She also meets the recent and relevant financial experience requirements of the UK Corporate Governance Code.

Appointment

Appointed Non-Executive Director in February 2014 and Chairman of the Audit Committee in February 2017.

External appointments

Currently Chief Financial Officer and Executive Director of Kingfisher plc.

D A Chairman **N R**

9. MALCOLM WYMAN, CA (SA)
Non-Executive Director

Skills and experience

As a qualified accountant and former Chief Financial Officer of SAB Miller plc, with responsibility for the group's financial operations, corporate finance and development and group strategy, Malcolm brings not only a wealth of financial expertise but also considerable general management experience to the Board. Malcolm is also a former Non-Executive Director and Chairman of the Audit Committee of Serco Group plc.

Appointment

Appointed Non-Executive Director in October 2011, and Senior Independent Non-Executive Director in February 2017. Appointed Chairman of the Remuneration Committee in July 2018. Chairman of the Audit Committee from February 2012 to February 2017.

External appointments

Senior Independent Non-Executive Director and former Chairman of the Audit Committee of Nedbank Group Limited, listed on the Johannesburg Stock Exchange.

D N R Chairman

10. JOHN DOWNING, MA
Company Secretary

Skills and experience

John is a qualified solicitor. He joined Imperial in 2005 having worked for the law firm Linklaters.

He has had a number of senior legal roles in Imperial including playing a leading role in the Altadis acquisition and becoming Head of Group Legal in 2010. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters. In addition to his Group Company Secretary role, John also has responsibility for the Group's governance, Code of Conduct, security, anti-illicit trade initiatives and information security.

Appointment

Appointed Company Secretary in June 2012.

S

Key
E Executive Director
D Non-Executive Director
S Company Secretary
N Succession and Nominations Committee
A Audit Committee
R Remuneration Committee

BOARD

"Adapting to our changing operating environment ensures we can continue to create sustainable shareholder returns."

MARK WILLIAMSON
Chairman

MEMBERS

Mark Williamson
Chairman

Alison Cooper

Therese Esperdy

David Haines (to 3 July 2018)

Simon Langelier

Matthew Phillips

Steven Stanbrook

Oliver Tant

Karen Witts

Malcolm Wyman

John Downing
Company Secretary

FOCUS IN 2018

– Investment choices to enhance the quality of earnings in our tobacco business;

– Strategic development of NGP, including the Nerudia acquisition;

– Capital re-allocation opportunities; and

– Investment in Oxford Cannabinoid Technologies Ltd.

LOOKING AHEAD TO 2019

In the context of a changing operating environment, focus on our strategy and the drivers behind it, including:

– Investing to accelerate NGP growth;

– Continuing to focus on our priority tobacco markets and asset brands;

– Capital allocation, including our divestment programme; and

– Building capabilities in new skill areas to support our strategy.

OVERVIEW

The Directors have established a strong governance framework with clearly defined responsibilities and accountabilities to support the long-term sustainable success of the Group.

They have a key role in setting our strategy and ensuring it is implemented responsibly within the governance framework, our values and with high ethical standards. The Directors are mindful of their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, whilst having regard to the interests of other stakeholders.

As part of the governance framework the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group's strategy, business plans, dividends and major financial announcements. The Board is also responsible for approving the acquisition or disposal of assets exceeding defined thresholds.

The Board discharges its responsibilities through an annual programme of meetings. The areas of focus for each meeting are outlined in the table below. It also delegates responsibility for developing and implementing strategy and for day-to-day management to our Chief Executive, Alison Cooper, who is supported by her fellow Executive Directors and by the Operating Executive (OPEX), which she chairs. The Board also delegates matters to Board Committees. Clearly defined terms of reference and written limits support these delegations.

The OPEX consists of senior executives from across the business. It oversees operational execution and delivers our strategic and financial plans. The OPEX and Audit Committee also ensure that, within the risk appetite framework set by the Board, appropriate internal controls, which function effectively, are in place, and effective risk identification and management processes, including those discussed on pages 45 and 46, operate throughout the Group.

BOARD PROGRAMME IN 2018

Six Board meetings were held during the year.

Business performance, safety, corporate development updates and general corporate housekeeping are standing items at each Board meeting. In addition to these, the following agenda items were covered in the financial year:

2017	2018				
November (Bristol)	**February (Bristol)**	**March (Amsterdam)**	**May (Bristol)**	**June (London)**	**September (Bristol)**
– Business plan finalisation – Strategy update – Report and Accounts sign-off – Dividend approval – Nerudia acquisition	– Strategic review including: NGP, competitor update and innovation – Financing – Investor audit – Investment in Oxford Cannabinoid Technologies Ltd – AGM	– Strategy in action: NGP performance and US update	– Strategy in action: ITG Brands, USA – Half-Year Report – Dividend approval – Risk appetite	– Strategic planning: NGP, tobacco and capital allocation – Sell-down of 9.99% of Logista – Risk appetite	– Strategic review: corporate development projects – Business plan review – Board evaluation

SUCCESSION AND NOMINATIONS COMMITTEE

"Building the capabilities of our people and having clear succession plans are important for the delivery of our strategy."

MARK WILLIAMSON
Chairman

MEMBERS

Mark Williamson
Chairman[1]

Therese Esperdy

David Haines (to 3 July 2018)

Simon Langelier

Steven Stanbrook

Karen Witts

Malcolm Wyman

John Downing
Company Secretary

1. Unless dealing with the succession of the Chairman.

Executive Directors are invited to attend when appropriate.

FOCUS IN 2018

- Executive and Non-Executive Director succession planning;
- Review of skillset and composition of the Board's Committees; and
- Senior management succession and talent development.

LOOKING AHEAD TO 2019

- Ongoing Executive succession planning;
- Non-Executive Director succession;
- Talent development; and
- Further building organisational capability.

OVERVIEW

ROLE

The Committee reviews and evaluates the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence to enable them to function effectively. Succession plans for the Non-Executive Directors (NEDs), Executive Directors and the Group's senior management, in particular the OPEX, are kept under review. The Committee also nominates candidates for appointment to the Board.

The Committee also retains oversight of the development plans for OPEX members together with the Company's wider organisational structure and talent management processes. This allows the Committee to focus on ensuring the Company is developing the right capabilities and has appropriate succession plans in place to deliver our strategy and to create something better for the world's smokers.

The Committee's terms of reference are available on our website.

BOARDROOM DIVERSITY

As a global business, with our products sold in over 160 countries, diversity is an integral part of how we do business. As set out on page 34, the business embraces diversity in its broadest sense, which is something the Board also fully supports.

The Committee is mindful of the Parker and Hampton-Alexander review on ethnic and gender diversity. As set out on page 34, the Board recognises the value of gender diversity to Imperial and is committed to increasing the representation of females within senior management roles to 30 per cent by 2023. At the Board level, women, including our Chief Executive, make up over 30 per cent of our Board. Notwithstanding this, however, any search for Board candidates and any subsequent appointments are made purely on merit regardless of ethnicity, gender, religion, age or disability. We look to ensure we have the appropriate balance of skills, diversity of knowledge and thinking, professional and geographic backgrounds and experience on our Board and recruit accordingly. We are committed to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group, and as such we do not think it is appropriate to set specific targets for Board appointments.

SUCCESSION AND NOMINATIONS COMMITTEE

SUCCESSION AND NOMINATIONS COMMITTEE IN 2018

ELECTION AND RE-ELECTION OF DIRECTORS

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Committee.

The performance of each Director is considered as part of the annual Board evaluation process. Following the 2018 evaluation, a review of the independence of each NED (particularly in respect of those who have served six years or more) and consideration of attendance, the Board recommends the re-election of all Directors at our 2019 AGM.

REFRESHING THE BOARD AND ITS COMMITTEES

David Haines, Non-Executive Director and Chairman of the Remuneration Committee, stepped down from the Board following his appointment as Chief Executive of Upfield Group and I would like to thank him for his significant contribution over the past six years. David has been succeeded as Chairman of the Remuneration Committee by Malcolm Wyman, who remains our Senior Independent Director.

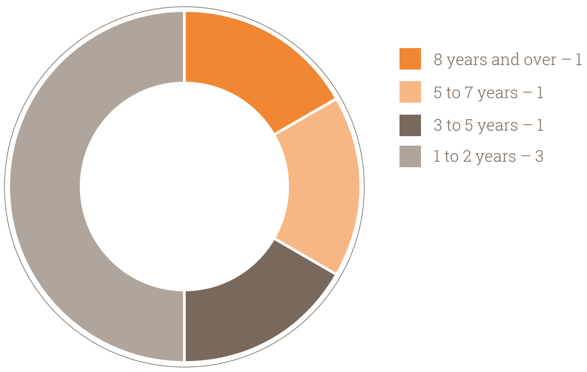
ATTENDANCE AT MEETINGS OF THE BOARD, BOARD COMMITTEES AND AGM

	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in financial year	6	4	4	3	1
Number of meetings attended in financial year					
Executive Directors					
Alison Cooper	6/6	–	–	–	1/1
Oliver Tant	6/6	–	–	–	1/1
Matthew Phillips	6/6	–	–	–	1/1
Non-Executive Directors					
Mark Williamson	6/6	4/4	–	–	1/1
Therese Esperdy	6/6	4/4	4/4	–	1/1
David Haines[1]	3/5	2/3	2/3	1/2	1/1
Simon Langelier	6/6	4/4	4/4	–	1/1
Steven Stanbrook	6/6	4/4	–	3/3	1/1
Karen Witts	6/6	4/4	4/4	3/3	1/1
Malcolm Wyman	6/6	4/4	–	3/3	1/1

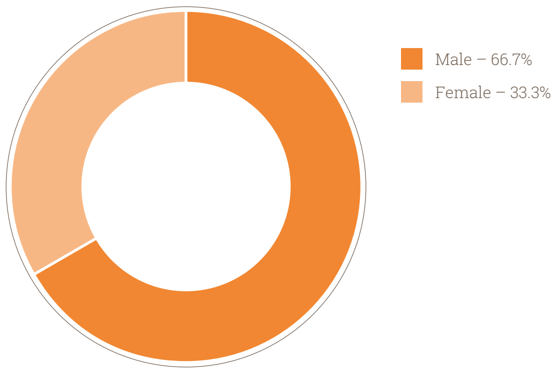
1. David Haines stepped down from the Board on 3 July 2018 and missed two Board meetings and associated Committee meetings due to prior commitments.

The maximum number of meetings for each individual Director is the number which they were eligible to attend.

TENURE OF NON-EXECUTIVE DIRECTORS



BOARD GENDER BALANCE



AUDIT COMMITTEE

PROTECTING OUR STAKEHOLDERS

"We focus on protecting the interests of our stakeholders by ensuring that key risks are understood and appropriately managed."

KAREN WITTS
Chairman

MEMBERS[1]

Karen Witts[2]
Chairman

Therese Esperdy

David Haines (to 3 July 2018)

Simon Langelier

John Downing
Company Secretary

OTHER REGULAR ATTENDEES

Board Chairman
Chief Financial Officer
Deputy Chief Financial Officer
Group Financial Controller
Director of Assurance and Risk[3]
Deputy Company Secretary
Representatives from PwC, our external auditors[3]

1. All members are independent Non-Executive Directors.
2. Karen Witts meets the Code's requirement of having recent and relevant financial experience. The Committee and Board are satisfied that she, and the Committee as a whole, has the appropriate competence relevant to the sector in which the Company operates.
3. At each meeting, both the Director of Assurance and Risk and PwC have the opportunity to meet with the Committee without management present.

Other Directors are invited to attend each meeting.

DEAR SHAREHOLDER

The following pages provide an insight into the Committee's activities and its deliberations during the 2018 financial year.

As a Committee we have an agenda that looks at both annual governance requirements and key areas of risk for the business.

A specific focus this year has been the adoption of new accounting standards in 2019 and we are satisfied that the business is ready to adopt them in 2019 and to reflect their impact on the 2018 results in the Annual Report and Accounts. We have also focused on key areas of control and compliance such as segregation of duties and EU General Data Protection Regulation; and key areas of accounting judgement, such as goodwill impairment; and are satisfied that the business is addressing these issues appropriately.

We continue to review financial reporting and monitor the treatment and presentation of adjusted performance measures to ensure these clearly convey the underlying performance of the business.

A fuller list of key matters discussed by the Committee is set out on pages 43 and 44.

Consideration of risks facing the Company is a key responsibility of both the Audit Committee and the Board. In 2018, as in previous years, we have reviewed key risks that the Company faces through internal and external audit reports and from presentations by management. We are satisfied that the Company recognises and understands these risks and their potential impact on the Company and has mitigation and action plans in place to address the major risks, where possible. A fuller explanation as to the Company's approach on governance, risk management and internal controls is set out on page 45.

In addition, both the external and internal auditors provide feedback on key financial controls and risks and provide objective and appropriate challenge to management in addressing these areas. Both sets of auditors also have the opportunity for private meetings with both myself and the whole Committee. These opportunities, to test and corroborate management's view of risk and controls, enable us to draw the conclusion set out on page 45 relating to the ongoing process for identifying, evaluating and managing the Group's principal risks.

KAREN WITTS
Chairman of the Audit Committee

AUDIT COMMITTEE

MAIN OBJECTIVE

The Committee assists the Board in fulfilling its corporate governance responsibilities. This includes oversight of the Group's internal control systems, risk management process and framework, the Internal Audit department and the external audit. It also involves ensuring the integrity of the Group's financial statements and related announcements. During the year the Committee achieved this by:

- maintaining appropriate oversight over the work and effectiveness of the Internal Audit department, including reviewing its audit findings and monitoring management's responses;
- monitoring and evaluating the effectiveness of our risk management and internal control systems, including obtaining assurance that they are designed and implemented effectively;
- assessing the medium-term viability of the Group;
- assisting the Board in confirming that, taken as a whole, our Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy (see page 35);
- scrutinising the independence, approach, objectivity, effectiveness, compliance and remuneration of the external auditors PwC; and
- considering the key matters detailed below, including taking account of PwC's views.

The Committee's terms of reference are available on our website.

AUDIT COMMITTEE PROGRAMME IN RESPECT OF THE 2018 FINANCIAL YEAR

Four Committee meetings were held in respect of the 2018 financial year at key points in our reporting and audit calendar and included the following matters on the agenda:

2018

February
- External audit planning
- Internal audit and risk management review
- External auditors' effectiveness review
- Internal audit effectiveness review
- Governance and internal control
- Restructuring costs and benefits
- Tax strategy and policy
- Cyber security update
- General Data Protection Regulation
- SAP Segregation of Duties risks
- Credit risk management
- Risk update – Strategy and Insights

May
- Half-Year Report
- Goodwill and impairment review
- Going concern and solvency risk review
- External auditors' report
- External auditors' fees and independence
- Internal audit and risk updates
- Governance and internal control
- Impact of new accounting standards
- SAP Segregation of Duties risks
- Tax update
- Risk update – Product Science & Stewardship

September
- Internal audit and risk management review
- External auditors' report and independence
- Governance and internal control
- SAP Segregation of Duties risks
- Impact of new accounting standards
- Goodwill and impairment review
- Tax risk management
- Segmental reporting
- Internal audit planning
- Risk update – Group Legal

October
- Annual Report and Accounts
- Goodwill and impairment review
- FX risk management
- Viability and going concern statements
- External auditors' report
- Internal audit and risk management review
- External auditors' fees, independence and reappointment
- Governance and internal control
- Restructuring costs and benefits
- Risk update – ITG Brands (USA)

KEY MATTERS CONSIDERED

The Committee considered the appropriateness of the following areas of significant judgement, complexity or estimation in connection with the financial statements, as set out below:

	Focus area	Why this area is significant	How we as a Committee addressed this area
1	Goodwill and intangible asset impairment reviews See note 11 to the financial statements for further information.	Goodwill and intangible assets form a major part of the Group's balance sheet and their current valuations must be supported by future prospects.	We regularly received and considered detailed reports from management and challenged the methodology applied, the achievability of underlying business forecasts, and macro-economic assumptions used. For the grouping of cash-generating units with the lowest headroom (the Drive Growth Division), we examined different scenarios and sensitivities to assess whether management's conclusions were fair and balanced. During the period, the Committee noted that there had been a significant improvement in both the actual and future cash performance of the Drive Growth Division. We have also noted that additional headroom will be available as the NGP business in these countries becomes more established. The Committee also considered detailed reporting from, and held discussions with, PwC. Resulting from the above, we concluded that management's assertion that goodwill and intangible assets were not impaired was reasonable and appropriate disclosure of sensitivities has been given and, therefore, approved the disclosures in our financial statements.
2	Taxation See notes 8 and 21 for further information.	The Group is subject to taxation in a number of jurisdictions, and significant judgement is required in relation to taxation provisions which could materially affect the Group's reported results.	We received and discussed reports from management in respect of the taxation affairs of the Group, including the tax audit in France (see note 8 on page 99) and the potential impact on the Group of various UK and foreign taxation legislative interpretations and reform proposals. The Committee reviewed management's position with respect to the disclosure for the emerging Russian tax excise claim and is satisfied that this is appropriate given circumstances at the time of publishing the Annual Report and Accounts. Following consideration and discussion of management's reports we are satisfied that all other taxation provisions and their disclosure are appropriate.
3	Use of adjusted measures See note 1 for further information.	Non-GAAP or adjusted measures provide an appropriate and useful assessment of business performance and reflect the way in which the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors.	The Committee considered whether adjusted performance measures had been prepared in accordance with our policy on the use of adjusted measures set out in note 1 to the Group financial statements, and discussed this with PwC. The Committee concluded that adjusted performance measures had been prepared in accordance with our policy. The Committee also considered whether the Group's policy was compatible with the ESMA guidelines on alternative performance measures, and can confirm compatibility. The items excluded from adjusted operating profit have been applied consistently for a number of years and are clearly disclosed. The Committee concluded that this presentation is helpful in allowing users of the Group financial statements to understand the underlying business performance. The Committee discussed and agreed that the Palmer & Harvey bad debt charge would be an item excluded from adjusted operating profit.
4	Treatment of restructuring costs See note 5 for further information.	Restructuring costs is one of the main items affecting our adjusted measures. There is a risk that restructuring costs are treated or presented inappropriately within the Group's financial statements.	The Committee reviewed papers from management on actual and forecast levels of restructuring costs at every meeting. The restructuring costs disclosure for inclusion within the Group's financial statements and Half-Year results was also reviewed and discussed with management and PwC. Following these detailed reviews and discussions, we concluded that determination of restructuring costs was consistently applied and costs were disclosed appropriately.
5	Going concern and viability statement See page 29 for further information.	The Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period.	We examined the Group's committed funding, its ability to generate cash and its ability to raise further funding. We challenged management's cash projections and sensitivity analysis including mitigating actions. In addition, in assessing the Group's longer-term viability we considered outputs of the annual corporate planning processes including the strategic review, a three-year business plan and a rolling re-forecast of current year business performance and prospects. We also considered the resilience of the Group to the potential impact of the Group's principal risks and mitigating actions. We reviewed the period covered by the statement and concluded that three years remains the most appropriate period, being that used by the Group for its business plan. We concluded that it was appropriate to prepare the financial statements on a going concern basis and that the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of at least 12 months from the date of this Report.

AUDIT COMMITTEE

	Focus area	Why this area is significant	How we as a Committee addressed this area
6	Revenue recognition See note 1 for further information.	There is a risk that revenue could be overstated through the inclusion of sales which are not in compliance with the Group's Revenue Recognition Policy.	Discussions were held with management and PwC and the Committee was satisfied that the Group's criteria for revenue recognition were appropriate. No breaches of the Group's Revenue Recognition Policy were brought to the Committee's attention. The Committee also reviewed the impact of adopting a new accounting standard for Revenue Recognition, IFRS 15, and is satisfied that the Company has undertaken a detailed assessment and has considered necessary changes in revenue recognition and classification, such that it is able to adopt this new standard.
7	Tobacco-related litigation See page 53 for further information.	The Group is exposed to litigation arising from claimants alleging smoking-related health effects.	We considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings and concluded that risks in respect of tobacco-related litigation are appropriately disclosed in the Annual Report and Accounts.
8	SAP Segregation of Duties	There is a risk that an inadequate Segregation of Duties environment could allow fraud or errors in the creation of our financial statements.	We have received a number of reports from management over the past year outlining conflicts that may exist in a number of SAP systems. We reviewed a detailed plan from management that demonstrated how conflicts are being reduced through system and role changes, and how manual control programmes are in place to address conflicts that still remain. We confirmed that management were able to demonstrate that there are no gross conflicts that could lead to material fraud or reporting misstatements and that management are addressing the ongoing governance of this area.
9	Segmental reporting	The Board has considered and implemented an internal reorganisation of senior management accountabilities along geographic lines. IFRS 8 (Segmental Reporting) requires a reassessment of reportable segments when such a reorganisation impacts how Group performance is assessed and resources are allocated.	The Committee reviewed the proposed new segmental reporting for FY19 and confirmed that the timing of internal management changes is in line with the move to new reportable segments from 1 October 2018 and that the new segments agree with the requirements laid out in IFRS 8. The Committee also considered the impact that changes to segmental reporting could have on the Cash Generating Units for assessing the carrying value of goodwill. The Committee is comfortable that management are well aware of this impact and are working through its implications for FY19 financial reporting.

GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Assessing and managing risk is fundamental to achieving our strategic objectives, safeguarding our shareholders' interests and protecting the Group from reputational or legal challenges. This is reflected in our risk management framework, which ensures significant risks are identified, managed and monitored.

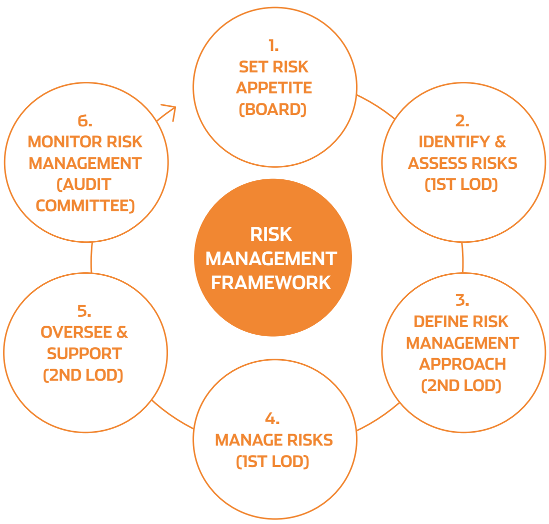
In accordance with the UK Corporate Governance Code, the Board has overall responsibility for setting the Group's risk appetite, with accountability for maintaining effective risk management and internal control systems then being delegated to the Audit Committee.

The system of risk management and internal control we have established is designed to manage, rather than eliminate, significant risks the Group may face. Consequently, our internal controls can only provide reasonable, and not absolute, assurance over our principal risks.

The Company's approach to governance and its risk management framework operate in accordance with four simple foundations which continue to form the core of our approach. These are:

Clear Roles:	Defines the roles that various areas of the business play in risk management, based on the 'three lines of defence' (LOD); – **1st LOD**: Local management own the management of risks and it is their responsibility to identify and mitigate these risks; – **2nd LOD**: Central functions and committees, employing technical experts, develop and provide appropriate policy, process, control structures and support to local management; and – **3rd LOD**: Our Internal Audit team independently reviews the effectiveness of our risk management and internal control system.
Clear Rules:	Our policies, procedures and internal controls provide the parameters within which the global business operates;
Clear Authority:	Defines the formal escalation of business decisions to the appropriate level of responsibility and accountability; and
Clear Values:	Our Code of Conduct sets the expectations for employees and business partners to act with respect and integrity.

Below we show the key activities within our risk management framework, and the related roles and responsibilities, which ensure an effective and continuous risk management process:



RISK APPETITE

The amount of risk the Group is willing to take is articulated in our risk appetite statement, which is approved and reviewed by the Board on an annual basis (or more frequently where our risk environment requires us to do so) to ensure it remains consistent with the Group's strategy and the environment we operate in.

Our risk appetite considers a number of different dimensions, balancing commercial performance with managing our business in a sustainable and compliant manner. This year, our risk appetite has been updated to reflect our increasing focus on NGP.

During the year this risk appetite has been further embedded within our wider risk management framework through the refinement of Key Performance Indicators and Key Risk Indicators (KPIs and KRIs) which measure our exposure to risk and support the ongoing alignment of our risk management and internal control systems to ensure compliance with the agreed risk appetite.

RISK ASSESSMENT

The Group's operational management, led by our Operating Executive (OPEX), actively performs ongoing risk identification and evaluation processes of significant risks to the achievement of business objectives at both a Group and local level.

At regular intervals across the year, our management teams assess those risks relevant to them, including an assessment of how local mitigating actions reduce the risk exposure. This is described in more detail in the Principal Risks and Uncertainties section on pages 24 to 29.

RISK MANAGEMENT APPROACH

Each identified risk is assigned to a second line of defence centre of expertise (CoE) to ensure appropriate risk management approaches are defined, and to provide oversight and support to operational management in effectively implementing such approaches across our global footprint.

Our second line of defence plays an active role in the risk management process in a 'player/coach' relationship with the first line of defence. Depending on the nature and size of the risk in question, this relationship may take either a directive form, for example where regulatory compliance risks are involved, or a more consultative form to provide guidance and subject matter expertise.

Our Finance function is a good example of a second line function which performs both roles. Finance has responsibility for the financial policies, standards and best practice to be followed by operational finance management across the Group, as documented in our Finance Manual. Additionally, Finance performs a subject matter expert role in the ongoing design of process and role design to best assist our global finance communities.

Compliance with Group and local reporting requirements is confirmed by finance management across the Group, providing a robust basis for the central Finance team to appropriately manage the Group financial reporting processes and enabling the Board to discharge its reporting responsibilities.

It is the responsibility of the second line of defence to define the necessary standards and internal controls in accordance with the four foundations, core to our risk management framework, and the agreed risk appetite.

AUDIT COMMITTEE

CASE STUDY: GDPR

A recent example of the evolution of our risk management framework is the implementation of the requirements in relation to the EU General Data Protection Regulation (GDPR), requiring the Company to align its policies, to establish reporting and escalation processes and to design a number of additional internal control requirements to ensure GDPR compliance.

This initiative involved building first line of defence capability and ways of working to comply with the new regulation. Tools, guidance and support were provided by a central project team, whilst at the same time establishing the requisite second line of defence CoE after the GDPR came into force.

Internal Audit periodically reviewed the management of key risks relevant to the project. Regular updates of compliance implementation progress were provided to the Audit Committee.

We are confident that the Company is compliant with these new regulations.

MANAGING RISKS

Operational management is held accountable for the management of those risks applicable to it and for ensuring compliance with our Group policies and standards. Our Group Control Matrix (GCM) brings together all the expected minimum controls from these policies and standards, to provide a single source of internal controls expected to be performed in order to mitigate the identified risk in line with the Board's risk appetite.

The operating effectiveness of these GCM controls is assessed on a regular basis by management, as well as through Internal Audit activities. Operational management, at Group and local level, is required to certify its compliance with the Code of Conduct and the Group's policies and standards at both the half-year and full-year.

RISK OVERSIGHT

Results of risk assessments and internal control operating effectiveness assessments are shared with relevant second line of defence CoEs for expert insights and to help enhance applicable internal control, as well as the guidance they provide to the business. Additionally, the information is provided to Internal Audit for reference during its audit testing.

MONITORING RISK MANAGEMENT

The Board and Audit Committee received regular updates during the year on the continued development of our risk management and internal control systems as well as on the results of risk assessments and internal control effectiveness assessments.

Throughout the course of the financial year, the Audit Committee has invited several first and second line of defence functions to present on their respective risk management approaches to the risks overseen. This direct dialogue with the Audit Committee provides further assurance to the Committee regarding the effective management of significant risks to the Group.

The above processes and related reporting, as well as those described in the Principal Risks and Uncertainties section on pages 24 to 29, enable the Audit Committee to review and monitor the effectiveness of our risk management and internal control systems. The Audit Committee has considered and confirmed to the Board that this is in accordance with the recommendations of the Financial Reporting Council's (FRC's) UK Corporate Governance Code.

INTERNAL AUDIT

Internal Audit (IA) has continued to evolve and develop its practices to further improve its independent challenge to the Group's activities, as required by the Audit Committee and management.

An independent IA effectiveness review was performed by Grant Thornton UK LLP. The results of this review were positive and supportive regarding the existing processes and quality of work being delivered, as well as the continuous improvement journey of the IA function.

During the year IA performed a risk-based audit programme aligned to the Group's strategic priorities, resulting in relevant individual and theme-based recommendations and insights to further strengthen the Group's control framework.

The Audit Committee has reviewed the annual IA plan, including its scope and extent, and reviews reports from IA at each Audit Committee meeting to monitor the function's achievements against plan. The Audit Committee considered the results of the audits undertaken by IA and monitored management responses to the audit matters raised.

EXTERNAL AUDIT

At the Committee's February 2018 meeting PwC set out its audit strategy, including the key items and risks to be reviewed, the overall scope and materiality thresholds for the half-year report and for the audit of the consolidated financial statements for the year ended 30 September 2018.

The Committee noted that PwC's audit plan identified areas of significant audit risk consistent with the previous year but with an increased focus on new systems and processes. In their controls reporting, PwC highlighted the progress made on managing the risk of segregation of duties conflicts in the Group's ERP systems.

The Audit Engagement Letter detailing the revised agreement for the provision of statutory audit and half-year review services was considered and approved.

INDEPENDENCE OF OUR EXTERNAL AUDITORS

In order to ensure the independence and objectivity of PwC, the Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that our external auditors may and may not provide and can be found on our website. Following the FRC's publication of the Revised Ethical Standard in June 2016, the policy was updated to embed audit tendering and rotation requirements, further extend the list of prohibited services and prohibit gifts and hospitality by or to the auditors. The updated policy has been applied from 1 October 2016.

PwC, and its predecessor firms, have been the Company's auditors since 1996. In line with our Auditor Independence Policy, the Group Audit Partner is required to rotate after a maximum of five years (seven years for subsidiary companies). John Maitland, our Audit Partner, had been in post since 2013 and was succeeded by Richard French for the financial year 2018.

The policy states that PwC may only provide non-audit services where those services do not conflict with its independence. It also establishes a formal authorisation process, including the tendering for individual non-audit services expected to generate fees in excess of £250,000, and pre-approval by the Committee for allowable non-audit work that PwC may perform. Guidelines for the recruitment of employees or former employees of PwC, and for the recruitment of our employees by PwC, are contained in the policy.

During the year PwC undertook limited non-audit work. This non-audit work was awarded to PwC due to its knowledge of the Group and it being deemed best placed to provide effectively the services required. This non-audit work included verification of our corporate social responsibility reporting and underlying processes.

In the current year non-audit fees were 3 per cent (2017: 3 per cent) of total audit fees (see note 4 on page 97). Following the auditor independence reviews during the year, the Committee concluded that the level of non-audit fees is appropriate in the light of the above activities and the Committee does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

To ensure compliance with this policy, during the year the Committee carried out two auditor independence reviews, including consideration of the remuneration received by PwC for audit services, audit-related services and non-audit work. The Committee also considered reports by both management and PwC, which did not raise any concerns in respect of PwC's independence, and confirmed that PwC maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by PwC was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work. The Committee therefore confirmed that the Company and Group continue to receive an independent audit service.

AUDIT QUALITY

We place great importance on ensuring that we receive a high-standard and effective external audit. To assist the Committee in assessing the performance of our external auditors, during the year audit effectiveness questionnaires, covering the audit scope and planning, quality and delivery, challenge and communication, and independence, were completed by members of both the Committee and Logista's Audit Committee as well as by senior managers and finance executives from across the Group. Responses indicated that, as with previous reviews, there was a perception of consistently high auditor effectiveness, with no pervasive Group-wide concerns identified.

Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of PwC's reports to the Committee and its interaction with the Group Audit Partner, the Committee remains satisfied with the efficiency and effectiveness of the audit.

APPROACH TO AUDIT TENDER

The Committee annually considers if the audit should be put out to tender. The decision from the review during this year was not to put the audit out to tender. The audit has not been put to tender since PwC were appointed as the Company's auditors in 1996.

The audit tender will be completed at the latest by the year ending 30 September 2021 so that the incoming external audit firm can take up the role for the year ending 30 September 2023. The Committee will determine a timeframe for the audit tender that is in the best interests of the Company and its members.

We believe it is in the interest of both the Group and its stakeholders to ensure that the pool of major accountancy firms with the capacity to be appointed as external auditor is maximised. As part of our tender planning we have, therefore, established a number of processes including the pre-approval of any future services by appropriate accountancy firms to maintain an adequate level of independence to allow them to tender. During the auditor independence reviews detailed above, we also considered the remuneration for audit services, audit-related services and non-audit work undertaken by such accountancy firms.

There are no contractual or similar obligations restricting the Group's choice of external auditors.

The Company confirms that it has complied with the provisions of the Competition and Market Authority's Order for the financial year under review.

STATEMENT OF AUDITORS' RESPONSIBILITIES

PwC is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Brands PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report as required by legislation or regulation and reports its opinion to members.

Turn to page 77
for further details on PwC's opinions

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Directors in office at the date of approval of this Annual Report confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by PwC in connection with preparing its report) of which PwC is unaware; and
- each has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish PwC is aware of that information.

The Board accepted, at its October 2018 meeting, the Committee's recommendation to put to shareholders at the forthcoming AGM a resolution to reappoint PwC as auditors to the Company.

For the Board

KAREN WITTS
Chairman of the Audit Committee

APPLICATION OF THE UK CORPORATE GOVERNANCE CODE

The latest revision of the UK Corporate Governance Code (the Code) was published by the FRC in July 2018 and will apply to the Company from its accounting period starting 1 October 2019. The Company's first Annual Report under the New Code will be published in December 2020. We are currently reviewing the implications and the actions required to meet the amended provisions.

We confirm that the Company has complied in full with the April 2016 Code throughout this financial year.

We detail below how (in practice) the Company has applied the 2016 Code's principles and complied with its detailed provisions.

THE BOARD AND ITS COMMITTEES

Each of our Board Committees has specific written terms of reference issued by the Board, adopted by the relevant Committee and published on our website. All Committee chairmen report on the proceedings of their Committee at the next meeting of the Board and, where appropriate, make recommendations to the Board. In addition, minutes of Committee meetings are ordinarily circulated to all Board members.

To ensure Directors are kept up to date on developing issues and to enhance the overall effectiveness of the Board and its Committees, our Chairman and Committee chairmen communicate regularly with the Chief Executive and other Executive Directors.

Our NEDs play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee are considered on pages 37 to 41 and 58. The open atmosphere at our Committee meetings enables our NEDs to use their experience and independence to review critically and, where appropriate, challenge constructively strategies and judgements proposed by management. This ensures the further development of our business, effective use of our resources and maintenance of our high standards of conduct.

MATTERS RESERVED FOR THE BOARD

In order to retain control of key decisions the Board has adopted a schedule of matters on which it must make the final decision. During the year such decisions included approval of the Group's financial statements, the Group's business strategy, its three-year corporate plan, major capital expenditure, material investments or disposals and changes to the Group's principal policies (including treasury and tax).

DIVISION OF RESPONSIBILITIES OF OUR CHAIRMAN AND CHIEF EXECUTIVE

Working together with the Board, our Chairman and Chief Executive are responsible to our shareholders for the successful delivery of our strategy. They maintain a close working relationship, whilst having clearly defined and separate responsibilities divided between running the Board and the business. They speak regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making.

Board composition and roles

Chairman	**Mark Williamson**	Leads the Board and creates an environment that ensures there are strong links between the Board and our shareholders and management. Mark met the independence criteria of the Code on appointment and there have been no significant changes to his external commitments subsequent to his appointment.
Chief Executive	**Alison Cooper**	Supported by the Executive Directors and the OPEX, Alison has day-to-day management responsibility for the Group, for recommending the Group's strategy to the Board and, once agreed, its implementation. Alison and the Executive Directors actively promote the Group's values, culture and high standards of conduct and behaviour, which underpin our reputation and support the delivery of our sustainable sales growth.
Executive Directors	**Oliver Tant** **Matthew Phillips**	Support the Chief Executive in devising and implementing our strategy and overseeing the operations and development of the entire Group, in addition to specific responsibility for managing their own areas of the business.
Senior Independent Director	**Malcolm Wyman**	Responsible for assisting the Chairman with effective shareholder communication and is available to shareholders should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. Malcolm is available to our NEDs should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman. He also acts as a sounding board for the Chairman and carries out the Chairman's performance evaluation.
Non-Executive Directors	**Therese Esperdy** **Simon Langelier** **Steven Stanbrook** **Karen Witts**	Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse range of business and financial expertise which complements and supplements the experience of the Executive Directors.

CONFLICTS OF INTEREST AND INDEPENDENCE

Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. In accordance with the Companies Act 2006 (the Act), our Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit.

Directors are required to give notice of any potential situational and/or transactional conflicts, which are considered at the following Board meeting and, if appropriate, situational conflicts are authorised. We do not allow any Director to participate in such considerations or to vote regarding their own conflicts.

The Board has considered and authorised a number of situations, all of which relate to the holding of external directorships and have been entered in our Conflicts Register. No actual conflicts have been identified. The Board considers that these procedures operate effectively.

As part of our annual review process, during the Board meeting in September 2018 we reviewed and reconsidered all situations entered in the Conflicts Register and the Board is satisfied that the independence of those Directors who have external board appointments has not been compromised. At this meeting, and taking into account the annual Board performance evaluation discussed below, the Board concluded that all our NEDs continue to contribute effectively and constructively to Board debate, demonstrate commitment to their role, challenge objectively and question management robustly and at all times have the best interests of our shareholders in mind. We confirm, therefore, that, with the exception of our Chairman, who met the independence criteria of the Code on appointment, our NEDs remained independent throughout the year as defined in the Code.

EXTERNAL APPOINTMENTS

NEDs, including the Chairman, may serve on a number of other boards provided they continue to demonstrate the requisite commitment to discharge their duties effectively. The Succession and Nominations Committee reviews the extent of the NEDs' other interests throughout the year. The Board is satisfied that each of the NEDs commits sufficient time to their duties in relation to the Company. The Chairman and each of the NEDs has confirmed they have sufficient time to fulfil their obligations to the Company.

The Board is supportive of Executive Directors and members of the OPEX accepting non-executive directorships of other companies in order to widen their experience and knowledge for the benefit of the Company. Accordingly, subject to the agreement of the Board, Executive Directors and members of the OPEX are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment.

INFORMATION AND TRAINING

Following their appointment to the Board, Directors are briefed on the legal and other duties they owe to the Company. Tailored induction programmes are arranged which include, where needed, industry-specific training, visits to the Group's businesses and meetings with senior management. They are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance-related matters.

Through its 'NEDucation' programme the Company is also committed to the continuing development of its NEDs in order that they may build on their expertise and develop their understanding of our business. Through this programme ongoing training and updates are available and provided to NEDs. We also provide regular briefings to all Directors on matters such as legislation and regulation changes, and corporate governance developments.

Members of our Audit and Remuneration Committees also received briefings from their respective advisers.

By way of example, we held our March 2018 Board meeting in Amsterdam, visiting Fontem for sessions focusing on how our NGP strategy is being executed. In addition, the June 2018 Board meeting was dedicated to Group strategy and planning, including delivering accelerated growth in NGP, continuing to maximise returns in tobacco, enabling success with an agile and lean organisation and optimising capital allocation.

To enable them to discharge their responsibilities, the Board and its Committees are supplied with full and timely information, including detailed financial information.

The Company Secretary is responsible for advising the Board, through the Chairman, on matters of corporate governance. In addition, all Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters.

Independent professional advice is available to Directors, in appropriate circumstances, at the Company's expense.

PERFORMANCE EVALUATION

To enhance the effectiveness of the Board, during the year it undertook an in-house review of its performance.

This review considered Board composition, skills and expertise, the overall functioning of the Board, decision-making, risk, strategy, succession planning and talent. As part of the evaluation, the Chairman held meetings with the NEDs to consider, amongst other things, the performance of the Executive Directors. In addition, the Chairman held one-on-one meetings with each of the Board members to discuss their performance on the Board. The Senior Independent Director also held separate meetings with individual Board members and the Board as a whole, without the Chairman present, to consider the performance of the Chairman.

The feedback obtained was collated into a report which was presented to the Succession and Nominations Committee and the Board at their September 2018 meetings.

The evaluation showed that the Board continues to function and perform effectively. No significant areas for concern or any requirement to provide extra training for our Directors were identified. The evaluation confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees and that they remain appropriately constituted.

Areas identified for further consideration included continuing to build on the engagement and trust of the Board as a whole, ongoing regular reviews of the strategy to ensure it is being implemented, evolving and relevant; and ongoing focus on succession and talent.

We addressed the areas raised for consideration in the 2017 evaluation as follows:

Area for consideration	How we addressed this area
Maximising the use of NED skill-sets	We have increased the involvement of NEDs outside the Board calendar to leverage their experience in areas that can benefit the business.
Optimising the use of the Board's time	We have focused Board attention on key strategic issues, and managed the preparation and running of Board meetings to maximise the value-add.
Continued focus on succession	We built on the momentum created in 2017.

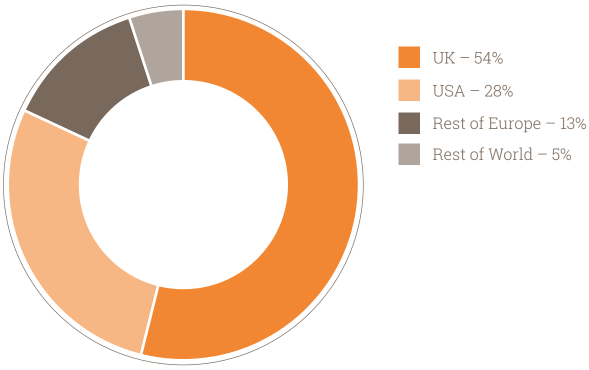
INSURANCE AND INDEMNITIES

During the year the Company purchased and maintained appropriate insurance cover in respect of directors' and officers' liabilities. Qualifying third-party indemnity arrangements for the benefit of Directors, in a form and scope which comply with the requirements of the UK Companies Act 2006 (the Act), were in force throughout the year and up to the date of this Annual Report.

DIALOGUE WITH OUR INVESTORS

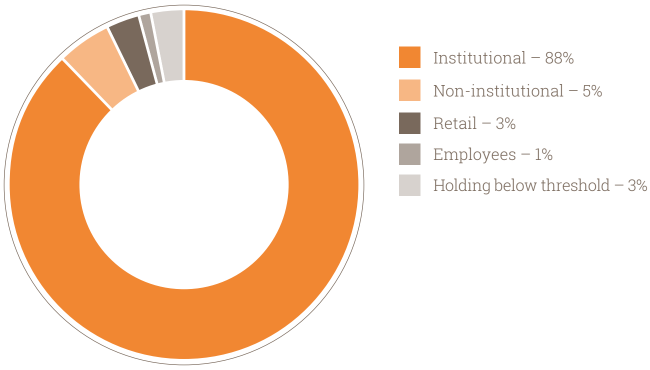
GEOGRAPHICAL ANALYSIS OF SHAREHOLDERS

(as at 30 September 2018)



SHAREHOLDER COMPOSITION

(as at 30 September 2018)



We aim to provide balanced, clear and transparent communications which allow all our shareholders to understand how we see our prospects and the market environments in which we operate.

We maintain an active engagement with our key financial audiences, including institutional shareholders, debt stakeholders and sell-side analysts, as well as potential shareholders. Over the course of the year our Investor Relations and management teams held a total of 620 meetings with these stakeholders. During the year we made regular presentations to, and had meetings with, institutional investors from the UK, Europe, USA and Asia to communicate progress towards achieving our tobacco maximisation and NGP growth strategy and answer questions.

We held a webinar on our tobacco maximisation strategy in July 2018 for investors and analysts. The webinar provided details on the industry environment, how we prioritise markets, how we use our MRM model to execute in market and how we use a lean operating model to effectively allocate capital. The webinar focused on three of our priority markets: the USA, UK and Germany.

In February 2018 we hosted an evening event for investors and analysts so they could experience our new blu products; attendees were introduced to *my*blu, our new pod system, blu ACE, our advanced tank system, and were shown a number of new innovations including 3D flavours and our innovations in future pod designs.

In September 2018 we held a capital markets event which focused on how we are 'building blu' and updated the market on our progress in the NGP space. The event showed investors how we are delivering something better for the world's smokers. It also highlighted the additive opportunity for Imperial, including how we have built a compelling proposition, how we are executing in markets and how we see NGP delivering returns for shareholders.

Throughout the year our senior management team presented at industry conferences organised by investor bodies and investment banks for their institutional investor bases. Our Investor Relations and management teams managed the interaction with these audiences and provided additional regular presentations during the year.

We also undertake an annual investor perception audit, which is shared with the Board to keep Directors up to date with investor feedback and perceptions of the business.

In addition, the Chairman held meetings with various shareholders over the course of the year. Our NEDs, including the Senior Independent Director, were also available throughout the year to meet with major shareholders, if requested, and were kept up to date with investor views.

Our next AGM will be held on 6 February 2019, full details of which are contained in the Notice of Meeting available on our website and, where applicable, posted with this Report. We ensure our Annual Report and Accounts and Notice of AGM are made available at least 20 working days prior to the meeting to allow shareholders time to consider them fully before submitting their proxy votes.

At the AGM our Chairman and Chief Executive give presentations on our performance and current business activities. Directors make themselves available to meet shareholders after the conclusion of the formal business of the meeting.

To ensure compliance with the Code, at all general meetings, separate resolutions are proposed on each subject and all resolutions are put to a poll. The number of proxy votes for, against and abstentions for each resolution received are provided at the meeting. Votes received at the meeting are added to the proxy votes and the final results published through a Regulatory Information Service, on our website and via OTCQX.

At our 2018 AGM we received votes representing approximately 79 per cent of our issued share capital (excluding shares held in treasury at the date of the meeting).

OTHER INFORMATION – INTRODUCTION

One of the Board's primary responsibilities is to ensure the Company is run in the best long-term interests of its shareholders and wider stakeholders. We believe this can only be achieved if the activities of the Group are supported by appropriate environmental, sustainability and governance processes applied across the Group.

These processes are illustrated below and in the individual Committee reports.

In accordance with the Act the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Act, is included in the Strategic Report. The information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the Chief Executive's Statement;
- information relating to our people is included in the Responsible Operations and People section on pages 33 and 34;
- our principal risks are detailed on pages 24 to 29;
- information relating to our Sustainability approach that support our growth agenda are included on pages 30 to 34;
- governance is covered on page 35; and
- the Directors of the Company are listed on pages 36 and 37.

SHARE CAPITAL

Details of our share capital are shown in note 24 to the financial statements. All shares other than those held in treasury are freely transferable and rank pari passu for voting and dividend rights.

At our AGM on 7 February 2018 shareholder authority for the buyback of up to 95,370,000 shares was obtained.

As at 30 September 2018 we held 77,289,137 shares in treasury, which represented 7.49 per cent of issued share capital and had an aggregate nominal value of £7,728,914.

We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve and they represent a deduction from equity shareholders' funds.

At 30 September 2018 we had been notified of the following interests in 3 per cent or more of our shares and there have been no changes to this information up to the date of this Annual Report.

	Number of ordinary shares (millions)	Percentage of issued share capital
BlackRock Inc.	53	5.59[1]
Capital Group Companies Inc.	48	5.00[1]

1. Indirect holding.

We have not received notification that any other person holds 3 per cent or more of our shares.

The share interests of the Directors, their families and any connected persons are shown on page 72. Other than as disclosed on page 72, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

Information concerning employees and their remuneration is given in note 6 to the financial statements and in the Directors' Remuneration Report.

FINANCIAL RESULTS AND DIVIDENDS

We include a review of our operational and financial performance, current position and future developments in our Strategic Report.

The profit attributable to equity holders of the Company for the financial year was £1,368 million, as shown in our Consolidated Income Statement. Note 3 to the financial statements gives an analysis of revenue and operating profit.

An analysis of net assets is provided in the Consolidated Balance Sheet and the related notes to the financial statements.

We pay quarterly dividends. The first and second dividends for financial year 2018 were paid on 29 June 2018 and 28 September 2018 respectively. The third dividend will be paid on 31 December 2018 and, subject to AGM approval, the final dividend will be paid on 29 March 2019 to our shareholders on the Register of Members at the close of business on 22 February 2019. The associated ex-dividend date will be 21 February 2019.

The Directors have declared and proposed dividends as follows:

£ million	2018	2017
Ordinary shares		
Interim paid – June 2018, 28.435p per share	271	247
Interim paid – September 2018, 28.435p per share	271	247
Proposed interim – December 2018, 65.46p per share	624	569
Proposed final – March 2019, 65.46p per share	624	569
Total ordinary dividends, 187.79p per share (2017: 170.72p)	1,790	1,632

RELATIONS WITH OTHER STAKEHOLDERS

RESPONSIBLITIES TO A BROAD STAKEHOLDER GROUP

As highlighted in the Sustainability Review, our values and culture emphasise our focus on doing things in the right way. This includes considering the Group's responsibilities to a broad group of stakeholders. As a responsible and sustainable company this has been part of our continued and embedded approach for a number of years.

Further details are provided on our website within our 'Sustainability' section and captured in a downloadable pdf entitled 'Responding to our Stakeholders'.

http://www.imperialbrandsplc.com/sustainability/approach/responding-to-our-stakeholders.html

CHARITABLE AND POLITICAL DONATIONS

As part of our responsible approach, we continued to support a number of communities in which we operate by allocating a well-considered central budget. In addition to our central budget a number of our subsidiaries donate to charitable and community endeavours from local budgets. We further support community activities through in-kind activities including management time, volunteering and gifts in-kind. Globally we continued our Group-wide volunteering initiative supporting various local communities.

All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to EU political parties, organisations or candidates (2017: Nil). This approach is aligned with our Group Policy and Code of Conduct.

PENSION FUND

The Group has three main pension arrangements, the largest being the Imperial Tobacco Pension Fund, which is not controlled by the Board but by a trustee company, the board of which consists of five directors nominated by the Company, one director nominated by employee members and two directors nominated by current and deferred pensioners. This trustee company is responsible for the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose.

Turn to page 64
Further details are contained in our Remuneration Report.

ARTICLES OF ASSOCIATION

The Company's Articles of Association do not contain any entrenchment provisions and, therefore, may be altered or added to, or completely new articles may be adopted, by special resolution, subject to the provisions of the Companies Act 2006.

SIGNIFICANT AGREEMENTS THAT TAKE EFFECT, ALTER OR TERMINATE ON CHANGE OF CONTROL

The agreements summarised below are those which we consider to be significant to the Group as a whole and which contain provisions giving the other party or parties a specific right to terminate them if we are subject to a change of control following a takeover bid.

The Group has five credit facility agreements that provide that, unless the lenders (as defined within each agreement) otherwise agree, if any person or group of associated persons and/or any connected persons acquires the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the respective borrowers (as defined within each agreement) must repay any outstanding utilisation owed by them under the respective facility agreement and the total commitments under that facility agreement will be cancelled.

The five credit agreements are:

- a credit facilities agreement dated July 2014 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited: (a) committed acquisition credit facilities originally across three tranches of $4,100 million, $1,500 million and $1,500 million, for a maximum period of up to three years, four years and six years respectively; (b) committed credit facilities originally of €1,000 million for a period of up to three years; and (c) committed credit facilities in two tranches of €2,835 million and £500 million for a period of up to five years. The Group has subsequently either repaid, cancelled or extended certain of these facilities, such that as at 30 September 2018 the following remained outstanding: committed credit facilities of €2,835 million until July 2021 and £500 million until July 2021; and
- four credit facility agreements dated April and May 2018 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited committed credit facilities of €300 million, €285 million, €300 million and €287.5 million for a period of up to two years.

In addition, seven deeds of counter-indemnity each dated July 2017 made on substantially the same terms under which certain insurance companies (the Sureties) have made available to the Company, Imperial Brands Finance PLC and Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £600 million, until January 2023.

If any person or group of associated persons (as defined within each agreement) acquire the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the Sureties may demand that Imperial Tobacco Limited, amongst other things, pay a sum to a cash collateral account equal to but not exceeding the aggregate amount outstanding under each Guarantee.

Imperial Brands Finance PLC (the Issuer) has issued bonds under a Euro Medium Term Notes (EMTN) Debt Issuance Programme (as noted below). The Company acts as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at its nominal value if: (a) any person, or persons acting in concert or on behalf of any such person(s), becomes interested in: (i) more than 50 per cent of the issued or allotted ordinary share capital of the Company; or (ii) such number of shares in the capital of the Company carrying more than 50 per cent of the voting rights normally exercisable at a general meeting of the Company; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds issued in such manner are as follows:

- 15 September 2008 £600 million 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000 million 9 per cent guaranteed notes due 2022;
- 24 June 2009 £500 million 7.75 per cent guaranteed notes due 2019;
- 26 September 2011 £500 million 5.5 per cent guaranteed notes due 2026;
- 1 December 2011 €750 million 5 per cent guaranteed notes due 2019;
- 28 February 2014 €1,000 million 2.25 per cent guaranteed notes due 2021;
- 28 February 2014 €650 million 3.375 per cent guaranteed notes due 2026;
- 28 February 2014 £500 million 4.875 per cent guaranteed notes due 2032;
- 27 January 2017 €500 million 0.5 per cent guaranteed notes due 2021; and
- 27 January 2017 €500 million 1.375 per cent guaranteed notes due 2025.

Imperial Brands Finance PLC has also issued bonds in the United States of America under the provisions of Section 144a and Regulation S respectively of the US Securities Act (1933). The Company acts as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at 101 per cent of its nominal value if: (a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock; or (ii) there is a transfer (other than by merger, consolidation, amalgamation or other combination) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act); or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity; and (b) as a result of the change of control, there is a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms.

The bonds issued in such manner are as follows:

- 11 February 2013 $1,000 million 3.5 per cent guaranteed notes due 2023;
- 21 July 2015 $1,250 million 2.95 per cent guaranteed notes due 2020;
- 21 July 2015 $1,250 million 3.75 per cent guaranteed notes due 2022; and
- 21 July 2015 $1,500 million 4.25 per cent guaranteed notes due 2025.

UPDATE ON TOBACCO-RELATED LITIGATION

ITALY

We are currently facing two claims in Italy. The first is against Logista, which is the subject of a challenge on grounds of jurisdiction and the admission of evidence. This challenge was heard in 2006, but judgment is still awaited.

The second claim has been brought in the Court of Messina against Imperial Tobacco Italia and Reemtsma by two individuals claiming €800,000 in total. We have denied liability. The parties have filed their pleadings. The next step in the proceedings is a hearing at which the Judge will hear the parties' arguments regarding their requests for oral and expert evidence.

POLAND

In October 2017, Imperial Tobacco Polska SA (Imperial Polska) received notice that a claim has been filed against it in the Regional Court in Poznań by an individual claiming PLN 1,000,000 by way of compensation for alleged smoking related health effects. Imperial Polska denied the claim in full. At a hearing on 18 May 2018, the Court dismissed the claim in full. On 18 July 2018, the claimant filed an appeal. Imperial Polska filed a reply on 10 August 2018. Imperial Polska is currently awaiting the scheduling of the hearing by the Appellate Court in Poznań.

ARGENTINA

Our subsidiary, Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA), has been notified of a claim filed in the Court of Buenos Aires against Nobleza Piccardo by an individual smoker. Nobleza Piccardo has denied liability. Nobleza Piccardo manufactures and distributes two brands of cigarettes owned by SEITA in Argentina under the terms of a Licence Agreement. Nobleza Piccardo has sought to invoke an indemnity contained in the Licence Agreement, pursuant to which SEITA is responsible for any product liability to third parties. The amount claimed is AR$8,980,200. The claim is currently in the evidence production period, during which all expert and witness evidence will be produced.

RUSSIA

In August 2016, a claim was filed in the Russian Court against 18 tobacco companies including JSC Imperial Tobacco Yaroslavl by an individual claiming RUB 523,480,297 and other amounts related to the profits of the defendants. Imperial was notified of the claim by the Russian Court in February 2017. The claim was dismissed in full at a hearing in April 2017. The claimant appealed the decision. The appeal was heard in July 2017 by Moscow Court's Judicial Panel for Civil Cases. The appeal was dismissed in full. No appeal has been filed and the deadline to do so has now expired.

MOROCCO

In June 2015, a claim was filed in the Casablanca Court by the heirs of a deceased individual against our Moroccan subsidiary, Société Marocaine des Tabacs (SMT). The total amount of compensation sought was not specified. In February 2016, the Casablanca Court found in favour of SMT and dismissed the claim. No appeal has been filed.

THE NETHERLANDS

Since September 2016, various complaints have been lodged with the Public Prosecution Service in the Netherlands directed at the local entities of four major tobacco manufacturers, including Imperial Tobacco Benelux. On 22 February 2018, the Public Prosecution Service announced that it had decided not to prosecute the matter. Subsequently, a complaints procedure was lodged with the court of appeals in The Hague, requesting the court of appeals to order the Public Prosecution Service to prosecute the case. The court of appeals has noted that it expects to decide on the matter in December 2018.

FRANCE

On 16 January 2018, the French National Committee against Tobacco (the CNCT), filed a criminal complaint with the Paris Public Prosecutor against the four main tobacco manufacturers, including a French subsidiary of Imperial Brands named Imperial Brand Finance France (the Subsidiary), on grounds of 'reckless life endangerment'. Neither the Subsidiary nor any of its employees or managers have been charged or placed under formal investigation in any on-going proceedings, as a result of such a complaint. Imperial Brands strongly denies the allegations made by the CNCT and is monitoring the developments.

USA

A number of smoking and health-related claims have been brought against ITG Brands in the state courts of Massachusetts. ITG Brands has the benefit of an indemnity from another manufacturer in respect of each of these claims. As a result, ITG Brands either has been dismissed, or is expected to be dismissed, without prejudice from each of the claims.

To date, no action has been successful or settled in favour of any claimant in any tobacco-related litigation against Imperial Brands or any of its subsidiaries.

UPDATE ON USA STATE SETTLEMENT AGREEMENTS

Claims have been made against ITG Brands (ITGB) in connection with its acquisition of certain US cigarette brands in June 2015 and in respect of three of the four US states that are not parties to the Master Settlement Agreement, Florida, Minnesota and Texas. An action was filed against ITGB claiming payments under the Florida settlement agreement, but in December 2017 the Florida court ruled that RJR Tobacco (Reynolds) and not ITGB were liable for the payments concerned. A complaint has also been filed by Minnesota, but no substantive findings are expected before June 2019. Texas has made a claim for settlement payments, but no litigation has yet been filed. In addition, the Delaware court has issued various rulings in connection with the asset purchase agreement (APA), through which ITGB acquired the US brands, which are consistent with the Group's position that ITGB has satisfied its obligations under the APA. There are currently no ongoing proceedings in Delaware. The Group's legal advice is that it has a strong position on all pending claims and the Group therefore considers that no provision is required for these matters.

UPDATE ON E-VAPOUR-RELATED LITIGATION

We are defending a case in the USA filed in California state court against Fontem U.S. The complaint names seventeen defendants in addition to Fontem U.S. This case seeks the recovery of unquantified monetary damages, including punitive damages, against all defendants based on the claim that the principal plaintiff was injured as a result of the use of e-cigarettes and vaping devices, including e-cigarettes manufactured by Fontem U.S. Fontem U.S. has not yet filed an answer to the complaint, but has filed motions to dismiss three of the purported causes of action asserted in it. Motions to dismiss filed by other defendants in the case have been heard and sustained by the Court, with leave given to the plaintiffs to replead. Plaintiffs' counsel has indicated that an Amended Complaint would be filed. We intend to vigorously defend this case.

We have concluded our defence of one e-vapour-related claim in the USA. This was a consolidation of two purported class actions seeking to recover unquantified damages, including punitive damages. The claim has been resolved through the filing on 17 September 2018 of a dismissal with prejudice of the entire action.

Imperial Brands has been advised by its lawyers that it has meritorious defences to the ongoing legal proceedings set out above. We will continue vigorously to contest all such litigation against us.

OTHER INFORMATION – LISTING RULES

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found on the pages set out below:

Section	Information	Page
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	56, 57, 63, 65, 68, 69, and 71
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	62, 65, 66, and 71
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Non pre-emptive issue by major subsidiary undertakings	Not applicable
(9)	Listed subsidiary	Not applicable
(10)	Contracts of significance	52 and 53
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	See below
(13)	Shareholder waivers of future dividends	See below
(14)	Agreements with controlling shareholders	Not applicable

In respect of LR 9.8.4R (12) and (13) the trustee of the Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust agrees to waive dividends payable on the Group's shares it holds for satisfying awards under various Imperial Brands PLC share plans. In accordance with Section 726 of the Act no dividends can be paid to the Company in respect of the shares it holds in treasury.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 36 and 37 confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

The Directors' responsibilities in relation to the disclosure of information to auditors is disclosed in the Audit Committee report on page 47.

The Strategic Report and the Directors' Report were approved and signed by order of the Board.

JOHN DOWNING
Company Secretary

6 November 2018

Imperial Brands PLC
Incorporated and domiciled in England and Wales No: 3236483

REMUNERATION AT A GLANCE

Remuneration outcomes for the 2018 financial year, in line with the policy approved by shareholders at the AGM in February 2018, are set out below.

PERFORMANCE

ANNUAL BONUS METRICS

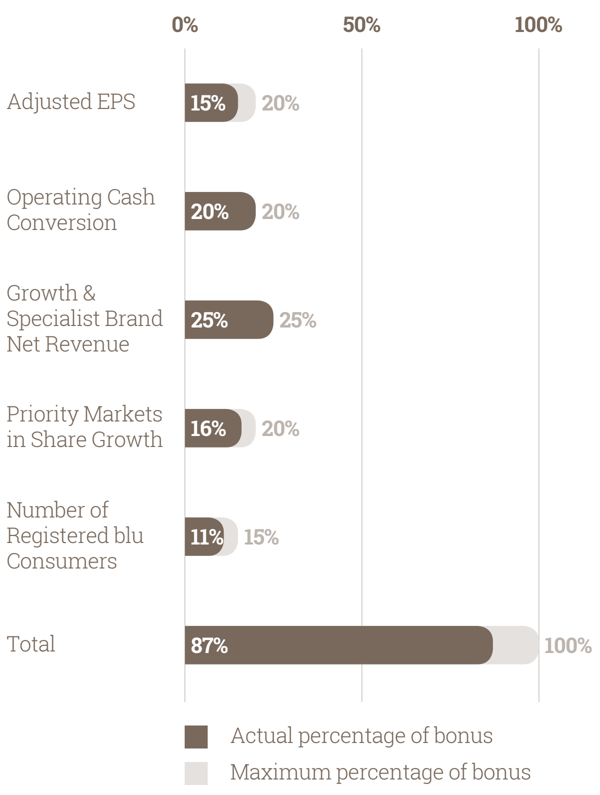
ADJUSTED EPS*	+5.0%
OPERATING CASH CONVERSION	97%
GROWTH & SPECIALIST BRAND NET REVENUE*	+8.0%
PRIORITY MARKETS IN SHARE GROWTH	50%
NUMBER OF REGISTERED BLU CONSUMERS	+635%

LONG-TERM INCENTIVE PLAN METRICS (3-YEAR)

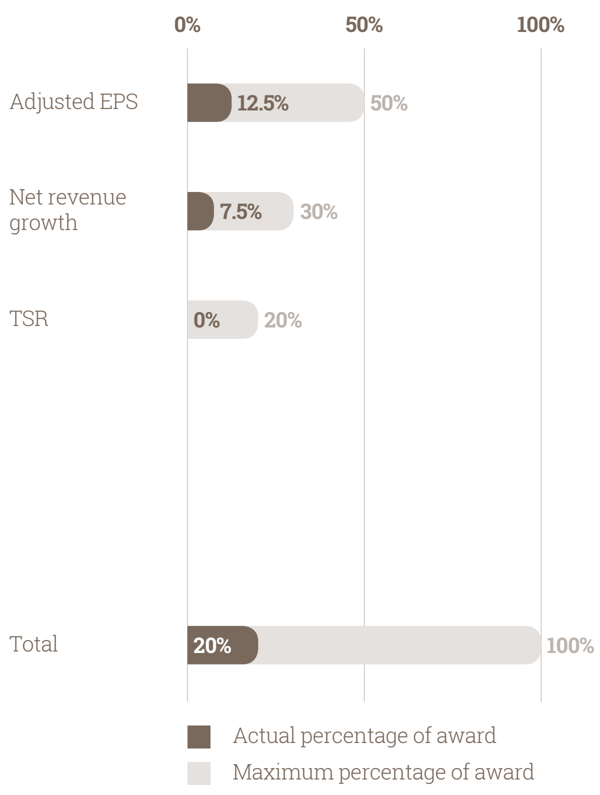
ADJUSTED EPS*	+5.0%
NET REVENUE*	+3.0%
TSR	-0.1%

* Measured at constant currency

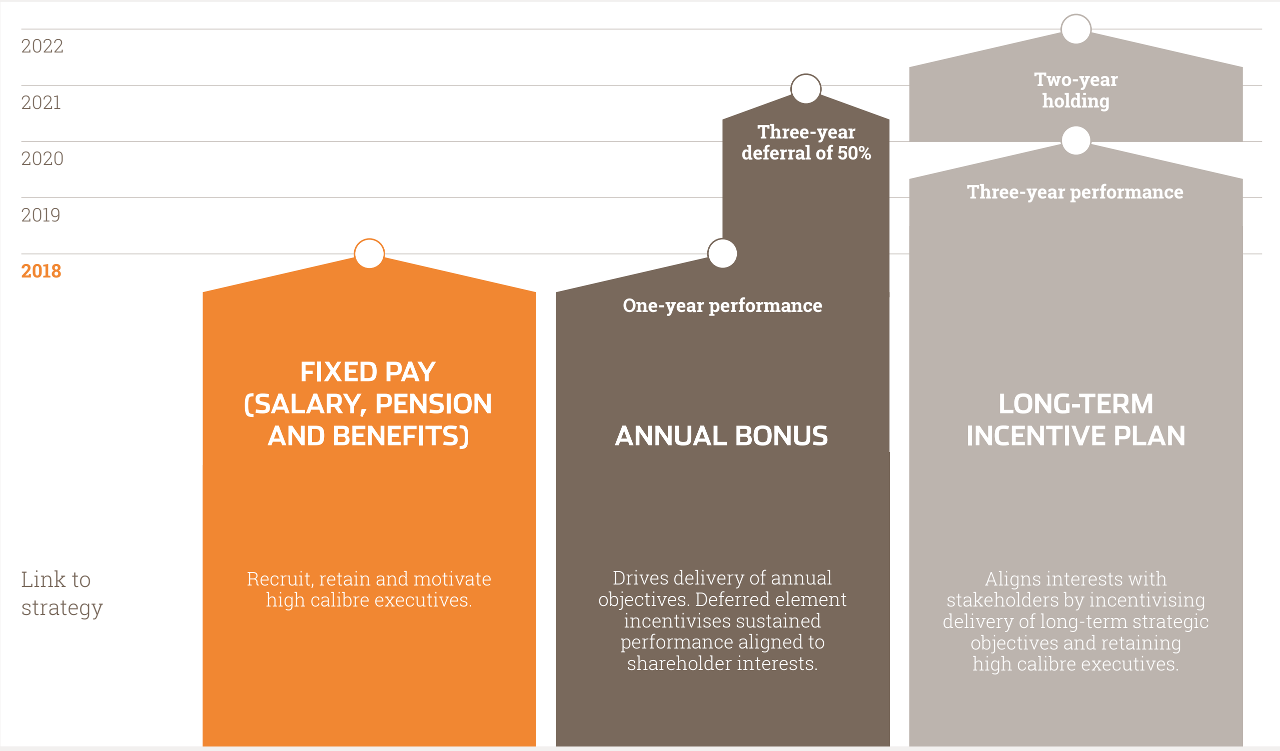
ANNUAL BONUS



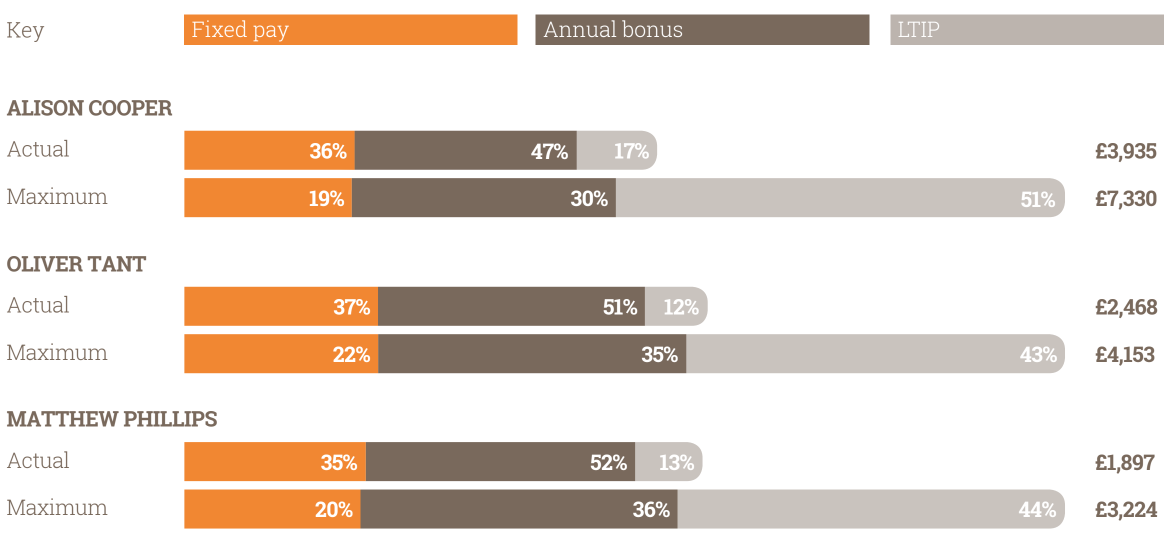
LONG-TERM INCENTIVE PLAN



OUR REMUNERATION POLICY



REMUNERATION IN 2018 (£000s)



REWARDING PERFORMANCE

"Our pay arrangements encourage Executive Directors and the management team to deliver our strategy. This is particularly important as we transition the Company to take advantage of opportunities provided by NGP."

MALCOLM WYMAN
Chairman

MEMBERS

Malcolm Wyman
Chairman (from 4 July 2018)
David Haines
Chairman (to 3 July 2018)
Steven Stanbrook
Karen Witts
Trevor Williams
Committee Secretary

OTHER REGULAR ATTENDEES

Board Chairman[1]
Chief Executive[1]
Group Company Secretary
Group Human Resources Director[1]
Group Reward and Capability Director
FIT Remuneration Consultants LLP, the Committee's principal adviser[2]

1. Specifically excluded when their own remuneration or conditions of service are under discussion.
2. Appointed by the Committee.

FOCUS IN 2018

- Following continued engagement with shareholders, we proposed the 'roll-over' of our remuneration policy at the 2018 AGM;
- Appointment of FIT Remuneration Consultants LLP as the principal adviser to the Committee; and
- Reviewed criteria for performance-related reward elements, further alignment with strategy and incentivising delivery of our NGP ambitions.

LOOKING AHEAD TO 2019

- Monitor and, where appropriate, implement remuneration governance developments;
- Ongoing review of alignment of remuneration to strategy and the appropriateness of reward outcomes;
- Further engagement with shareholders; and
- Review and implementation of changes to the Corporate Governance Code and reporting requirements.

DEAR SHAREHOLDER

A key responsibility of the Remuneration Committee is to ensure that remuneration structures and arrangements offer every encouragement to Executive Directors and the broader management team to deliver our strategy and create sustainable shareholder value. In doing this, the Committee has given consideration to your interests and those of the wider stakeholders and the communities we serve.

This is particularly important as we transition the Company to take advantage of the opportunity for rapid growth provided by NGP whilst, at the same time, maximising the profitability and cash flows from our tobacco business. The Committee has focused on maintaining alignment between our incentive metrics and the key priorities for the business, as well as on trying to ensure that the performance delivered by the Executive Directors is appropriately rewarded.

The Committee values its relationship with, and continued support from, shareholders and we were pleased to receive overwhelming support for our Directors' remuneration policy at the AGM in February 2018, which was approved with a 95.7 per cent vote in favour.

Pay for performance

As reported by Alison Cooper in her introduction to this year's Annual Report, 2018 has been another year of delivery against our strategy, in which the management team delivered continued momentum in tobacco and significantly enhanced performance in NGP. We grew share in many of our priority tobacco markets and overall tobacco net revenue grew by 0.9 per cent on a constant currency basis. Within this, our Growth and Specialist Brand revenues were up 8.0 per cent. Cash conversion was strong at 97 per cent and adjusted earnings per share, again on a constant currency basis, grew by 5.0 per cent. In NGP, the successful launch of *my*blu and blu ACE enabled the number of consumers participating in the brand to grow significantly during the year.

This performance is reflected in the Annual Bonus payments received by the Executive Directors. The bonus result of 87 per cent of maximum was achieved by strong delivery across all metrics and against tough targets.

The result of the LTIP, at 20 per cent vesting, reflects the fact that the targets for both EPS growth and net revenue growth were set by the Committee in 2015 before the considerable additional brand and market investments behind NGP and tobacco in 2017 and 2018 were agreed by the Board. The impact of the brand and market investments, taking into account both the level of investment and any in-year returns, has led to a reduction in LTIP vesting in 2018. The Committee believes that the decision taken by management to invest for future, sustainable growth was in the best interests of both the Company and its stakeholders, but it has clearly resulted in a reduction in LTIP remuneration this year.

Despite the level of LTIP vesting being negatively impacted by these investments, the Committee has taken the view that future years will benefit from these investments and has not, therefore, made any adjustment. Whilst not perfect, this approach avoids the need to consider complex adjustments in future years. The Committee will continue to monitor incentive results.

The Committee decided to award salary increases of 2.5 per cent to both Alison Cooper, Chief Executive, and Oliver Tant, Chief Financial Officer. This increase is appropriate in relation to the Executive Directors' contribution and in the context of a 2.9 per cent increase awarded to the wider UK workforce. An increase of 6.0 per cent was awarded to Matthew Phillips, Chief Development Officer, to reflect the increased importance and scope of his role in relation to the development agenda, including greater opportunities in heated tobacco, oral nicotine and cannabinoids, as well as our key focus on e-vapour.

Fees paid to the Chairman and to the Non-Executive Directors were reviewed. It was determined that the Chairman's fee should increase to £550,000 from £525,000. The Board, without the Non-Executive Directors, decided that the Non-Executive Directors should each receive an increase in the base fee of £3,000 per annum to £78,000. A portion of these fees is retained and used to purchase shares which must be retained for the duration of their appointment.

Looking forward to 2018/19

Whilst there is no change to policy, the Committee intends to make some changes to performance metrics in both the Annual Bonus and the Long-Term Incentive Plan. These changes reflect the current dual focus of our business; maximising our position and the cash flows from tobacco, whilst at the same time seizing the opportunities in NGP to deliver accelerated growth. The dynamics of these two businesses are very different, with incremental growth and a focus on cost efficiency in tobacco, but exponential growth (with high levels of uncertainty) and a focus on investment in NGP. In selecting metrics, the Committee has had to take these differences into account.

In order to reflect appropriately the importance of, and incentivise the delivery of, both tobacco and NGP revenues – and effectively deal with the different dynamics of each market – the Committee has decided to measure delivery in each category separately. Therefore, for financial year 2018/19, in both the Annual Bonus and the Long-Term Incentive Plan, we will adopt separate Tobacco Revenue Growth and NGP Revenue Growth metrics. Details are provided on pages 67 to 69, which includes an explanation of a change in approach for assessing the NGP Revenue Growth metric.

We recognise that, as a result of this, there is now a greater level of overlap of metrics between the Annual Bonus and the Long-term Incentive Plan than some shareholders will like. However, the Committee believes that, at this time, this is the most appropriate way to align metrics with the delivery of strategy. The Committee believes that metrics will need to continue to evolve as our NGP business grows and that this overlap will likely unwind in the medium term.

UK Corporate Governance Code and regulatory change

The Committee believes in balancing clear regulation with strong delegated authority for the Board to make decisions that are in the best interests of the Company and its stakeholders. The Committee is currently reviewing the implications of recent changes and, whilst the changes to the Code would not apply to Imperial until the financial year ending 2020, will look at bringing changes forward a year.

Whilst the Committee's primary purpose is the governance of pay for Executive Directors and senior management, we have always had oversight of pay policy across the wider workforce. The Committee has taken a keen interest in the gender pay gap reporting requirements (see our website for further information) and will continue to monitor progress in this important area.

Lastly, I would like to thank David Haines for his leadership of the Remuneration Committee over the past four years. Under David's chairmanship, the Committee developed clear remuneration principles and strengthened the alignment between pay and strategy. The Committee will continue to ensure that our approach to executive remuneration best supports the sustainable success of the Company, the interests of our shareholders and those of the wider stakeholders and communities we serve.

MALCOLM WYMAN
Chairman of the Remuneration Committee

KEY SECTIONS OF THIS REPORT ARE AS FOLLOWS:

GOVERNANCE

THE ROLE OF THE REMUNERATION COMMITTEE

The Board recognises that it is ultimately accountable for executive remuneration, but has delegated this responsibility to the Committee, all members of which are independent Non-Executive Directors. We consider this independence fundamental in ensuring Executive Directors' and senior executives' remuneration is set by people who have no personal financial interest, other than as shareholders, in the matters discussed.

To reinforce this independence, a standing item at each Committee meeting allows the members to meet without any Executive Director or other manager being present.

The Committee's key responsibility is to support the Company's strategy and its performance by ensuring the Directors' remuneration policy attracts, retains and incentivises the high calibre executives required to ensure delivery. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives.

The Committee's other responsibilities include:

- maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract and retain high calibre individuals;
- aligning senior executives' remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive;
- making recommendations to the Board in respect of our Chairman's fees;
- setting measures and targets for the performance-related elements of variable pay;
- oversight of our overall policy for senior management remuneration and of our employee share plans; and
- ensuring appropriate independent advisers are appointed to provide advice and guidance to the Committee.

The Committee's full terms of reference provide further details of its role and responsibilities and are available on our website.

This Report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this Report we describe how the principles of good governance relating to directors' remuneration, as set out in the UK Corporate Governance Code 2016 (the Code), are applied in practice. The Committee confirms that, throughout the financial year, the Company has complied with these governance rules and provisions.

The Regulations require our auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The auditors' opinion is set out on page 77 and we have clearly marked the audited sections of the Report.

REMUNERATION COMMITTEE MEETINGS 2017/2018

2017	2018	
November	**May**	**September**

– Directors' remuneration policy including update from consultation
– Finalise FY17 Directors' Remuneration Report
– Approval of FY18 Executive salary increases
– Variable remuneration
  – Approval of FY17 outcomes
  – Consideration of FY18 bonus targets
  – LTIP 2018 grant and performance criteria
– Approval of 2018 Sharesave grant
	– AGM voting and shareholder feedback
	– Market practice update
	– Review of policy
		– Market practice update
		– Potential outturn for FY18 bonus and LTIP
		– Consideration of FY19 salary and incentive structures
		– Review of Chairman's fees

ANNUAL REPORT ON REMUNERATION – HOW THE COMMITTEE IMPLEMENTED THE REMUNERATION POLICY FOR FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

IMPLEMENTING EXECUTIVE POLICY AND PRACTICE

In implementing the Directors' remuneration policy (as approved by shareholders at the 2018 AGM and set out on pages 56 to 61 of the Company's Annual Report and Accounts 2017, available on our website and summarised on page 71), the Committee recognises that striking the right balance in finding a fair outcome in setting a competitive level of total remuneration is a matter of judgement. In forming this judgement, the Committee considered pay data at comparator companies of similar scale, primarily looking at a market capitalisation group made up of 10 companies above and 10 companies below the Company in the FTSE, excluding financial services. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most, serve to define a 'playing field' against which an individual's reward should be positioned. In determining that positioning, the primary factors taken into account are the scale of the challenges intrinsic to that individual's role and their ability, experience and performance.

We align the interests of long-term shareholders and employees at all levels by, wherever possible, giving our employees the annual opportunity to build a shareholding in the Company through our employee share plans, with over 30 per cent of eligible employees participating in one or more plans.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED)

£'000	2018 Salary and fees	2017 Salary and fees	2018 Taxable benefits[1]	2017 Taxable benefits	2018 Annual bonus[2]	2017 Annual bonus	2018 Share plans vesting[3]	2017 Share plans vesting[3]	2018 Share-save vesting[4]	2017 Share-save vesting	2018 Pension benefits[5]	2017 Pension benefits	2018 Total	2017 Total
Executive Directors														
Alison Cooper	**1,077**	1,051	**17**	17	**1,874**	1,261	**654**	1,463	**1**	–	**312**	494	**3,935**	4,286
Oliver Tant	**718**	700	**16**	17	**1,249**	840	**297**	682	**–**	5	**187**	182	**2,467**	2,426
Matthew Phillips	**571**	557	**17**	23	**994**	668	**248**	414	**1**	–	**67**	257	**1,898**	1,919
	2,366	2,308	**50**	57	**4,117**	2,769	**1,199**	2,559	**2**	5	**566**	933	**8,300**	8,631
Non-Executive Directors														
Mark Williamson	**525**	525	**9**	3	**–**	–	**–**	–	**–**	–	**–**	–	**534**	528
Therese Esperdy[6,7]	**92**	98	**19**	16	**–**	–	**–**	–	**–**	–	**–**	–	**111**	114
David Haines[8, 9]	**80**	104	**3**	5	**–**	–	**–**	–	**–**	–	**–**	–	**83**	109
Simon Langelier [6,10]	**80**	25	**6**	2	**–**	–	**–**	–	**–**	–	**–**	–	**86**	27
Steven Stanbrook[6,7]	**92**	98	**4**	10	**–**	–	**–**	–	**–**	–	**–**	–	**96**	108
Karen Witts[8]	**106**	96	**3**	2	**–**	–	**–**	–	**–**	–	**–**	–	**109**	98
Malcolm Wyman[8]	**112**	104	**10**	2	**–**	–	**–**	–	**–**	–	**–**	–	**122**	106
	1,087	1,050	**54**	40	**–**	–	**–**	–	**–**	–	**–**	–	**1,141**	1,090

1. Taxable benefits principally include an allowance of £15,000 in lieu of the provision of a company car, fuel and health insurance. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.
2. Annual bonus earned for performance over the financial year ending 30 September 2018. In line with policy half of the net value is deferred in shares for three years; no further performance conditions apply.
3. Share plans vesting represent the value of LTIP awards where the performance period ends in the year and are based on a share price of £28.1657, being the three-month average to 30 September 2018 and an estimate of the dividend roll-up based on announced dividend payable on 31 December 2018 and the closing share price on 1 November 2018. The 2017 estimated figure has been restated to reflect actual share price at the date of vesting.
4. Gains made on exercise are calculated as the difference between the option price and the market price on the date of exercise. These sharesave options were the only options exercised in the year: 354 shares in respect of Alison Cooper and 212 shares in respect of Matthew Phillips.
5. Further details are contained in the Executive Directors' pension section on page 64.
6. Includes payment in respect of Committee membership at an annual rate of £5,000.
7. Therese Esperdy and Steven Stanbrook receive a non-European allowance of £12,000.
8. Includes payment in respect of Senior Independent Director fees of £26,000 per annum and chairmanship of Remuneration and Audit Committees at an annual rate of £26,000.
9. David Haines stepped down from the Board on 3 July 2018.
10. Simon Langelier was appointed to the Board on 12 June 2017.

All expense payments made to Directors were made on the basis of reimbursement of expenses incurred, grossed-up for tax where expenses represent a taxable benefit. No payments were made by way of taxable expenses allowances. No Directors waived their fees.

ADDITIONAL NOTES TO THE SINGLE TOTAL FIGURE OF REMUNERATION

This section sets out supporting information for the single total figure columns relating to annual bonus, share plans and pension benefits. In particular, it details the extent to which performance conditions have been satisfied for the annual bonus and the LTIP.

Payments to former Directors (Audited)
No payments were made to former Directors during the year.

Payments for loss of office (Audited)
No payments were made for loss of office during the year.

Determination of 2018 annual bonus
2018 was another year of delivery against our strategy, with continued momentum in tobacco and a significantly enhanced performance in NGP. With performance delivered across the full range of metrics, the annual bonus payment for the financial year ending 30 September 2018 is 87 per cent of maximum opportunity (2017: 60 per cent).

Performance below threshold results in zero payment. Payments rise from zero per cent at threshold to 100 per cent of opportunity at the maximum.

Performance against individual measures is set out below:

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency) KPI	Performance is measured based on EPS growth at constant currency. Overall top line growth of 2.1%, driven by tobacco growth combined with rapidly increasing NGP sales, plus strong cost control through the year resulted in EPS growth of 5.0%. This performance delivered a 75% achievement against a threshold of 2% and a maximum of 6% EPS growth, which reflected the impact of the continued investment in NGP.	20	15
Operating cash conversion KPI	Performance is measured as cash flow as a percentage of adjusted operating profit. Maximising cost and cash is core to our strategy, enabling us to improve efficiencies and release funds to support continued investment for growth. This continued focus on efficiently managing our cost base and a commitment to capital discipline delivered cash conversion of 97% in the year. This delivered a 100% achievement against a threshold target of 90% and a maximum target of 95%.	20	20
Revenue growth in Growth Brands & Specialist Brands KPI	Performance is measured based on revenue growth of our Growth Brands and Specialist Brands. Growth Brands and Specialist Brands have steadily increased their contribution to our overall results. With growth in the year of 8.0%, they now account for 67% of total revenue. This performance delivered a payment of 100% of opportunity against a threshold target of 0% and a maximum target of 5.0%.	25	25
Market share growth in priority markets	Non-financial measures consisted of a market share target reflecting how many of our priority markets are delivering share growth. Continued focus on implementing our MRM supported year-on-year growth in share in many of our ten priority markets, including UK, Russia, Japan, Italy and Saudi. This performance delivered an 80% achievement against a threshold target of 10% and a maximum target of 60% of our priority markets in growth.	20	16
Strategic objectives – growth in NGP	For 2018, our NGP focus was on expanding the blu franchise. This included product launches in a number of markets, together with improving the consumer experience, in order to build a consumer base that gives a platform for future sustainable revenue growth. The metric used for this initial phase of growth was 'growth in the number of consumers within the blu ecosystem'. This aligned two of the critical elements of building our consumer base, as to be counted within the metric, a consumer must have purchased blu products in the year and registered with *my*blu.com, thereby initiating an ongoing relationship with the brand. Successful launches of *my*blu and blu ACE led to an increase in the number of registered consumers from 82,000 in 2017 to 603,000 in 2018. This delivered a 75% achievement against a threshold target of 150,000 and a maximum target of 750,000 registered consumers.	15	11
Achievement of bonus for 2018		100	87

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 12 and 13.

No element of the annual bonus is guaranteed. Fifty per cent of earned bonus is paid in cash with the remaining 50 per cent paid in shares with a three-year retention period. Annual bonuses for Executive Directors and certain key executives are subject to malus provisions before payment and clawback during the three years following the end of the financial year in which they are earned. Clawback may be applied in the event of gross misconduct by the employee or misstatement of results where this had the effect of increasing the level of bonus that would otherwise have been paid.

Long-Term Incentive Plan

LTIP awards made to Alison Cooper, Oliver Tant and Matthew Phillips in February 2016 will vest in February 2019, subject to continued service, based on performance conditions, measured over the three years, as set out below.

The targets for both EPS growth and net revenue growth were set by the Committee above the normal levels of 3-8 per cent and 1-4 per cent respectively in order to take account of the one-off benefit from the acquisition of US assets. These targets were set in 2015 before the additional brand and market investment behind NGP and tobacco in 2017 and 2018 were agreed by the Board. The impact of the investments, taking into account both the level of investment and any in-year returns, has led to a reduction in LTIP vesting in 2018. The Committee believes that the decision taken by management to invest for future, sustainable growth was in the best interests of the Company and its stakeholders, but nevertheless has resulted in a reduction in the level of vesting this year.

Whilst the level of LTIP vesting has been negatively impacted by these investments, the Committee has taken the view that future years will benefit from these investments and has not, therefore, made any adjustment. It also avoids the need to consider complex adjustments in future years. The Committee will continue to monitor the overall impact of investment decisions on incentive results.

	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Percentage of award vesting
Adjusted EPS KPI,1	5% – 10% average annual growth	5.0%	12.5%	50%	12.5%
Net revenue growth KPI, 2	3% – 6% average annual growth	3.0%	7.5%	30%	7.5%
TSR against comparator group[3]	Threshold at median of peer group Pro rata between median and upper quartile Maximum above upper quartile	25th out of 38 companies	5%	20%	0%
Achievement					20%

1. The target range of 5% to 10% includes a one-off increase from normal targets of 3% to 8%. This was made by the Committee in consideration of the one-off impact of the acquisition of US assets.
2. The target range of 3% to 6% includes a one-off increase from normal targets of 1% to 4%. This was made by the Committee in consideration of the one-off impact of the acquisition of US assets.
3. The companies comprising the comparator group are:

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithkline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc	Pernod Ricard SA
Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rolls-Royce PLC	J Sainsbury PLC	Smith & Nephew PLC
Shire PLC	Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC
Whitbread PLC	WM Morrison Supermarkets PLC			

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 12 and 13.

The TSR calculations, performed independently by Alithos Limited, use the share prices of each comparator group company, averaged over a period of three months, to determine the initial and closing prices. Dividend payments are recognised on the date shares are declared ex-dividend. The Committee considers this method gives a fairer and less volatile result as improved performance has to be sustained for several weeks before it effectively impacts on the TSR calculations. PwC performs agreed upon procedures in respect of the EPS and net revenue growth performance conditions for the LTIP performance assessments.

Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our long-term shareholders. Annually we offer as many employees as practicable, including Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent of the closing mid-market price of our shares on the day prior to invitation. The Sharesave Plan allows participants to save up to £250 per month over a period of three years, and in the UK only three or, for grants in 2013 and earlier, five years, and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2018, Alison Cooper and Matthew Phillips had Sharesave Plans vesting. Details are included in the single total figure table on page 61.

Total Pension Entitlements (Audited)

The Executive Directors who served during the financial year are all members of the Imperial Tobacco Pension Fund (the Fund), which is the principal retirement benefit scheme operated by the Group in the UK.

Members who joined before 1 October 2010 are included in the defined benefit section of the Fund. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis, in the defined contribution section of the Fund.

Alison Cooper and Matthew Phillips are members of the pre-April 2002 section of the defined benefit section of the Fund. Prior to 6 April 2006 they accrued a non-contributory pension at the rate of 1/47th of their pensionable salary limited by the effect of HMRC's earnings cap. Although HMRC removed this cap from 6 April 2006, the Fund did not dis-apply it in respect of past pensionable service and maintained its own earnings cap going forward. For pensionable service from 6 April 2006 onwards Alison Cooper and Matthew Phillips accrue an additional pension at a rate of 1/60th of their pensionable salary in excess of the Fund's earnings cap. They pay member contributions at the rate of 5 per cent of their pensionable salary in excess of the Fund's earnings cap. Both Alison Cooper and Matthew Phillips receive a salary supplement of 12 per cent of their pensionable salary in excess of the Fund's earnings cap.

With effect from 1 September 2017, the Company introduced a cap on pensionable salary for active members such that pensionable pay will in future be limited to £75,000 or, if higher, the member's pensionable salary at 1 September 2017. Both Alison Cooper and Matthew Phillips now receive a salary supplement of 14 per cent on the difference between their capped pensionable salary and their actual salary.

Oliver Tant registered for Fixed Protection 2016 and opted-out of contributory membership of the defined contribution section of the Fund with effect from 1 April 2016. No pension contributions have been paid to the Fund by or in respect of him since this date. Instead the Company has paid him an additional salary supplement of 26 per cent of his salary from 1 April 2016.

The salary supplements have been calculated by the independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable. As stated in the Committee Chairman's letter last year, going forward the Committee intends to limit employer contributions for new Executive Directors to the same level (14 per cent) that is provided to other UK based employees.

Matthew Phillips elected to use the Fund's scheme pays facility to settle his Annual Allowance charge for the 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 tax years. His accrued pension was reduced by £19,678.79 a year (including revaluation) to offset these Annual Allowance charge payments. This reduction to pension is reflected in the accrued pension figure as at 30 September 2018 (it is also reflected in the value of the benefits as at 30 September 2018).

For Executive Directors who are members of the defined benefit section of the Fund, in accordance with the rules of the Fund and practice for all pre 2002 members, there would be no reduction to the accrued pension on early retirement if the reason for leaving the Company's employment is as a result of redundancy after the age of 50 or for the reason of business efficiency after the age of 55 or ill health at any age.

The following table provides the information required by Schedule 8 of the Regulations and gives details for each Executive Director of:

- the annual accrued pension payable on retirement calculated as if he/she had left service at the year-end;
- the normal retirement ages;
- the value of the pension benefits at the start and end of the year, as calculated in accordance with the Regulations;
- the value of the pension benefits earned over the year, excluding any Director's contributions and any increases for inflation, calculated in accordance with the Regulations; and
- any payments in lieu of retirement benefits.

None of the Executive Directors has made additional voluntary contributions.

Executive Directors' Pension Disclosures (Audited)

					Single figure numbers			Extra information to be disclosed under 2013 Directors' Remuneration Regulations		
			Accrued annual pension							
£'000	Age at 30/09/2018	Pensionable service at 30/09/2018	01/10/2017	30/9/2018	Payment in lieu of retirement benefits (i.e. pension supplement) £'000	Value x 20 over year (net of Director's contributions) £'000	Total pension benefits £'000	Normal retirement age	Value x 20 at start of year £'000	Value x 20 at end of year £'000
Alison Cooper	52	19	243	263	105	207	312	60	4,860	5,260
Matthew Phillips	47	18	128	134	44	23	67	60	2,560	2,680
Oliver Tant[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He registered for Fixed Protection 2016 and as a result opted-out of contributory membership of the Fund and ceased pension contributions with effect from 1 April 2016. Since this date Oliver Tant has received a salary supplement equal to 26 per cent of his basic salary and in the year to 30 September 2018 this amounted to £186,680.

Variable Award Grants Made During the Year (Audited)

In line with our remuneration policy in force from 2014 and re-approved by shareholders in February 2018, LTIP awards are made in February each year in order for any change in policy to be considered by shareholders immediately prior to grant.

The LTIP awards granted in February 2018 and the associated performance conditions are set out below.

	Number of nil-cost options	Face value[1]	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance criteria[2,3]
Alison Cooper	143,654	£3,769,500	350%	30 September 2020	25%	30%	3-year adjusted EPS growth
					25%	30%	3-year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
					25%	20%	3-year NGP revenue growth
Oliver Tant	68,407	£1,795,000	250%	30 September 2020	25%	30%	3-year adjusted EPS growth
					25%	30%	3-year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
					25%	20%	3-year NGP revenue growth
Matthew Phillips	54,401	£1,427,500	250%	30 September 2020	25%	30%	3-year adjusted EPS growth
					25%	30%	3-year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
					25%	20%	3-year NGP revenue growth

1. Valued using the closing share price at the date of grant (14 February 2018) being £26.24 per share.
2. Vesting occurs as per the vesting schedule below.
3. Key performance indicators used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 12 and 13.

EPS element

This criterion is used for 30 per cent of the award with the following vesting schedule:

Compound annual adjusted EPS growth[1]	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 8% per annum	Between 25% and 100% (pro rata)
8% per annum or higher	100%

1. As per the Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

Net revenue growth element

The net revenue growth criterion is used for 30 per cent of the award with the following vesting schedule:

Compound annual growth in net revenue[1]	Shares vesting (as a percentage of element)
Less than 1% per annum	nil
1% per annum	25%
1% to 4% per annum	Between 25% and 100% (pro rata)
4% per annum or higher	100%

1. As per the Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

TSR element

The performance criterion for the TSR element is based on a single comparator group of companies across a broadly defined consumer goods sector and is applied to 20 per cent of the award.

The companies within the comparator group and the vesting schedule are detailed on page 63.

Under the rules of the LTIP, should the Company be acquired, the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro-rata basis subject to the achievement of the applicable performance criteria.

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Performance criterion – NGP revenue growth element

This criterion will be used for 20 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

Compound annual net revenue growth	Shares vesting (as a percentage of element)
Less than 35% per annum	nil
35% per annum	25%
35% to 150% per annum	Between 25% and 100% (pro rata)
150% per annum or higher	100%

Awards With No Performance Conditions Made During the Year (Audited)

The deferred shares, being the deferred element of bonus, awarded during the year are set out below.

	Number of deferred shares	Face value[1]	Portion of net bonus	End of deferral period
Alison Cooper	10,487	£331,895	50%	30 September 2020
Oliver Tant	6,985	£221,053	50%	30 September 2020
Matthew Phillips	5,558	£175,895	50%	30 September 2020

1. Valued using the share price at the date of purchase (8 January 2018), being £31.6471 per share.

Sharesave options granted during the year are set out below.

	Number of shares	Face value[1]	Normal plan maturity
Alison Cooper	404	£9,000	1 August 2021
Oliver Tant	404	£9,000	1 August 2021
Matthew Phillips	404	£9,000	1 August 2021

1. Valued using the option price of £22.24, being 80 per cent of the closing price on 9 May 2018.

HOW THE COMMITTEE INTENDS TO IMPLEMENT THE REMUNERATION POLICY FOR THE FINANCIAL YEAR 2018/19

LINKING REMUNERATION WITH STRATEGY

Our strategy, as set out on page 3 of this Annual Report and Accounts, aims to maximise sustainable shareholder returns through the creation of long-term quality growth. We will achieve this by:

– Maximising our performance in priority tobacco markets, where our Growth Brands and Specialist Brands provide high quality tobacco products to those consumers who choose to continue to smoke;

– Realising our ambition in NGP, with a primary focus on e-vapour and the expansion of our blu brand in new and existing markets but also realising opportunities in heated tobacco and oral nicotine products; and

– Optimising cost and cash, through a simplified operating model, controlled overheads and robust capital allocation, to enable our investment, reduce cost and support shareholder returns.

Our approach to remuneration is designed to incentivise delivery against the key elements of this strategy and to promote long-term sustainable success to the benefit of our shareholders and the wider stakeholders and communities we serve. In doing this, we place significant emphasis, both in the structure of remuneration and in the choice of metrics used, in ensuring that remuneration aligns the interests of management with those of shareholders and our other stakeholders.

Element	Purpose and link to strategy
Alignment with our strategy	Sustainable high-quality growth is at the heart of our strategy and this is reflected in our pay structures through the inclusion of top-line growth metrics in both the annual bonus and LTIP. This growth will be delivered by a combination of maximising revenue in tobacco and through accelerated revenue growth in NGP. To reflect this need for success in both parts of the business, and the very different dynamics in each, we have introduced independent revenue targets for tobacco products and NGP in both the annual bonus and the LTIP for 2019. This supports a balance in focus and in reward outcomes, ensuring that both elements of the growth strategy must be delivered in order for significant incentive payouts to be achieved. The inclusion in the annual bonus of market share metrics for our priority tobacco markets aligns with the strategic focus on those markets in which we see the best opportunity for sustainable and profitable growth. In order to release funds in support of our investment to grow in both tobacco and NGP, continuing to manage our costs and cash flows remains a key strategic focus. Profitability, mainly in the form of earnings per share, forms a major part of the measurement in both the annual bonus and LTIP, whilst cash conversion forms a measure for the annual bonus. Whilst not directly measured within our incentives, return on capital remains a strategic KPI for the Company and all investment decisions are evaluated against the necessary hurdle rate before being approved.
Alignment with our shareholders	We believe that the best way to align management and employees with the interests of shareholders is through direct shareholdings. At the executive and leadership level, this is achieved through a combination of share-based long-term incentives and a 50 per cent deferral of bonus into shares. Further to this and in line with our remuneration policy, 20 per cent of the vesting of the LTIP award is directly attributable to Total Shareholder Return delivered. More broadly, employees at all levels are encouraged to have an interest in the Company's shares through both direct shareholdings (supported by shareholding requirements for senior managers) and through our share plans, with the value of the Corporate Management Group's overall remuneration being influenced by the performance of our share price.
Attracting, retaining and motivating the right people	Our remuneration policy is designed to ensure a high-quality pool of talented employees at all levels who are engaged and incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks. We believe it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we neither pay more than necessary nor reward failure. Our policy is, therefore, significantly weighted towards performance-based elements.

ALIGNMENT OF REMUNERATION METRICS WITH STRATEGIC PRIORITIES

		Quality growth from tobacco maximisation	Significant additive growth opportunity from NGP	New ways of working driving cost efficiencies	Capital discipline and strong cash generation	Growing responsibly →	Maximising shareholder returns
Annual bonus	Adjusted EPS growth (KPI)	●	●	●	●	●	●
	Cash conversion (KPI)	●	●		●		●
	Revenue growth in Tobacco (KPI)	●				●	●
	Revenue growth in NGP (KPI)		●			●	●
	Market share	●			●		●
LTIP	Adjusted EPS growth (KPI)	●	●	●		●	●
	Revenue growth in Tobacco (KPI)	●				●	●
	Revenue growth in NGP (KPI)		●			●	●
	TSR against comparator group	●	●	●	●	●	●

SALARY

The Committee sets base salaries having regard to individual performance, changes to the individual's role, awards to other employees and market data for each position which reflect the Company's size, sector and global reach. Consideration is given to the effect any amendment to an individual's base salary would have on their total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

An increase of 2.5 per cent, marginally below the increase to other UK employees, who on average received 2.9 per cent (3.1 per cent globally), was awarded to Alison Cooper and Oliver Tant. An increase of 6.0 per cent was awarded to Matthew Phillips to reflect the increased importance and scope of his role and the development agenda, with opportunities in heated tobacco, oral nicotine and cannabinoids, as well as our key focus on e-vapour.

	Salary 2018/19	Salary 2017/18	Percentage change
Alison Cooper	£1,104,000	£1,077,000	2.5
Oliver Tant	£736,000	£718,000	2.5
Matthew Phillips	£605,000	£571,000	6.0

The Committee also agreed that the Chairman's fee should increase by 4.8 per cent to £550,000. The Board (excluding the Non-Executive Directors) determined that the base fee of the Non-Executive Directors should increase by 4 per cent from £75,000 to £78,000. Neither the Chairman nor the Non-Executive Directors received an increase in the 2018 financial year.

ANNUAL BONUS

Our shareholders and other stakeholders place significant weight on our annual performance. We therefore think it is appropriate to have a major element of Executive Directors' remuneration which incentivises delivery of the Company's annual objectives and enhancing performance against key financial and non-financial targets. The maximum bonus opportunity for all Executive Directors remains unchanged at 200 per cent.

Performance metrics for the annual bonus have been amended to align with strategic priorities and appropriately reflect the importance of, and incentivise delivery of, both tobacco and NGP revenues. In order to effectively deal with the very different dynamics of each market, the Committee has decided to measure delivery in each category separately. The specific changes are:

– Revenue growth in our Growth Brands and Specialist Brands is replaced by measuring revenue growth in the whole tobacco portfolio. Whilst we retain the momentum on growth in our strategic brands, this change to the metric ensures focus on the entire tobacco portfolio and thereby the sustainability of tobacco cash flows; and

– Revenue growth in NGP is introduced, replacing last year's metric on the number of consumers in the blu ecosystem. This change reflects the stage of maturity within our NGP business, with the focus on moving from building consumer numbers to converting smokers to our products and generating sustainable revenue streams. It also takes account of the growing opportunities within NGP that are beyond blu, including heated tobacco and non-tobacco snus.

For 2019, the critical importance of rapidly growing our NGP business is reflected in the provision of an additional mechanism which would reward for outperformance on this metric. Performance delivered above the maximum target can potentially earn a higher bonus against this metric only, calculated on a straight line basis, to a cap of 40 per cent (i.e. double the usual opportunity on this metric). To be clear, the overall maximum bonus available is still capped at 200 per cent of salary, in line with policy. The Committee expressly wants to incentivise and reward significant outperformance, given the dynamic nature of the NGP business. The potential to earn any higher bonus against this metric would be limited by the bonus cap. In addition, the Committee will consider performance overall and achievement against the other bonus metrics when determining if any higher outcome is appropriate for the NGP revenue metric.

Metrics for EPS, operating cash conversion and market share are retained unchanged.

Fifty per cent of net bonus paid will be in the form of the Company's shares deferred for a three-year period; the remaining 50 per cent will be paid in cash.

For the next financial year the performance measures have been set out in the table below:

	Performance target	Maximum of bonus*
Adjusted EPS growth	Commercially confidential	20%
Cash conversion	Commercially confidential	20%
Revenue growth in tobacco	Commercially confidential	20%
Revenue growth in NGP	Commercially confidential	20%-40%
Priority market share	Commercially confidential	20%

* Maximum of bonus limited to 200 per cent of salary.

At this point, the above performance targets are considered commercially confidential, but to the extent that any bonuses are paid, further details will be provided retrospectively in the 2019 Annual Report.

At the time of setting the bonus targets, the timing and proceeds generated by any divestments, discussed on page 2, and the use of those proceeds is uncertain. In line with the Directors' remuneration policy, the Committee retains the ability to adjust the bonus targets if any significant divestment causes a bonus measure and/or target to no longer achieve its original purpose.

SHARE PLAN AWARDS

FEBRUARY 2019 LTIP GRANT

Performance metrics for the LTIP have been amended to reflect appropriately the importance of, and incentivise delivery of, both tobacco and NGP revenues. In order to effectively deal with the very different dynamics of each segment, the Committee has decided to measure delivery in each category separately. For the LTIP grant to be awarded in financial year 2018/19, we will replace the total net revenue growth metric with a tobacco revenue growth metric (a standalone NGP revenue growth metric was introduced last year to reflect its importance to long-term success). Twenty per cent weighting is given to each revenue measure, providing an overall weighting of 40 per cent on top-line growth, with a further 40 per cent on adjusted EPS growth and the final 20 per cent on TSR.

We recognise that, as a result of this, there is a greater level of overlap of metrics between the Annual Bonus and the LTIP. However, the Committee believes that, at this time, this is the most appropriate way to align metrics (and thereby pay) with the delivery of strategy. The Committee believes that, within our policy of 20 per cent weighting of TSR and the balance in financial measures, metrics will need to continue to evolve as our NGP business grows and that this overlap will likely unwind in the medium term.

Performance criteria	Weighting in LTIP
Adjusted EPS growth[1]	40%
Tobacco revenue growth[1]	20%
NGP revenue growth[1]	20%
Relative TSR	20%

1. As per the Committee's decision in 2014, and all awards since 2015, EPS growth and net revenue growth are measured at constant currency.

When setting the performance targets the Committee takes account of the Company's long-term plans and analysts' forecasts. However, at the time of setting the targets for LTIP awards, the timing and proceeds generated by any divestments discussed on page 2 and the use of those proceeds is uncertain. In line with the Directors' remuneration policy, the Committee retains the ability to adjust the LTIP targets if any significant divestment causes an LTIP metric no longer to achieve its original purpose.

Performance criterion – EPS element

This criterion is used for 40 per cent of the LTIP awards. Vesting of awards on this element would occur in accordance with a vesting schedule agreed by the Committee on an annual basis. The proposed vesting schedule is:

Compound annual adjusted EPS growth	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 8% per annum	Between 25% and 100% (pro rata)
8% per annum or higher	100%

Performance criterion – Tobacco revenue growth element

This criterion will be used for 20 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

Compound annual net revenue growth	Shares vesting (as a percentage of element)
Less than 0% per annum	nil
0% per annum	25%
0% to 2% per annum	Between 25% and 100% (pro rata)
2% per annum or higher	100%

Performance criterion – NGP revenue growth element

This criterion will be used for 20 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

Compound annual net revenue growth	Shares vesting (as a percentage of element)
Less than 75% per annum	nil
75% per annum	25%
75% to 130% per annum	Between 25% and 100% (pro rata)
130% per annum or higher	100%

The target range reflects the development of the NGP business and the investment made to support its growth.

Performance criterion – TSR element

The performance criterion for the TSR element will be based on a single comparator group including 37 companies across a broadly defined consumer goods sector and, in accordance with our remuneration policy, will be applied to 20 per cent of the LTIP.

The companies within the comparator group remain unchanged, as detailed on page 63.

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

STATUTORY AND REGULATORY REPORTING REQUIREMENTS

VOTING ON THE REMUNERATION REPORT AT THE 2018 AGM

At the 2018 AGM we received a strong vote in favour of our Remuneration Policy and remuneration report, with over 95 per cent of votes in favour of the policy and over 98 per cent supporting implementation. Votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast including votes withheld
Directors' Remuneration Report	750,467,025	98.48	11,547,680	1.52	762,014,705	560,276	762,574,981
Directors' Remuneration Policy	728,923,965	95.66	33,080,528	4.34	762,004,493	570,488	762,574,981

1. Votes withheld are not included in the final figures as they are not recognised as a vote in law.

ADVICE PROVIDED TO THE COMMITTEE

Following a regular periodic review and tender, the Committee appointed FIT Remuneration Consultants LLP (FIT) as principal adviser with effect from 1 November 2017. FIT advised on all aspects of our remuneration policy and practice and reviewed our structures against corporate governance best practice. FIT also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Committee members up-to-date with new developments and evolving best practice.

FIT is a member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. FIT carries out no other work for Imperial Brands or its subsidiaries.

During the year FIT was paid time based fees of £70,227 and New Bridge Street (the Committee's previous adviser) received fees of £67,261.

Other companies which provided advice to the Committee are as follows:

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR related matters. During the year it was paid a fixed fee of £19,500. Alithos Limited provided no other services to the Company;
- Allen & Overy LLP is available to provide legal advice to the Committee as and when required. It was not asked for remuneration-related advice during the financial year. Allen & Overy LLP provided other legal services to the Company;
- Pinsent Masons LLP provided legal advice in respect of the operation of the Company's employee share plans;
- PricewaterhouseCoopers LLP (PwC), our auditors, perform agreed upon procedures on earnings per share (EPS) and net revenue calculations used in relation to our employee share plans' performance criteria. During the financial year PwC was paid a fixed fee of £1,950 in respect of services to the Committee; and
- Willis Towers Watson provided market pay data to ensure the consistent application of our remuneration policy for Executives. During the year it was paid time based fees of £45,600 for these services. Willis Towers Watson also provided actuarial services to the Company.

All of these advisers were appointed by the Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee.

The Group Human Resources Director and the Group Reward and Capability Director also attended and provided internal support and advice on market and regulatory developments in remuneration practice and on our employee share plans. Their attendance ensured the Committee was kept fully abreast of pay policies throughout the Company, which it then takes into account when determining the remuneration of the Executive Directors and our most senior executives.

SUMMARY REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Our Directors' remuneration policy is designed to offer competitive, but not excessive, base salary, with significant weighting towards performance-based elements, the measures of which incentivise and support the delivery of our strategy, both on an annual and longer-term basis, whilst also reflecting individual, functional and corporate performance. We aim to set and rigorously apply targets that are stretching but achievable.

There are no changes proposed to the policy approved by shareholders at our 2018 AGM, a summary of which is set out below. It does not replace or override the full approved policy, which is available on our website within the 2017 Annual Report and Accounts.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Salary	Attract, retain and motivate high-performing individuals, reflecting market value of role and the Executive Director's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Committee taking into account each Executive Director's performance together with changes in role and responsibility, general increases for the UK wider management population and with reference to external market comparators. Salary increases, if any, are generally effective from 1 October.	No prescribed maximum annual increase.
Benefits	Competitive benefits taking into account market value of role and benefits offered to the wider UK management population.	Benefits include provision of company car, health insurance, life insurance and permanent health insurance which are provided directly or through the Company pension scheme. Opportunity to join the Sharesave Plan. Provision of relocation assistance upon appointment if/when applicable.	The level of benefit provision is fixed.
Annual Bonus Plan	Incentivise delivery of strategic objectives and enhance performance.	At least 60% of the annual bonus is linked to key financial metrics and no more than 15% will be linked to individual measures. Performance below the threshold results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any annual bonus is paid in deferred shares which must be held for a minimum of three-years with no further performance conditions. The balance is paid in cash. Malus provisions apply before payment and claw-back provisions are in place for the three-years following payment of annual bonus.	200% of base salary or such lower sum as determined by the Committee.
Long-Term Incentive Plan	Incentivise long-term financial performance in line with our strategy and long-term shareholder returns. Align Executive Directors' interests with those of long-term shareholders.	Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 20% on relative total shareholder return (TSR) vs a peer group and 80% on financial measures. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Claw-back and malus provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. Any awards which vest will be subject to a further two-year holding requirement.	Chief Executive Officer: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Committee. Plus shares equivalent to the value of the dividend roll-up.
Pensions	Attract and retain high-performing Executive Directors.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors who joined the Fund prior to 1 October 2010 are members of the defined benefit section whereas Executive Directors joining the Fund on or after this date are offered membership of the defined contribution section. Members of the defined benefit section of the fund accrue pension at a rate between 1/47th and 1/60th of pensionable salary. Further detail is provided on page 64. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.	Current policy is for a defined contribution and cash supplement limit of 26% of salary. Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Alison Cooper	1 July 2007	Terminable on 12 months' notice	No provisions
Oliver Tant	1 October 2013	Terminable on 12 months' notice	No provisions
Matthew Phillips	31 May 2012	Terminable on 12 months' notice	No provisions

POLICY IN RESPECT OF EXTERNAL BOARD APPOINTMENTS

We recognise that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship and may not serve as the chairman of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship. None of the Executive Directors currently holds an external non-executive directorship.

SHARE INTERESTS AND INCENTIVES (AUDITED)

Directors' current shareholdings are summarised in the following table:

	Shares held		Conditional awards and options held					
	Owned outright	Vested but subject to holding period	Awards unvested and subject to performance conditions	Options unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary)	Current shareholding (% salary)[1]	Requirement met[2]
Executive Directors								
Alison Cooper	229,699	33,105	343,015	404	–	300	652	Yes
Oliver Tant[3]	35,919	21,567	161,108	404	–	300	214	No[3]
Matthew Phillips	62,250	16,694	129,881	404	–	300	369	Yes
Non-Executive Directors								
Mark Williamson	20,676	–	–	–	–	–	–	N/A
Therese Esperdy[4]	7,926	–	–	–	–	–	–	N/A
Simon Langelier	24,358	–	–	–	–	–	–	N/A
Steven Stanbrook[4]	18,463	–	–	–	–	–	–	N/A
Karen Witts	930	–	–	–	–	–	–	N/A
Malcolm Wyman	4,487	–	–	–	–	–	–	N/A

1. Based on a share price of £26.71, being the closing price on 28 September 2018.
2. Non-Executive Directors do not have a shareholding requirement, but are required to invest a minimum percentage of their fees in the Company's shares which they are required to retain for the duration of their appointment.
3. Oliver Tant reached his five-year anniversary on the Board on 1 October 2018. His year-end shareholding of 57,486 does not meet the requirement to hold 300 per cent of salary. During the year the Committee discussed and agreed with Oliver Tant an approach to meet the 300 per cent requirement. In addition to the approximately £213,000 worth of shares purchased prior to the year-end, Oliver Tant has committed to purchase a further £130,000 worth of shares from the cash element of his FY18 bonus. Based on the share price in note 1, once this agreed additional purchase is made and taking into account the deferred element of his FY18 annual bonus and the vesting of his FY16-18 LTIP, his shareholding requirement will then be met.
4. Therese Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.

There have been no changes to the above holdings since the year-end.

Our middle market share price at the close of business on 28 September 2018, being the last trading day of the financial year, was £26.71 and the range of the middle market price during the year was £22.98 to £32.045.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

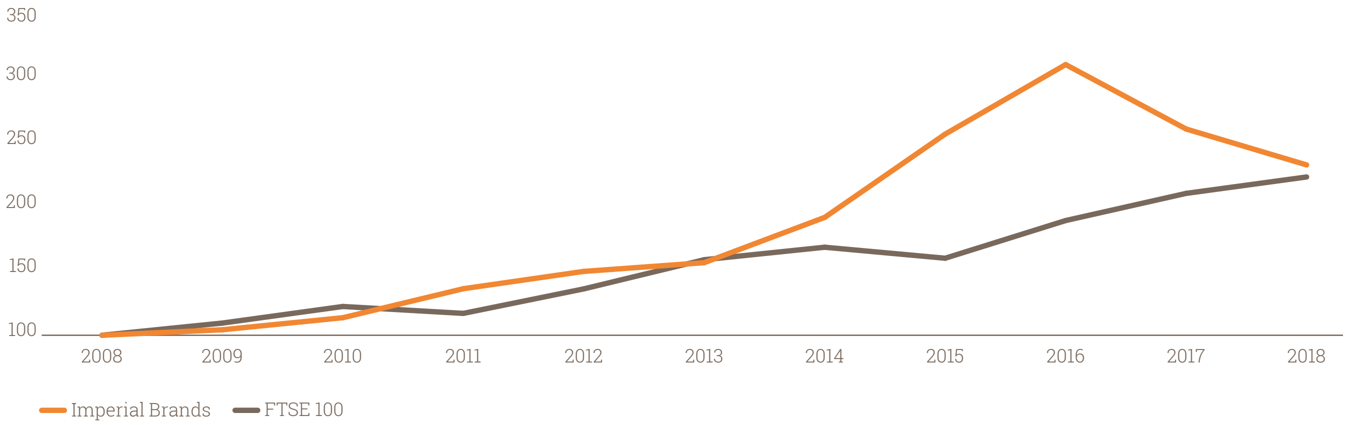
AWARD DATES

Our policy is to grant awards under all our employee share plans on predetermined dates based on an annual cycle.

REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2008 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year-ends to 30 September 2018. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a ten-year period.

TOTAL RETURN INDICES – IMPERIAL BRANDS AND FTSE 100



CHANGE IN CHIEF EXECUTIVE REMUNERATION

	2018 Alison Cooper	2017 Alison Cooper	2016 Alison Cooper	2015 Alison Cooper	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper[1]	2011 Alison Cooper[1]	2010 Alison Cooper[1]	2010 Gareth Davis[2,3]	2009 Gareth Davis
Total remuneration £'000	**3,935**	4,657	5,404	3,637	2,686	2,011	2,793	2,737	1,347	5,453	5,099
Annual bonus as a percentage of maximum	**87**	60	72	80	69	34	51.2	33.1	84.7	84.7	85.2
Shares vesting as a percentage of maximum	**20**	44.4	45.7	15.8	5.8	nil	58.0	71.6	80.8	46.93	74.5

1. Total remuneration includes value of share plans vesting that were granted prior to appointment as Chief Executive.
2. Total remuneration includes value of share plans vesting on retirement.
3. Based on performance conditions applicable on date of retirement.

STATEMENT OF CHANGE IN PAY OF CHIEF EXECUTIVE COMPARED WITH OTHER EMPLOYEES

	Chief Executive		All employees[1]
	To 30 September 2018	Percentage change (2018 vs 2017)	Percentage change (2018 vs 2017)
Salary	**£1,077,000**	2.5	4.3
Benefits	**£16,910**	1.7	5.8
Bonus	**£1,873,980**	48.6	43.9

1. Based on members of our Corporate Management Group. This group has been chosen as it represents a good proxy for employees across the Group but is not overly influenced by local custom, hyperinflation in some jurisdictions etc.

CHIEF EXECUTIVE PAY RATIO

The Committee is reviewing the methodology for calculating and presenting the pay ratio between the Chief Executive and its UK employees and intends to report this ratio in future reports.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividends.

£ million unless otherwise stated	2018	2017	Percentage change
Executive Directors total remuneration	**8**	9	(3.8)
Overall expenditure on pay[1]	**836**	856	(2.3)
Dividend paid in the year	**1,676**	1,528	9.6

1. Excludes employer's social security costs.

OPERATING EXECUTIVE (EXCLUDING EXECUTIVE DIRECTORS)

£'000	2018	2017
Base salary	**2,624**	2,994
Benefits	**122**	156
Pension salary supplement	**326**	318
Bonus	**3,453**	2,234
Termination payments	**–**	1,548
LTIP annual vesting[1]	**189**	733
SMS annual vesting[1]	**720**	650
	7,434	8,633

1. Share plans vesting represent the value of SMS and LTIP awards where the performance period ends in the year and are based on a share price of £28.1657 being the three-month average to 28 September 2018.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the OPEX for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges, was £18,443,119 (2017: £20,342,210).

KEY MANAGEMENT[1] COMPENSATION FOR THE YEAR ENDED 30 SEPTEMBER 2018 (AUDITED)

£'000	2018	2017
Short-term employee benefits	**14,373**	12,020
Post-employment benefits	**1,537**	1,798
Other long-term benefits	**–**	–
Termination benefits	**–**	1,548
Share-based payment (in accordance with IAS 24)	**1,903**	4,519
	17,813	19,885

1. Key management includes Directors, members of the OPEX and the Company Secretary.

EMPLOYEE BENEFIT TRUSTS

Our policy remains to satisfy options and awards under our employee share plans either from market purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: The Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2018, we held 77,289,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

	Balance at 01/10/2017	Acquired during year	Distributed during year	Balance at 30/09/2018	Ordinary shares under award at 30/09/2018	Surplus/ (shortfall)
Executive Trust	485,014	0	(142,108)	342,906	893,933	(551,027)
2001 Trust	1,422,329	16,500	(1,071,594)	367,235	4,546,890	(4,179,655)

SHARE PLAN FLOW RATES

The Trust Deeds of the Employee Benefit Trusts and the rules of each of our employee share plans contain provisions limiting options and awards to 5 per cent of issued share capital in five years and 10 per cent in 10 years for all employee share plans, with an additional restriction to 5 per cent in 10 years for executive share plans. Currently, an aggregate total of 0.5 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under our executive and all employee share plans.

SUMMARY OF OPTIONS AND AWARDS GRANTED

Limit on awards	Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury)	Options and awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	1.8	0.3
5% in 5 years	0.9	0.3
5% in 10 years (executive plans)	1.4	0.2

For the Board

MALCOLM WYMAN
Chairman of the Remuneration Committee

6 November 2018

GROUP FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Imperial Brands PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Imperial Brands PLC Balance Sheets as at 30 September 2018; the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Imperial Brands PLC Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in the Directors' Report and in note 4, we have provided no non-audit services to the Group or the Parent Company in the period from 1 October 2017 to 30 September 2018.

OUR AUDIT APPROACH

OVERVIEW

- Overall Group materiality: £130 million (2017: £130 million), based on approximately 4 per cent of adjusted profit before tax, as defined in note 1 to the Group financial statements.
- Overall Parent Company materiality: £160 million (2017: £160 million), based on 1 per cent of total assets. For the purposes of the Group audit we applied a lower materiality of £10m (2017: £10 million).

- Following our assessment of the risk of material misstatement we selected 19 reporting entities for full scope audits which represent the principal business units. We conducted full scope audit work in the UK, USA, Germany and Logista in addition to a further 13 locations in which the Group has significant operations. Our work also covered the Group shared service centre, central treasury function and the Parent Company.
- In addition, we performed specified procedures over certain balances and transactions in Russia and Fontem Ventures in the Netherlands.
- During the year, the Group engagement team visited five locations outside of the UK where full scope audits were performed, the shared service centre in Poland and both locations where specified procedures took place.

- Goodwill and intangible asset impairment assessment (Group).
- Uncertain tax positions in respect of direct and indirect taxes (Group).
- Viability of key distributors and customers and impact on recoverability of receivables (Group).
- Tobacco-related litigation (Group).

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent local laws and regulations applicable to significant component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, inspection of correspondence with legal advisors, enquiries of management, review of significant component auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls including system segregation of duties, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
GOODWILL AND INTANGIBLE ASSET IMPAIRMENT ASSESSMENT (GROUP) **Refer to the Report of the Audit Committee and note 11 – Intangible Assets.** We focused on this area because the determination of whether elements of goodwill and intangible assets are impaired involves complex and subjective judgements by the Directors about the future results of the relevant parts of the business. At 30 September 2018 the Group had £12,463 million of goodwill and £607 million of intangible assets with indefinite lives and clear headroom in the majority of the Group's cash generating unit (CGU) Groupings. We focused on the valuation of the Growth Markets reporting segment (£2,411 million of goodwill and intangible assets with indefinite lives). Growth Markets is made up of a number of operating segments and individual CGU's, mainly the Drive Growth CGU Grouping. We note that while headroom has increased in this division to £164 million (2017: £33 million) it remains relatively low and is sensitive to key assumptions. For the Drive Growth CGU Grouping we focused on both the valuation of the Russian business, which represents the most material part of this CGU Grouping, and to a lesser extent on Japan where significant growth is anticipated in the medium term. In particular we considered the robustness of short-term growth included in the impairment models, together with discount rates and long-term growth rates.	We challenged the Directors' analysis around the key drivers of the Drive Growth cash flow forecasts including the ability to achieve sustained price increases, market size and market share. We evaluated the appropriateness of the key assumptions including discount rates, short-term and long-term growth rates and performed sensitivities across the reporting segments. We also tested the integrity of the model, checking key formulae and logic of the calculations used. For the Russian business we assessed the credibility of the model by testing the accuracy of prior year estimates and considered the forecast growth trajectory in the context of historical levels of profitability. We also considered the impact of current and expected legislative and duty changes on the business and utilised recent market information of acquisitions and disposals within the Russian tobacco sector to calculate valuation multiples and compared these to Management's model. In assessing the Japanese cash flows we considered the Group's brand investment strategy to target the value-end of this market against a backdrop of increased regulation and taxes driving more consumers towards the value-end of the tobacco product range. Given there is little historical Group precedent to support these forecasts in Japan, we challenged Management to ensure the discount rate reflected this risk, and compared their rate to other growing businesses facing similar situations in similar environments. On balance we are comfortable that the discount rate used reflects relevant risks and is therefore appropriate. As a result of our work we concluded that Management's judgement that no impairment was required to Drive Growth was reasonable. We note that goodwill and intangibles held by these businesses remain sensitive to changes in key assumptions. In particular, for Drive Growth, this conclusion is dependent on a sustained recovery in the Russian market from the difficult trading conditions encountered last year, and if this does not occur an impairment could arise. Given this, Management has appropriately disclosed relevant sensitivities. We highlight however that Management's analysis was performed on a 'value in use' basis under IAS 36 which currently excluded 'Next Generation Product' (NGP) cash flows due to these products only recently having been launched in the Drive Growth markets. We held discussions with Management in relation to these NGP cash flows and are comfortable with Management's disclosure that these cash flows can be incorporated into a 'Fair value less costs to sell' model for the Drive Growth CGU and that this would increase headroom by at least £200 million.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
UNCERTAIN TAX POSITIONS IN RESPECT OF DIRECT AND INDIRECT TAXES (GROUP) **Refer to the Report of the Audit Committee and note 8 – Tax** The Group operates across a large number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business, including transfer pricing, direct and indirect taxes and transaction related tax matters. Where the amount of tax payable is uncertain, the Group establishes provisions based on Management's judgement of the likelihood of settlement being required. We focused on the judgements made by Management in assessing the likelihood of potentially material exposures and the estimates used to determine such provisions where required. In particular we focused on the impact of changes in local tax regulations and ongoing inspections by local tax authorities and international bodies, which could materially impact the amounts recorded in the Group financial statements. Given the nature of judgements involved, the complexities of dealing with tax rules and regulations in numerous jurisdictions, accounting for this risk is primarily managed by the Imperial Brands head office tax team in Bristol. As such, this was a key area of focus for the Group engagement team.	We evaluated the design and implementation of controls in respect of identifying uncertain tax positions, which we found to be satisfactory for the purposes of our audit. We also evaluated the related accounting policy for provisioning for tax exposures and found it to be appropriate. We used our UK and overseas tax specialists to gain an understanding of the current status of tax assessments and investigations and to monitor developments in ongoing disputes. Our focus was on uncertain tax positions in relation to the challenge from the French Tax Authority in respect of the disposal of the Altadis Distribution France business, the EU Commission's challenge of the UK Controlled Foreign Company regime, and a number of other State Aid and transfer pricing risks. We read recent rulings and correspondence with local tax authorities, challenged key assumptions and inspected external advice provided by the Group's tax experts and legal advisors where relevant, to satisfy ourselves that the provisions had been appropriately recorded or adjusted to reflect any latest developments. We determined that the position adopted in the Group financial statements was reasonable based on our consideration of the risks. We also considered significant findings from recent tax audits, including the Russian Tax Authority's preliminary audit report seeking additional taxes of up to approximately £132 million, as disclosed in note 8 to the Group financial statements. We engaged our Russian audit and tax specialists to perform some specified procedures in relation to this matter and have discussed the status and expected Group responses with Management and their external tax and legal experts. We challenged the overall sufficiency and clarity of disclosures in relation to uncertain tax provisions and tax related contingent liabilities. We highlighted where further disclosure was considered appropriate and ensured this has been included in the Annual Report.
VIABILITY OF KEY DISTRIBUTORS AND CUSTOMERS AND IMPACT ON RECOVERABILITY OF RECEIVABLES (GROUP) **Refer to the Report of the Audit Committee** Due to the nature of the tobacco sector, the Group is reliant on a number of key distributors and customers in certain markets. In late November 2017, a key distributor for the UK market, 'Palmer and Harvey', entered administration. This led to a reported £160 million charge to the interim results. Given the significance of the administration, our work has focused on the charges recognised in respect of Palmer & Harvey and consideration of the viability of other key distributors and customers as part of assessing the recoverability of receivables at year end. In relation to the Palmer & Harvey administration, subsequent to the interim results, certain cost estimates have been revised by Management based on actual costs incurred and a more accurate understanding of further costs, and some cash recovery has also been received from the Administrator, reducing the overall charge recognised in the Group financial statements to £110 million.	Our audit of this charge included validating total receivables and loans with Palmer & Harvey at the time of administration, inspection of correspondence with the Administrators, and testing subsequent recovery of cash receipts. We also considered the suitability of presentation of the £110 million charge as an 'adjusting' item and was comfortable with this treatment given its size and non-recurring nature. We have considered the viability of other significant distributors and customers, through looking at recent payment history, analysing aged receivables and challenging provisions for any doubtful debts. Based on our procedures, we noted no material exceptions and considered Management's key assumptions regarding recoverability of receivables to be reasonable.
TOBACCO-RELATED LITIGATION (GROUP) **Refer to the Report of the Audit Committee and note 28 – Contingent Liabilities** The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health-related effects. The Group's view is that it has meritorious defences to all these cases and therefore no provisions have been made. In the US, tobacco-related litigation is managed separately by the Master Settlement Agreement ("MSA"). Four states are not parties to this agreement and claims have been raised against the Group's US business, ITG Brands, in connection with its acquisition of certain US brands in June 2015. The Group continues to receive legal advice in relation to these claims that supports Management's assessment that at present it is remote that the Group will incur any outflow of resources and therefore no provision is necessary.	In respect of these matters, we have held meetings with the Group legal team and reviewed board meeting minutes to understand the matters and current progress. We have also assessed available historic precedent. We have written to and received responses from the Group's external lawyers in all these cases and validated responses to Management's position. As a result of our work we consider Management's position, that no provision is required, to be reasonable. We also discussed the level of disclosure in relation to these matters and highlighted where further disclosure was considered appropriate, and ensured this has been included in the Group financial statements.

We determined that there were no key audit matters applicable to the Parent Company to communicate in our report.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along two business lines being 'Tobacco and NGP' and 'Distribution'. The Tobacco and NGP business operates across 160 markets, with 21 main markets, which are then managed through segments: Returns North; Returns South; and Growth, which includes the USA. A number of these markets are supported by the Group's shared service centres in Poland and the Philippines. The output of these shared service centres are included in the financial information of the reporting components they service and they are therefore not separate reporting components. The Group's accounting process is structured around a local or regional finance function for each of the markets in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol through an integrated consolidation system.

In establishing the overall approach to the Group audit we determined the type of work that needed to be performed at reporting components, by either the Group engagement team or through directing component auditors from PwC network firms. This included consideration of the work required to be performed by our audit teams at shared service centres to support component auditors.

We identified 19 reporting entities (including the Distribution sub group), which due to their significance and/or risk characteristics required an audit of their complete financial information. We also conducted specified procedures in Russia based on our assessment of the risk of misstatement and the scale of operations at this market, and we performed specified audit procedures over Fontem Ventures in the Netherlands due to the increasing importance of NGP to the Group.

Certain specific audit procedures over central corporate functions and areas of significant judgement, including goodwill and intangible assets, taxation, material provisions and contingent liabilities, were performed at the Group's head office. We also performed work centrally on systems and IT general controls, consolidation journals and the one-off transactions undertaken by the Group during the year.

Taken together, the reporting entities and Group functions where we performed audit work accounted for approximately 79 per cent of Group revenues and in excess of 90 per cent of both Group profit before tax and Group adjusted profit before tax. At the Group level, we also carried out analytical and other procedures on the reporting components not covered by the procedures above.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included attending component clearance meetings and holding regular conference calls, as well as reviewing and assessing matters reported.

Senior members of the Group engagement team visit the component teams on a rotational basis. In the current year the Group team visited the USA, Morocco, Germany, Spain, Logista, Russia and Fontem Ventures B.V., as well as in-scope UK reporting locations. These visits included meetings with local management and with the component auditors, as well as certain operating site tours. The Group engagement partner also took part in the year-end clearance meetings for the UK, USA, Germany and Logista businesses, and the Group engagement team reviewed the audit working papers for these components and certain other components.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£130 million (2017: £130 million).	£10 million (2017: £10 million).
How we determined it	Approximately 4 per cent of adjusted profit before tax.	1 per cent of total assets.
Rationale for benchmark applied	We believe that adjusted profit before tax is the primary measure used by shareholders and other users in assessing the performance of the Group, and that by excluding adjusting items it provides a clearer view on the performance of the underlying business.	The parent entity is principally an investment holding company and therefore it is not appropriate to use profit before tax or revenues to calculate materiality, rather materiality is considered with reference to total assets. Overall materiality applied is limited to £10 million, lower than 1 per cent of total assets, due to being restricted for Group reporting for the purposes of the audit of the consolidated financial statements of the Group.

For each component in the scope of our Group audit we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £10 million and £40 million for the trading entities and £80 million for the financing and treasury entity. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (Group audit) (2017: £10 million) and £10 million (Parent Company audit) (2017: £10 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 29 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 29 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 35, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 41-47 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities set out on page 55, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 6 August 1996 to audit the financial statements for the year ended 27 September 1997 and subsequent financial periods. The period of total uninterrupted engagement is 22 years, covering the years ended 27 September 1997 to 30 September 2018.

RICHARD FRENCH (SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Bristol

6 November 2018

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September

£ million unless otherwise indicated	Notes	2018	2017
Revenue	3	**30,524**	30,247
Duty and similar items		**(15,125)**	(14,967)
Other cost of sales		**(8,949)**	(8,853)
Cost of sales		**(24,074)**	(23,820)
Gross profit		**6,450**	6,427
Distribution, advertising and selling costs		**(2,441)**	(2,434)
Amortisation of acquired intangibles	11	**(1,053)**	(1,092)
Administration of UK distributor	3	**(110)**	–
Restructuring costs	5	**(196)**	(391)
Other expenses		**(243)**	(232)
Administrative and other expenses		**(1,602)**	(1,715)
Operating profit	3	**2,407**	2,278
Investment income		**631**	910
Finance costs		**(1,257)**	(1,360)
Net finance costs	7	**(626)**	(450)
Share of profit of investments accounted for using the equity method	13	**42**	33
Profit before tax	4	**1,823**	1,861
Tax	8	**(396)**	(414)
Profit for the year		**1,427**	1,447
Attributable to:			
Owners of the parent		**1,368**	1,409
Non-controlling interests		**59**	38
Earnings per ordinary share (pence)			
– Basic	10	**143.6**	147.6
– Diluted	10	**143.2**	147.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September

£ million	Notes	2018	2017
Profit for the year		**1,427**	1,447
Other comprehensive income/(expense)			
Exchange movements		**176**	(57)
Items that may be reclassified to profit and loss		**176**	(57)
Net actuarial gains on retirement benefits	22	**196**	649
Deferred tax relating to net actuarial gains on retirement benefits	21	**(54)**	(120)
Items that will not be reclassified to profit and loss		**142**	529
Other comprehensive income for the year, net of tax		**318**	472
Total comprehensive income for the year		**1,745**	1,919
Attributable to:			
Owners of the parent		**1,683**	1,870
Non-controlling interests		**62**	49
Total comprehensive income for the year		**1,745**	1,919

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2018	2017
Operating profit		**2,407**	2,278
Amortisation of acquired intangibles	11	**1,053**	1,092
Administration of UK distributor	3	**110**	–
Restructuring costs	5	**196**	391
Adjusted operating profit		**3,766**	3,761

RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	2018	2017
Net finance costs		**(626)**	(450)
Net fair value and exchange losses/(gains) on financial instruments	7	**126**	(112)
Post-employment benefits net financing cost	7	**13**	25
Adjusted net finance costs		**(487)**	(537)

CONSOLIDATED BALANCE SHEET
at 30 September

£ million	Notes	2018	2017
Non-current assets			
Intangible assets	11	**19,117**	19,763
Property, plant and equipment	12	**1,891**	1,865
Investments accounted for using the equity method	13	**845**	785
Retirement benefit assets	22	**598**	358
Trade and other receivables	15	**82**	123
Derivative financial instruments	20	**462**	583
Deferred tax assets	21	**600**	617
		23,595	24,094
Current assets			
Inventories	14	**3,692**	3,604
Trade and other receivables	15	**2,585**	2,539
Current tax assets	8	**164**	69
Cash and cash equivalents	16	**775**	624
Derivative financial instruments	20	**37**	60
		7,253	6,896
Total assets		**30,848**	30,990
Current liabilities			
Borrowings	18	**(2,397)**	(2,353)
Derivative financial instruments	20	**(105)**	(42)
Trade and other payables	17	**(8,270)**	(8,104)
Current tax liabilities	8	**(286)**	(192)
Provisions	23	**(179)**	(187)
		(11,237)	(10,878)
Non-current liabilities			
Borrowings	18	**(9,598)**	(10,196)
Derivative financial instruments	20	**(1,073)**	(1,166)
Trade and other payables	17	**(47)**	(21)
Deferred tax liabilities	21	**(1,113)**	(1,091)
Retirement benefit liabilities	22	**(1,061)**	(1,074)
Provisions	23	**(274)**	(338)
		(13,166)	(13,886)
Total liabilities		**(24,403)**	(24,764)
Net assets		**6,445**	6,226
Equity			
Share capital	24	**103**	103
Share premium and capital redemption		**5,837**	5,837
Retained earnings		**(1,150)**	(1,084)
Exchange translation reserve		**980**	828
Equity attributable to owners of the parent		**5,770**	5,684
Non-controlling interests	31	**675**	542
Total equity		**6,445**	6,226

The financial statements on pages 83-128 were approved by the Board of Directors on 6 November 2018 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

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 2017	**103**	**5,837**	**(1,084)**	**828**	**5,684**	**542**	**6,226**
Profit for the year	–	–	**1,368**	–	**1,368**	**59**	**1,427**
Exchange movements	–	–	–	**173**	**173**	**3**	**176**
Net actuarial gains on retirement benefits	–	–	**196**	–	**196**	–	**196**
Deferred tax relating to net actuarial gains on retirement benefits	–	–	**(54)**	–	**(54)**	–	**(54)**
Other comprehensive income	–	–	**142**	**173**	**315**	**3**	**318**
Total comprehensive income	–	–	**1,510**	**173**	**1,683**	**62**	**1,745**
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	**2**	–	**2**	–	**2**
Costs of employees' services compensated by share schemes	–	–	**25**	–	**25**	–	**25**
Current tax on share-based payments	–	–	**1**	–	**1**	–	**1**
Cancellation of share capital	–	–	**(41)**	–	**(41)**	–	**(41)**
Changes in non-controlling interests	–	–	**(121)**	**(21)**	**(142)**	**142**	–
Proceeds, net of fees from disposal of Logista shares (note 31)	–	–	**234**	–	**234**	–	**234**
Dividends paid	–	–	**(1,676)**	–	**(1,676)**	**(71)**	**(1,747)**
At 30 September 2018	**103**	**5,837**	**(1,150)**	**980**	**5,770**	**675**	**6,445**
At 1 October 2016	104	5,836	(1,525)	896	5,311	431	5,742
Profit for the year	–	–	1,409	–	1,409	38	1,447
Exchange movements	–	–	–	(68)	(68)	11	(57)
Net actuarial gains on retirement benefits	–	–	649	–	649	–	649
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(120)	–	(120)	–	(120)
Other comprehensive income	–	–	529	(68)	461	11	472
Total comprehensive income	–	–	1,938	(68)	1,870	49	1,919
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	12	–	12	–	12
Purchase of shares by cost of employees' services compensated by share schemes	–	–	25	–	25	–	25
Current tax on share-based payments	–	–	3	–	3	–	3
Cancellation of share capital	(1)	1	(119)	–	(119)	–	(119)
Changes in non-controlling interests	–	–	(111)	–	(111)	111	–
Proceeds, net of fees from disposal of Logista shares (note 31)	–	–	221	–	221	–	221
Dividends paid	–	–	(1,528)	–	(1,528)	(49)	(1,577)
At 30 September 2017	103	5,837	(1,084)	828	5,684	542	6,226

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September

£ million	2018	2017
Cash flows from operating activities		
Operating profit	**2,407**	2,278
Dividends received from investments accounted for under the equity method	**25**	28
Depreciation, amortisation and impairment	**1,266**	1,364
Profit on disposal of assets	**(36)**	(24)
Profit on disposal of brands	**(40)**	–
Post-employment benefits	**(60)**	(157)
Costs of employees' services compensated by share schemes	**26**	27
Provision in respect of loan to third parties	**4**	–
Movement in provisions	**(87)**	52
Operating cash flows before movement in working capital	**3,505**	3,568
Increase in inventories	**(112)**	(76)
(Increase)/decrease in trade and other receivables	**(35)**	189
Increase/(decrease) in trade and other payables	**136**	(46)
Movement in working capital	**(11)**	67
Tax paid	**(407)**	(570)
Net cash generated from operating activities	**3,087**	3,065
Cash flows from investing activities		
Interest received	**10**	11
Loan to joint ventures	**–**	(17)
Loan to third parties	**28**	(30)
Proceeds from sale of assets	**87**	30
Proceeds from the sale of brands	**47**	–
Purchase of property, plant and equipment	**(259)**	(191)
Purchase of intangible assets – software	**(47)**	(44)
Purchase of intangible assets – intellectual property rights	**(21)**	(15)
Purchase of businesses (net of cash acquired)	**(8)**	–
Purchase of brands and operations (see note 11)	**(67)**	(31)
Net cash used in investing activities	**(230)**	(287)
Cash flows from financing activities		
Interest paid	**(501)**	(548)
Cash from employees on maturity/exercise of share schemes	**2**	12
Increase in borrowings	**1,619**	852
Repayment of borrowings	**(2,261)**	(2,183)
Cash flows relating to derivative financial instruments	**41**	(37)
Repurchase of shares	**(41)**	(119)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 31)	**234**	221
Dividends paid to non-controlling interests	**(71)**	(49)
Dividends paid to owners of the parent	**(1,676)**	(1,528)
Net cash used in financing activities	**(2,654)**	(3,379)
Net increase/(decrease) in cash and cash equivalents	**203**	(601)
Cash and cash equivalents at start of year	**624**	1,274
Effect of foreign exchange rates on cash and cash equivalents	**(52)**	(49)
Cash and cash equivalents at end of year	**775**	624

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as published by the International Accounting Standards Board and adopted by the EU. In addition, the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis as detailed on page 23.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and judgements. This could affect future financial statements as the original estimates and judgements are modified, as appropriate, in the year in which the circumstances change.

The Company provides guarantees to the following subsidiaries under section 479 of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2018:

- Imperial Tobacco Holdings (2007) Limited
- Sinclair Collis Limited
- Imperial Tobacco Ventures Limited
- Imperial Tobacco Ireland Unlimited Company
- Newglade International Unlimited Company
- Rizla UK Limited
- Imperial Tobacco Overseas (Polska) Limited
- Imperial Tobacco Overseas Holdings (3) Limited
- Imperial Tobacco Altadis Limited
- La Flor de Copan UK Limited
- Tabacalera de Garcia UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited

The principal accounting policies, which have been applied consistently other than where new policies have been adopted, are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the results of Imperial Brands PLC (the Company), a publicly listed Company incorporated in the United Kingdom, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

JOINT VENTURES

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of profit of investments accounted for using the equity method'.

FOREIGN CURRENCY

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intra-group loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

Foreign exchange rate versus GBP	2018 Closing rate	2018 Average rate	2017 Closing rate	2017 Average rate
Euro	**1.1270**	**1.1304**	1.1341	1.1480
US Dollar	**1.3046**	**1.3460**	1.3389	1.2668

REVENUE RECOGNITION

For the Tobacco & Next Generation Products (Tobacco & NGP) business (previously referred to as Tobacco), revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales of services, which include fees for distributing certain third party products, are recognised in the accounting period in which the services are rendered. Income arising from the licencing or sale of intellectual property, occurring in the ordinary course of business, is treated as revenue.

For the Distribution business (previously referred to as Logistics), revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or services provided. The Logistics business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Customer rebates and discounts may be offered to promote sales. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

DUTY AND SIMILAR ITEMS

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Payments due in the USA under the Master Settlement Agreement are deducted from revenue.

TAXES

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns where the applicable tax regulation is subject to interpretation and establishes provisions on the basis of amounts expected to be paid to the tax authorities only where it is considered more likely than not that an amount will be paid or received. This test is applied to each individual uncertain position which is then measured on the single most likely outcome based on interpretation of legislation, management experience and professional advice.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

INTANGIBLE ASSETS – GOODWILL

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

INTANGIBLE ASSETS – OTHER

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

These assets consist mainly of acquired trademarks, intellectual property, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment.

Intellectual property (including trademarks), supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 10 years	straight line

1. ACCOUNTING POLICIES CONTINUED

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

FINANCIAL INSTRUMENTS AND HEDGING

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the consolidated income statement. For interest-bearing assets, the carrying value includes accrued interest receivable. Factored receivables under non-recourse agreements are derecognised when rights to receive cashflows are transferred or there are contractual obligations to pay the cash flows to the factoring party.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant.

However, as the Group has decided (as permitted under IAS 39) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are netted off the carrying value of those derivatives in the consolidated balance sheet.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

PROVISIONS

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group. In the event that the outflow of resources associated with a contingent liability is assessed as probable, and if the size of the outflow can be reliably estimated, a provision is recognised in the financial statements.

RETIREMENT BENEFIT SCHEMES

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

SHARE-BASED PAYMENTS

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

USE OF ADJUSTED MEASURES

Management believes that non-GAAP or adjusted measures provide an important comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, tax, attributable earnings and earnings per share exclude, where applicable, one-off non-recurring events including acquisition costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and tax matters. Reconciliations between adjusted and reported operating profit are included within note 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported tax in note 8, and adjusted and reported earnings per share in note 10.

The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted results are those which are one-off in nature or items which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

The principal adjustments made to reported profits are as follows:

ACQUISITION COSTS

Adjusted measures exclude costs associated with major acquisitions as they do not relate to the day to day operational performance of the Group.

AMORTISATION AND IMPAIRMENT OF ACQUIRED INTANGIBLES

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. We exclude from our adjusted measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

1. ACCOUNTING POLICIES CONTINUED

FAIR VALUE GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS AND EXCHANGE GAINS AND LOSSES ON BORROWINGS

IAS 39 requires that all derivative financial instruments are recognised in the consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IAS 39, in order to reduce income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as they will reverse over time or are matched in future periods by interest charges. Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the commercially hedged item are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

RESTRUCTURING COSTS

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

POST-EMPLOYMENT BENEFITS NET FINANCING COST

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

TAX MATTERS

Tax matters are significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or
- newly enacted taxes in the year;

or are tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded on the same basis.

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

Tobacco & NGP net revenue comprises Tobacco & NGP revenue less duty and similar items, excluding peripheral products. Management considers this an important measure in assessing the performance of Tobacco & NGP operations.

DISTRIBUTION FEES

Distribution fees comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations.

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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group has adopted the Amendment to IAS 7 Statement of Cash Flows with effect from 1 October 2017. This amendment requires reporting entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, by disclosing changes arising from cash flows as well as non-cash changes. There is no material impact of the adoption on the Group. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

The following Standards which have not been adopted in these financial statements that are in issue but not yet effective for the 2018 year end are: IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. These will be adopted in the financial year commencing 1 October 2018. IFRS 16 'Leases' will be adopted in the year commencing 1 October 2019.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets will be classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables and derivative financial instruments, the Group does not currently hold any significant financial assets. The application of this requirement is not expected to materially impact the financial statements.

Impairment of financial assets: Impairment provisions will be calculated using a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. The expected credit loss model requires the recognition of a provision which reflects future impairment risk. Provision levels will be calculated on the residual credit risk after consideration of any credit protection which is used by the Group.

Receivables which have already become overdue will continue to be provided in line with the current provisioning policy. With the exception of the Palmer and Harvey debt write-off, the Group has historically experienced low levels of credit default. Given this, we do not expect the level of the additional expected credit loss provision to be significant.

Hedge Accounting: Adoption of aspects of IFRS 9 relating to hedge accounting are currently optional as organisations are allowed to continue to apply the IAS 39 requirements. IFRS 9 aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group will adopt the hedge accounting aspects of IFRS 9 from 1 October 2019.

However, it is expected that the hedging approach will continue to be limited to the use of net investment hedging. Consequently, the adoption of this area of IFRS 9 is not expected to materially impact the financial statements.

IFRS 15 'Revenue from Contracts with Customers' will be effective for the period beginning 1 October 2018. IFRS 15 introduces an amended framework for revenue recognition and replaces the existing guidance in IAS 18 'Revenue'. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

The Group has assessed the impact of the adoption of IFRS 15. Following the review of our performance obligations revenue will continue to be recognised when a Group company has delivered products to a customer, the customer has accepted those products and collectability of the related receivables is reasonably assured. We will reclassify certain distribution, advertising and selling costs arising from payments to customers, from overheads / other costs of sales to discounts from revenue. These costs are judged as not distinct from the related sales to the customer. This will reduce revenue, but will have no net impact on gross profit. The Group will take the option to restate the comparative figures on adoption of the standard. We estimate that the adoption will reduce the level of revenue recorded in the year ended 30 September 2018 by approximately £458 million.

The Group has also reviewed the presentation of duties, levies and similar payments against the guidance given by IFRS 15. Levy payments made in the United States under the Master Settlement Agreement (MSA) are currently deducted from net revenue. Following the adoption of the standard MSA payments will be recognised in other cost of sales. We estimate that this change will increase the level of net revenue recorded in the year ended 30 September 2018 by approximately £425 million. The adoption of the standard is not expected to have any other material impact on the Group's net assets or gross profit.

IFRS 16 'Leases' will be effective for the period beginning 1 October 2019. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs, subject to the exemptions on amount and duration. The Group is currently assessing the impact of the new standard. Our initial assessment of IFRS 16 leases is that it will not have a material effect on the Group's net assets or results.

IFRIC 23 'Uncertainty over income tax treatments' will be effective, subject to EU endorsement, for the period beginning 1 October 2019. The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Work is ongoing to assess the impact of the Interpretation.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

PROPERTY, PLANT AND EQUIPMENT

There is a significant degree of estimation required in assessing both the carrying value and useful economic life of assets in situations where they are underutilised or associated with a restructuring programme. In these situations, there is often a need to write down assets to their recoverable amounts or revise their depreciation rates. Details of asset impairments associated with restructuring programmes are detailed in note 5.

INTANGIBLE ASSETS

Judgements typically include determining both the existence and valuation of these type of assets when they are acquired, particularly where they arise as part of a business acquisition. Assets are only recognised when it is judged that the Group has beneficial right to the use of the assets as guided by applicable Accounting Standards. The valuation of these assets requires estimates of initial current and future carrying values. Estimation is also required in the assessment of the future life of these assets.

INITIAL CARRYING VALUE

The Group allocates the purchase price of acquired businesses to their identifiable tangible and intangible assets, including goodwill. For major acquisitions the Group engages external consultants to assist in the valuation of identifiable intangible assets. On acquisition intangible assets are valued at fair value using the income method. The valuation process is based on associated future cash flows and is also dependent on assumptions about economic factors and business strategy. Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

DETERMINATION OF USEFUL ECONOMIC LIFE

For non-goodwill intangible assets, there are critical judgements required in determining whether the asset has an indefinite useful economic life, or not. The Davidoff cigarette trademark and some premium cigar trademarks are currently considered to have indefinite lives, based on the fact that they are established international brands with global potential.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

AMORTISATION AND IMPAIRMENT

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the amount and time period during which an intangible asset will support future cashflows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, impairment in the carrying value of the asset may be required.

Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the calculation of accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are uncertainties associated with estimating the valuation of the recoverable amount.

Details of goodwill and intangible asset impairment assessments and the newly acquired intangible assets arising from the Von Erl and Nerudia acquisitions are included in note 11.

INCOME TAXES

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. Where liabilities exist estimation is often required to determine the potential future tax payments.

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the judgements surrounding certain tax positions are applicable to the Group and consideration of the valuation estimates related to tax provisions are given in note 8 to these financial statements.

LEGAL PROCEEDINGS AND DISPUTES

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Judgement is required as to whether a liability exists. Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of judgement include consideration as to whether certain claims associated with the acquisition of certain brands specifically in respect of three of the four US states that are not parties to the Master Settlement Agreement (MSA) are likely to succeed, and the likely outcome of a number of Product liability claims. More detail as to the considered position on claims is given in both note 28 and within the Directors Report – update on Tobacco and e-vapour related litigation.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

RETIREMENT BENEFITS

Accounting for retirement benefits uses a number of accounting estimates. The Group holds a number of defined benefit retirement schemes across various jurisdictions. The valuation of these schemes requires estimates of various market, demographic and mortality assumptions, which are fully reviewed by external actuaries. Full disclosure of the estimates used in retirement benefit accounting is included within note 22.

PROVISIONS

Provision accounting involves judgement as to whether a liability should be recognised and requires estimates of the quantum of any such liability. The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate.

The main area of estimation risk relates to the estimation of restructuring provisions associated with various plans to transform the business, these include the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discreet projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 23.

CONTROL OF LOGISTA

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. Following the current year reduction in the shareholding interest in Logista, the Group now holds 50.01 per cent of the voting shares. The Group has reviewed its control of Logista. The Group continues to have Director presence on the Board of Logista with the ability to exercise voting control where necessary and has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

3. SEGMENT INFORMATION

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

The Tobacco & NGP 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 & NGP 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 Distribution. 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 & NGP business markets within the Growth, Returns Markets North and Returns Markets South reportable segments are:

Growth Markets – Iraq, Italy, Japan, 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.

Our focus on NGP and the growth opportunity this provides across all our markets means that our current segmental descriptors of Growth and Returns are no longer applicable. As a result of an internal reorganisation, our segmental reporting for our tobacco and NGP businesses for the year ending 30 September 2019 will be changed to: Europe, Americas and Africa, Asia & Australasia. These three regions will include all tobacco and NGP sales in their respective geographies, reflecting the new way we run the business. At the same time, blu will be reclassified as a Growth Brand, reinforcing our global ambitions for the brand, and all NGP revenue and profit, currently reported in Growth Markets, will be included within the countries and segments where the sales occur. We will also separately disclose our NGP revenue.

TOBACCO & NGP

£ million unless otherwise indicated	2018	2017
Revenue	**22,885**	22,786
Net revenue	**7,730**	7,757
Operating profit	**2,282**	2,199
Adjusted operating profit	**3,557**	3,595
Adjusted operating margin %	**46.0**	46.3

DISTRIBUTION

£ million unless otherwise indicated	2018	2017
Revenue	**8,383**	8,269
Distribution fees	**989**	914
Operating profit	**128**	94
Adjusted operating profit	**212**	181
Adjusted operating margin %	**21.4**	19.8

REVENUE

	2018		2017	
£ million	**Total revenue**	**External revenue**	Total revenue	External revenue
Tobacco & NGP				
Growth Markets	**3,754**	**3,686**	3,665	3,602
USA	**2,971**	**2,971**	3,125	3,125
Returns Markets North	**13,698**	**13,689**	13,533	13,503
Returns Markets South	**2,462**	**1,795**	2,463	1,748
Total Tobacco & NGP	**22,885**	**22,141**	22,786	21,978
Distribution	**8,383**	**8,383**	8,269	8,269
Eliminations	**(744)**	**–**	(808)	–
Total Group	**30,524**	**30,524**	30,247	30,247

3. SEGMENT INFORMATION CONTINUED

RECONCILIATION FROM TOBACCO & NGP REVENUE TO TOBACCO & NGP NET REVENUE

£ million	2018	2017
Revenue	22,885	22,786
Duty and similar items	(15,125)	(14,967)
Sale of peripheral products	(30)	(62)
Net Revenue	7,730	7,757

TOBACCO & NGP NET REVENUE

£ million	2018	2017
Growth Markets	1,795	1,768
USA	1,671	1,665
Returns Markets North	2,749	2,755
Returns Markets South	1,515	1,569
Total Tobacco & NGP	7,730	7,757

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	2018	2017
Tobacco & NGP		
Growth Markets	364	411
USA	1,040	1,013
Returns Markets North	1,507	1,485
Returns Markets South	646	686
Total Tobacco & NGP	3,557	3,595
Distribution	212	181
Eliminations	(3)	(15)
Adjusted operating profit	3,766	3,761
Amortisation of acquired intangibles – Tobacco & NGP	(970)	(1,005)
Amortisation of acquired intangibles – Distribution	(83)	(87)
Administration of UK distributor	(110)	–
Restructuring costs – Tobacco & NGP	(196)	(391)
Operating profit	2,407	2,278
Net finance costs	(626)	(450)
Share of profit of investments accounted for using the equity method	42	33
Profit before tax	1,823	1,861

On 28 November 2017 Palmer & Harvey (P&H) announced that they had entered administration. As a result P&H receivables of £104 million have been written off and a provision has been made of £6 million in the current year financial statements in respect of loan and receivables monies considered irrecoverable. There has been no significant disruption to UK operations as well-prepared contingency plans ensured that the on-going supply to retail customers was unaffected.

OTHER INFORMATION

	2018		2017	
£ million	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco & NGP				
Growth Markets	65	41	53	42
USA	52	33	36	38
Returns Markets North	54	71	54	70
Returns Markets South	44	33	29	41
Total Tobacco & NGP	215	178	172	191
Distribution	39	34	19	32
Total Group	254	212	191	223

ADDITIONAL GEOGRAPHIC ANALYSIS

External revenue and non-current assets are presented for the UK and for individually significant countries. The Group's products are sold in over 160 countries.

£ million	2018 External revenue	2018 Non-current assets	2017 External revenue	2017 Non-current assets
UK	**4,189**	**109**	4,243	83
Germany	**3,871**	**3,351**	3,841	3,401
France	**3,587**	**2,597**	3,711	2,720
USA	**3,154**	**7,037**	3,299	7,356
Other	**15,723**	**8,759**	15,153	8,853
Total Group	**30,524**	**21,853**	30,247	22,413

Non-current assets comprise intangible assets, property, plant and equipment, and investments accounted for using the equity method.

4. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

£ million	2018	2017
Raw materials and consumables used	**927**	915
Changes in inventories of finished goods – Tobacco & NGP	**2,410**	2,341
Changes in inventories of finished goods – Distribution	**5,520**	5,499
Depreciation and impairment of fixed assets	**176**	233
Amortisation of intangible assets	**1,090**	1,131
Operating lease charges	**57**	52
Net foreign exchange losses/(gains)	**52**	(44)
Write down of inventories	**28**	45
Profit on disposal of assets and brands	**(76)**	(24)
Impairment of trade receivables	**9**	4

ANALYSIS OF FEES PAYABLES TO PRICEWATERHOUSECOOPERS LLP AND ITS ASSOCIATES

£ million	2018	2017
Audit of Parent Company and consolidated financial statements	**1.2**	0.8
Audit of the Company's subsidiaries	**4.2**	4.3
Audit of joint venture entities	**0.4**	0.4
Audit related assurance services	**0.3**	0.3
	6.1	5.8
Other services	**0.2**	0.2
	6.3	6.0

In addition to the above, PricewaterhouseCooper LLP audit the individual pension schemes in the UK and Ireland. Fees for these audits total £53.2 thousand (2017: £52.8 thousand).

5. RESTRUCTURING COSTS

£ million	2018	2017
Employment related	170	244
Asset impairments	3	79
Other charges	23	68
	196	391

Restructuring costs analysed by workstream:

£ million	2018	2017
Cost optimisation programme	181	383
Acquisition integration costs	15	4
Other restructuring activities	–	4
	196	391

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is a discrete, time bound project which, given its scale, will be delivered over a number of years and once delivered the associated restructuring costs will cease.

Costs of implementing cost savings that do not arise from the change in strategic direction are excluded from restructuring costs.

Cost optimisation programme costs of £181 million (2017: £383 million) comprise £56 million incurred in restructuring our product manufacturing activities including France, Morocco, Russia and the US, and £125 million in respect of restructuring overheads mainly by implementing a standardised operating model.

Of the remaining £15 million (2017: £8 million), £13 million of post-acquisition integration costs were in respect of the Nerudia acquisition and £2 million (2017: £4 million) of post-acquisition integration costs were in respect of the assets acquired from Lorillard in 2015, (2017: £4 million was in respect of pre-2013 restructuring).

Cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million in respect of the savings of £300 million per annum that the programme has generated by 2018 (the last year of the programme), and Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million per annum by 2020. In 2018 the cash cost of Phase I of the programme was £43 million (2017: £42 million) and £173 million (2017: £132 million) for Phase II, bringing the cumulative net cash cost of the programme to £826 million (Phase I £521 million, Phase II £305 million).

The total restructuring cash spend in the year was £241 million (2017: £201 million).

Restructuring costs are included within administrative and other expenses in the consolidated income statement.

6. DIRECTORS AND EMPLOYEES

EMPLOYMENT COSTS

£ million	2018	2017
Wages and salaries	836	856
Social security costs	173	173
Other pension costs (note 22)	90	–
Share-based payments (note 25)	26	27
	1,125	1,056

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 56-75 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NUMBER OF PEOPLE EMPLOYED BY THE GROUP DURING THE YEAR

	2018		2017	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	27,100	27,200	27,800	27,900
Distribution	6,200	6,100	6,000	6,000
	33,300	33,300	33,800	33,900

NUMBER OF PEOPLE EMPLOYED BY THE GROUP BY LOCATION DURING THE YEAR

	2018		2017	
	At 30 September	Average	At 30 September	Average
European Union	**15,700**	**15,400**	15,500	15,600
Americas	**8,600**	**8,500**	8,600	8,500
Rest of the World	**9,000**	**9,400**	9,700	9,800
	33,300	**33,300**	33,800	33,900

7. NET FINANCE COSTS

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	2018	2017
Reported net finance costs	**626**	450
Fair value gains on derivative financial instruments	**492**	744
Fair value losses on derivative financial instruments	**(567)**	(679)
Exchange (losses)/gains on financing activities	**(51)**	47
Net fair value and exchange (losses)/gains on financial instruments	**(126)**	112
Interest income on net defined benefit assets (note 22)	**129**	107
Interest cost on net defined benefit liabilities (note 22)	**(142)**	(132)
Post-employment benefits net financing cost	**(13)**	(25)
Adjusted net finance costs	**487**	537
Comprising		
Interest on bank deposits	**(10)**	(12)
Interest on bank and other loans	**497**	549
Adjusted net finance costs	**487**	537

8. TAX

ANALYSIS OF CHARGE IN THE YEAR

£ million	2018	2017
Current tax		
UK corporation tax	**55**	97
Overseas tax	**367**	367
Total current tax	**422**	464
Deferred tax movement	**(26)**	(50)
Total tax charged to the consolidated income statement	**396**	414

RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2018	2017
Reported tax	**396**	414
Deferred tax on amortisation of acquired intangibles	**196**	228
Administration of UK distributor	**21**	–
Tax on net fair value and exchange movements on financial instruments	**22**	(14)
Tax on post-employment benefits net financing cost	**5**	7
Tax on restructuring costs	**55**	121
Deferred tax impact of US tax reforms	**29**	–
Tax on unrecognised losses	**(76)**	(105)
Adjusted tax charge	**648**	651

The use of adjusted measures is explained in note 1, Accounting Policies (Use of Adjusted Measures).

8. TAX CONTINUED

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 19.0 per cent (2017: 19.5 per cent) as follows:

£ million	2018	2017
Profit before tax	**1,823**	1,861
Tax at the UK corporation tax rate	**346**	363
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(44)**	(47)
Movement in provision for uncertain tax positions	**10**	22
Remeasurement of deferred tax balances	**51**	4
Remeasurement of deferred tax balances arising from changes in tax rates	**(68)**	(93)
Deferred tax on unremitted earnings	**26**	42
Permanent differences	**66**	120
Adjustments in respect of prior years	**9**	3
Total tax charged to the consolidated income statement	**396**	414

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0 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.

Remeasurement of deferred tax balances includes £35 million (2017: nil) in relation to the de-recognition of deferred tax assets for tax losses in the Group's Dutch business. 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.

Remeasurement of deferred tax balances arising from changes in tax rates includes £29 million (2017: nil) in relation to the remeasurement of deferred tax assets and liabilities on US liabilities and assets following the enactment of tax rate reductions and £39 million (2017: £93 million) in relation to the remeasurement of deferred tax liabilities on French assets following the enactment of future tax rate reductions which will be effective for the Group from 1 October 2019.

During the year the Group has provided for deferred tax on unremitted earnings of £26 million (2017: £42 million). The tax will arise on the distribution of profits through the Group and on planned Group simplification.

Permanent differences include £5 million (2017: £10 million) in respect of non-deductible exchange losses and £26 million (2017: £29 million) in respect of non-deductible interest expense and nil (2017: £57 million) in respect of taxable disposals of assets intra-group.

MOVEMENT ON THE CURRENT TAX ACCOUNT

£ million	2018	2017
At 1 October	**(123)**	(239)
Charged to the consolidated income statement	**(422)**	(464)
Credited to equity	**1**	3
Cash paid	**407**	570
Exchange movements	**3**	2
Other movements	**12**	5
At 30 September	**(122)**	(123)

The cash tax paid in the year is £15 million lower than the current tax charge (2017: £106 million higher). 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.

Analysed as: £ million	2018	2017
Assets	**164**	69
Liabilities	**(286)**	(192)
	(122)	(123)

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.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2018 the total value of these provisions, including foreign exchange movements, was £202 million (2017: £190 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 have concluded 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 £250 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. In September 2018 the dispute was heard before the Commission Nationale, an independent adjudication body, whose decision is advisory only. In October 2018 the Commission issued its report which is favourable to the Group's position. A meeting is being arranged with the French tax authorities to discuss the status of the French tax authority's challenge following the report. At this time it is appropriate to maintain the £42 million (2017: £42 million) held in the provision for uncertain tax positions in respect of this matter.

The Group continues to monitor developments in relation to EU State Aid investigations. If the EU Commission confirms its preliminary finding of State Aid in respect of the UK's Controlled Foreign Company regime and this is ultimately upheld through the judicial process the Group considers that the amount of additional tax payable would be between nil and £300 million depending on the basis of calculation. Based upon advice taken the Group does not consider any provision is required in relation to this investigation or any other EU State Aid investigation. 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.

In 2017 new legislation was introduced, prospectively limiting the amount of production that could take place prior to new excise tax increases. On 28 September 2018, the Russian tax authorities issued a preliminary tax audit report for the calendar years 2014-2016 seeking to assess retrospectively additional excise and VAT with associated interest and penalties of approximately £132 million in respect of pre-production prior to new excise duty increases. In the event that the Russian tax authorities were to apply the same ruling to 2017, the Group estimates further excise and VAT with associated interest and penalties of £74 million could be assessed. The Group believe they have strong grounds for objecting to the preliminary report and are preparing a defence. The Group has complied with this legislation since it became effective. The Group is unable to make a reliable estimate of any provision until its objections to the preliminary report have been discussed with the Russian tax authorities, and furthermore, disclosure of a provision could be prejudicial.

9. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	**2018**	2017	2016
Paid interim of 56.87 pence per share (2017: 111.21 pence, 2016: 101.1 pence)			
– Paid June 2016	**–**	–	225
– Paid September 2016	**–**	–	225
– Paid December 2016	**–**	–	517
– Paid June 2017	**–**	247	–
– Paid September 2017	**–**	247	–
– Paid December 2017	**–**	567	–
– Paid June 2018	**271**	–	–
– Paid September 2018	**271**	–	–
Interim dividend paid	**542**	1,061	967
Proposed interim of 65.46 pence per share (2017: nil, 2016: nil)			
– To be paid December 2018	**624**	–	–
Interim dividend proposed	**624**	–	–
Proposed final of 65.46 pence per share (2017: 59.51 pence, 2016: 54.1 pence)			
– Paid March 2017	**–**	–	517
– Paid March 2018	**–**	567	–
– To be paid March 2019	**624**	–	–
Final dividend	**624**	567	517
Total ordinary share dividends of 187.79 pence per share (2017: 170.72 pence, 2016: 155.2 pence)	**1,790**	1,628	1,484

The third interim dividend for the year ended 30 September 2018 of 65.46 pence per share amounts to a proposed dividend of £624 million, which will be paid in December 2018.

The proposed final dividend for the year ended 30 September 2018 of 65.46 pence per share amounts to a proposed dividend payment of £624 million in March 2019 based on the number of shares ranking for dividend at 30 September 2018, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2018 will be £1,790 million (2017: £1,628 million). The dividend paid during 2018 is £1,676 million (2017: £1,528 million).

10. 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	2018	2017
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,368**	1,409

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**952.4**	954.6
Potentially dilutive share options	**3.0**	2.3
Shares for diluted earnings per share	**955.4**	956.9

Pence		
Basic earnings per share	**143.6**	147.6
Diluted earnings per share	**143.2**	147.2

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

	2018		2017	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	**143.6**	**1,368**	147.6	1,409
Amortisation of acquired intangibles	**90.0**	**857**	90.5	864
Administration of UK distributor	**9.3**	**89**	–	–
Net fair value and exchange movements on financial instruments	**10.9**	**104**	(10.3)	(98)
Post-employment benefits net financing cost	**0.8**	**8**	1.9	18
Restructuring costs	**14.9**	**141**	28.3	270
Deferred tax impact of US tax reforms	**(3.0)**	**(29)**		
Tax on unrecognised losses	**8.0**	**76**	11.0	105
Adjustments above attributable to non-controlling interests	**(2.3)**	**(22)**	(2.0)	(19)
Adjusted	**272.2**	**2,592**	267.0	2,549
Adjusted diluted	**271.3**	**2,592**	266.4	2,549

11. INTANGIBLE ASSETS

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total 2018
Cost					
At 1 October 2017	13,833	12,430	1,401	343	28,007
Additions	3	8	–	47	58
Acquisitions	63	68	–	–	131
Disposals	–	(7)	–	(13)	(20)
Reclassifications	(6)	–	6	–	–
Exchange movements	147	202	14	1	364
At 30 September 2018	14,040	12,701	1,421	378	28,540
Amortisation and impairment					
At 1 October 2017	1,568	5,452	1,008	216	8,244
Amortisation charge for the year[1]	–	942	112	36	1,090
Disposals	–	(4)	–	(10)	(14)
Exchange movements	9	82	11	1	103
Accumulated amortisation	–	6,098	1,131	243	7,472
Accumulated impairment	1,577	374	–	–	1,951
At 30 September 2018	1,577	6,472	1,131	243	9,423
Net book value					
At 30 September 2018	12,463	6,229	290	135	19,117

1. Amortisation of acquired intangibles excluded from adjusted operating profit comprises amortisation on intellectual property of £941 million (2017: £982 million) and amortisation on supply agreements of £112 million (2017: £110 million). No adjustment is made for amortisation on internally generated intellectual property of £1 million (2017: £1 million).

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total 2017
Cost					
At 1 October 2016	13,631	12,470	1,358	309	27,768
Additions	10	15	–	44	69
Acquisitions	25	–	–	–	25
Disposals	–	(1)	–	(13)	(14)
Reclassifications	–	–	(2)	(1)	(3)
Exchange movements	167	(54)	45	4	162
At 30 September 2017	13,833	12,430	1,401	343	28,007
Amortisation and impairment					
At 1 October 2016	1,533	4,477	868	186	7,064
Amortisation charge for the year[1]	–	983	110	38	1,131
Disposals	–	(1)	–	(10)	(11)
Reclassifications	–	–	(1)	(1)	(2)
Exchange movements	35	(7)	31	3	62
Accumulated amortisation	–	5,078	1,008	216	6,302
Accumulated impairment	1,568	374	–	–	1,942
At 30 September 2017	1,568	5,452	1,008	216	8,244
Net book value					
At 30 September 2017	12,265	6,978	393	127	19,763

11. INTANGIBLE ASSETS CONTINUED

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships and exclusive supply arrangements in Cuba. All were acquired as part of the Altadis purchase.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit.

ACQUISITIONS

For each acquisition, an exercise to value the net assets and apportion the consideration has taken place and the values have been recognised in the year end accounts. We engaged external consultants to assist in the valuation of the intangible assets, which make up the most significant element of the assets acquired and have been valued using the income method.

Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions to contingent consideration or asset values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

VON ERL

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million plus an estimated contingent consideration of £15 million payable on performance measures being achieved. There are also amounts payable as contingent consideration to purchase additional share capital of 40 per cent which is based on future product sales. The payment is capped at a maximum of €200 million. In August 2018 a payment of £3 million was made under this forward contract to purchase an additional 10 per cent of the share capital, taking the total shareholding to 60 per cent.

Following the completion of the measurement period, values for consideration of £32 million and acquired net liabilities of £4 million, including intangible assets of £18 million and goodwill of £36 million, have been recognised based on the valuation conditions existing at the acquisition date. The value of the contingent consideration will be reassessed at each future reporting point.

The acquisition builds on Imperial's strategy of developing non-tobacco consumer experiences.

NERUDIA

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for an estimated total cash consideration of £86 million, comprised of an initial consideration of £64 million plus an estimated contingent consideration of £22 million. The maximum amount of contingent consideration payable is £42 million with the amount payable based on certain performance targets being met.

Following the completion of the measurement period, values for consideration of £86 million and acquired net assets of £35 million, including intangible assets of £36 million and goodwill of £51 million, have been recognised based on the valuation conditions existing at the acquisition date. The value of the contingent consideration will be reassessed at each future reporting point.

Nerudia Limited is a nicotine products and services group with a strong track record of developing innovative e-vapour and nicotine products. The acquisition further strengthens our portfolio of intellectual property assets and our research and development capabilities across the entire next generation product landscape.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT REVIEW

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2018		2017	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	**4,498**	**202**	4,471	200
Returns Markets South	**1,698**	**106**	1,685	105
Growth	**2,112**	**299**	2,022	295
USA	**2,412**	**–**	2,351	–
Tobacco & NGP	**10,720**	**607**	10,529	600
Distribution	**1,743**	**–**	1,736	–
	12,463	**607**	12,265	600

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) and ITG Brands in 2015 (USA).

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGU, or group of CGUs as appropriate, is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

GROWTH RATES AND DISCOUNT RATES USED

The compound annual growth rates implicit in these value-in-use calculations are shown below.

%	2018 Pre-tax discount rate	2018 Initial growth rate	2018 Long-term growth rate
Returns Markets North	9.1	3.3	1.8
Returns Markets South	12.9	(4.3)	1.8
Growth Markets	7.3–18.1	10.5	1.4–7.0
USA	8.7	3.9	2.5
Distribution	9.2	5.2	1.8

Cash flows from the business plan period are extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. Estimated long-term weighted average compound growth rates of between 1.4 per cent and 7.0 per cent are used beyond year five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans. The cash flows recognised relate to tobacco product sales and do not currently include the potential benefits of future NGP launches.

GROWTH MARKETS

Within our Growth Markets reporting segment, there are a number of CGU groupings based on our operating segments, including Drive Growth and Other Premium Cigar.

The Drive Growth CGU grouping includes our markets in Russia, Italy, Japan and Turkey. Our impairment test for this CGU grouping indicated headroom of £164 million. However, the level of headroom remains sensitive to changes to individual assumptions which influences the on-going impairment risk.

Russia is a major market in this CGU grouping. Following various strategic investments which took place in the prior year and a more favourable pricing environment, market share and profitability expectations have now improved, with corresponding benefits for future net cashflows.

Our forecast for the next five years is based on the expectation of an on-going, steady, market recovery. The benefits arise from our actions to restructure the business and improved market conditions. The impairment test assumed a post-tax discount rate of 13.0 per cent (2017: 12.5 per cent) for the Russian market reflecting our view of current macroeconomic factors. The long-term growth rate of 4.0 percent has remained consistent with the prior year.

Any one or combination of the following changes in assumptions in the Russian CGU could represent a reasonably possible scenario:

- 100 basis point increase in the post-tax Russian Discount rate – headroom reduction of £53 million
- 10 per cent reduction in Russian cash flows – headroom reduction of £58 million
- 10 per cent devaluation of the Russian rouble – headroom reduction of £53 million

We are forecasting an improved outlook for the other markets within the CGU grouping. Japan is expected to achieve sufficient volume and pricing growth that will deliver significant growth in net cashflows. We are forecasting strong growth for Japanese cashflows for the period through to 2023. A 10 per cent reduction in Japanese cashflows would reduce headroom by £10 million.

Our impairment testing confirms there are sufficient future cash flows to support the current carrying values. Taking account of these factors, we have concluded that the carrying value for the Drive Growth CGU grouping included in our 30 September 2018 balance sheet is appropriate, but remains sensitive to adverse movements in any individual assumption or assumptions.

NGP sales in these markets represent a material opportunity for our business and these opportunities are currently being actively pursued. The NGP opportunities in these markets calculated on a fair value less costs of disposal basis would be at least £200 million. Our current headroom calculation for the Drive Growth CGU impairment review only assumes Tobacco cash flows and excludes NGP cash inflows, however the future inclusion of NGP cash flows will be considered as these businesses develop.

OTHER CGU GROUPINGS

For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

12. PROPERTY, PLANT AND EQUIPMENT

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2018
Cost				
At 1 October 2017	**960**	**1,989**	**408**	**3,357**
Additions	**10**	**183**	**58**	**251**
Acquisitions	**1**	**2**	**–**	**3**
Disposals	**(63)**	**(153)**	**(31)**	**(247)**
Reclassifications	**(2)**	**4**	**(2)**	**–**
Exchange movements	**3**	**(12)**	**(1)**	**(10)**
At 30 September 2018	**909**	**2,013**	**432**	**3,354**
Depreciation and impairment				
At 1 October 2017	**164**	**1,051**	**277**	**1,492**
Depreciation charge for the year	**19**	**127**	**30**	**176**
Impairment	**–**	**–**	**–**	**–**
Disposals	**(14)**	**(153)**	**(28)**	**(195)**
Reclassifications	**–**	**–**	**–**	**–**
Exchange movements	**–**	**(9)**	**(1)**	**(10)**
At 30 September 2018	**169**	**1,016**	**278**	**1,463**
Net book value				
At 30 September 2018	**740**	**997**	**154**	**1,891**

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2017
Cost				
At 1 October 2016	1,012	2,106	390	3,508
Additions	7	146	38	191
Disposals	(72)	(286)	(19)	(377)
Reclassifications	4	3	(4)	3
Exchange movements	9	20	3	32
At 30 September 2017	960	1,989	408	3,357
Depreciation and impairment				
At 1 October 2016	180	1,111	258	1,549
Depreciation charge for the year	17	134	34	185
Impairment	2	45	1	48
Disposals	(40)	(253)	(18)	(311)
Reclassifications	1	2	(1)	2
Exchange movements	4	12	3	19
At 30 September 2017	164	1,051	277	1,492
Net book value				
At 30 September 2017	796	938	131	1,865

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the joint venture entities, which are accounted for by the Group under the equity method, is shown below:

£ million	Corporación Habanos 2018	Altabana 2018	Global Horizon Ventures 2018	Others 2018	Total 2018
Revenue	**196**	**325**	**33**	**65**	**619**
Profit after tax	**39**	**48**	**4**	**9**	**100**
Non-current assets	**468**	**18**	**24**	**14**	**524**
Current assets	**89**	**225**	**33**	**64**	**411**
Total assets	**557**	**243**	**57**	**78**	**935**
Current liabilities	**(107)**	**(60)**	**(3)**	**(38)**	**(208)**
Non-current liabilities	**(22)**	**(5)**	**–**	**(7)**	**(34)**
Total liabilities	**(129)**	**(65)**	**(3)**	**(45)**	**(242)**
Net assets	**428**	**178**	**54**	**33**	**693**

£ million	Corporación Habanos 2017	Altabana 2017	Global Horizon Ventures 2017	Others 2017	Total 2017
Revenue	184	308	3	67	562
Profit after tax	27	46	–	6	79
Non-current assets	449	15	24	13	501
Current assets	73	206	29	60	368
Total assets	522	221	53	73	869
Current liabilities	(79)	(52)	(6)	(41)	(178)
Non-current liabilities	(20)	(5)	–	(5)	(30)
Total liabilities	(99)	(57)	(6)	(46)	(208)
Net assets	423	164	47	27	661

TRANSACTIONS AND BALANCES WITH JOINT VENTURES

£ million	2018	2017
Sales to	**90**	81
Purchases from	**107**	92
Accounts receivable from	**13**	11
Accounts payable to	**(18)**	(13)

MOVEMENT ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

£ million	2018	2017
At 1 October	**785**	744
Profit for the year from joint ventures and associates	**42**	33
Increase in investment in joint ventures	**–**	38
Increase in investment in associates	**10**	2
Dividends	**(17)**	(16)
Foreign exchange	**25**	(16)
At 30 September	**845**	785

IFRS 11 Joint Arrangements came into effect for the Group from 1 October 2014. As a result of this standard the profit and loss items from joint ventures are shown in the consolidated income statement below net finance costs as "Share of investments accounted for using the equity method". Similarly, the asset and liability amounts are classified as "Investments accounted for using the equity method".

14. INVENTORIES

£ million	2018	2017
Raw materials	**908**	970
Work in progress	**78**	54
Finished inventories	**2,520**	2,349
Other inventories	**186**	231
	3,692	3,604

Other inventories mainly comprise duty-paid tax stamps.

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £139 million (2017: £181 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

15. TRADE AND OTHER RECEIVABLES

	2018		2017	
£ million	Current	Non-current	Current	Non-current
Trade receivables	**2,370**	**5**	2,366	–
Less: provision for impairment of receivables	**(61)**	**(5)**	(58)	–
Net trade receivables	**2,309**	**–**	2,308	–
Other receivables	**119**	**74**	54	111
Prepayments and accrued income	**157**	**8**	177	12
	2,585	**82**	2,539	123

Trade receivables may be analysed as follows:

	2018		2017	
£ million	Current	Non-current	Current	Non-current
Within credit terms	**2,119**	**–**	2,179	–
Past due by less than 3 months	**107**	**–**	93	–
Past due by more than 3 months	**83**	**–**	36	–
Amounts that are impaired	**61**	**5**	58	–
	2,370	**5**	2,366	–

16. CASH AND CASH EQUIVALENTS

£ million	2018	2017
Cash at bank and in hand	**771**	599
Short-term deposits and other liquid assets	**4**	25
	775	624

£221 million (2017: £143 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

17. TRADE AND OTHER PAYABLES

	2018		2017	
£ million	Current	Non-current	Current	Non-current
Trade payables	**1,198**	**–**	1,245	–
Duties payable	**4,808**	**–**	4,837	–
Other taxes and social security contributions	**1,436**	**–**	1,256	–
Other payables	**174**	**–**	163	–
Accruals and deferred income	**654**	**47**	603	21
	8,270	**47**	8,104	21

18. BORROWINGS

The Group's borrowings held at amortised cost, are as follows.

£ million	2018	2017
Current borrowings		
Bank loans and overdrafts	**147**	285
Capital market issuance:		
European commercial paper (ECP)	**1,530**	–
$1,250m 2.05% notes due February 2018	**–**	936
€850m 4.5% notes due July 2018	**–**	757
$500m 2.05% notes due July 2018	**–**	375
£200m 6.25% notes due December 2018	**210**	–
£500m 7.75% notes due June 2019	**510**	–
Total current borrowings	**2,397**	2,353
Non-current borrowings		
Bank loans	**–**	–
Capital market issuance:		
£200m 6.25% notes due December 2018	**–**	210
£500m 7.75% notes due June 2019	**–**	510
€750m 5.0% notes due December 2019	**693**	689
$1,250m 2.95% notes due July 2020	**963**	937
€1,000m 2.25% notes due February 2021	**898**	892
€500m 0.5% notes due July 2021	**443**	440
£1,000m 9.0% notes due February 2022	**1,055**	1,055
$1,250m 3.75% notes due July 2022	**963**	938
$1,000m 3.5% notes due February 2023	**768**	749
£600m 8.125% notes due March 2024	**626**	626
€500m 1.375% notes due January 2025	**447**	444
$1,500m 4.25% notes due July 2025	**1,151**	1,120
€650m 3.375% notes due February 2026	**588**	584
£500m 5.5% notes due September 2026	**499**	499
£500m 4.875% notes due June 2032	**504**	503
Total non-current borrowings	**9,598**	10,196
Total borrowings	**11,995**	12,549
Analysed as:		
Capital market issuance	**11,848**	12,264
Bank loans and overdrafts	**147**	285

Current and non-current borrowings include interest payable of £22 million (2017: £15 million) and £172 million (2017: £192 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 12 February 2018, $1,250 million 2.05 per cent notes were repaid. On 5 July 2018, €850 million 4.5 per cent notes were repaid. On 20 July 2018, $500 million 2.05 per cent notes were repaid.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2017: no defaults).

18. BORROWINGS CONTINUED

NON-CURRENT FINANCIAL LIABILITIES

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2018 (including net derivative financial instruments detailed in note 20) is as follows:

£ million	2018 Borrowings	2018 Net derivative financial liabilities/ (assets)	2018 Total	2017 Borrowings	2017 Net derivative financial liabilities/ (assets)	2017 Total
Amounts maturing:						
Between one and two years	**1,656**	**4**	**1,660**	720	47	767
Between two and five years	**4,128**	**123**	**4,251**	4,951	196	5,147
In five years or more	**3,814**	**484**	**4,298**	4,525	340	4,865
	9,598	**611**	**10,209**	10,196	583	10,779

FAIR VALUE OF BORROWINGS

The fair value of borrowings as at 30 September 2018 is estimated to be £12,484 million (2017: £13,530 million). £12,337 million (2017: £13,245 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

£ million	2018 Balance sheet amount	2018 Fair value	2017 Balance sheet amount	2017 Fair value
GBP	**3,405**	**3,861**	3,403	4,085
EUR	**4,598**	**4,681**	3,806	3,984
USD	**3,845**	**3,795**	5,055	5,176
Total capital market issuance	**11,848**	**12,337**	12,264	13,245

UNDRAWN BORROWING FACILITIES

At 30 September the Group had the following undrawn committed facilities:

£ million	2018	2017
Amounts maturing:		
In less than one year	**–**	–
Between one and two years	**1,040**	–
Between two and five years	**3,016**	3,000
	4,056	3,000

During the year four new bilateral facilities for a total €1,173 million were arranged.

19. FINANCIAL RISK FACTORS

FINANCIAL RISK MANAGEMENT

OVERVIEW

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group-wide insurance programs. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets when required and comprises the Chief Financial Officer, the Company Secretary, the Deputy Chief Financial Officer and other senior management from finance and treasury. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

(A) MARKET RISK

PRICE RISK

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 22. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

FOREIGN EXCHANGE RISK

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

TRANSACTION RISK

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

TRANSLATION RISK

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2018. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments. In February 2018 the Group completed a subsidiary simplification exercise which resulted in a decrease in the foreign currency income statement sensitivity of the Group.

£ million	**2018** Increase in income	2017 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2017: 10%)	**127**	491
10% appreciation of US dollar (2017: 10%)	**83**	111

An equivalent depreciation in the above currencies would cause a decrease in income of £155 million and £102 million for euro and US dollar exchange rates respectively (2017: £600 million and £136 million).

Movements in equity in the table below relate to hedging instruments designated as net investment hedges of the Group's Euro and US Dollar denominated assets.

£ million	**2018** Change in equity	2017 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2017: 10%)	**408**	484
10% appreciation of US dollar (2017: 10%)	**(44)**	20

An equivalent depreciation in the above currencies would result in a change in equity of (£499) million and £54 million for euro and US dollar exchange rates respectively (2017: (£591) million and (£24) million).

At 30 September 2018, after the effect of derivative financial instruments, approximately 68 per cent of the Group's net debt was denominated in euro and non USD currencies (2017: 58 per cent), 32 per cent in US dollars (2017: 42 per cent).

19. FINANCIAL RISK FACTORS CONTINUED

INTEREST RATE RISK

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2018, after adjusting for the effect of derivative financial instruments detailed in note 20, approximately 72 per cent (2017: 75 per cent) of net debt was at fixed rates of interest and 28 per cent (2017: 25 per cent) was at floating rates of interest.

INTEREST RATE SENSITIVITY ANALYSIS

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's income statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2018, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2017: nil).

	2018	2017
£ million	**Change in income**	Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2017: 1%)	**20**	12
+/- 1% increase in US dollar interest rates (2017: 1%)	**14**	20

(B) CREDIT RISK

The Group is primarily exposed to credit risk arising from the extension of credit to its customers, cash deposits, derivatives and other amounts due from external financial counterparties arising on other financial instruments. The maximum aggregate credit risk to these sources was £3,644 million at 30 September 2018 (2017: £3,633 million).

TRADE AND OTHER RECEIVABLES

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers, and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2018 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totaled £724 million (2017: £626 million). Analysis of trade and other receivables is provided in note 15.

FINANCIAL INSTRUMENTS

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with two ISDA Credit Support Annexes the Group had placed £82 million as at 30 September 2018 (2017: £75 million) as collateral with third parties in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2018. At the balance sheet date management does not expect these counterparties to default on their current obligations. The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

	2018		2017	
Counterparty exposure	**S&P credit rating**	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**A+**	**6**	A–	17
2nd highest	**BBB+**	**5**	AA–	8
3rd highest	**A**	**3**	A–	7
4th highest	**A**	**3**	A+	6
5th highest	**–**	**–**	A	4

(C) LIQUIDITY RISK

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular subsidiary when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank bi-lateral loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short-term liquidity requirements in line with short-term cash flow forecasts. As at 30 September 2018, the Group held liquid assets of £775 million (2017: £624 million).

The table below summarises the Group's non-derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2018. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 20.

						2018
£ million	**Balance sheet amount**	**Contractual cash flows total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
Non-derivative financial liabilities:						
Bank loans	**147**	**152**	**152**	**–**	**–**	**–**
Capital market issuance	**11,848**	**13,745**	**2,670**	**2,002**	**4,843**	**4,230**
Trade payables	**1,198**	**1,198**	**1,198**	**–**	**–**	**–**
Total non-derivative financial liabilities	**13,193**	**15,095**	**4,020**	**2,002**	**4,843**	**4,230**

						2017
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	285	287	287	–	–	–
Capital market issuance	12,264	14,637	2,554	1,138	5,823	5,122
Trade payables	1,245	1,245	1,245	–	–	–
Total non-derivative financial liabilities	13,794	16,169	4,086	1,138	5,823	5,122

CAPITAL MANAGEMENT

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only external imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group continues to manage its capital structure to maintain investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in on-going discussions with the relevant rating agencies.

As at 30 September 2018 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	**2018**	2017
Adjusted net debt (note 29)	**11,474**	12,147
Equity attributable to the owners of the parent	**5,770**	5,684
Total capital	**17,244**	17,831

19. FINANCIAL RISK FACTORS CONTINUED

HEDGE ACCOUNTING

The Group hedges its underlying exposures in an efficient, commercial and structured manner in line with the policies above, although the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting in respect of these transactions.

The Group does apply hedge accounting in respect of certain net investments in foreign operations where appropriate. The hedge of a net investment in a foreign operation is a hedge of the translation foreign currency risk arising on the foreign operation. As at 30 September 2018 the Group had made net investment hedge designations in foreign operations in respect of external euro borrowings with a carrying value of €3,400 million (2017: €4,250 million), US dollar borrowings with a carrying value of $5,000 million (2017: $7,050 million), and cross-currency swaps with a notional value of £4,164 million (2017: £4,164 million).

The Group also treats certain permanent intra-group loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intra-group loans with a notional value of €2,506 million (2017: €2,381 million) and US dollar loans with a notional value of $5,636 million (2017: $6,761 million) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

FAIR VALUE ESTIMATION AND HIERARCHY

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 20. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 18.

NETTING ARRANGEMENTS OF FINANCIAL INSTRUMENTS

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments under ISDA Credit Support Annexes. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

					2018
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	581	(82)	499	(481)	18
Cash and cash equivalents	775	–	775	–	775
	1,356	(82)	1,274	(481)	793
Liabilities					
Derivative financial instruments	(1,260)	82	(1,178)	481	(697)
Bank loans and overdrafts	(147)	–	(147)	–	(147)
	(1,407)	82	(1,325)	481	(844)

					2017
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	718	(75)	643	(603)	40
Cash and cash equivalents	624	–	624	–	624
	1,342	(75)	1,267	(603)	664
Liabilities					
Derivative financial instruments	(1,283)	75	(1,208)	603	(605)
Bank loans and overdrafts	(285)	–	(285)	–	(285)
	(1,568)	75	(1,493)	603	(890)

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments held at fair value, are as follows.

£ million	2018 Assets	2018 Liabilities	2018 Net Fair Value	2017 Assets	2017 Liabilities	2017 Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**28**	**(24)**	**4**	47	(33)	14
Foreign exchange contracts	**6**	**(7)**	**(1)**	12	(9)	3
Cross-currency swaps	**3**	**(127)**	**(124)**	1	–	1
Total current derivatives	**37**	**(158)**	**(121)**	60	(42)	18
Collateral[1]	**–**	**53**	**53**	–	–	–
	37	**(105)**	**(68)**	60	(42)	18
Non-current derivative financial instruments						
Interest rate swaps	**462**	**(700)**	**(238)**	583	(734)	(151)
Cross-currency swaps	**–**	**(402)**	**(402)**	–	(507)	(507)
Total non-current derivatives	**462**	**(1,102)**	**(640)**	583	(1,241)	(658)
Collateral[1]	**–**	**29**	**29**	–	75	75
	462	**(1,073)**	**(611)**	583	(1,166)	(583)
Total carrying value of derivative financial instruments	**499**	**(1,178)**	**(679)**	643	(1,208)	(565)
Analysed as:						
Interest rate swaps	**490**	**(724)**	**(234)**	630	(767)	(137)
Foreign exchange contracts	**6**	**(7)**	**(1)**	12	(9)	3
Cross-currency swaps	**3**	**(529)**	**(526)**	1	(507)	(506)
Collateral[1]	**–**	**82**	**82**	–	75	75
Total carrying value of derivative financial instruments	**499**	**(1,178)**	**(679)**	643	(1,208)	(565)

1. Collateral deposited against derivative financial liabilities under the terms and conditions of ISDA Credit Support Annexes

Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 19.

MATURITY OF OBLIGATIONS UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Group's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2018. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2018. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non-derivative financial instruments are detailed in note 19.

2018 £ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	**(205)**	**(508)**	**(13)**	**(38)**	**(183)**	**(274)**
Gross settled derivatives	**(474)**					
– receipts		**5,364**	**2,249**	**102**	**1,228**	**1,785**
– payments		**(5,610)**	**(2,349)**	**(79)**	**(1,234)**	**(1,948)**
	(679)	**(754)**	**(113)**	**(15)**	**(189)**	**(437)**

2017 £ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(107)	(353)	12	(9)	(172)	(184)
Gross settled derivatives	(458)					
– receipts		5,449	1,548	818	1,273	1,810
– payments		(5,712)	(1,525)	(923)	(1,288)	(1,976)
	(565)	(616)	35	(114)	(187)	(350)

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

DERIVATIVES AS HEDGING INSTRUMENTS

As outlined in note 19, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross-currency swaps. Foreign exchange contracts are used to manage the Group's short-term liquidity requirements in line with short-term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IAS 39, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

INTEREST RATE SWAPS

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination and/or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long-term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2018, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £10,353 million equivalent (2017: £12,393 million equivalent) with a fair value of £240 million asset (2017: £579 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2017: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2018, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £10,285 million equivalent (2017: £11,049 million equivalent) with a fair value of £445 million liability (2017: £686 million liability). The fixed interest rates vary from 0.8 per cent to 4.4 per cent (2017: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £1,476 million equivalent (2017: £1,452 million equivalent) with tenors extending for 5 years, starting between October 2020 and May 2022.

CROSS-CURRENCY SWAPS

The Group enters into cross-currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

As at 30 September 2018, the notional amount of cross-currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £3,300 million (2016: £3,300 million) and the fair value of these swaps was £473 million net liability (2017: £461 million net liability).

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

As at 30 September 2018, cross-currency swaps with a notional amount of €4,164 million (2017: €4,164 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £23 million (2017: £92 million losses) were recognised in other comprehensive income in respect of cross-currency swaps that had been designated as hedges of a net investment in foreign operations.

FOREIGN EXCHANGE CONTRACTS

The Group enters into foreign exchange contracts to manage short-term liquidity requirements in line with cash flow forecasts. As at 30 September 2018, the notional amount of these contracts was £1,430 million equivalent (2017: £1,482 million equivalent) and the fair value of these contracts was a net liability of £1 million (2017: £3 million net asset).

21. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

DEFERRED TAX ASSETS

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2018
At 1 October 2017	**181**	**129**	**307**	**617**
Credited/(charged) to consolidated income statement	**57**	**1**	**(68)**	**(10)**
Credited to other comprehensive income	**–**	**2**	**–**	**2**
Transfers	**(3)**	**1**	**(1)**	**(3)**
Exchange movements	**(4)**	**–**	**(2)**	**(6)**
At 30 September 2018	**231**	**133**	**236**	**600**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2017
At 1 October 2016	(226)	269	588	631
Credited/(charged) to consolidated income statement	202	(1)	10	211
Charged to other comprehensive income	–	(28)	(1)	(29)
Transfers	212	(114)	(296)	(198)
Exchange movements	(7)	3	6	2
At 30 September 2017	181	129	307	617

DEFERRED TAX LIABILITIES

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2018
At 1 October 2017	**(1,403)**	**37**	**275**	**(1,091)**
Credited/(charged) to consolidated income statement	**219**	**(12)**	**(171)**	**36**
Charged to other comprehensive income	**–**	**(56)**	**–**	**(56)**
Transfers	**3**	**(1)**	**1**	**3**
Acquisitions	**(7)**	**–**	**2**	**(5)**
Exchange movements	**(5)**	**5**	**–**	**–**
At 30 September 2018	**(1,193)**	**(27)**	**107**	**(1,113)**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2017
At 1 October 2016	(1,143)	47	62	(1,034)
Charged to consolidated income statement	(61)	(32)	(68)	(161)
Charged to other comprehensive income	–	(91)	–	(91)
Transfers	(212)	114	296	198
Other movements	–	–	(12)	(12)
Exchange movements	13	(1)	(3)	9
At 30 September 2017	(1,403)	37	275	(1,091)

21. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

DEFERRED TAX EXPECTED TO BE RECOVERED WITHIN 12 MONTHS

£ million	2018	2017
Deferred tax assets	**252**	340
Deferred tax liabilities	**(50)**	(270)
	202	70

DEFERRED TAX EXPECTED TO BE RECOVERED IN MORE THAN 12 MONTHS

£ million	2018	2017
Deferred tax assets	**348**	277
Deferred tax liabilities	**(1,063)**	(821)
	(715)	(544)

Within other temporary differences, deferred tax assets of £173 million (2017: £250 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at the balance sheet date, deferred tax assets of £133 million (2017: £106 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets £6 million (2017: £7 million) are expected to expire in 2019 and £37 million (2017: £7 million) are expected to expire within 5 years. The remaining £90 million (2017: £62 million) has no time expiry.

Also within Other temporary differences, deferred tax assets of £21 million (2017: £33 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £146 million (2017: £143 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £48 million (2017: £44 million) are expected to expire between 2021 and 2028.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2018 we derecognised deferred tax assets of £51 million that were previously recognised on the basis that it is more likely than not that these are irrecoverable. In 2017 there was no material movement.

A deferred tax liability of £115 million (2017: £89 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £9 billion (2017: £8 billion).

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is nil (2017: £140 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

22. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 64 per cent, 11 per cent and 7 per cent of the Group's total defined benefit obligations and 41 per cent, 24 per cent and 9 per cent of the current service cost respectively.

IMPERIAL TOBACCO PENSION FUND

The UK scheme, the Imperial Tobacco Pension Fund or ITPF, is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF was offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 18 years. Effective from 1 September 2017, members' pensionable pay was capped at the higher of £75,000 or their pensionable pay at 1 September 2017. The population as at the most recent funding valuation comprises 65 per cent in respect of pensioners, 32 per cent in respect of deferred members and 3 per cent in respect of current employees. New employees in the UK are now offered a defined contribution scheme. Should surplus funds arise in the defined benefit section they may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases and any salary increases above inflation) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the fund were to be wound up.

The latest valuation of the ITPF was carried out as at 31 March 2016 when the market value of the invested assets was £3,302 million. Based on the ongoing funding target the total assets were sufficient to cover 96 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, ITL and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly.

Following the valuation, the level of employer's contributions to the scheme was increased from £65 million per year. ITL paid £80 million in the year to 31 March 2018 and agreed to pay £85 million each year for the subsequent 13 years. Further contributions were agreed to be paid by the ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees with a total value of £600 million and a parental guarantee with Imperial Brands PLC have been put in place.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be influenced by the factors noted above). The investment portfolio is subject to a range of risks typical of the asset classes held, in particular credit risk on bonds, exposure to equity markets, and exposure to the property market.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a proportion of the assets invested in equities and other return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

THE REEMTSMA CIGARETTENFABRIKEN PENSION PLAN

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 19 years. The scheme population comprises 47 per cent in respect of pensioners, 17 per cent in respect of deferred members and 36 per cent in respect of current employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £21 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the DBO and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

ITG BRANDS HOURLY PENSION PLAN

The main USA pension scheme, the ITG Brands Hourly Pension Plan (ITGBH), is a defined benefit pension plan that is open to new entrants. It has a weighted average maturity of 10 years. The population comprises 73 per cent in respect of pensioners, 11 per cent in respect of deferred members and 16 per cent in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

OTHER PLANS

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

22. RETIREMENT BENEFIT SCHEMES CONTINUED

DEFINED BENEFIT PLANS

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2018 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

			2018			2017
£ million	DBO	Assets	Total	DBO	Assets	Total
At 1 October	**(5,448)**	**4,732**	**(716)**	(6,099)	4,620	(1,479)
Consolidated income statement expense						
Current service cost	**(52)**	**–**	**(52)**	(64)	–	(64)
Settlements gains/(losses)	**12**	**(7)**	**5**	–	–	–
Past service credits	**12**	**–**	**12**	91	–	91
Cost of termination benefits	**(38)**	**–**	**(38)**	(10)	–	(10)
Net interest (expense)/income on net defined benefit (liability)/asset	**(142)**	**129**	**(13)**	(132)	107	(25)
Administration costs paid from plan assets	**–**	**(5)**	**(5)**	–	(3)	(3)
Cost recognised in the income statement			**(91)**			(11)
Remeasurements						
Actuarial (loss)/gain due to liability experience	**(20)**	**–**	**(20)**	204	–	204
Actuarial gain due to financial assumption changes	**105**	**–**	**105**	299	–	299
Actuarial gain due to demographic assumption changes	**–**	**–**	**–**	25	–	25
Return on plan assets excluding amounts included in net interest (expense)/income above	**–**	**111**	**111**	–	121	121
Remeasurement effects recognised in other comprehensive income			**196**			649
Cash						
Employer contributions	**–**	**158**	**158**	–	140	140
Employee contributions	**(1)**	**1**	**–**	(1)	1	–
Benefits paid directly by the company	**66**	**(66)**	**–**	46	(46)	–
Benefits paid from plan assets	**215**	**(215)**	**–**	205	(205)	–
Net cash			**158**			140
Other						
Exchange movements	**(20)**	**10**	**(10)**	(12)	(3)	(15)
Total other			**(10)**			(15)
At 30 September	**(5,311)**	**4,848**	**(463)**	(5,448)	4,732	(716)

The cost of termination benefits in the year ended 30 September 2018 mainly relate to restructuring activity in Germany. The past service credit arises as a result of curtailment gains in Germany and France, and the introduction of a pensionable pay cap in Ireland. Settlement gains have arisen following lump-sum exercises in both Germany and the US. The payment of €22.8 million arising from the lump-sum exercise in Germany has been accounted for through the pension scheme, however the monies have yet to be paid to the beneficiaries, and is held separately as a current payable on the balance sheet.

RETIREMENT BENEFIT SCHEME COSTS CHARGED TO OPERATING PROFIT

£ million	2018	2017
Defined benefit expense/(income) in operating profit	**78**	(14)
Defined contribution expense in operating profit	**17**	17
Total retirement benefit scheme cost in operating profit	**95**	3

Split as follows in the consolidated income statement:

£ million	2018	2017
Cost of sales	**29**	3
Distribution, advertising and selling costs	**40**	–
Administrative and other expenses	**26**	–
Total retirement benefit scheme costs in operating profit	**95**	3

ASSETS AND LIABILITIES RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

£ million	2018	2017
Retirement benefit assets	598	358
Retirement benefit liabilities	(1,061)	(1,074)
Net retirement benefit liability	(463)	(716)

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

			2018			2017
£ million unless otherwise indicated	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Defined benefit obligation (DBO)	3,380	600	394	3,485	613	418
Fair value of scheme assets	(3,902)	–	(388)	(3,790)	–	(394)
Net defined benefit (asset)/liability	(522)	600	6	(305)	613	24
Current service cost	21	13	5	28	15	5
Employer contributions	80	–	–	75	22	–
Principal actuarial assumptions used (% per annum)						
Discount rate	2.9	1.9	4.3	2.7	1.9	3.8
Future salary increases	3.7	2.9	n/a	3.7	2.9	n/a
Future pension increases	3.2	1.8	n/a	3.2	1.8	n/a
Inflation	3.2	1.8	2.5	3.2	1.8	2.5

						2018
		ITPF		RCPP		ITGBH
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	22.0	23.6	19.4	23.4	19.7	22.2
Member currently aged 50	23.4	25.5	21.4	25.3	20.9	23.3

						2017
		ITPF		RCPP		ITGBH
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.9	23.5	19.3	23.3	19.8	22.3
Member currently aged 50	23.3	25.5	21.3	25.2	21.1	23.5

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S2 tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S2 All Pensioner Male Amounts table with a 97.7 per cent multiplier. An allowance for improvements in longevity is made using the 2015 CMI improvement rates with a long-term trend of 1.25 per cent per annum.

SENSITIVITY ANALYSIS FOR KEY ASSUMPTIONS AT THE END OF THE YEAR

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

			2018			2017
% increase in DBO	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Discount rate: 0.5% decrease	8.7	9.9	5.2	9.0	9.4	5.6
Rate of inflation: 0.5% decrease	7.1	6.5	n/a	7.3	6.3	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.5	4.0	3.7	4.6	4.1

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5 per cent decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £14 million.

22. RETIREMENT BENEFIT SCHEMES CONTINUED

An approximate split of the major categories of ITPF scheme assets is as follows:

	2018		2017	
£ million unless otherwise indicated	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	564	15	1,430	38
Bonds – index linked government	1,403	36	915	24
Bonds – corporate and other	361	9	305	8
Property	542	14	529	14
Absolute return	477	12	589	15
Other – including derivatives, commodities and cash	555	14	22	1
	3,902	100	3,790	100

The majority of the assets are quoted.

There is now no self-investments in the Imperial Brands PLC shares following termination of the mandates that previously held these shares. As in previous years, the value of ground leases have been allocated to the property asset class.

An approximate split of the major categories of ITGBH scheme assets is as follows:

	2018		2017	
£ million unless otherwise indicated	Fair value	Percentage of ITGBH scheme assets	Fair value	Percentage of ITGBH scheme assets
Investment funds	252	65	257	65
Bonds – fixed government	54	14	75	19
Bonds – corporate and other	66	17	58	15
Other – including derivatives, commodities and cash	16	4	4	1
	388	100	394	100

The majority of the assets are non-quoted.

23. PROVISIONS

			2018
£ million	Restructuring	Other	Total
At 1 October 2017	380	145	525
Additional provisions charged to the consolidated income statement	99	62	161
Amounts used	(171)	(26)	(197)
Unused amounts reversed	(13)	(22)	(35)
Exchange movements	2	(3)	(1)
At 30 September 2018	297	156	453

Analysed as:

£ million	2018	2017
Current	179	187
Non-current	274	338
	453	525

Restructuring provisions relate mainly to our cost optimisation programme (see note 5), and other provisions principally relate to holiday pay, local tax and Logista provisions. It is expected that the majority of provisions will be utilised within a period of 10 years.

24. SHARE CAPITAL

£ million	2018	2017
Authorised, issued and fully paid		
1,031,026,084 ordinary shares of 10p each (2017: 1,032,340,000)	103	103

During the year 1,313,916 shares were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve, and in September 2017, 3,660,000 shares were cancelled increasing this reserve.

25. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

SHARE MATCHING SCHEME

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

LONG-TERM INCENTIVE PLAN (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.

SHARESAVE PLAN

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

DISCRETIONARY SHARE AWARDS PLAN (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25 per cent of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

ANALYSIS OF CHARGE TO THE CONSOLIDATED INCOME STATEMENT

£ million	2018	2017
Share Matching Scheme	14	19
Long-Term Incentive Plan	9	6
Sharesave Plan	2	2
Discretionary Share Awards Plan	1	–
	26	27

The awards are predominantly equity-settled. The balance sheet liability in respect of cash-settled schemes at 30 September 2018 was £0.9 million (2017: £2.1 million).

RECONCILIATION OF MOVEMENTS IN AWARDS/OPTIONS

	2018				
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2017	1,907	1,190	997	45	27.73
Granted	175	2,002	972	26	22.24
Lapsed/cancelled	(78)	(25)	(302)	–	29.12
Exercised	(697)	(153)	(343)	–	23.87
Outstanding at 30 September 2018	1,307	3,014	1,324	71	25.03
Exercisable at 30 September 2018	–	–	98	–	25.22

25. SHARE SCHEMES CONTINUED

Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
					2017
Outstanding at 1 October 2016	2,265	1,100	1,085	19	24.73
Granted	662	397	340	26	29.62
Lapsed/cancelled	(109)	(104)	(86)	–	25.59
Exercised	(911)	(203)	(342)	–	20.62
Outstanding at 30 September 2017	1,907	1,190	997	45	27.73
Exercisable at 30 September 2017	–	–	43	–	20.40

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £26.80 (2017: £36.24). The weighted average fair value of sharesave options granted during the year was £4.00 (2017: £6.68).

SUMMARY OF AWARDS/OPTIONS OUTSTANDING AT 30 SEPTEMBER 2018

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2016	**550**	**5**	**n/a**
2017	**583**	**17**	**n/a**
2018	**174**	**29**	**n/a**
Total awards outstanding	**1,307**		
Long-Term Incentive Plan			
2015	**243**	**–**	**n/a**
2016	**399**	**5**	**n/a**
2017	**397**	**17**	**n/a**
2018	**1,975**	**29**	**n/a**
Total awards outstanding	**3,014**		
Sharesave Plan			
2013	**1**	**–**	**18.40**
2014	**2**	**–**	**20.40**
2015	**95**	**–**	**25.40**
2016	**209**	**10**	**29.68**
2017	**271**	**22**	**29.62**
2018	**746**	**34**	**22.24**
Total options outstanding	**1,324**		
Discretionary Share Awards Plan			
2016	**18**	**2**	**n/a**
2016	**1**	**10**	**n/a**
2017	**24**	**20**	**n/a**
2017	**2**	**23**	**n/a**
2018	**26**	**31**	**n/a**
Total options outstanding	**71**		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

PRICING

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan, Discretionary Shares Awards Plan and one Long-Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2018 and 2017 is as follows.

	2018				2017		
	Share matching	Sharesave	DSAP	LTIP	Share matching	Sharesave	DSAP
Risk-free interest rate %	1.2	0.0–2.9	1.2	1.2–1.3	0.8	0.1	0.6–0.9
Volatility (based on 3 or 5 year history) %	24.1	24.0–24.1	24.2	23.9–24.5	24.1	24.4	24.1–24.8
Expected lives of options granted years	3	3	3	3–5	3	3	3
Dividend yield %	4.75	4.75	4.75	4.75	4.2	4.2	4.2
Fair value £	22.84	3.88–4.76	24.24	22.05–24.24	32.66	6.02–6.48	28.25–32.03
Share price used to determine exercise price £	26.34	26.08–26.32	27.96	27.96	37.00	35.47–36.29	32.01–36.29
Exercise price £	n/a	22.24	n/a	n/a	n/a	29.62	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of all other Long-Term Incentive Plan awards at grant date. Assumptions in 2018 and 2017 are given in the following table.

%	2018	2017
Future Imperial Brands share price volatility	18.7–19.2	21.0
Future Imperial Brands dividend yield	–	–
Share price volatility of the tobacco and alcohol comparator group	17.0–38.0	16.0–37.0
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	32.0	34.0

EMPLOYEE SHARE OWNERSHIP TRUSTS

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2017. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

SHARES HELD BY EMPLOYEE SHARE OWNERSHIP TRUSTS

Millions of shares	2018	2017
At 1 October	1.9	3.5
Distribution of shares held by Employee Share Ownership Trusts	(1.2)	(1.6)
At 30 September	0.7	1.9

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2017: nil) and 0.7 million (2017: 1.9 million) treasury shares gifted to the Trusts by the Group. There were nil (2017: nil) shares gifted in the financial year 2018.

26. TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 1,313,916 shares at a cost of £41 million (2017: 3,660,000 shares at a cost of £119 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2018		2017	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	77.3	2,183	77.3	2,183
Purchase of shares	1.3	41	3.7	119
Cancellation of shares	(1.3)	(41)	(3.7)	(119)
At 30 September	77.3	2,183	77.3	2,183
Percentage of issued share capital	7.5	n/a	7.5	n/a

27. COMMITMENTS

CAPITAL COMMITMENTS

£ million	2018	2017
Contracted but not provided for:		
Property, plant and equipment and software	208	195

OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

	2018			2017		
£ million	Property	Other	Total	Property	Other	Total
Within one year	47	19	66	41	15	56
Between one and five years	107	29	136	92	33	125
Beyond five years	52	–	52	22	–	22
	206	48	254	155	48	203

A review of operating leases has identified four leases with a total commitment greater than £10 million. A summary of these commitments are detailed below.

Following the sale of the head office buildings in the UK, two new leases have commenced in respect of these. The lease in respect of 121 Winterstoke Road commenced on 23 August 2018 for a term of 20 years, due to terminate on 22 August 2038 and currently has an annual rental commitment of £2.5 million. The lease in respect of 123 Winterstoke Road commenced on 25 September 2018 for a term of 10 years, due to terminate on 24 September 2028 and has an annual rental commitment of £1.0 million. Both leases will have a review of the rental obligation five years after the lease commencement date.

The German head office lease commenced on 1 January 2014 for a term of 10 years, due to terminate on 31 December 2024. Currently there is an annual commitment of €3.2 million which is price index graduated on an annual basis. There is the option to terminate up to 30 per cent of the remaining lease space from 31 December 2019 to 31 December 2023, subject to notice of 14 months and a pro-rata payment penalty.

The Logista head office lease commenced on 1 January 2015 for a term of nine years, due to terminate on 31 December 2023. Currently there is an annual commitment of €1.8 million which is price index reviewed on an annual basis. There is the option to terminate the lease on 31 December 2021, subject to an indemnity of two months rent, and an option to extend the lease at expiry for a further nine years.

28. CONTINGENT LIABILITIES

LEGAL PROCEEDINGS

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health-related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements.

For further details see pages 53-54 of the Directors' Report.

COMPETITION AUTHORITY INVESTIGATIONS

The Group is currently co-operating with relevant national competition authorities in relation to a number of ongoing competition law investigations, none of which have resulted in findings of infringement.

29. 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 2017	624	(2,353)	(10,196)	(565)	(12,490)
Reallocation of current borrowings from non-current borrowings	–	(721)	721	–	–
Cash flow	203	642	–	(41)	804
Accretion of interest	–	14	(2)	(2)	10
Change in fair values	–	–	–	(71)	(71)
Exchange movements	(52)	21	(121)	–	(152)
At 30 September 2018	775	(2,397)	(9,598)	(679)	(11,899)

ANALYSIS BY DENOMINATION CURRENCY

£ million	GBP	EUR	USD	Other	2018 Total
Cash and cash equivalents	**47**	**225**	**39**	**464**	**775**
Total borrowings	**(3,419)**	**(4,700)**	**(3,844)**	**(32)**	**(11,995)**
	(3,372)	**(4,475)**	**(3,805)**	**432**	**(11,220)**
Effect of cross-currency swaps	**3,180**	**(3,706)**	**–**	**–**	**(526)**
	(192)	**(8,181)**	**(3,805)**	**432**	**(11,746)**
Derivative financial instruments					**(153)**
Net debt					**(11,899)**

£ million	GBP	EUR	USD	Other	2017 Total
Cash and cash equivalents	45	176	43	360	624
Total borrowings	(3,436)	(3,814)	(5,278)	(21)	(12,549)
	(3,391)	(3,638)	(5,235)	339	(11,925)
Effect of cross-currency swaps	3,177	(3,683)	–	–	(506)
	(214)	(7,321)	(5,235)	339	(12,431)
Derivative financial instruments					(59)
Net debt					(12,490)

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	2018	2017
Reported net debt	**(11,899)**	(12,490)
Accrued interest	**197**	208
Fair value of derivatives providing commercial hedges	**228**	135
Adjusted net debt	**(11,474)**	(12,147)

30. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2018	2017
Increase/(decrease) in cash and cash equivalents	**203**	(601)
Cash flows relating to derivative financial instruments	**(41)**	37
Increase in borrowings	**(1,619)**	(852)
Repayment of borrowings	**2,261**	2,183
Change in net debt resulting from cash flows	**804**	767
Other non-cash movements including revaluation of derivative financial instruments	**(61)**	69
Exchange movements	**(152)**	(7)
Movement in net debt during the year	**591**	829
Opening net debt	**(12,490)**	(13,319)
Closing net debt	**(11,899)**	(12,490)

31. CHANGES IN NON-CONTROLLING INTERESTS

In August 2018 the Group reduced its holding in its Distribution business, Compañía de Distribución Integral Logista Holdings SA to a holding of 50.01 per cent. This increased non-controlling interests by £142 million. Sales proceeds were €264 million. Net proceeds after fees and costs were £234 million. A net gain of £92 million was recognised in equity attributable to owners of the parent.

32. POST BALANCE SHEET EVENTS

GUARANTEED MINIMUM PENSION EQUALISATION

The IAS 19 DBO does not make any allowance for the impact of Guaranteed Minimum Pension (GMP) equalisation. This issue may have a significant effect on the eventual cost of providing benefits, as well as the accounting results. There is currently too much uncertainty regarding the outcome to make appropriate allowance in the IAS 19 figures, although following the legal judgement of 26 October 2018 in relation to the Lloyds Banking Group case it is likely the Company will need to equalise GMPs. Given the timing of the approval of the Annual Report and Accounts and complexity of the calculation this has meant that it is not possible to estimate the additional liability. However, this will be reviewed during the next financial year, and any impact will be reflected in the DBO.

REIDSVILLE SITE CLOSURE

On 2 November 2018 the Group announced the closure, during 2020, of the Reidsville, North Carolina factory, a cigarette manufacturing facility employing 117 people. Production will be moved to the Greensboro, North Carolina site, lowering manufacturing and regulatory costs, and supporting the Group's strategy to continue to reinvest in its business and grow its brands.

33. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2018, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

IMPERIAL BRANDS PLC BALANCE SHEET
at 30 September

£ million	Notes	2018	2017
Fixed assets			
Investments	iii	**7,968**	7,968
Current Assets			
Debtors	iv	**8,017**	8,221
Creditors: amounts falling due within one year	v	**(2)**	(27)
Net current assets		**8,015**	8,194
Total assets less current assets		**15,983**	16,162
Net assets		**15,983**	16,162
Capital and reserves			
Called up share capital	vi	**103**	103
Capital redemption reserve		**4**	4
Share premium account		**5,833**	5,833
Profit and loss account		**10,043**	10,222
Total shareholders' funds		**15,983**	16,162

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented.

The financial statements on pages 129-133 were approved by the Board of Directors on 6 November 2018 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Total equity
At 1 October 2017	**103**	**5,837**	**10,222**	**16,162**
Profit for the year	**–**	**–**	**38**	**38**
Dividends received	**–**	**–**	**1,500**	**1,500**
Total comprehensive income	**–**	**–**	**1,538**	**1,538**
Transactions with owners				
Cancellation of share capital	**–**	**–**	**(41)**	**(41)**
Dividends paid	**–**	**–**	**(1,676)**	**(1,676)**
At 30 September 2018	**103**	**5,837**	**10,043**	**15,983**
At 1 October 2016	104	5,836	11,090	17,030
Profit for the year	–	–	33	33
Dividends received	–	–	746	746
Total comprehensive income	–	–	779	779
Transactions with owners				
Cancellation of share capital	(1)	1	(119)	(119)
Dividends paid	–	–	(1,528)	(1,528)
At 30 September 2017	103	5,837	10,222	16,162

I. ACCOUNTING POLICIES

BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH FRS 101

Imperial Brands PLC (the Company) is the ultimate Parent Company within the Imperial Brands Group (the Group). The Company is publicly listed, incorporated in the United Kingdom, and its principal activity continued to be that of holding investments. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level. These risks are detailed in note 2 of the Group's Annual Report (see pages 93-94).

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), FRS 101 and applicable accounting standards.

The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 118(e) of IAS 38 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period;
- The following paragraphs of IAS 1 'Presentation of financial statements':
  - (i) 10(d) – statement of cash flows;
  - (ii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
  - (iii) 16 – statement of compliance with all IFRS;
  - (iv) 38A – requirement for minimum of two primary statements, including cash flow statements;
  - (v) 38B-D – additional comparative information;
  - (vi) 40A-D – requirements for a third statement of financial position;
  - (vii) 111 – cash flow information; and
  - (viii) 134-136 – capital management disclosures;
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- IFRS 7 'Financial Instruments: Disclosures'; and
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently, are set out below. The Directors do not consider there to be any critical accounting estimates or judgements in respect of the Company, see note 2 Critical Accounting Estimates and Judgements of the consolidated financial statements for further details.

INVESTMENTS

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. Investments are tested for impairment annually to ensure that the carrying value of the investment is supported by their recoverable amount.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are classified as loans and payables. Payables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds. When such shares are cancelled they are transferred to the capital redemption reserve.

II. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2018	2017	2016
Paid interim of 56.87 pence per share (2017: 111.21 pence, 2016: 101.1 pence)			
– Paid June 2016	–	–	225
– Paid September 2016	–	–	225
– Paid December 2016	–	–	517
– Paid June 2017	–	247	–
– Paid September 2017	–	247	–
– Paid December 2017	–	567	–
– Paid June 2018	**271**	–	–
– Paid September 2018	**271**	–	–
Interim dividend paid	**542**	1,061	967
Proposed interim of 65.46 pence per share (2017: nil, 2016: nil)			
– To be paid December 2018	**624**	–	–
Interim dividend proposed	**624**	–	–
Proposed final of 65.46 pence per share (2017: 59.51 pence, 2016: 54.1 pence)			
– Paid March 2017	–	–	517
– Paid March 2018	–	567	–
– To be paid March 2019	**624**	–	–
Final dividend	**624**	567	517
Total ordinary share dividends of 187.79 pence per share (2017: 170.72 pence, 2016: 155.2 pence)	**1,790**	1,628	1,484

The third interim dividend for the year ended 30 September 2018 of 65.46 pence per share amounts to a proposed dividend of £624 million, which will be paid in December 2018.

The proposed final dividend for the year ended 30 September 2018 of 65.46 pence per share amounts to a proposed dividend payment of £624 million in March 2019 based on the number of shares ranking for dividend at 30 September 2018, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2018 will be £1,790 million (2017: £1,628 million). The dividend paid during 2018 is £1,676 million (2017: £1,528 million).

III. INVESTMENTS

COST OF SHARES IN IMPERIAL TOBACCO HOLDINGS (2007) LIMITED

£ million	2018	2017
At 1 October	**7,968**	7,968
At 30 September	**7,968**	7,968

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 134-147.

IV. DEBTORS

£ million	2018	2017
Amounts owed from Group undertakings	**8,017**	8,221

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2018	2017
Cash at bank and in hand	**2**	27

VI. CALLED UP SHARE CAPITAL

£ million	2018	2017
Authorised, issued and fully paid		
1,031,026,084 ordinary shares of 10p each (2017: 1,032,340,000)	**103**	**103**

During the year 1,313,916 shares were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve, and in September 2017, 3,660,000 shares were cancelled increasing this reserve.

VII. RESERVES

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £1,538 million (2017: £779 million).

TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 percent of issued share capital. During the year the Group purchased 1,313,916 shares at a cost of £41 million (2017: 3,660,000 shares at a cost of £119 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2018		2017	
£ million unless otherwise indicated shares	**Millions of shares (number)**	**Value**	Millions of shares (number)	Value
At 1 October	**77.3**	**2,183**	77.3	2,183
Purchase of shares	**1.3**	**41**	3.7	119
Cancellation of shares	**(1.3)**	**(41)**	(3.7)	(119)
At 30 September	**77.3**	**2,183**	77.3	2,183
Percentage of issued share capital	**7.5**	**n/a**	7.5	n/a

VIII. GUARANTEES

The Company provides guarantees to a number of subsidiaries under section 479 of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2018. See note 1 Accounting Policies of the consolidated financial statements for further details.

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2018, the amount guaranteed is £18,374 million (2017: £16,981 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2018 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, the Company has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

Many of the committed borrowing facilities remain undrawn as at 30 September 2018 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2018. The Irish companies, namely John Player & Sons Limited and Imperial Tobacco Mullingar, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

The Company has also provided a parent guarantee to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

IX. RELATED PARY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 56-75 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2018 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

Name	Principal activity and registered address
Attendfriend Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
British Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Congar International UK Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Fontem UK Limited	In liquidation BDO LLP, Two Snowhill, Birmingham, B4 6GA, England
Hypofill Limited(i)	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Imperial Brands Enterprise Finance Limited	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Finance PLC	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Investments Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Altadis Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (1)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (2)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (3)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (4)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Group Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (1) Limited(iv)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (2007) Limited(iv)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Initiatives	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco International Limited	Export and marketing of tobacco products 121 Winterstoke Road, Bristol BS3 2LL England
Imperial Tobacco Lacroix Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Limited	Manufacture, marketing and sale of tobacco products in the UK 121 Winterstoke Road, Bristol BS3 2LL England
Imperial Tobacco Overseas (Polska) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (1) Limited(viii)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (2) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (3) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Limited(x)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

Name	Principal activity and registered address
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees Limited(iv)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
ITG Brands Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Joseph & Henry Wilson Limited	Licencing rights for the manufacture and sale of tobacco products 121 Winterstoke Road, Bristol BS3 2LL England
Nerudia Limited(i)	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Trading Limited(i)	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Consulting Limited(i)	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Compliance Limited(i)	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
La Flor de Copan UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Park Lane Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Rizla UK Limited	Entity ceased trading 121 Winterstoke Road, Bristol, BS3 2LL, England
Sensus Investments Limited(i)	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Sinclair Collis Limited(iv)	Distributor of tobacco products in England, Scotland and Wales 121 Winterstoke Road, Bristol, BS3 2LL, England
Tabacalera de Garcia UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity and registered address
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Altadis Canarias SAU(ii)	Spain	Marketing and sale of tobacco products in the Canary Islands Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Altadis Management Services Corporation	United States of America	Trademark service company 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Altadis Mayotte SAS	France, Mayotte Island	Sales and distribution of tobacco products in Mayotte Island C/o SOMACO, BP 15 – Mamoudzou, 97600, Mayotte
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates
Altadis Ocean Indien SAS	France (La Reunion Island)	Sales and distribution of tobacco products in la Reunion Island ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion
Altadis Retail Corporation	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain C/Comandaute Azcarraga 5, Madrid 28016, Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the USA 217 Shaker Road, Somers, CT, 06071, USA

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address
Altadis USA Inc	United States of America	Manufacture and sale of cigars in the USA 2601 Tampa East Blvd, Tampa Florida FL33619-8306, USA
Athena IP Vermogensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Badische Tabakmanufaktur Roth-Händle GmbH,	Germany	Trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Cacique, SA – Comércio, Importaçao e Exportaçao	Brazil	Dormant Rua Marechal Deodoro, 690 – Centro Arapiraca, Alagoas, Brazil
Casa Blanca Inc	United States of America	Restaurant 301 Route 10 East, Whippany, New Jersey, 07981, USA
Casa de Montecristo Inc	United States of America	Retail Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Casa de Montecristo FL LLC	United States of America	Retail C/o ~Corporation Service Company, 1201 Hayes Street, Tallahassee Florida 32301, USA
Casa de Montecristo TN LLC	United States of America	Retail CSC, 2908 Poston Avenue, Nashville, TN 37203, USA
Casa de Montecristo TX LLC	United States of America	Retail Corporate Service Company, 211 E. 7th Floor, Suite 260, Austin, Texas, TX 78701, USA
CBHC Inc	United States of America	Dormant 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
CDM Tampa, LLC	United States of America	Retail c/o Corporation Service Company, 1201 Hays Street, Tallahassee, Florida, 32301, United States
Cigar Savor Enterprises LLC	United States of America	Manufacture of tobacco products 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the USA 301 N. Scales Street, Reidsville, North Carolina, NC27320 USA
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the USA 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Consolidated Cigar Holdings Inc[(vii)]	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Coralma International SAS	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Cuban Cigar Brands BV[(v)]	Netherlands Antilles	Trademark owner N.V. Fides, 15 Pietermaai, Curaçao, Netherlands Antilles
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Dunkerquoise des Blends SAS	France	Tobacco processing 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
East Side Cigar, Inc	United States of America	Production and distribution of cigars Corporate Service Company, 80 State St, Albany, NY12207-2543, USA
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium Sint-Bavostraat 66, 2610 Wilrijk, Belgium
Fontem (Beijing) Technology Solutions Limited[(i)]	People's Republic of China	Research and development Room 201, Floor 2, Building 6, Yuan Dong science and technology park, 6 Hepingli North Street, Dong Cheng District, Beijing, 100013, China
Fontem Holdings 1 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 2 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands

Name	Country of incorporation	Principal activity and registered address
Fontem Holdings 3 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 4 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem International GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Fontem US, Inc.	United States of America	Sales and marketing of tobacco products in the US Suite 350, 1100 South Tryon Road, Charlotte, NC28203, USA
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Ventures France S.A.S.	France	Marketing and sale of e-vapour products in France 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Huotraco International Limited	Cambodia	Production and marketing of tobacco products No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia
Imperial Brands Finance France SAS	France	Provision of finance to other Group companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Imperial Brands Finland Oy	Finland	Sales and marketing of tobacco products in Finland Poikluomantie 1-3, Piispanristi, 20760, Finland
Imperial Brands Global Duty Free & Export S.L.	Spain	Sale and export of duty-free tobacco products C/Comandaute Azcarraga 5, Madrid 28016, Spain
Imperial Nominees Limited(ii)	New Zealand	Trustee Company 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco (Asia) Pte. Ltd.,	Singapore	Trading of tobacco-related products 80 Robinson Road, #02-00, 068898, Singapore
Imperial Tobacco (Beijing) Limited(i)	People's Republic of China	In liquidation Rm. 305 D-3F, Vantone Center, Jia No. 6 Chaowai Street, Chaoyang District, Beijing, PRC 100020, China
Imperial Tobacco Australia Holdings B.V.	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia John Player Special House, Level 4, 4-8 Inglewood Place, Norwest, NSW 2153, Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria Schulhof 6, A-1010 Vienna, Austria
Imperial Tobacco BH doo(i)	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia Adema Buce, Sarajevo, 71000, Bosnia & Herzegovina
Imperial Tobacco Brasil Comércio de Produtos de Tabaco Ltda.	Brazil	Co-ordinating and monitoring of WEST license productions and distribution of tobacco products 5th andar (floor), Av. Brig. Faria Lima 3.729, itaim Bib, Sao Paolo, 04538-905, Brazil
Imperial Tobacco Bulgaria EOOD(i)	Bulgaria	Manufacture and sale of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco China Limited(i)	People's Republic of China	In liquidation Colombo 1 & Colombo 2, No 233 Tai Cang Road, Platinum Tower, Shanghai, 200020, China
Imperial Tobacco CR s.r.o.	Czech Republic	Sales and marketing of tobacco products in the Czech Republic Radlicka 14, Prague 5, 150 00, Czech Republic
Imperial Tobacco Denmark ApS	Denmark	In liquidation Lyskaer 3 CD, 2730 Herlev, Denmark
Imperial Tobacco Distribution EOOD(i)	Bulgaria	Marketing and distribution of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco Distribution Romania srl	Romania	Marketing and distribution of tobacco products in Romania Nicolae Canea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Imperial Tobacco Estonia OÜ	Estonia	Sales of tobacco products Valge 13, 11145, Tallinn, Estonia
Imperial Tobacco Germany Finance GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece 300 Klisthenous Str, 15344 Gerakas, Attikis, Athens, Greece

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Intellectual Property Limited	Ireland	Ownership of trademarks 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Tobacco Ireland Unlimited Company(v)	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Italy S.r.l.,	Italy	Holding investments in subsidiary companies Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Japan Kabushiki Kaisha	Japan	Sales and marketing of tobacco products in Japan 5-12-7 Shirokane dai, M6 Shirokane dai Building, Minato-ku, Tokyo, Japan
Imperial Tobacco Kyrgyzstan LLC(i)	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan 3 Floor, Prime Business Park, 100/2 Furmanov Str, Medeuskiy District, Almaty, 050000, Kazakhstan
Imperial Tobacco Magyarország Dohányforgalmázo Kft (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary Váci út 141, 1138, Budapest, Hungary
Imperial Tobacco Management (1) Limited	Guernsey	Dormant 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey
Imperial Tobacco Management (2) Limited	Guernsey	Dormant 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey
Imperial Tobacco Management Luxembourg sarl	Luxembourg	Holding investments in subsidiary companies 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products Symphony Corporatehouse SdnBhd, Level 8 Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Imperial Tobacco Mullingar Unlimited Company	Ireland	In liquidation Dublin Road, Mullingar, Co. Westmeath, Ireland
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco Norway AS	Norway	Sales and marketing of tobacco products in Norway Ryensvingen 2-4, 0680, Oslo, Norway
Imperial Tobacco Polska Manufacturing SA	Poland	Manufacture of tobacco products in Poland Ul. Tytoniowa 2/6, Radom, 26-600, Poland
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland Jankowice, ul. Przemyslowa 1, Pl-62-080, Tarnowo-Podgome, Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management 144, 7 DT, Avenida da Liberdade, Lisbon, Portugal
Imperial Tobacco Sales & Marketing LLC	Russia	Sales and marketing of tobacco products in Russia Degtjarnyi pereulok 4-1, 125009 Moskau, Russian Federation
Imperial Tobacco SCG doo Beograd(i)	Serbia	Marketing and distribution of tobacco products in Serbia Milutina Milankovica 11a, Novi Beograd, Serbia
Imperial Tobacco Sigara ve Tutunculuck Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey Halide Edip Adivar Mahallesi, Darülaceze Cad. No:3, Akin Plaza Kat 7, Sisli, Istanbul, 34382, Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic 7A Galvaniho, 824 53 Bratislava, Slovakia
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan 14F, No 145, Sec 2, Jianguo N. Road, Taipei 104, Taiwan Province of China
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan No 8 Cyunyi Road, Jhunan, MiaoLi County 350, Taiwan Province of China
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey Halide Edip Adivar Mahallesi, Darülaceze Cad. No:3, Akin Plaza Kat 7, Sisli, Istanbul, 34382, Turkey
Imperial Tobacco Ukraine(i)	Ukraine	Sales and marketing of tobacco products un Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Volga LLC(i)	Russia	Manufacture of tobacco products in Russia ul.Tomskaja 7, 400048 Volgograd, Russian Federation
Imperial Tobacco West Africa SAS(i)	Cote D'Ivoire	Holding investments in subsidiary companies Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan
Imperial Tobacco Yaroslavl CJSC(i)	Russia	Manufacture of tobacco products in Russia 22, Pobedy St., 150040 Yaroslavl, 150040, Russian Federation
Imperial Tobacco Zagreb doo(i)	Croatia	Marketing and distribution of tobacco-related products in Croatia Gradičanska 30, Zagreb, HR-10000, Croatia
IMPTOB South Africa (Pty) Limited	South Africa	Provision of services to other Group companies Suite 107, Beacon Rock, 21 Lighthouse Road, Umhlanga 4319, South Africa
International Marketing Promotional Services Limited	Nigeria	Sales and marketing and of tobacco products in Nigeria 13 A, Dapo Solanke Close – Lekki Phase 1, Lagos, Nigeria
ITB Corporation Limited	Bahamas	Trademark owner Building of the Canadian Imperial Bank of Commerce, Shirley Street, Nassau, Bahamas
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the USA 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Holdings USA Inc(ix)	United States of America	Holding investments in subsidiary companies C/o The Corporation Trust Co, 1209 Orange Street, City of Wilmington, County of Newcastle, DE 19801, USA
ITI Cigars SL	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco-related products Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong
J & R Tobacco (New Jersey) Corp	United States of America	Sales of tobacco and tobacco-related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JAW-Invest Oy	Finland	Trademark owner Poikluomantie 1-3, Piispanristi, 20760, Finland
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
JR Cigar (DC) Inc	United States of America	Sales of tobacco and tobacco-related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JR Cigars.com, Inc.	United States of America	Sales of tobacco and tobacco-related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Mooresville, Inc	United States of America	Sales of tobacco and tobacco-related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco NC, Inc	United States of America	Sales of tobacco and tobacco-related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco of America Inc	United States of America	Sales of tobacco and tobacco-related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Burlington Inc	United States of America	Sales of tobacco and tobacco-related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Michigan Inc	United States of America	Sales of tobacco and tobacco-related products 601, Abbott Road, East lansing, Ingham, MI, 48823, USA
JR Tobacco Outlet Inc	United States of America	Sales of tobacco and tobacco-related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JSNM SARL	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
La Flor de Copan Honduras SA	Honduras (CA)	Manufacture of handmade premium cigars Zona Libre, Colonia MeJia Garcia, Frente Boulavard, Jorge Bueso Arias, Santa Rosa de Copan, Honduras
La Flor de Copan SAS	France	Manufacture of cigars in Honduras 320, Rue Saint-Honore, Paris, 75001, France

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address
MYBLU Spain S.L.	Spain	Marketing and sale of e-vaopur products in Spain CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Los Olvidados SRL	Dominican Republic	Manufacture and distribution of cigars 129, Independencia Street, Santiago, 51000, Dominican Republic
Max Rohr, Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE,19801, USA
MC Management, Inc.	United States of America	Provision of services to other Group companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Meccarillos France, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos International, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos Suisse, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Millennium Tobacco Unlimited Company	Ireland	Provision of finance to other Group companies 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Nerudia (Ireland) Limited[(i)]	Ireland	Dormant 13A Ballyhoy Avenue, Raheny, Dublin 5, Ireland
Newglade International Unlimited Company	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Philippine Bobbin Corporation	Philippines	Manufacture of tobacco-related products Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines
Real Club de Golf la Herrería S.A.	Spain	Management of golf course CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
REEMARK Gesellschaft für Markenkooperation mbH	Germany	Dormant Max-Born-Straße 4, Hamburg, 22761, Germany
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Robert Burton Associates Limited	United States of America	Marketing of papers in the US 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, Florida, FL 33309, USA
Santa Clara Inc	United States of America	Distribution of cigars 327, Hillsborough Street, Raleigh, NC, 27603, USA
Skruf Snus AB	Sweden	Manufacture, marketing, sales of tobacco products in Sweden Kungsgatan 12-14, Floor 7, Stockholm, SE-111 35, Sweden
Société Centrafricaine de Cigarettes SA[(i)]	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic Rue David Dacko, BP 1446, Bangui, Central African Republic
Société Centrafricaine de Distribution Sarl[(i)]	Central African Republic	Dormant Avenue Boganda Pk4, Bangui, Central African Republic
Société du Mont Nimba Sarl[(i)]	Guinee Conakry	Dormant BP 3391, Conakry, Guinea
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Société pour le Développement du Tabac en Afrique SAS	France	Purchasing company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
System Designed to Africa Sarl	Morocco	Distribution of tobacco products Km 17, Route national de Rabat, Ain Harrouda, Morocco
Tabacalera Brands Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE 19801, USA
Tabacalera Brands SLU	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Tabacalera de Garcia Limited	Bermuda	Holding investments in subsidiary companies Claredon House, 2 Church Street, Hamilton, HM 11, Bermuda
Tabacalera de Garcia SAS	France	Manufacture of cigars in the Dominican Republic 320, Rue Saint-Honore, Paris, 75001, France
Tabacalera de Garcia SAS	Dominican Republic	Manufacture of cigars in the Dominican Republic Industrial Free Zone #1, La Romana, Domincan Republic
Tabacalera SLU	Spain	Holding investments in subsidiary companies C/Via de los Poblados, 3 Edif. 7-8, Plantas 3a y 4a, Madrid, 28033, Spain

Name	Country of incorporation	Principal activity and registered address
Tabacalera USA Inc	United States of America	Holding investments in subsidiary companies Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Tahiti Tabacs SASU	France, Papeete (Tahiti)	Distribution of tobacco products in Denmark and Greenland PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobacco Products Fulfillments, Inc.	United States of America	Fulfilment services PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobaccor SAS(v)	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Tobačna 3DVA, trgovsko podjetje, d.o.o.	Slovenia	Retail of products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Grosist d.o.o.	Slovenia	Marketing and distribution in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Ljubljana d.o.o.(v)	Slovenia	Sales and marketing tobacco products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobamark International SA	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Urex Inversiones SA	Spain	Holding investments in subsidiary companies C/Comandaute Azcarraga 5, Madrid 28016, Spain
Van Nelle Canada Limited(vii)	Canada	Import and distribution of tobacco and tobacco-related products in Canada Suite 200, 389 Connell Street, Woodstock, NB, E7M 5G5, Canada
Van Nelle Tabak Nederland B.V.(x)	The Netherlands	Manufacture and sale of tobacco products in the Netherlands Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco-related products Slachtedijk 28a, 8501 ZA, Joure, Netherlands
West Park Tobacco Inc.	United States of America	Purchase company for USA tobaccos c/o CT Corporation System, 4701 Cox Road, Ste 301,Glen Allen/ Richmond, VA 23060-6802, USA

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Be To Be Pharma, S.L	Spain	Distribution of pharmaceuticals C/ Trigo, 38 – Polígono Industrial Polvoranca – 38914 Leganés, Madrid, Spain	60.0
CdM Hallandale, LLC	United States of America	TBC c/o Corporation Service Company, 1201 Hays Street, Tallahassee, Florida, 32301, United States	50.0
Compagnie Agricole et Industrielle des Tabacs Africains SAS	France	Management company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France	99.9
Compagnie Agricole et Industrielle des Tabacs de Cote D'Ivoire SA, IL(i)	Cote D'Ivoire	In liquidation BP 418 – Bouake, Cote d'lvoire, Cote d'Ivoire	74.6
Compagnie Réunionnaise des Tabacs SAS	France, St Pierre (La Reunion Island)	Manufacture of cigarettes ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion	98.6
Compañía de Distribución Integral de Publicaciones Logista SLU(iv)	Spain	Distribution of published materials and other products C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Compañía de Distribución Integral Logista Holdings, S.A.(iii)	Spain	Holding investments in subsidiary companies C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL)	Poland	Distribution of tobacco products in Poland Avenida Jerozolimskie 133/131, 02-304 Varsaw, Poland	50.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Cyberpoint, S.L.U.	Spain	Distribution of POS software C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Distribérica SA	Spain	Holding investments in subsidiary companies C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Distribuidora de Ediciones SADE, SAU	Spain	Distribution of published materials and other products in Spain Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain	50.0

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Distribuidora de las Rias SA	Spain	Distribution of published materials and other products in Spain Avda. Cerezos, Parcela D-28, Polígono Industrial PO.CO.MA.CO , 15190 Mesoiro, La Coruña, Spain	50.0
Distribuidora del Este S.A.U.	Spain	Distribution of published materials and other products in Spain Avenida Saturno, 11, 03007, Alicante, Spain	50.0
Distribuidora del Noroeste SL	Spain	Distribution of published materials and other products in Spain C/ Gandarón, 34, interior, Vigo, Pontevedra, 36214, Spain	50.0
Dronas 2002, SLU	Spain	Industrial parcel and express delivery service Energía, 25-29; Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain	50.0
Imperial Tobacco Production Ukraine(i)	Ukraine	Manufacture of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine	99.9
Imperial Tobacco TKS a.d.(i)	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia	99.1
Imperial Tobacco TKS a.d. – Dege Kosove	Kosovo	Manufacture, marketing and distribution of tobacco products in Kosovo Ahmet Krasniqi, Obj.Redoni C1 B Nr 23, Prishtina, Republic of Kosovo	99.1
Imprimerie Industrielle Ivoirienne SA(i)	Cote D'Ivoire	Printing company Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abdjan, Cote d'Ivoire	72.8
ITB Corporation y Cía., S.R.C.	Spain	Trademark owner Calle Antonio Maura número 9, Madrid, 28014, Spain	93.3
Jose Costa & Rodrigues, LDA	Portugal	Tobacco distribution through vending machines Rua de Santa Catarina, bloco E, Loja 20, 4720-352 Ferreiros AMR, freguesia de Ferreiros, Prozelo e Besteiros, Concelho de Amares, Portugal	50.0
La Mancha 2000, S.A., Sociedad Unipersonal	Spain	Distribution services Av. de la Veguilla, 12-Nave A – Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain	50.0
Lao Tobacco Limited(i)	Laos	Manufacture and distribution of cigarettes in Laos KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic	53.0
Logesta Deutschland Gmbh, Sociedad Unipersonal	Germany	Long haul transportation in Germany Pilotystrasse, 4, 80538 München, Germany	50.0
Logesta France SARL	France	Long haul transportation in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logesta Gestión de Transporte SAU	Spain	Long haul transportation services in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logesta Italia, S.R.L., Sociedad Unipersonal	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logesta Lusa LDA	Portugal	Long haul transportation in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logesta Polska Sp Zoo	Poland	Long haul transportation in Poland Aleje Jerozolimskie 133/32, 02/304 Varsovia, Poland	50.0
Logista France Holding SA	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista France SAS	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista Italia Spa	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logista Pharma SA	Spain	Distribution of pharmaceuticals Industria, 53-65, Poligono Industrial Nordeste, 08740, Sant Andreu de la Barca, Barcelona, Spain	50.0
Logista Pharma Canarias, SA	Spain	Pharmaceutical products logistics in Canary Islands C/ Entreríos Nave 3; Las Palmas de Gran Canaria, 35600, Spain	50.0
Logista Promotion et Transport SAS	France	Marketing and distribution of tobacco products in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical Distribution in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Logista-Dis SAU	Spain	Sale of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
MABUCIG (Manufacture Burkinabe de Cigarette)	Burkina Faso	Manufacture of cigarettes in Burkina Faso Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 – Bobo Dioulasso, Burkina Faso	72.7
Macotab SAS (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes Route Nationale 193, Furiani, 20600, France	99.9
Manufacture de Cigarettes du Tchad SA	Tchad	Manufacture and distribution of cigarettes in Chad 0502 rue 1039, Arrondissement 1, N'DJamena, Chad	95.0
Midsid – Sociedade Portuguesa de Distribução, S.A., Sociedad Unipersonal	Portugal	Wholesale of tobacco and other products Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
MTOA SA(i)	Senegal	Manufacture and sales of cigarettes in Senegal Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal	97.3
My Von Erl. USA Distribution LLC(i)	United States of America	Sale of e-vapour products in the US 1013 Centre Road, Suite 403S, City of Wilmington, County of New Castle, 19805 Delaware, USA	50.0
NITAF Limited, IL(i)	Nigeria	In liquidation 28, Ground Floor, Ajasa Street, Off King George V Road, Onikan, Lagos, Nigeria	50.0
Promotora Vascongada de Distribuciones SA	Spain	Distribution of published materials and other products in Biscay and Santander C/ Guipúzcoa, 5, Polígono Industrial Lezama Leguizamón, 48450 Echevarri, Vizcaya, Spain	50.0
Publicaciones y Libros SA	Spain	Publishing company C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Reemtsma Kyrgyzstan OJSC(i)	Kyrgyzstan	Manufacture and sale of tobacco products in Kyrgyzstan 249 Ibraimov Street, Bishkek, Kyrghyz Republic, 720011, Kyrgyzstan	99.7
S3T Pte Ltd(i)	Singapore	Holding investments in subsidiary companies 80 Robinson Road, #02-00, 068898, Singapore	51.0
SACIMEM SA(i)	Madagascar	Manufacture of cigarettes in Madagascar 110 Antsirabe – Madagascar, Route d'Ambositra, BP 128, Madagascar	65.4
SITAB Industries SA(i)	Cote D'Ivoire	Manufacture of cigarettes in Cote D'Ivoire Rue de I'Industrie – Lot No 19, 01 – BP 607, Bouake, Cote d'Ivoire	80.5
SITAR Holding SAS	France (La Reunion Island)	Holding investments in subsidiary companiesr Z.I n2, B.P. 256, 97457 Saint Pierre, IIe de la Reunion, France	98.7
Société Africaine d'Impression Industrielle SA(i)	Senegal	Manufacture and distribution of cigarettes in Senegal route de Bel Air – Km 2200, Dakar, Senegal	99.8
Société Allumettiere Française SAS	France	Manufacture and distribution of cigarettes Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Société des Cigarettes Gabonaises SA(i)	Gabon	In liquidation 2381 bld Léon MBA, BP 2175, Libreville, Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical SA(i)	Congo	Manufacture and distribution of cigarettes in Congo Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo	89.7
Société Ivoirienne des Tabacs SA(i) (iii)	Cote D'Ivoire	Manufacture and distribution of cigarettes in Ivory Coast Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan	74.1
Société Marocaine des Tabacs SA	Morocco	Manufacture and distribution of cigarettes in Morocco Boulevard La Corniche, Anfa Place, Immeublep Bureaux Batiments Ousst, Casablanca, 20180, Morocco	99.9
SOCTAM SA(i)	Madagascar	Manufacture and distribution of cigarettes in Mali 15 Rue Geoges V, Mahajanga, Madagascar	50.5
Supergroup SAS	France	Wholesale of tobacco products Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Universal Brands, S.A.	Spain	Trademark owner Calle Antonio Maura número 9, Madrid, 28014, Spain	93.3
Von Erl. Gmbh(i)	Austria	Sale of e-vapour products in the US and Europe Alte Landstrasse 27, 6060 Hall in Tirol, Austria	50.0
Von Erl. USA LLC(i)	United States of America	Holding investments in subsidiary companies 54 Merion Road, PO Box 72, Dover, 19904 Delaware, USA	50.0
Von Erl. USA Production LLC(i)	United States of America	Sale of e-vapour products in the US 1013 Centre Road, Suite 403S, City of Wilmington, County of New Castle, 19805 Delaware, USA	50.0

ASSOCIATES: REGISTERED IN ENGLAND AND WALES

Name	Principal activity and registered address	Percentage owned
C H (Downton) Limited[(ix)]	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
F J (Downton) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Hunters & Frankau Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Incentive Marketing Services (UK) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Jacon Financial Services Limited[(ix)]	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Joseph Samuel & Son Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Knight Brothers Cigar Shippers Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Lancha House Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart & Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart Holdings Limited[(ix)]	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Morris & Morris Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tabaco Torcido Traders Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
The English Import Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tropic Tobacco Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0

ASSOCIATES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
5th Avenue Products Trading GmbH[(i)(iv)]	Germany	Distribution of Cuban cigars in Germany Schwarzenbergstr. 3-7 ; Waldshut-Tiengen, 79761, Germany	27.5
Azur Finances SA	Cameroon	Holding investments in subsidiary companies B.P 1105, Douala, Cameroon	20.0
Caribbean Cigars Corporation NV[(i)]	Curacao	Distribution of Cuban cigars in the Caribbean Hato Economic Zone, Office D-28, Curacao, N.A.	25.0
Compañia Española de Tabaco en Rama SA (Cetarsa)[(i)]	Spain	Production and sale of raw tobacco Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain	20.8
Cosmic Fog Vapours Company LLC	United States of America	Trademark owner, and sale of – vapour products in USA and Europe C/O The Corporation Trust Co, 1209 Orange Street, City of Wilmington, County of Newcastle, DE19801 USA	40.0
Diadema Spa[(i)]	Italy	Distribution of Cuban cigars in Italy Via delle Terme Deciane, 10, Partita IVA 01213650995, Codice Fiscale 01374280509, 00153 Rome, Italy	30.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products Carretera de la Esclusa, S/N – Pariela 2, Modulo 4, Sevilla, 41011, Spain	25.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain	40.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia Pedrapiquers, 5; Polígono Industrial Vara de Quart, 46014 Valencia, Spain	25.0
DTPU Kaliman Caribe Dooel Scopje	Macedonia	Distribution of Cuban cigars in Macedonia 5 Luj Pater Str., 1000 Scopje Center, Macedonia	25.0
Entreprises des Tabacs en Guinée[(i)]	Guinée Conakry	Dormant B.P 3391, Conakry, Guinea	34.0
Havana House Cuban Products Specialist Limited[(i)]	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
Havana House Limited[(i)]	Canada	Distribution of Cuban cigars in Canada 9 Davies Avenue, Suite 112, Toronto ON, M4M 2A6, Canada	25.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Importadora y Exportadora de Puros y Tabacos SA DE CV (IEPT)(i)	Mexico	Marketing and distribution of Cuban cigars in Mexico Presidente Mazaryk numero 393 local 28, colonia Polanco, C.P. 11560 Delegación Miguel Hidalgo México D.F., Mexico	25.0
Intertabak AG(i)	Switzerland	Distribution of Cuban cigars in Switzerland and Liechtenstein Intertabak AG, Salinenstrasse 61, CH-4133 Pratteln, Entrepots: Salinenstrasse, 63, Switzerland	25.0
Kaliman Caribe doo Beograd	Serbia	Distribution of Cuban cigars in Serbia 5 Igmanska Str., Beograd, Serbia	25.5
Kaliman Caribe ood	Bulgaria	Distribution of Cuban cigars in Bulgaria 118 Bulgaria Blvd., Abacus Business Center, fl. 2, 1618 Sofia, Bulgaria	25.5
Kaliman Caribe Tirana Sh. p.k.	Albania	Distribution of Cuban cigars in Albania Sheraton Tirano Hotel and Tower, Italia Sq., fl. 1, Tirana, Albania	25.5
Kaliman Caribe yer LLC	Armenia	Distribution of Cuban cigars in Armenia V. Papazyan / 16a/ 17; Yerevan, 0012, Armenia	25.5
Lippoel Tobacco Corporation International NV	Netherlands Antilles	Distributor of Cuban leaf Pietermaai 123, P.O. BOX 897. Willemstad, Curacao, Netherlands Antilles	27.5
Logista Libros SL	Spain	Distribution of books Avda. Castilla La Mancha, 2 – Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain	25.0
Manufacture Mauritanienne des Tabacs	Mauritanie	Manufacture and import of tobacco products Nouakchott, Mauitanie	34.6
Maori Tabacs, S.A.(i)	Andorra	Distribution of Cuban cigars in Andorra Av. Pont De La Tosca, 13, Andorra	25.0
New Mentality Limited(i)	British Virgin Islands	In liquidation Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Pacific Holding (Thailand) Company Limited(i) (vi)	Thailand	Holding investments in subsidiary companies 39/7 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330 Thailand	25.0
Phoenicia Beirut SAL(i)	Lebanon	Retail in Lebanon New Starco Center, Sixth Floor, Beirut Central District, Lebanon	25.0
Phoenicia TAA Cyprus Ltd(i)	Cyprus	Distribution of Cuban cigars in the Middle East and Africa 249, 28 Oct Street, Lophitis Business Center, Limassol, 3035, Cyprus	25.0
Pit Stop Limited(i)	British Virgin Islands	In liquidation Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Promotion et Distribution a Madagascar(i)	Madagascar	Distribution of cigarettes in Madagascar Tour ZITAL Ankorondrano, Antananarivo, Madagascar	33.4
SITABAC S.A,	Cameroon	Manufacture and distribution of tobacco products in Cameroon 113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon	34.5
Société Internationale des Tabacs Malgaches(i)	Madagascar	Leaf processing BP 270, 401 Mahajanga, Madagascar	47.9
Société Nationale des Tabacs et Allumettes du Mali SA(i)	Mali	Manufacture and distribution of cigarettes in Mali Route Sotuba – Z.I., BP 59, Bamako, Mali	28.0
Terzia SPA	Italy	Wholesale to tobacconists in Italy Via Valadier, 37 – 00193 Roma, Italy	34.0
The Pacific Cigar (Thailand) Co Limited(i) (vii)	Thailand	Distribution of Cuban cigars in Thailand 25 Alma Link Building, 2nd Floor, Soi Chidlom, Ploenchit Road, Kwaeng Lumpinee, Khet Patumwan, Bangkok Metropolis, Bangkok, Thailand	25.0
The Pacific Cigar Co. (Singapore) Pte Limited(i)	Singapore	Distribution of Cuban cigars in Singapore 150 Cecil Street, #15-01, 069543, Singapore	25.0
The Pacific Cigar Company (Australia) Pty Limited(i)	Australia	Distribution of Cuban cigars in Australia 17/23, Bowden Street Australia, Alexandria, NSW 2015, Australia	25.0
The Pacific Cigar Company (Macau) Limited(i)	Macau	Distribution of Cuban cigars in Macau Avenida Praia Grande No. 369-371, Edif. Keng Ou 8 Andar, A, Macau	25.0
The Pacific Cigar Company (Malaysia) SDN BHD(i)	Malaysia	Dormant 83A, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul, Ehsan, 47500, Malaysia	25.0
The Pacific Cigar Company (New Zealand) Limited(i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
The Pacific Cigar Company Limited(i)	China	Distribution of Cuban cigars in Asia 21/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	25.0
The Pacific Cigar International Co Limited(i)	British Virgin Islands	Distribution of Cuban cigars in Asia Akara Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	25.0

JOINT VENTURES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Altabana SL(i)	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Comercial Iberoamericana SA(i)	Spain	Wholesale and distribution of tobacco products Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Compañía de Distribución Integral Logista S.A.U. y GTECH Global Lottery, S.L.U., U.T.E.	Spain	Services and distribution C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	25.0
Corporación Habanos SA (i)	Cuba	Export of cigars manufactured in Cuba Centro de Negocios Miramar, Edificio Habana, 3ra. Planta, Avenida 3ra. e/ 78 y 80, C.P.: 11300, Cuba	50.0
Coprova SAS(i)	France	Distribution of Cuban cigars in the Caribbean 171 Avenue Jean Jaures – Paris CEDEX 19, 75927, France	50.0
Cuba Cigar, S.L.(i)	Spain	Distribution of Cuban cigars in the Canary Islands Avenida Andrés Perdomo S/N, Edificio de Zona Franca, Planta Baja, Puerto de la Luz (Las Palmas de Gran Canaria), 35008, Spain	50.0
Cubacigar (Benelux) N.V.(i)	Belgium	Distribution of cigars in Belgium Reutenbeek, 5 – 3090 Overijse, Belgium	50.0
Dalso, S.R.L.(i)	Dominican Republic	Distribution of Cuban cigars in Republic Dominican Avenida Gustavo Mejía Ricart esquina Avenida Abraham Lincoln, Torre Piantini, sexto piso, Ensanche Piantini, Santo Domingo, Distrito Nacional, Dominican Republic	50.0
Empor – Importação e exportação, SA(i)	Portugal	Distribution of tobacco products in Portugal Rua João Santos, Lote 2, Lisboa, 1300-325, Portugal	50.0
Global Horizon Ventures Limited	Hong Kong	Sales and marketing of cigarettes in Asia Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong	50.0
Habanos Nordic AB(i)	Sweden	Distribution of Cuban cigars in Scandinavia August Barks gata 30B SE-42132 Västra Frölunda – Sweden	50.0
Infifon APS(i)	Denmark	Holding investments in subsidiary companies 21, INFIFON ApS, Harbour House, Sundkrogsgade, 2100 Copenhagen, Denmark	50.0
Infifon Hong Kong Limited(i)	China	Distribution of Cuban cigars in China 21/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	50.0
Infifon I, BV(i)	The Netherlands	Holding investments in subsidiary companies Parklaan 34, Rotterdam, 3016 BC, Netherlands	50.0
Infifon II NV(i)	Netherlands Antilles	Distribution of Cuban cigars in Russia Van Engelenweg 23, Curaçao, Netherlands Antilles	50.0
Internacional Cubana de Tabaco SA(i)	Cuba	Manufacture of cigarillos in Cuba Ave. Independencia #34501 entre Ave. 345 y 1ºde Mayo, Municipio Boyeros, Ciudad de La Habana, Cuba	50.0
Intertab SA(i)	Switzerland	Holding investments in subsidiary companies Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland	50.0
Promotora de Cigarros SL(i)	Spain	Sales and marketing of cigars manufactured in Cuba Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain	50.0
Puro Tabaco SA(i)	Argentina	Distribution of Cuban cigars in Argentina and Chile Lavalle 445, Piso 1, Buenos Aires, Argentina	50.0
Top Cigars Corporation LLC(i)	Russia	Distributor of Habanos in Russia Dimitrovskoe shosse 167, 127204 Moscow, Russian Federation	50.0
West Tobacco Pte Ltd (i)	Singapore	Dormant 50 Raffles Place #32-01, Singapore Land Tower, 048623, Singapore	50.0
Xinet SA(i)	Uruguay	Dormant Ciudadela 1373, Montevideo, Uruguay	50.0

PARTNERSHIPS

The Group also owns the following partnerships:

Name	Country	Principal activity, registered address and prinicpal place of business
Fabrica de Tabacos La Flor de Copan S de R.L. de CV	Honduras	Holding investments in subsidiary companies Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras
Imperial Tobacco (Efka) GmbH & Co. KG	Germany	Manufacture of tubs in Germany Registed address: Postfach 1257, Industriestrasse 6, Trossingen, 78636, Germany Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany
Imperial Tobacco Kazakhstan LLP(i)	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Registered address and principal place of business: 3rd Floor, Prime Business Park, 100/2 Nursultan Nazarbayev Avenue, Medeuskiy District, Almaty, 050000, Kazakhstan
ITG Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27408, United States of America

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified. All dormant UK entities have taken the exemption available to not have an audit of their financial statements.

Unless otherwise stated the entities are unlisted, have 1 type of ordinary share capital and a reporting period ending on 30 September each year.

(i) December year end

(ii) March year end

(iii) Listed entity

(iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue). Only applicable to partly owned entities – percentage ownership is shown in the tables above.

(v) Holding of two types of ordinary share (where more than one type of ordinary share is authorised / in issue). Only applicable to 100% owned subsidiaries.

(vi) Holding of preference shares only

(vii) Holding of ordinary and preference shares

(viii) Holding of ordinary and redeemable shares

(ix) Holding of ordinary and deferred shares

(x) Holding of two types of ordinary share and redeemable shares

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, are held by a number of Group companies, and Compañía de Distribución Integral Logista SAU, Logista France SAS, and Logista Italia SpA are 100 per cent owned subsidiaries of Compañía de Distribución Integral Logista Holdings SA, which is itself 50.01 per cent owned by Altadis SAU.

FINANCIAL CALENDAR AND DIVIDENDS
Half-year results are expected to be announced in May 2019 and the full year's results in November 2019.

The Annual General Meeting of the Company will be held on Wednesday 6 February 2019 at the Bristol Marriott Hotel City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2018 final dividend, if approved, will be on 29 March 2019 to shareholders on the Register of Members at the close of business on 22 February 2019. The associated ex-dividend date will be 21 February 2019.

Shareholders who do not currently mandate their dividends and who wish to do so should complete a mandate instruction form obtainable from our Registrars, Equiniti Limited, on their website www. shareview.co.uk or by contacting them at the address shown opposite.

SHARE DEALING SERVICE
Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number, which you can find on your share certificate.

INDIVIDUAL SAVINGS ACCOUNT
Investors in Imperial Brands PLC ordinary shares may take advantage of a low-cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £12.50 and £1.75 respectively for the sale and purchase of shares.

For a brochure or to apply for an ISA or Investment Account go online to www.shareview.co.uk/dealing or call Equiniti on 0345 300 0430.

DIVIDEND REINVESTMENT PLAN
Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2268 (+44 (0)121 415 7173) or online at www.shareview.co.uk

AMERICAN DEPOSITARY RECEIPT FACILITY
Imperial Brands PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'IMBBY'. The ADS facility is administered by Citibank, N.A. and enquiries should be directed to them at the address shown opposite.

WEBSITE
Information on Imperial Brands PLC is available on our website: www.imperialbrandsplc.com

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk

REGISTERED OFFICE
121 Winterstoke Road
Bristol BS3 2LL
+44 (0)117 963 6636
Incorporated and domiciled in England and Wales No: 3236483

REGISTRARS
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
0371 384 2037*
+44 (0)121 415 7009
0371 384 2255* text phone for shareholders with hearing difficulties

* Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales

SHAREHOLDER SERVICES FOR ADR HOLDERS
Citibank Shareholder Services
PO Box 43077
Providence, RI 02940-3077
USA
Toll-free number in the USA: 1-877-248-4237 (1-877-CITI-ADR)*
International number: 1-781-575-4555*
email: citibank@shareholders-online.com

* Lines are open 8.30am to 6.00pm Monday to Friday (EST)

STOCKBROKERS
Credit Suisse International
One Cabot Square
Canary Wharf
London E14 4QJ
+44 (0)20 7888 8000

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
+44 (0)20 7623 2323

AUDITORS
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol BS2 OFR

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C001785

Printed by Park Communications.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Galerie Art Satin and Edixion Offset, papers which contain fibre sourced from well managed, responsible, FSC® certified forests and other controlled sources. The pulps used in this product are bleached using an elemental chlorine free (ECF) process.

Designed and produced by Black Sun Plc.

IMPERIAL BRANDS

Registered Office
Imperial Brands PLC
121 Winterstoke Road
Bristol BS3 2LL
UK

www.imperialbrandsplc.com