

9 MAY 2018

## DELIVERING OUR STRATEGY IN TOBACCO AND NGP

### On Track to Deliver FY18

- Marketing investment delivering further share growth in Growth Brands and priority markets
- Total volumes continue to outperform industry; Growth Brand organic volumes up 1.6% and share up 100 bps
- Significant progress in NGP: roll-out of *myblu* and proprietary innovation in vapour and heated tobacco
- Adjusted results reflect difficult prior year trading environment; improving Q2 price/mix supports H2 growth
- Reported operating profit includes the impact of the administration of the UK distributor Palmer & Harvey
- Dividend growth of 10%, supported by cash conversion of 111%; expect 95% at FY
- Strategic focus highlights capital reallocation opportunities, targeting proceeds of up to £2 billion

Overview – Adjusted Basis		Half Year Result		Change	
		2018	2017	Actual	Constant Currency <sup>1</sup>
Total tobacco volume	bn SE	<b>123.6</b>	126.3	-2.1%	
Growth Brand volume	bn SE	<b>77.6</b>	73.0	+6.3%	
Tobacco net revenue	£m	<b>3,531</b>	3,716	-5.0%	-2.1%
Tobacco adjusted operating profit	£m	<b>1,533</b>	1,667	-8.0%	-3.2%
Logistics adjusted operating profit	£m	<b>99</b>	82	+20.7%	+18.3%
Total adjusted operating profit	£m	<b>1,624</b>	1,740	-6.7%	-2.2%
Adjusted earnings per share	pence	<b>114.3</b>	121.9	-6.2%	-1.0%
Adjusted net debt	£m	<b>(12,698)</b>	(13,927)		

Overview – Reported Basis		Half Year Result		Change	
		2018	2017	Actual	
Revenue	£m	<b>14,278</b>	14,298	-0.1%	
Operating profit	£m	<b>833</b>	902	-7.6%	
Basic earnings per share	pence	<b>51.7</b>	70.7	-26.9%	
Dividend per share	pence	<b>56.87</b>	51.70	+10.0%	
Reported net debt	£m	<b>(13,008)</b>	(14,192)		

See page 4 for basis of preparation and page 13 for the reconciliation between reported and adjusted measures.

Adjusted operating profit excludes a one-off impact of £160m in HY18 which resulted from administration of the UK distributor Palmer & Harvey.

Basic EPS reduction is driven by the gains in fair value of derivatives in HY17 and by the administration of the UK distributor Palmer and Harvey in HY18.

<sup>1</sup> Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations.

### Mark Williamson, Chairman, commented

“We are on track to deliver on our full year expectations. We are also making good progress delivering on our strategy, focusing on the key products, brands and markets central to delivering growth in Tobacco and Next Generation Products. This clear strategic focus supports active capital allocation, and we are progressing a number of divestment opportunities that will further simplify the business and free up capital. The Board also recognises the importance of the dividend to shareholders and regularly reviews our dividend policy to ensure it is aligned to performance, the balance sheet and investment needs of the business; our strong cash-flows underpin our dividend pay-out and investment in sustainable growth.”

## Alison Cooper, Chief Executive, commented

"We continue to make good progress in both tobacco and Next Generation Products (NGP). Investment in our key tobacco brand equities has strengthened our position in our priority markets, with further share gains driven by Growth Brands. Within a tough but improving environment, we exited the first half with much stronger price/mix and expect to convert our improved share into top-line growth in the second half. In NGP our product and market launches are on track. *myblu* is generating positive trade and consumer feedback and we continue to invest in developing our pipeline of proprietary innovations, including heated tobacco, to enhance the consumer experience and realise our growth ambitions. As we sharpen our focus on the brands, products and markets that are central to our strategy, we are progressing opportunities for divestments, initially targeting proceeds of up to £2 billion within the next 12-24 months. This will further simplify the business, enhance performance and release capital to pay down debt, deliver returns to our shareholders and, where appropriate, invest in our growth agenda."

## Investing for Growth: Next Generation Products and Tobacco Maximisation

### Targeting significant growth in NGP

- *myblu* now launched in five markets; US, UK, France, Germany and Russia; with more scheduled in H2
- Positive consumer and retailer feedback; expansion of *blu* franchise underpins H2 revenue growth
- Enhancing the consumer experience with upcoming launch of nicotine salt pods
- Innovation on track with new advanced tank system, *blu ACE*, bringing open systems to wider consumer base
- Progressing optionality in heated tobacco with second stage consumer trials planned in the next few months

### Investment aligned with Market Repeatable Model delivering tobacco share gains with improving price/mix

- Reported volumes down 2.1% outperforming industry volumes across footprint
- Continued share growth or improving share trends in most of our priority markets
- Improving price/mix momentum underpins expected strong H2 revenue growth
- Growth Brand volumes up 6.3%, share up 100 bps; volumes outperforming ex migrations, up 1.6%
- Specialist Brands growth driven by Backwoods, *blu* and Premium Cigars

### Market Share Gains in Priority Markets led by Growth Brands

MAT share %	Share	Change	
<b>Returns</b>			
Germany	22.2%	+10 bps	Gaining share in fine cut and JPS cigarettes, offsetting Gauloises declines
UK	41.9%	+50 bps	Continued share momentum driven by Players and Gold Leaf
Australia	32.8%	-100 bps	Share affected by timing of price increases, now recovered
France	21.0%	+10 bps	Gains in News cigarettes and fine cut tobacco
Spain	29.2%	-80 bps	Dark tobacco declines; Fortuna and West improving blonde share trend
<b>Growth</b>			
USA	8.8%	-20 bps	Winston, Kool and Maverick growth offset by decline in tail brands
Russia	7.4%	+60 bps	Growth led by Parker & Simpson queen size and new crushball format
Saudi Arabia	17.1%	+490 bps	West #1 brand status in growing value segment
Italy	4.7%	+20 bps	JPS achieved record share position supported by growth of new soft pack
Japan	0.9%	+20 bps	West distribution driving share gains

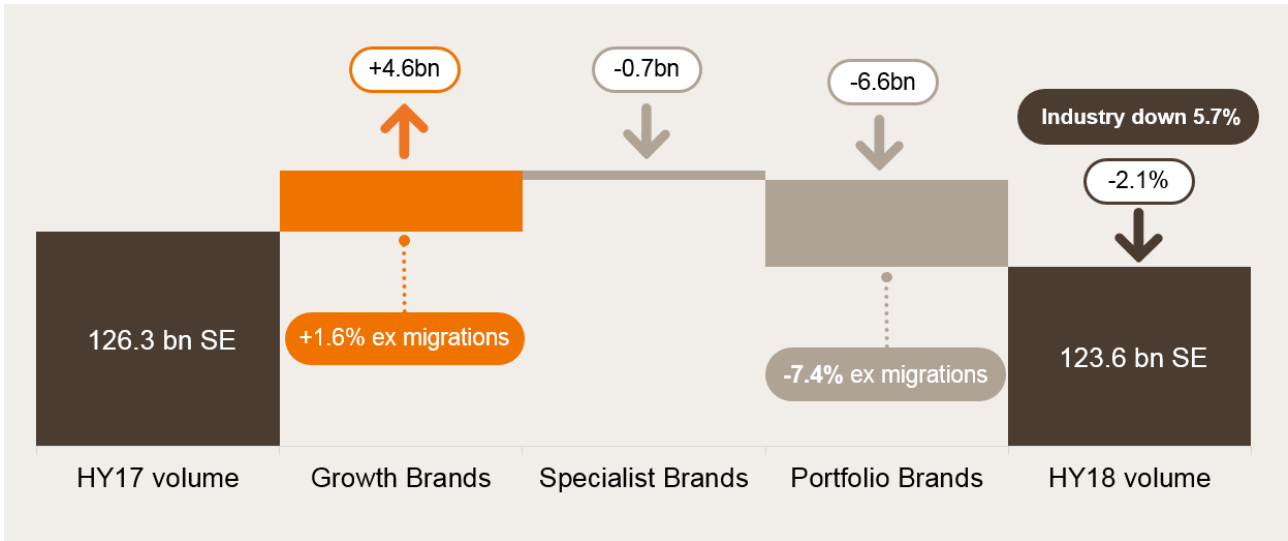
### Cost and Capital

- Cost optimisation on track and expected to deliver £100m of incremental savings in FY18; H2 weighted
- Sale of 'other tobacco products' in the US as part of ongoing focus on capital reallocation opportunities
- Cash conversion of 110.8% (ex restructuring) supported by timing of Logista duty payments; FY18 target of 95%
- Adjusted and reported net debt both reduced by £1.2bn in the last 12 months; £0.9bn reduction excluding FX
- Interim dividend of 56.87p up 10%; 12 month dividend pay-out ratio of 67.8%

*Highlights show movements based on adjusted numbers at constant currency*

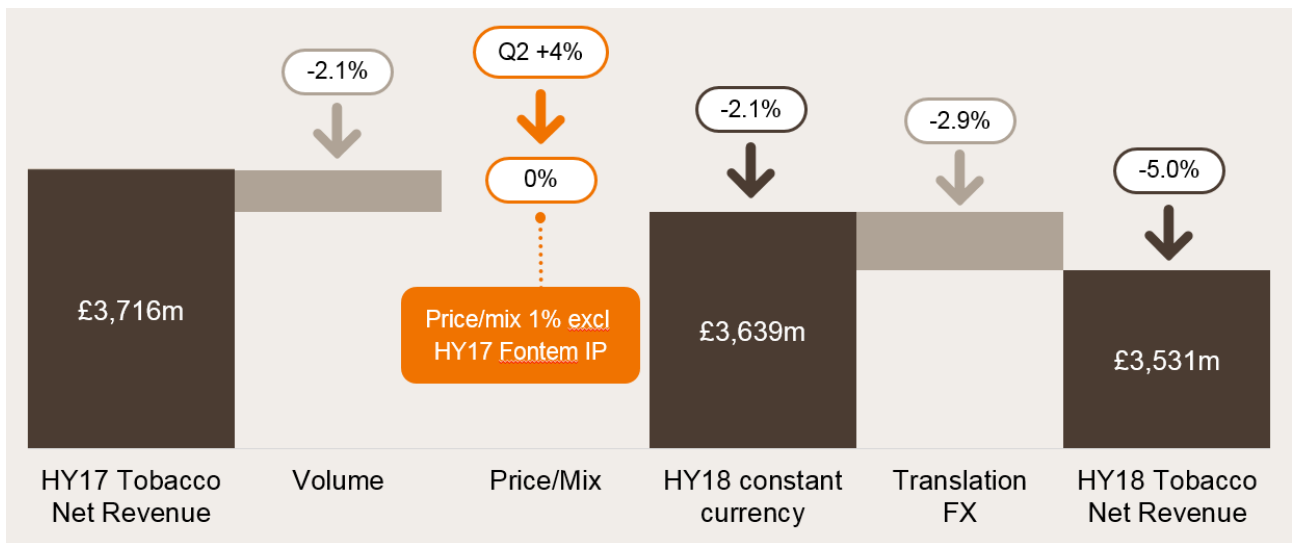
**Volumes Outperform Market – Investments Continue to Support Share Growth**

- Share momentum in priority markets, with continued overall growth
- Volume 123.6 bn SE, down 2.1%, better than the 5.7% decline in industry volumes YTD (4.5% ex Japan)
- Strengthened portfolio with Growth Brands up 1.6% (ex migrations) and share up 100 bps
- Portfolio Brands lower with continued migration activity and market size impacts



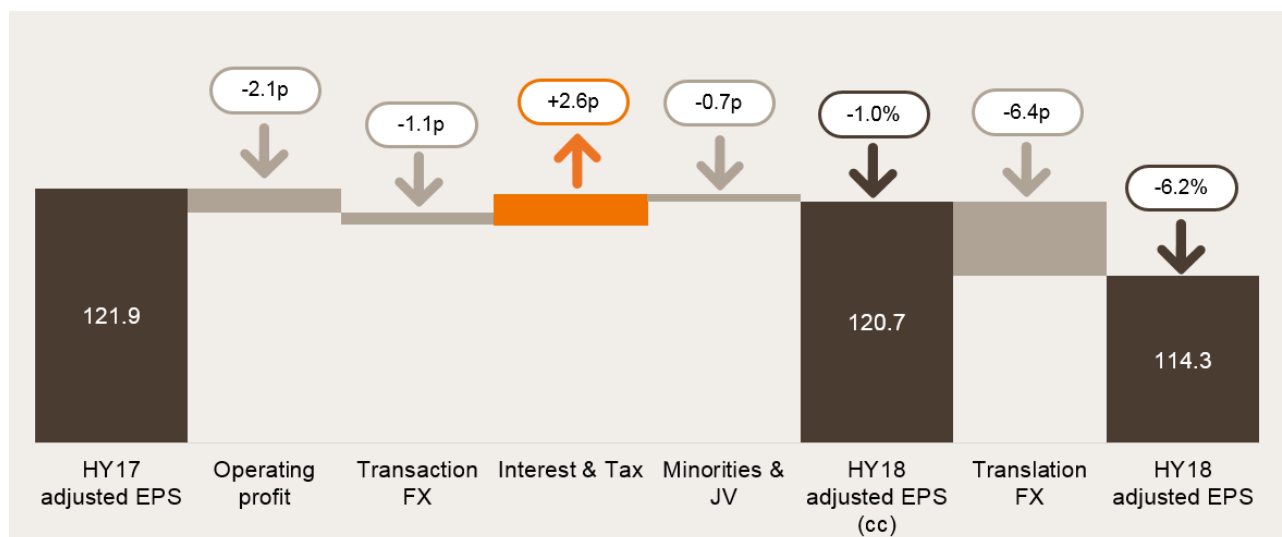
**Tobacco Net Revenue down 2.1% at constant currency with share gains offset by product and market mix**

- Net revenue down 2.1% at constant currency
- Asset Brand net revenue now 65.2% of total tobacco net revenue, up 3.9% at constant currency
- Price/mix reflects tough but improving trading environment and lower IP licensing income (Q1 17 £35m)
- Improving price/mix momentum (Q2 price/mix of 4%) will support H2 and FY revenue growth



### Adjusted Earnings per Share down 1% at Constant Currency

- Adjusted EPS of 114.3p, down 6.2%, after foreign exchange headwind of 5.2%
- Tobacco operating profit margin of 43.4% down 60bps at constant currency reflecting the timing of increased NGP investment and H2 weighted cost savings
- Adjusted operating profit reflects lower IP income (HY17 £35m) and NGP investment. Included within operating profit is £40m (profit on sale of other tobacco products in USA) compared with £33m of other gains recognised in the prior period.
- Adjusted EPS excludes one off impact of 13.7p from the administration of UK distributor Palmer & Harvey
- Interest & tax benefiting EPS by 2.6p due to deleverage and marginally lower adjusted tax rate of 19.5%
- HY reported EPS was 51.7p down 26.9% due to the impact of Palmer & Harvey partly offset by the positive movement in fair value of derivatives in H1 17



### Basis of Presentation

- To aid understanding of our results, we use 'adjusted' (non-GAAP) measures in accordance with our usual practice. Reconciliations between adjusted and reported (GAAP) measures are also included in the relevant notes. Further definitions of adjusted measures are provided in the 2017 Annual Report and Accounts.
- Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.
- Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. References in this document to percentage growth and increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise. These are calculated by translating current year results at prior year exchange rates.
- Market share is presented as a 12 month average (MAT). Aggregate market share is a weighted average across markets within our footprint.

### Cautionary Statement

Certain statements in this announcement constitute or may constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is or may be a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied in any forward-looking statement. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the Company for current or future financial years will necessarily match or exceed the historical or published earnings per share of the Company. This announcement has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this announcement is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

We continue to build momentum in tobacco and NGP. Our Growth Brands are outperforming and we have achieved further share gains in the majority of our priority markets. These share gains, strengthening price/mix and the good progress we are making with the international rollout of *myblu*, will deliver a stronger second half.

The additional investment we made last year has continued to deliver share gains in our Growth Brands across most of our key geographies. This has been achieved despite a carryover of the tough 2017 trading environment in tobacco, with adverse mix in certain markets impacting our financial delivery. However, the environment is improving and we have exited the half with a stronger price/mix position than last year (Q2 price/mix of 4%). This will support a significantly improved revenue and profit performance in the second half.

We have maintained our increased investment in tobacco, focused on our Growth Brands and priority markets. Learnings from our Market Repeatable Model enable us to continually improve performance and fine-tune how we direct investment behind specific activities. These include portfolio simplification, brand marketing, consistent pricing, sales force and customer engagement.

We have also stepped up investment in NGP, as we start to significantly enhance our presence in e-vapour with new product and market launches for blu. The launch of *myblu*, our new pod format, has received a positive trade and consumer response. We are in the process of launching further innovations such as a powerful new open-system device, blu ACE and new liquids, which we will bring to market in the second half. We have focused our investment behind the blu brand and a product range which we believe delivers superior vaping experiences and a strong emotional connection with consumers.

### **Next Generation Products: Significant Expansion**

We have an exciting range of Next Generation Products that provide consumers with an attractive alternative to smoking. These new products provide considerable growth opportunities and we have a significant ambition for these products to become a material part of our future revenue and profit growth. In blu, we continue to focus on improving the consumer experience, with one of the best e-vapour brands in the world. We launched a new pod-based platform, *myblu*, which combines a high-performance vaporiser in a simple, easy to use format; we plan to launch flavours with nicotine salts in the coming months to further enhance the consumer experience. The initial roll-out has received a strong positive consumer response in the launch markets of the USA, UK, France, Germany and Russia. We have plans to add further markets in the second half and will be in at least ten markets by the end of this financial year.

To complement *myblu*, we are launching a new open system product, blu ACE, which is the most powerful device in our portfolio. We are pioneers in e-vapour products; we have developed and own some of the key category-defining technology, including the base intellectual property in e-vapour. We also have a strong pipeline of exciting new proprietary technology that we will start to bring to market in the coming year. These innovations will improve the smoker conversion rates through better flavour delivery, device connectivity and new flavours, whilst also lowering manufacturing costs.

Heated tobacco is an NGP category that has proved popular in certain Asian markets such as Japan, where nicotine-based e-vapour products are not currently permitted. While we are continuing to prioritise our investment behind e-vapour, we have developed our own heated tobacco products, which underwent successful consumer trials in Japan and Europe at the end of the calendar year 2017. These products are now being refined ahead of more comprehensive trials in the next few months.

### **Strengthening our Portfolio: Growth Brands Outperforming**

The simplification of our brand portfolio is a key element of our strategy. Reducing the number of brands and investing in our strongest equities, our Growth and Specialist Brands, has created a strong portfolio that is delivering a higher quality of growth, while also substantially reducing complexity and cost in the business.

We have significantly reshaped our portfolio by reducing the number of weaker Portfolio Brands through migrations and delistings, while driving the performance of our Growth and Specialist Brands. As a result, our Growth and Specialist Brands are becoming a greater proportion of our business. These brands now deliver around 65 per cent of the Group's tobacco net revenue. Our Growth Brands again outperformed the market, with strong growth in volumes, share and net revenue. Excluding the benefit of brand migrations, Growth Brands grew volumes in absolute terms by 1.6 per cent. This strong performance reflects great results from JPS, Parker & Simpson, West, Winston and Gauloises Blondes.

Our Specialist Brands also delivered strong revenue growth including blu, Backwoods and Kool in the USA, Rizla cigarette papers and Premium Cigars.

### **Developing our Footprint: Driving Success in Priority Markets**

Our focused investment delivered good performances in the majority of our priority markets.

In Growth Markets, we achieved continued share gains in Japan, Saudi Arabia, Italy, Greece and Russia, although the introduction of additional excise in Saudi Arabia created some mix headwinds. In China, our new joint venture with China Tobacco has maintained its strong performance.

Our USA business, ITG Brands delivered another good performance, with volume and share gains from our Growth Brand Winston and our Specialist Brand Kool, offset by declines in our defocused Portfolio Brands. In addition, our mass market cigar business continues to perform extremely well.

In Returns Markets, we focused on Growth Brand share and on driving further benefits from the additional investment we made last year. We achieved share increases in the UK, Germany and France, with additional share gains in other markets including Czech Republic and Poland. In Australia, we lost share temporarily after we increased prices but our share has since recovered.

### **Cost Optimisation**

Disciplined cost and cash management supports our strategy and investments to fuel growth. We made good progress with our two cost optimisation programmes and remain on track to deliver £100m of annual savings in the full year. The first programme will have delivered all of its expected savings of £300m from the end of the 2018 financial year. The second programme will deliver a further £300m of savings from the September 2020 financial year.

### **Dividend**

Cash flow remains a key priority as we use this cash to invest in the business, pay down debt and fund shareholder returns. Cash conversion remained strong at 111 per cent on a 12-month basis, supporting 10 per cent dividend growth; on a 12 month basis, the dividend pay-out ratio was 68 per cent.

### **Value Creation**

We undertook an extensive review of our strategy in 2016 following the US acquisition, looking at all aspects of the business. Since 2016 we have continued to regularly update this strategic analysis in the context of the evolving environment, particularly with the development of NGP. As part of this review, we examined our capabilities, the key profit pools, how we win in market and opportunities for M&A. Our review resulted in an even greater focus on the key products, brands and markets to drive growth in tobacco and NGP. We identified areas where we could step up investment to enhance top-line growth, while also continuing to streamline our operations and business model. These initiatives are delivering improved in-market performance supporting our top line growth agenda. As we sharpen our focus on the brands, products and markets that are central to our growth agenda, we have identified assets that are less central to our strategy, which we can exit or divest in order to further simplify the business, enhance performance and allocate capital effectively. Our recent disposal of a portfolio of other tobacco products in the USA is a small example of this and we are progressing other opportunities for divestments, initially targeting proceeds of up to £2 billion within the next 12-24 months.

### **Outlook: Improving Momentum into the Second Half**

Focused investment in our tobacco business is enabling us to enhance revenue delivery and strengthen our share in priority markets, as we continue to deliver against our strategic agenda. Central to our success is our Market Repeatable Model, which provides a structured approach for generating sustainable quality growth.

We expect a considerably stronger second half with further share gains and improving price/mix momentum. As a result we expect a stronger tobacco revenue performance in H2, particularly in Returns and Growth Markets, with more modest growth in the US.

I'm pleased with the progress we are making in NGP. Our NGP portfolio is built around the pioneering blu e-vapour brand and as we continue to drive the international rollout of *myblu*, we will further enhance our revenue delivery. Innovation is key to delivering an exceptional brand and consumer experience and we remain focused on developing our pipeline of proprietary products, including oral and heated tobacco products.

We are targeting constant currency revenue and earnings per share growth to be within our medium-term guidance and will deliver 10 per cent dividend growth.

### **Alison Cooper**

Chief Executive

We continue to deliver quality growth with further share gains in our Growth Brands and priority markets. A stronger price/mix momentum in tobacco and the roll-out of our latest e-vapour platforms will deliver full year revenue growth.

### Overview

Our prioritised investment is delivering market share gains. Total Group tobacco volumes were 123.6bn stick equivalents (2017: 126.3bn), with volumes down by 2.1 per cent outperforming industry volume declines of 5.7 per cent. Industry volumes were significantly impacted by a large decline in Japan which represents a small part of our volumes. Excluding the Japanese market, the overall market size decline was 4.5 per cent.

Overall net revenue declined 2.1 per cent at constant currency reflecting flat overall price/mix. This has been driven primarily by mix pressures from EUTPD-related product changes in the UK, downtrading in Saudi Arabia, and the impact of excise increases in Taiwan and France, as well as the Fontem IP royalty income that benefited the prior period. This was partially offset by net revenue increases, most significantly in the USA and Fontem Ventures.

Adjusted operating profit reflects the revenue decline as well as the increased investment in NGP made during the period. Earnings per share benefited from a lower effective tax rate and lower net finance costs.

### Brand Performances

We have continued to reshape the portfolio to prioritise our Growth and Specialist Brands. These are the most important assets in our portfolio and together they now account for 65.2 per cent of our tobacco net revenue, up 480 basis points on last year. We have maintained our investment behind these brands, improving their growth momentum and also supported by our migration and stock keeping unit ('SKU') simplification programmes.

Our Growth Brands increased volume by 6.3 per cent and market share by 100 basis points as we continue to migrate consumers from local, low priority brands. Excluding the benefit of brand migrations, Growth Brands grew volumes by 1.6 per cent.

### Growth Brands

		Half Year Result		Change	Constant Currency
		2018	2017	Actual	
Market share	%	<b>9.0</b>	8.0	+100 bps	
Net revenue	£m	<b>1,732</b>	1,682	+3.0%	+3.7%
Percentage of Group volumes	%	<b>62.8</b>	57.8	+500 bps	
Percentage of tobacco net revenue	%	<b>49.1</b>	45.3	+380 bps	

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

Growth Brands outperformed the market in the period. Net revenue grew 3.0 per cent on a reported basis, or 3.7 per cent at constant currency.

Growth Brand investment was prioritised behind equity building campaigns, the launch of new formats such as queen size and crushball to meet changing consumer demands and focused spend on key accounts and distribution to maximise availability.

Growth Brands now account for 62.8 per cent of total Group tobacco volumes, an increase of 500 basis points, and 49.1 per cent of overall tobacco net revenue, an increase of 380 basis points.

<b>Brand Chassis</b>	<b>Highlights</b>
JPF (JPS, Parker & Simpson and Fine)	Volume and share growth in the chassis was driven by JPS and Parker & Simpson. Players in the UK and Parker & Simpson in Russia continue to perform very strongly supported by the launch of new formats including queen size. We have also seen growth in value formats including super king size and MYO products. Parker & Simpson also benefited from successful migrations in Madagascar and Slovakia.
West (West, L&B, News and Bastos)	West has grown volumes and share driven by Saudi Arabia and China JV volume growth. Growth has been partially offset by lower sales in king size full flavour variants and by performance in Ukraine.
Winston	Winston continued to grow share in the period helped by direct mail promotions and increased levels of advertising.
Davidoff	Volume decline in the period was driven by tax changes mainly in Saudi Arabia and in Taiwan which affected sales of the premium line and slim formats. We achieved market share gains in both Taiwan and Greece offset by declines in Saudi Arabia.
Gauloises	Growth in the period was driven by the queen size format with weakness in France more than offset by growth in the Middle East.

### Specialist Brands

		Half Year Result		Change	
		2018	2017	Actual	Constant Currency
Net revenue	£m	<b>569</b>	561	+1.4%	+6.1%
Percentage of tobacco net revenue	%	<b>16.1</b>	15.1	+100 bps	

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

We continued to make good progress with these brands with revenue growth in Backwoods, blu, Kool, Premium Cigars and Rizla papers. Backwoods has delivered strong revenue and share growth as we focus on the growing mass market cigar market in the USA. Our iconic cigar brands, Cohiba, Montecristo and Romeo Y Julieta, continue to deliver strong growth.

Our e-vapour brand blu is performing well in the early stages of its international roll-out and we continue to focus on driving the smoker conversion rate. blu is well placed to deliver growth with further market launches and the introduction of nicotine salts planned for the second half.

Net revenue grew 6.1 per cent at constant currency and Specialist Brands now represent a greater proportion of the business at 16.1 per cent of net revenue, up 100 basis points on last year.

### Portfolio Brands

The rest of the portfolio is comprised 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 as part of our portfolio simplification initiatives to improve the quality of growth and drive efficiencies.

Overall Portfolio Brand volumes fell 15.2 per cent with 7.8 per cent of this decline driven by further migrations to Growth Brands. Organic volume declined by 7.4 per cent. The remaining Portfolio Brands now represent less than 30 per cent of our volumes but nearly 35 per cent of our revenues with constant currency price/mix gains of 3.6 per cent in the period as we further optimise the profitability of these brands.



## Market Performances

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

### Growth Markets

		Half Year Result		Change	Constant Currency
		2018	2017	Actual	
Volume	SE	<b>34.7</b>	34.5	+0.5%	
Net revenue	£m	<b>766</b>	859	-10.8%	-6.9%
Adjusted operating profit	£m	<b>119</b>	211	-43.6%	-35.5%
Growth Brand % of net revenue	%	<b>48.3</b>	47.6	+70 bps	
Growth Brand volume	bn SE	<b>23.9</b>	22.3	+7.5%	
Growth Brand market share	%	<b>4.7</b>	3.9	+80 bps	

Targeted investment has delivered improved share trends in both our Growth Brands and in our priority Growth Markets. Growth Brand volumes grew 7.5 per cent and we increased revenues as a proportion of our total by another 70 basis points. Growth Brand share gained 80 basis points.

Net revenue was down 6.9 per cent at constant currency impacted by a number of factors, including lower Fontem IP royalty income (HY17 £35m), where the timing of payments can be irregular. There was adverse mix in the Middle East, particularly in Saudi Arabia where a selective tax doubled retail prices in the second half of FY17 driving downtrading in the market. Excise increases in Taiwan also affected revenue. These effects were partially offset by an improved performance in other markets, including Russia. Our focus on Growth Brands, supported by additional investment, has driven improved share performances in our priority markets of Russia, Saudi Arabia, Italy and Japan.

We have launched *myblu* in five markets so far with more to follow by the end of the financial year, benefiting Growth Markets net revenue in the first half with an increasing impact expected in the second half of the year.

Adjusted operating profit fell 35.5 per cent at constant currency, materially driven by the adverse mix in Saudi Arabia and the benefit of Fontem IP royalty income in the prior year, as well as our increased investments in NGP.

Country	Performance
Russia	We grew market share again in the period with strong growth in Parker & Simpson especially in the queen size and super king size formats, supported by increased investment in the key account channel.
Saudi Arabia	West has continued to gain significant share in the market after the introduction of a new selective tax in 2017 which doubled retail sale prices resulting in adverse mix.
Italy	Market share increases have continued, led by the highest ever JPS share, supported by the launch of JPS Compact.
Greece	We delivered a record cigarette share led by Davidoff, while still growing Golden Virginia's share in fine cut tobacco.
Sweden and Norway	We increased share in Sweden and ceded some share in Norway due to the growth in white, and stronger snus products. We are responding with our own variants to regain share.
Japan	Our investment in expanding our presence in the value segment with West is continuing to deliver volume and share growth.
Taiwan	Overall share gains were driven by Davidoff Absolute and queen size and the launch of packs of 25s of West, although excise increases have impacted the premium segment.

## USA Market

		Half Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	SE	<b>10.8</b>	11.3	-3.7%	
Net revenue	£m	<b>769</b>	785	-2.0%	+7.5%
Adjusted operating profit	£m	<b>484</b>	457	+5.9%	+17.1%
Asset Brand % of net revenue	%	<b>48.0</b>	43.1	+490 bps	
Asset Brand volume	bn SE	<b>5.4</b>	5.2	+3.8%	
Growth Brand market share	%	<b>2.5</b>	2.4	+10 bps	

Our strategy in the USA is to grow our strongest brand equities, including Winston and Kool in cigarettes and Backwoods in mass market cigars.

We delivered a strong performance with a 7.5 per cent increase in net revenue at constant currency. This reflects increased pricing but also the benefit from higher shipment volumes (0.2bn SE) ahead of price increases at the end of the reporting period, as well as the continued strong performance of our mass market cigar business, with net revenues up 18 per cent.

The percentage of tobacco net revenue generated by Asset Brands increased to 48.0 per cent. Winston and Kool continued to gain share and Maverick has increased share after our activities on the brand last year.

Our US mass market cigar business has continued to perform strongly, gaining volume share in the period, with Backwoods as the main driver of this success.

Adjusted operating profit grew 17.1 per cent (£78m) at constant currency, benefiting from year on year gains included in operating profit of £22m (net gain on disposal of other tobacco product assets of £40m offset by £18m of gains on post-retirement benefits in 2017). Excluding this benefit, underlying adjusted operating profit grew 12.3 per cent reflecting our strong revenue growth and continued cost control.

## Returns Markets

		Half Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	SE	<b>78.1</b>	80.5	-3.0%	
Net revenue	£m	<b>1,996</b>	2,072	-3.7%	-3.7%
Net revenue per '000 SE	£	<b>25.56</b>	25.74	-0.7%	-0.8%
Adjusted operating profit	£m	<b>930</b>	999	-6.9%	-5.7%
Growth Brand % of net revenue	%	<b>60.7</b>	54.6	+610 bps	
Growth Brand market share	%	<b>17.3</b>	15.9	+140 bps	

We achieved share gains in many of our priority markets. We grew share in the UK, France, Germany and Poland, although share was down in Spain. These strong performances were offset by pressures in Australia where we lost share in the early part of the period after increasing our prices, although our spot share has since recovered. We also saw some share erosion in other markets such as Ukraine, where we continue to prioritise profitability, and Belgium, although we achieved improved share performances in Netherlands and Poland.

Net revenue was down at constant currency primarily reflecting mix pressures in the UK following the withdrawal of packs of 10s and low weight fine cut tobacco products due to EUTPD which will cease to be a headwind in the second half and a continued difficult trading environment in the French market.

Growth Brands are now generating 60.7 per cent of tobacco net revenue, an increase of 610 basis points. Growth Brand volumes increased 6.0 per cent against a footprint that declined 3.5 per cent. Growth Brand share increased 140 basis points, supported by migrations and strong organic brand performances.

Adjusted operating profit was down 5.7 per cent at constant currency, reflecting the reduced net revenue.

## Returns Markets North

		Half Year Result		Change	Constant Currency
		2018	2017	Actual	
Volume	SE	<b>41.2</b>	42.4	-2.9%	
Net revenue	£m	<b>1,238</b>	1,301	-4.8%	-4.5%
Net revenue per '000 SE	£	<b>30.06</b>	30.67	-2.0%	-1.6%
Adjusted operating profit	£m	<b>621</b>	671	-7.5%	-6.1%
Growth Brand % of net revenue	%	<b>60.9</b>	57.9	+300 bps	
Growth Brand market share	%	<b>16.6</b>	15.7	+90 bps	

Country	Performance
UK	Our investment is supporting continued share growth with a strong performance from Players and Gold Leaf.
Germany	Our overall share gain was driven by the success of West and Fairwind fine cut. Cigarette share was down slightly as JPS share growth was offset by declines in Gauloises.
Benelux	Belgium has seen market share declines due to a weaker travel retail and duty free market. We grew share in the Netherlands capitalising on the growth of larger format cigarette and fine cut offerings.
Australia	The timing of a price increase affected share although the share trajectory has since recovered with JPS continuing to perform well as the market leading brand.
Ukraine	Competitor discounting impacted our share as we prioritised profit delivery in a market characterised by low margins and short term share driven activity.
Poland	Market share gains in Poland were led by Parker & Simpson fine cut tobacco performance.

## Returns Markets South

		Half Year Result		Change	Constant Currency
		2018	2017	Actual	
Volume	SE	<b>36.9</b>	38.1	-3.1%	
Net revenue	£m	<b>758</b>	771	-1.7%	-2.5%
Net revenue per '000 SE	£	<b>20.54</b>	20.25	+1.4%	+0.6%
Adjusted operating profit	£m	<b>309</b>	328	-5.8%	-4.9%
Growth Brand % of net revenue	%	<b>60.5</b>	49.0	+1,150 bps	
Growth Brand market share	%	<b>18.3</b>	16.3	+200 bps	

Country	Performance
Spain	The share trajectory of our blondes cigarettes has improved with Fortuna and West performing well. Overall share is lower mainly due to fine cut tobacco and dark tobacco declines.
France	Overall market share gains were driven by a strong performance from News, although the trading environment remains challenging as a result of competitor and excise dynamics.
Algeria	Gauloises remains the number one brand in the market but a number of excise changes have led to market volatility and overall market share has declined.
Morocco	Our Maghreb brand has continued to perform well, increasing share in the dark tobacco segment and Gauloises has performed well with increased volumes and share, although overall share is down.

Our cost optimisation programme and strong capital discipline are providing the resources to invest in our tobacco and NGP operations, while generating attractive returns for shareholders and paying down debt.

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide a useful comparison of performance from one period to the next. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures, which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies accompanying our financial statements, and reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements\*. Percentage growth figures for adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

### Building Momentum in Tobacco and NGP

We delivered a strong volume performance, with share gains in the majority of our priority markets, although this positive progress is not fully reflected in our financial results because of the price/mix headwinds that carried over from last financial year. However, price/mix has strengthened during the period, particularly in the second quarter, delivering an improving revenue momentum as we exited the first half. Our results also benefited from the launch of *myblu* in a number of markets. We expect the momentum in tobacco and NGP to continue into the second half and underpin constant currency revenue and earnings growth in line with our full year guidance.

\* For further details please see Page 4 and our September 2017 Annual Report and Accounts

### Group Results – Constant Currency Analysis

£ million (unless otherwise indicated)	Six months ended 31 March 2017	Foreign Exchange	Constant currency movement	Six months ended 31 March 2018	Change	Constant currency change
<b>Tobacco Net Revenue</b>						
Growth Markets	859	(34)	<b>(59)</b>	<b>766</b>	<b>-10.8%</b>	<b>-6.9%</b>
USA Market	785	(75)	<b>59</b>	<b>769</b>	<b>-2.0%</b>	<b>+7.5%</b>
Returns Markets North	1,301	(5)	<b>(58)</b>	<b>1,238</b>	<b>-4.8%</b>	<b>-4.5%</b>
Returns Markets South	771	6	<b>(19)</b>	<b>758</b>	<b>-1.7%</b>	<b>-2.5%</b>
Total Group	3,716	(108)	<b>(77)</b>	<b>3,531</b>	<b>-5.0%</b>	<b>-2.1%</b>
<b>Tobacco Adjusted Operating Profit</b>						
Growth Markets	211	(17)	<b>(75)</b>	<b>119</b>	<b>-43.6%</b>	<b>-35.5%</b>
USA Market	457	(51)	<b>78</b>	<b>484</b>	<b>+5.9%</b>	<b>+17.1%</b>
Returns Markets North	671	(9)	<b>(41)</b>	<b>621</b>	<b>-7.5%</b>	<b>-6.1%</b>
Returns Markets South	328	(3)	<b>(16)</b>	<b>309</b>	<b>-5.8%</b>	<b>-4.9%</b>
Total Group	1,667	(80)	<b>(54)</b>	<b>1,533</b>	<b>-8.0%</b>	<b>-3.2%</b>
<b>Logistics</b>						
Logistics distribution fees	442	12	<b>29</b>	<b>483</b>	<b>+9.2%</b>	<b>+6.5%</b>
Logistics adjusted operating profit	82	2	<b>15</b>	<b>99</b>	<b>+20.7%</b>	<b>+18.3%</b>
<b>Group Adjusted Results</b>						
Adjusted operating profit	1,740	(78)	<b>(38)</b>	<b>1,624</b>	<b>-6.7%</b>	<b>-2.2%</b>
Adjusted net finance costs	(272)	5	<b>23</b>	<b>(244)</b>	<b>+10.0%</b>	<b>+8.5</b>
Adjusted EPS (pence)	121.9	(6.4)	<b>(1.2)</b>	<b>114.3</b>	<b>-6.2%</b>	<b>-1.0%</b>

## Group Earnings Performance

£ million unless otherwise indicated	Adjusted		Reported	
	HY 2018	HY 2017	HY 2018	HY 2017
Operating profit				
Tobacco	<b>1,533</b>	1,667	<b>786</b>	872
Logistics	<b>99</b>	82	<b>55</b>	39
Eliminations	<b>(8)</b>	(9)	<b>(8)</b>	(9)
Group operating profit	<b>1,624</b>	1,740	<b>833</b>	902
Net finance costs	<b>(244)</b>	(272)	<b>(252)</b>	(115)
Share of profit of investments accounted for using the equity method	<b>19</b>	17	<b>19</b>	17
Profit before tax	<b>1,399</b>	1,485	<b>600</b>	804
Tax	<b>(274)</b>	(298)	<b>(79)</b>	(114)
Minority interests	<b>(39)</b>	(24)	<b>(30)</b>	(15)
Earnings	<b>1,086</b>	1,163	<b>491</b>	675
Earnings per ordinary share (pence)	<b>114.3</b>	121.9	<b>51.7</b>	70.7

## Reconciliation of Adjusted Performance Measures\*

£ million unless otherwise indicated	Operating profit		Net finance costs		Earnings per share (pence)	
	HY		HY		HY	
	2018	HY 2017	2018	HY 2017	2018	HY 2017
Reported	<b>833</b>	902	<b>(252)</b>	(115)	<b>51.7</b>	70.7
Amortisation of acquired intangibles	<b>526</b>	554	-	-	<b>42.8</b>	41.3
Administration of UK distributor	<b>160</b>	-	-	-	<b>13.7</b>	-
Fair value losses/(gains) on derivative financial instruments	-	-	<b>1</b>	(169)	<b>(1.2)</b>	(13.8)
Post-employment benefits net financing cost	-	-	<b>7</b>	12	<b>0.4</b>	0.9
Restructuring costs	<b>105</b>	284	-	-	<b>7.9</b>	20.5
Tax on unrecognised losses	-	-	-	-	<b>2.5</b>	3.2
Deferred tax impact of US tax reform	-	-	-	-	<b>(2.6)</b>	-
Items above attributable to non-controlling interests	-	-	-	-	<b>(0.9)</b>	(0.9)
Adjusted	<b>1,624</b>	1,740	<b>(244)</b>	(272)	<b>114.3</b>	121.9

\* For further details please see Page 4 and our September 2017 Annual Report and Accounts

## Financial Results

Our tobacco volume and share outperformance versus the market is not reflected in our revenue performance due to the tough price/mix backdrop at the end of FY17 and the beginning of FY18, hence our tobacco net revenue declined 2.1 per cent at constant currency (2017: -5.5%).

We are increasing investment (£150m incrementally split: £50m of income and £100m of capital) in NGP this year to support the launch of new products and continue the progress we have been making on building our innovation pipeline.

Adjusted tobacco operating profit fell 3.2 per cent on a constant currency basis as a result of the price/mix impacts to net revenue, lower Fontem IP royalty income and because our investments are weighted to the first half while our cost savings programmes favour the second half. Other gains have generated a net £7m benefit to operating profit in the period as the £40m profit on disposal of US other tobacco product assets more than offsets the £33m gain in H117 from the Logista sale of bank shares (£15m) and the changes to US post-retirement benefits (£18m). As previously guided, we expect other gains recognised in adjusted operating profit to total £50-100m at the full year.

Logista delivered an encouraging performance reversing the declines seen in the second half of FY17 and increasing operating profit to £99m compared with £82m in 2017, a 20.7 per cent increase. On a constant currency basis adjusted operating profit grew 18.3 per cent, despite the comparative benefiting from the sale of an investment. The improvement was driven by the development of its non-tobacco business, particularly pharmaceutical and transport, and provision of new value-added services, as well as the benefit of continued cost controls, and was achieved despite the continued difficult trading environment in France.

Adjusted net finance costs reduced to £244m (2017: £272m) reflecting the lower average levels of debt in the period, as our all-in cost of debt reduced to 3.7 per cent (2017: 3.9%).

Reported net finance costs were £252m (2017: £115m), as 2018 saw a loss from the impact of net fair value of financial instruments of £1m (2017: gains of £169m) relating to foreign exchange movements and post-employment benefits net financing costs of £7m (2017: cost of £12m).

After tax at an effective adjusted rate of 19.5 per cent (2017: 20.0%), which benefited marginally from the recent changes to US tax legislation, adjusted earnings per share declined by 6.2 per cent to 114.3 pence. The effective reported tax rate is 13.2 per cent (2017: 14.2%).

The tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets, such as Germany, 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 and the European Commission's Anti-Tax Avoidance Directive (ATAD).

Reported earnings per share were 51.7 pence (2017: 70.7 pence) reflecting non-cash amortisation of £526m (2017: £554m) and restructuring costs of £105m (2017: £284m), as well as the effects of movements in fair value on finance costs mentioned above. The difference between reported (51.7 pence) and adjusted earnings per share (114.3 pence) is materially due to the same three items plus the impact from the UK distributor, Palmer & Harvey, entering administration in November 2017. This had a one-off impact on Group operating profit of £160m, the majority of which relates to excise duty which is non-recoverable. We have excluded this from adjusted measures due to its size and non-recurring nature.

The strengthening of sterling versus the US dollar and euro negatively impacted reported and adjusted measures. On a constant currency basis, adjusted earnings per share fell 1.0 per cent principally due to the tough trading environment which held back our price/mix.

The restructuring charge for the period of £105m (2017: £284m) relates mainly to our two cost optimisation programmes (£103m) announced in 2013 and 2016. The balance of £2m are costs from historic restructuring activities across the Group.

### **Cost Optimisation and Capital Discipline**

We have two cost optimisation programmes underway. The first programme began in 2013 and is on track to deliver total savings compared to 2012 of £300m by September 2018, with a cash implementation cost of around £600m. The second was announced in September 2016 and is expected to achieve a further £300m of savings compared to 2016, by September 2020, with a cash cost of around £750m.

We remain on track to deliver incremental savings of £100m this year. The cash cost of these programmes is expected to be around £400m in FY18, with savings weighted to the second half.

Our continued focus on capital discipline is driving free cash flow that has enabled a further £1.2bn of adjusted net debt reduction over the last 12 months with £0.3bn of this being from foreign exchange due to the weakening of the euro and US dollar against sterling. Reported net debt over the last 12 months also decreased by £1.2bn.

Our working capital improved by £0.7bn over the last 12 months, benefiting from a £0.3bn decrease in Logista due to the timing of duty payments which will not benefit the full year position, and the later timing of duty increases in markets such as the UK and Russia which has enabled us to reduce first half stock levels. As a result, cash conversion excluding restructuring outflows was 110.8 per cent (2017: 107.5%).

Free cash flow generation through the period allowed us to repay a \$1.25bn bond that matured in February 2018.

Our all-in cost of debt reduced to 3.7 per cent (2017: 3.9%) as older, more expensive debt matured and was replaced with cheaper financing. Our EBITDA interest cover was 7.7 times (2017: 7.3 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

All of our capital allocation decisions are subject to relevant commercial analysis and hurdle rates to ensure they deliver appropriate levels of return. Potential acquisitions are judged on strict financial and commercial criteria, including the ability to enhance the Group's return on invested capital (ROIC). Typically, we seek an overall rate of return in excess of 13 per cent across the investments we make. This disciplined approach is supporting our investment choices and underpins returns for shareholders.

### **Dividends**

We have declared an interim dividend of 56.87 pence per share, an increase of 10 per cent. This dividend will be paid as two payments of 28.435 pence per share on 29 June 2018 and 28 September 2018, with an ex-dividend date of 24 May and 23 August respectively.

The third interim and final dividends will be announced with our full year results in November 2018 and paid in December 2018 and March 2019 respectively, subject to AGM approval. We expect to deliver another year of 10 per cent dividend growth.

### **Liquidity and Going Concern**

The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

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

Based on its review, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs for a period of at least 12 months from the date of this report and conclude that it is appropriate to prepare the financial statements on a going concern basis.

### **Principal Risks and Uncertainties**

The principal risks and uncertainties to which the Group is exposed and our approach to managing those risks are unchanged from those identified on pages 24 to 28 of our 2017 Annual Report and Accounts and cover the following areas:

- reduction in the size of the legitimate tobacco market;
- optimising market share;
- cost optimisation;
- compliance with legal and regulatory requirements; and
- access to funding.

The Group's Risk Management approach enables ongoing identification and assessment of risks and development and ongoing assessment of related mitigations. For example, we have considered risks relating to the wider potential impacts arising from the result of the United Kingdom European Union membership referendum and any associated regulatory, tax or foreign exchange risks. We have also assessed the risk of cyber security which is an ever growing risk for all businesses. In this context, it is the Board's view that the principal risks and uncertainties surrounding the Group in the second half of the financial year remain those set out in the 2017 Annual Report and Accounts.

### **Statement of Directors' Responsibilities**

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely: an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and material related party transactions in the first six months of the current financial year and any material changes in the related-party transactions described in the last annual report.

A list of current directors is maintained on the Imperial Brands PLC website: [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com).

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

By order of the Board

**Alison Cooper**  
Chief Executive

**Oliver Tant**  
Chief Financial Officer

## SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Half Year Result		Change	
		2018	2017	Actual	Constant Currency
<b>Volume</b>					
Growth Markets	bn SE	<b>34.7</b>	34.5	+0.5%	
US Market	bn SE	<b>10.8</b>	11.3	-3.7%	
Returns Markets North	bn SE	<b>41.2</b>	42.4	-2.9%	
Returns Markets South	bn SE	<b>36.9</b>	38.1	-3.1%	
Returns Markets Total	bn SE	<b>78.1</b>	80.5	-3.0%	
Total Group	bn SE	<b>123.6</b>	126.3	-2.1%	
<b>Tobacco Net Revenue</b>					
Growth Markets	£m	<b>766</b>	859	-10.8%	-6.9%
US Market	£m	<b>769</b>	785	-2.0%	+7.5%
Returns Markets North	£m	<b>1,238</b>	1,301	-4.8%	-4.5%
Returns Markets South	£m	<b>758</b>	771	-1.7%	-2.5%
Returns Markets Total	£m	<b>1,996</b>	2,072	-3.7%	-3.7%
Total Group	£m	<b>3,531</b>	3,716	-5.0%	-2.1%
<b>Net Revenue per '000 SE</b>					
Growth Markets	£	<b>22.08</b>	24.89	-11.3%	-7.4%
US Market	£	<b>70.92</b>	69.74	+1.7%	+11.6%
Returns Markets North	£	<b>30.06</b>	30.67	-2.0%	-1.6%
Returns Markets South	£	<b>20.54</b>	20.25	+1.4%	+0.6%
Returns Markets Total	£	<b>25.56</b>	25.74	-0.7%	-0.8%
Total Group	£	<b>28.56</b>	29.43	-3.0%	+0.0%
<b>Price/Mix</b>					
Growth Markets	%			-11.3%	-7.4%
US Market	%			+1.7%	+11.2%
Returns Markets North	%			-1.9%	-1.6%
Returns Markets South	%			+1.4%	+0.6%
Returns Markets Total	%			-0.7%	-0.7%
Total Group	%			-2.9%	+0.0%
<b>Adjusted Tobacco Operating Profit</b>					
Growth Markets	£m	<b>119</b>	211	-43.6%	-35.5%
US Market	£m	<b>484</b>	457	+5.9%	+17.1%
Returns Markets North	£m	<b>621</b>	671	-7.5%	-6.1%
Returns Markets South	£m	<b>309</b>	328	-5.8%	-4.9%
Returns Markets Total	£m	<b>930</b>	999	-6.9%	-5.7%
Total Group	£m	<b>1,533</b>	1,667	-8.0%	-3.2%
<b>Logistics</b>					
Logistics Distribution Fees	£m	<b>483</b>	442	+9.2%	+6.5%
Logistics Operating Profit	£m	<b>99</b>	82	+20.7%	+18.3%
Logistics Operating Margin	%	<b>20.5</b>	18.6	+190 bps	



## SUMMARY OF KEY PORTFOLIO FINANCIALS & METRICS

PORTFOLIO		Half Year Result		Change	
		2018	2017	Actual	Constant Currency
<b>Growth Brand Volume</b>					
Growth Markets	bn SE	<b>23.9</b>	22.3	+7.5%	
US Market	bn SE	<b>3.0</b>	2.9	+2.5%	
Returns Markets North	bn SE	<b>26.8</b>	27.1	-1.3%	
Returns Markets South	bn SE	<b>23.8</b>	20.6	+15.6%	
Returns Markets Total	bn SE	<b>50.6</b>	47.7	+6.0%	
Total Group	bn SE	<b>77.6</b>	73.0	+6.3%	
<b>Growth Brands as % of Volume</b>					
Growth Markets	%	<b>69.0</b>	64.6	+440 bps	
US Market	%	<b>27.8</b>	26.1	+170 bps	
Returns Markets North	%	<b>65.0</b>	63.9	+110 bps	
Returns Markets South	%	<b>64.6</b>	54.2	+1,040 bps	
Returns Markets Total	%	<b>64.8</b>	59.3	+550 bps	
Total Group	%	<b>62.8</b>	57.8	+500 bps	
<b>Growth Brand Market Share</b>					
Growth Markets	%	<b>4.7</b>	3.9	+80 bps	
US Market	%	<b>2.5</b>	2.4	+10 bps	
Returns Markets North	%	<b>16.6</b>	15.7	+90 bps	
Returns Markets South	%	<b>18.3</b>	16.3	+200 bps	
Returns Markets Total	%	<b>17.3</b>	15.9	+140 bps	
Total Group	%	<b>9.0</b>	8.0	+100 bps	
<b>Growth Brand Net Revenue</b>					
Growth Markets	£m	<b>370</b>	409	-9.6%	-6.6%
US Market	£m	<b>150</b>	142	+5.4%	+15.5%
Returns Markets North	£m	<b>753</b>	753	+0.1%	-0.1%
Returns Markets South	£m	<b>459</b>	378	+21.4%	+18.2%
Returns Markets Total	£m	<b>1,212</b>	1,131	+7.2%	+6.0%
Total Group	£m	<b>1,732</b>	1,682	+3.0%	+3.7%
<b>Growth Brands as % of Net Revenue</b>					
Growth Markets	%	<b>48.3</b>	47.6	+70 bps	
US Market	%	<b>19.5</b>	18.1	+140 bps	
Returns Markets North	%	<b>60.9</b>	57.9	+300 bps	
Returns Markets South	%	<b>60.5</b>	49.0	+1,150 bps	
Returns Markets Total	%	<b>60.7</b>	54.6	+610 bps	
Total Group	%	<b>49.1</b>	45.3	+380 bps	
<b>Specialist Brand Net Revenue</b>					
Total Group	£m	<b>569</b>	561	+1.4%	+6.1%
% of Total Net Revenue	%	<b>16.1</b>	15.1	+100 bps	
<b>Growth &amp; Specialist Brands as a % of Net Revenue</b>					
		<b>65.2</b>	60.4	+480 bps	
<b>Portfolio Brands Net Revenue</b>					
Total Group	£m	<b>1,230</b>	1,473	-16.5%	-19.2%
% of Total Net Revenue	%	<b>34.8</b>	39.6	-480 bps	

## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed Imperial Brands PLC's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Results of Imperial Brands PLC for the 6 month period ended 31 March 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 31 March 2018;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Responsibilities for the interim financial statements and the review

### Our responsibilities and those of the Directors

The Interim Results, including the interim financial statements, are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Bristol  
9 May 2018

- a) The maintenance and integrity of the Imperial Brands PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The figures and financial information for six months ended 31 March 2018 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the auditors yet reported on them. The financial statements have been prepared in accordance with our accounting policies published in our financial statements available on our website [www.imperialbrandspc.com](http://www.imperialbrandspc.com).

### CONSOLIDATED INCOME STATEMENT

£ million unless otherwise indicated	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
<b>Revenue</b>	3	<b>14,278</b>	14,298	30,247
Duty and similar items		<b>(7,138)</b>	(7,035)	(14,967)
Other cost of sales		<b>(4,192)</b>	(4,173)	(8,853)
Cost of sales		<b>(11,330)</b>	(11,208)	(23,820)
<b>Gross profit</b>		<b>2,948</b>	3,090	6,427
Distribution, advertising and selling costs		<b>(1,196)</b>	(1,210)	(2,434)
Amortisation of acquired intangibles	10	<b>(526)</b>	(554)	(1,092)
Administration of UK distributor		<b>(160)</b>	-	-
Restructuring costs	4	<b>(105)</b>	(284)	(391)
Other expenses		<b>(128)</b>	(140)	(232)
Administrative and other expenses		<b>(919)</b>	(978)	(1,715)
<b>Operating profit</b>	3	<b>833</b>	902	2,278
Investment income		<b>493</b>	730	910
Finance costs		<b>(745)</b>	(845)	(1,360)
<b>Net finance costs</b>	5	<b>(252)</b>	(115)	(450)
Share of profit of investments accounted for using the equity method		<b>19</b>	17	33
<b>Profit before tax</b>		<b>600</b>	804	1,861
Tax	6	<b>(79)</b>	(114)	(414)
<b>Profit for the period</b>		<b>521</b>	690	1,447
Attributable to:				
Owners of the parent		<b>491</b>	675	1,409
Non-controlling interests		<b>30</b>	15	38
<b>Earnings per ordinary share (pence)</b>				
- Basic	8	<b>51.7</b>	70.7	147.6
- Diluted	8	<b>51.6</b>	70.6	147.2

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
<b>Profit for the period</b>	<b>521</b>	690	1,447
<b>Other comprehensive income</b>			
Exchange movements	(271)	137	(57)
Items that may be reclassified to profit and loss	(271)	137	(57)
Net actuarial gains on retirement benefits	122	155	649
Deferred tax relating to net actuarial gains on retirement benefits	(33)	(32)	(120)
Items that will not be reclassified to profit and loss	89	123	529
<b>Other comprehensive income for the period, net of tax</b>	<b>(182)</b>	260	472
<b>Total comprehensive income for the period</b>	<b>339</b>	950	1,919
Attributable to:			
Owners of the parent	315	939	1,870
Non-controlling interests	24	11	49
<b>Total comprehensive income for the period</b>	<b>339</b>	950	1,919

## RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
<b>Operating profit</b>		<b>833</b>	902	2,278
Amortisation of acquired intangibles		526	554	1,092
Administration of UK distributor		160	-	-
Restructuring costs	4	105	284	391
<b>Adjusted operating profit</b>		<b>1,624</b>	1,740	3,761

On 28 November 2017 Palmer & Harvey (P&H) announced that they had entered administration. As a result of P&H entering administration, a provision has been made of £160 million in the current year financial statements in respect of 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.

## RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
<b>Net finance costs</b>		<b>(252)</b>	(115)	(450)
Net fair value and exchange losses/(gains) on financial instruments	5	1	(169)	(112)
Post-employment benefits net financing cost	5	7	12	25
<b>Adjusted net finance costs</b>	5	<b>(244)</b>	(272)	(537)

## CONSOLIDATED BALANCE SHEET

£ million	Notes	Unaudited	Unaudited	Audited
		31 March 2018	31 March 2017	30 September 2017
<b>Non-current assets</b>				
Intangible assets	10	18,876	20,390	19,763
Property, plant and equipment		1,851	1,955	1,865
Investments accounted for using the equity method		760	793	785
Retirement benefit assets		550	11	358
Trade and other receivables		114	94	123
Derivative financial instruments	12	497	703	583
Deferred tax assets		527	557	617
		<b>23,175</b>	24,503	24,094
<b>Current assets</b>				
Inventories		3,486	3,824	3,604
Trade and other receivables		2,834	2,745	2,539
Current tax assets		80	46	69
Cash and cash equivalents	11	658	653	624
Derivative financial instruments	12	42	35	60
		<b>7,100</b>	7,303	6,896
<b>Total assets</b>		<b>30,275</b>	31,806	30,990
<b>Current liabilities</b>				
Borrowings	11	(3,388)	(2,760)	(2,353)
Derivative financial instruments	12	(34)	(59)	(42)
Trade and other payables		(8,086)	(7,563)	(8,104)
Current tax liabilities		(162)	(169)	(192)
Provisions	4	(187)	(206)	(187)
		<b>(11,857)</b>	(10,757)	(10,878)
<b>Non-current liabilities</b>				
Borrowings	11	(9,718)	(11,694)	(10,196)
Derivative financial instruments	12	(1,065)	(1,070)	(1,166)
Trade and other payables		(45)	(20)	(21)
Deferred tax liabilities		(881)	(946)	(1,091)
Retirement benefit liabilities		(1,079)	(1,271)	(1,074)
Provisions	4	(271)	(402)	(338)
		<b>(13,059)</b>	(15,403)	(13,886)
<b>Total liabilities</b>		<b>(24,916)</b>	(26,160)	(24,764)
<b>Net assets</b>		<b>5,359</b>	5,646	6,226
<b>Equity</b>				
Share capital		103	104	103
Share premium and capital redemption		5,837	5,836	5,837
Retained earnings		(1,666)	(1,745)	(1,084)
Exchange translation reserve		563	1,037	828
<b>Equity attributable to owners of the parent</b>		<b>4,837</b>	5,232	5,684
Non-controlling interests		522	414	542
<b>Total equity</b>		<b>5,359</b>	5,646	6,226

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Unaudited

£ 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
<b>At 1 October 2017</b>	<b>103</b>	<b>5,837</b>	<b>(1,084)</b>	<b>828</b>	<b>5,684</b>	<b>542</b>	<b>6,226</b>
Profit for the period	-	-	491	-	491	30	521
Other comprehensive income	-	-	89	(265)	(176)	(6)	(182)
<b>Total comprehensive income</b>	-	-	<b>580</b>	<b>(265)</b>	<b>315</b>	<b>24</b>	<b>339</b>
<b>Transactions with owners</b>							
Cash from employees on maturity/exercise of share schemes	-	-	1	-	1	-	1
Costs of employees' services compensated by share schemes	-	-	12	-	12	-	12
Cancellation of share capital	-	-	(41)	-	(41)	-	(41)
Dividends paid	-	-	(1,134)	-	(1,134)	(44)	(1,178)
<b>At 31 March 2018</b>	<b>103</b>	<b>5,837</b>	<b>(1,666)</b>	<b>563</b>	<b>4,837</b>	<b>522</b>	<b>5,359</b>
<b>At 1 October 2016</b>	104	5,836	(1,525)	896	5,311	431	5,742
Profit for the period	-	-	675	-	675	15	690
Other comprehensive income	-	-	123	141	264	(4)	260
<b>Total comprehensive income</b>	-	-	<b>798</b>	<b>141</b>	<b>939</b>	<b>11</b>	<b>950</b>
<b>Transactions with owners</b>							
Cash from employees on maturity/exercise of share schemes	-	-	5	-	5	-	5
Costs of employees' services compensated by share schemes	-	-	11	-	11	-	11
Dividends paid	-	-	(1,034)	-	(1,034)	(28)	(1,062)
<b>At 31 March 2017</b>	<b>104</b>	<b>5,836</b>	<b>(1,745)</b>	<b>1,037</b>	<b>5,232</b>	<b>414</b>	<b>5,646</b>

## CONSOLIDATED CASHFLOW STATEMENT

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
<b>Cash flows from operating activities</b>			
Operating profit	833	902	2,278
Dividends received from investments accounted for under the equity method	12	9	28
Depreciation, amortisation and impairment	617	656	1,364
Profit on disposal of assets	(1)	-	(24)
Profit on disposal of brands	(40)	-	-
Post-employment benefits	(72)	(90)	(157)
Costs of employees' services compensated by share schemes	12	11	27
Movement in provisions	(64)	134	52
Operating cash flows before movement in working capital	1,297	1,622	3,568
Decrease/(increase) in inventories	34	(293)	(76)
(Increase)/decrease in trade and other receivables	(331)	(59)	189
Increase/(decrease) in trade and other payables	97	(433)	(46)
Movement in working capital	(200)	(785)	67
Tax paid	(260)	(274)	(570)
<b>Net cash flows generated from operating activities</b>	<b>837</b>	<b>563</b>	<b>3,065</b>
<b>Cash flows from investing activities</b>			
Interest received	6	4	11
Loan to joint ventures	-	(10)	(17)
Loan to third parties	-	-	(30)
Purchase of property, plant and equipment	(120)	(77)	(191)
Proceeds from sale of property, plant and equipment	12	13	30
Proceeds from sale of brands	47	-	-
Purchase of intangible assets - software	(16)	(21)	(44)
Purchase of intangibles assets - intellectual property rights	(13)	(1)	(15)
Internally generated intellectual property rights	-	(4)	-
Purchase of businesses – net of cash acquired	(4)	-	-
Purchase of brands and operations	(64)	-	(31)
<b>Net cash used in investing activities</b>	<b>(152)</b>	<b>(96)</b>	<b>(287)</b>
<b>Cash flows from financing activities</b>			
Interest paid	(305)	(336)	(548)
Cash from employees on maturity/exercise of share schemes	1	5	12
Increase in borrowings	2,019	2,995	852
Repayment of borrowings	(1,119)	(2,612)	(2,183)
Cash flows relating to derivative financial instruments	30	(75)	(37)
Repurchase of shares	(41)	-	(119)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees)	-	-	221
Dividends paid to non-controlling interests	(44)	(28)	(49)
Dividends paid to owners of the parent	(1,134)	(1,034)	(1,528)
<b>Net cash used in financing activities</b>	<b>(593)</b>	<b>(1,085)</b>	<b>(3,379)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>92</b>	<b>(618)</b>	<b>(601)</b>
<b>Cash and cash equivalents at the start of period</b>	<b>624</b>	<b>1,274</b>	<b>1,274</b>
Effect of foreign exchange rates on cash and cash equivalents	(58)	(3)	(49)
<b>Cash and cash equivalents at the end of period</b>	<b>658</b>	<b>653</b>	<b>624</b>

## 1. ACCOUNTING POLICIES

### BASIS OF PREPARATION

The financial information comprises the unaudited results for the six months ended 31 March 2018 and 31 March 2017, together with the audited results for the year ended 30 September 2017.

The information shown for the year ended 30 September 2017 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and is an abridged version of the Group's published financial statements for that year. The Auditors' Report on those statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The financial statements for the year ended 30 September 2017 were approved by the Board of Directors on 7 November 2017 and filed with the Registrar of Companies.

This condensed set of financial statements for the six months ended 31 March 2018 has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed set of financial statements for the six months ended 31 March 2018 should be read in conjunction with the annual financial statements for the year ended 30 September 2017 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Group's principal accounting policies used in preparing this information are as stated in the financial statements for the year ended 30 September 2017, which are available on our website [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com).

### 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 were in issue but not yet effective for this current reporting period. IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' will be adopted in the financial year commencing 1 October 2018, and IFRS 16 'Leases' will be adopted in the year commencing 1 October 2019.

IFRS 9 'Financial Instruments' published in July 2014 is effective for periods beginning on or after 1 January 2018, with early adoption permitted. At the current time the assessment of this requirement is ongoing. However, based on our high level impact assessment, the adoption of this standard is not expected to materially impact the financial statements. IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018, with early adoption permitted. The assessment of the standard is ongoing but, based on our high level impact analysis, apart from an adjustment to reclassify certain distribution, advertising and selling costs arising from payments to customers as discounts from revenue, the adoption is not expected to have any material impact on the Group's net assets or results. IFRS 16 'Leases' is effective from 1 January 2019, with early adoption permitted. 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.

There are no other standards or interpretations, issued but not yet effective, that are expected to have a material effect on the Group's net assets or results.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in note 2 of the financial statements for the year ended 30 September 2017, with the exception of the impairment analysis disclosed in note 10.

Actuarial valuations for the Group's retirement benefit plans are updated annually as at 30 September. An interim update is carried out at 31 March for the main plans. As part of this interim update, the most material plan assets are revalued based on market data at the period end and the liabilities for the most significant schemes are recalculated to reflect key changes in membership data and revised actuarial assumptions.



### 3. SEGMENT INFORMATION

#### TOBACCO

£ million unless otherwise indicated	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Revenue	<b>10,685</b>	10,783	22,786
Net revenue	<b>3,531</b>	3,716	7,757
Operating profit	<b>786</b>	872	2,199
Adjusted operating profit	<b>1,533</b>	1,667	3,595
Adjusted operating margin %	<b>43.4</b>	44.9	46.3

#### LOGISTICS

£ million unless otherwise indicated	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Revenue	<b>3,954</b>	3,912	8,269
Distribution fees	<b>483</b>	442	914
Operating profit	<b>55</b>	39	94
Adjusted operating profit	<b>99</b>	82	181
Adjusted distribution margin %	<b>20.5</b>	18.6	19.8

#### REVENUE

£ million	<b>Unaudited</b>		Unaudited		Audited	
	<b>6 months ended 31 March 2018</b>		6 months ended 31 March 2017		Year ended 30 September 2017	
	<b>Total revenue</b>	<b>External revenue</b>	Total revenue	External revenue	Total Revenue	External revenue
Tobacco						
Growth Markets	<b>1,658</b>	<b>1,637</b>	1,694	1,663	3,665	3,602
USA	<b>1,411</b>	<b>1,411</b>	1,513	1,513	3,125	3,125
Returns Markets North	<b>6,388</b>	<b>6,388</b>	6,396	6,382	13,533	13,503
Returns Markets South	<b>1,228</b>	<b>888</b>	1,180	828	2,463	1,748
Total Tobacco	<b>10,685</b>	<b>10,324</b>	10,783	10,386	22,786	21,978
Logistics	<b>3,954</b>	<b>3,954</b>	3,912	3,912	8,269	8,269
Eliminations	<b>(361)</b>	<b>-</b>	(397)	-	(808)	-
Total Group	<b>14,278</b>	<b>14,278</b>	14,298	14,298	30,247	30,247

#### RECONCILIATION FROM TOBACCO REVENUE TO TOBACCO NET REVENUE

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Revenue	<b>10,685</b>	10,783	22,786
Duty and similar items	<b>(7,138)</b>	(7,035)	(14,967)
Sale of peripheral products	<b>(16)</b>	(32)	(62)
Net revenue	<b>3,531</b>	3,716	7,757

**TOBACCO NET REVENUE**

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Growth Markets	<b>766</b>	859	1,768
USA	<b>769</b>	785	1,665
Returns Markets North	<b>1,238</b>	1,301	2,755
Returns Markets South	<b>758</b>	771	1,569
Total Tobacco	<b>3,531</b>	3,716	7,757

Tobacco net revenue excludes revenue from the sale of peripheral products of £16 million (six months 2017: £32 million).

**ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX**

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Tobacco			
Growth Markets	<b>119</b>	211	411
USA	<b>484</b>	457	1,013
Returns Markets North	<b>621</b>	671	1,485
Returns Markets South	<b>309</b>	328	686
Total Tobacco	<b>1,533</b>	1,667	3,595
Logistics	<b>99</b>	82	181
Eliminations	<b>(8)</b>	(9)	(15)
Adjusted operating profit	<b>1,624</b>	1,740	3,761
Amortisation of acquired intangibles - Tobacco	<b>(482)</b>	(511)	(1,005)
Amortisation of acquired intangibles - Logistics	<b>(44)</b>	(43)	(87)
Administration of UK distributor	<b>(160)</b>	-	-
Restructuring costs - Tobacco	<b>(105)</b>	(284)	(391)
Operating profit	<b>833</b>	902	2,278
Net finance costs	<b>(252)</b>	(115)	(450)
Share of profit of investments accounted for using the equity method	<b>19</b>	17	33
Profit before tax	<b>600</b>	804	1,861

#### 4. RESTRUCTURING COSTS AND PROVISIONS

##### RESTRUCTURING COSTS

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Employment related	<b>97</b>	198	244
Asset impairments	<b>2</b>	64	79
Other charges	<b>6</b>	22	68
	<b>105</b>	284	391

Restructuring costs analysed by workstream:

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Cost optimisation programme	<b>103</b>	281	383
Acquisition integration costs	<b>1</b>	2	4
Other restructuring activities	<b>1</b>	1	4
	<b>105</b>	284	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 in 2010 to achieve a unique, non-recurring and fundamental transformation of the business. The costs of the 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 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.

The charge for the period of £105 million (six months 2017: £284 million) relates mainly to our two cost optimisation programmes (£103 million) announced in 2013 and 2016. The balance of £2 million covers historic restructuring activities across the Group.

In the six months to 31 March 2018 the cash cost of the cost optimisation programmes was £129 million (six months 2017: £107 million) bringing the cumulative cash costs of Phase I to £514 million and Phase II to £225 million.

The cost optimisation programmes Phase I and Phase II are expected to have a cash implementation cost in the region of £600 million and £750 million, respectively. Phase I is expected to generate savings of £300 million compared to 2012, by the end of 2018 and Phase II to deliver a further £300 million of savings compared to 2016, by 2020.

Restructuring costs are included within administrative and other expenses in the consolidated income statement.

## PROVISIONS

£ million	Unaudited		
	6 months ended 31 March 2018		
	Restructuring	Other	Total
At 1 October 2017	380	145	525
Additional provisions charged to the consolidated income statement	59	24	83
Amounts used	(112)	(16)	(128)
Unused amounts reversed	(1)	(15)	(16)
Exchange movements	(3)	(3)	(6)
At 31 March 2018	323	135	458

Analysed as:

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
Current	187	206	187
Non-current	271	402	338
	458	608	525

## 5. NET FINANCE COSTS AND RECONCILIATION TO ADJUSTED NET FINANCE COSTS

### RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
Reported net finance costs	252	115	450
Fair value gains on derivative financial instruments	411	670	744
Fair value losses on derivative financial instruments	(424)	(503)	(679)
Exchange gains on financing activities	12	2	47
Net fair value and exchange (losses)/gains on financial instruments	(1)	169	112
Interest income on net defined benefit assets	64	54	107
Interest cost on net defined benefit liabilities	(71)	(66)	(132)
Post-employment benefits net financing cost	(7)	(12)	(25)
Adjusted net finance costs	244	272	537
Comprising:			
Interest on bank deposits	(6)	(4)	(12)
Interest on bank loans and other loans	250	276	549
Adjusted net finance costs	244	272	537

## 6. TAX

### RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

Reported tax for the six months ended 31 March 2018 has been calculated on the basis of an estimated effective rate for the year ended 30 September 2018. 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 8.

£ million	<b>Unaudited 6 months ended 31 March 2018</b>	Unaudited 6 months ended 31 March 2017	Audited Year ended 30 September 2017
Reported tax	<b>79</b>	114	414
Deferred tax on amortisation of acquired intangibles	<b>119</b>	160	228
Tax on administration of UK distributor	<b>30</b>	-	-
Tax on net fair value and exchange movements on financial instruments	<b>12</b>	(36)	(14)
Tax on post-employment benefits net financing cost	<b>3</b>	3	7
Tax on restructuring costs	<b>30</b>	88	121
Tax on unrecognised losses	<b>(24)</b>	(31)	(105)
Deferred tax impact of US tax reforms	<b>25</b>	-	-
Adjusted tax charge	<b>274</b>	298	651

### UNCERTAIN TAX POSITIONS

On 29 March 2017 the UK notified the European Council in accordance with Article 50(2) of the Treaty on European Union of the UK's intention to withdraw from the European Union. As an international business the Group is monitoring developments but does not currently consider there are any risks that require provision.

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £246 million (six months 2017: £253 million). The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra group transfer of the shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. Based on professional advice, an amount of £42 million (six months 2017: £42 million) is included in the provision for uncertain tax positions.

On 24 November 2017, the European Commission published an opening decision that the UK's Controlled Foreign Company regime contains provisions constituting State Aid. The Group, like other UK multinationals, has complied with these provisions in its tax returns.

If the European Commission's final decision confirms its opening position, the Group's tax position may be adversely affected. At this time no final decision has been published and may in any event be challenged by the UK government. Currently the Group believes no provision is required in respect of this issue.

## 7. DIVIDENDS

### DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	<b>Unaudited</b>	Audited	Audited
	<b>2018</b>	2017	2016
Paid interim of nil 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	-
Interim dividend paid	-	1,061	967
Proposed interim of 56.87 pence per share (2017: nil, 2016: nil)			
- To be paid June 2018	<b>271</b>	-	-
- To be paid September 2018	<b>271</b>	-	-
Interim dividend proposed	<b>542</b>	-	-
Paid final of nil pence per share (2017: 59.51 pence, 2016: 54.1 pence)			
- Paid March 2017	-	-	517
- Paid March 2018	-	567	-
Final dividend	-	567	517
Total ordinary share dividends of 56.87 pence per share (2017: 170.72 pence, 2016: 155.2 pence)	<b>542</b>	1,628	1,484

The declared interim dividend for 2018 amounts to a total dividend of £542 million based on the number of shares ranking for dividend at 31 March 2018. This will be paid in two stages, one in June 2018 and one in September 2018.

The dividend paid during the half year to 31 March 2018 is £1,134 million (six months 2017: £1,034 million).

## 8. EARNINGS PER SHARE

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
Earnings: basic and diluted – attributable to owners of the Parent Company	<b>491</b>	675	1,409
Millions of shares			
Weighted average number of shares:			
Shares for basic earnings per share	<b>950.4</b>	954.3	954.6
Potentially dilutive share options	<b>1.6</b>	2.2	2.3
Shares for diluted earnings per share	<b>952.0</b>	956.5	956.9
Pence			
Basic earnings per share	<b>51.7</b>	70.7	147.6
Diluted earnings per share	<b>51.6</b>	70.6	147.2

### RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

£ million unless otherwise indicated	<b>Unaudited</b>		Unaudited		Audited	
	<b>6 months ended 31 March 2018</b>		6 months ended 31 March 2017		Year ended 30 September 2017	
	<b>Earnings per share (pence)</b>	<b>Earnings net of tax</b>	Earnings per share (pence)	Earnings net of tax	Earnings per share (pence)	Earnings net of tax
Reported basic	<b>51.7</b>	<b>491</b>	70.7	675	147.6	1,409
Amortisation of acquired intangibles	<b>42.8</b>	<b>407</b>	41.3	394	90.5	864
Administration of UK distributor	<b>13.7</b>	<b>130</b>	-	-	-	-
Net fair value and exchange gains on financial instruments	<b>(1.2)</b>	<b>(11)</b>	(13.8)	(133)	(10.3)	(98)
Post-employment benefits net financing cost	<b>0.4</b>	<b>4</b>	0.9	9	1.9	18
Restructuring costs	<b>7.9</b>	<b>75</b>	20.5	196	28.3	270
Taxation on unrecognised losses	<b>2.5</b>	<b>24</b>	3.2	31	11.0	105
Deferred tax impact of US tax reforms	<b>(2.6)</b>	<b>(25)</b>	-	-	-	-
Adjustments attributable to non-controlling interests	<b>(0.9)</b>	<b>(9)</b>	(0.9)	(9)	(2.0)	(19)
Adjusted	<b>114.3</b>	<b>1,086</b>	121.9	1,163	267.0	2,549
Adjusted diluted	<b>114.1</b>	<b>1,086</b>	121.6	1,163	266.4	2,549

## 9. ACQUISITIONS

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 a total initial cash consideration of £26.7 million (of which £9.1 million is deferred). There are also amounts payable under a forward contract to purchase additional share capital of 40% which is based on future product sales, the level of which is currently uncertain. The total forward contract payable is capped at a maximum of €200 million.

An exercise to value the net assets and apportion the consideration is ongoing and values will be updated and finalised in the year end accounts. Provisional net assets of £1.5m and provisional goodwill and intangibles of £25.2m are currently being recognised for this acquisition. The acquisition builds on Imperial's strategy of developing non-tobacco consumer experiences.

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for a total cash consideration of £106.5 million which includes contingent consideration of up to £42.6 million, plus acquisition costs.

An exercise to value the net assets and apportion the consideration is ongoing and values will be updated and finalised in the year end accounts. Provisional net assets of £5.8 million and provisional goodwill and intangibles of £80.7 million are currently being recognised for this acquisition.

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.

## 10. INTANGIBLE ASSETS

At the 2017 year end the impairment test for the Drive Growth cash generating unit (CGU) grouping that includes our markets in Russia, Italy and Japan indicated headroom of £33 million and that an impairment would result in the event of relatively small changes in an individual assumption or assumptions. During the period market performance in the Russia CGU was encouraging, with key inputs including market share and overall profitability tracking the assumptions made within our impairment model at the last year end.

Other Drive Growth CGU markets are also broadly in line with the prior year end forecasts. There have been no indications of any significant change in the inputs to the impairment valuation model which would trigger the need for a new valuation at the present time. Therefore we have concluded that the carrying value for the Drive Growth CGU grouping included in our 31 March 2018 balance sheet continues to be appropriate at the present time.



## 11. NET DEBT

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

£ million					Unaudited
	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	-	(210)	210	-	-
Cash flow	92	(900)	-	(30)	(838)
Accretion of interest	-	(6)	63	4	61
Change in fair values	-	-	-	31	31
Exchange movements	(58)	81	205	-	228
As at 31 March 2018	658	(3,388)	(9,718)	(560)	(13,008)

### 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	Unaudited	Unaudited	Audited
	6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
Reported net debt	(13,008)	(14,192)	(12,490)
Accrued interest	147	152	208
Fair value of derivatives providing commercial hedges	163	113	135
Adjusted net debt	(12,698)	(13,927)	(12,147)

The fair value of bonds is estimated to be £11,783 million (six months 2017: £13,621 million) and has been determined by reference to market prices at the balance sheet date. The carrying value of bonds is £11,047 million (six months 2017: £12,456 million). The fair value of all other borrowings is considered to be equal to their carrying amount.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments which are held at fair value, are as follows.

£ million	<b>Unaudited</b>	Unaudited	Audited
	<b>6 months ended 31 March 2018</b>	6 months ended 31 March 2017	Year ended 30 September 2017
<b>Assets</b>			
Interest rate swaps	<b>533</b>	732	630
Forward foreign currency contracts	<b>4</b>	4	12
Cross-currency swaps	<b>2</b>	2	1
Total carrying value of derivative financial assets	<b>539</b>	738	643
<b>Liabilities</b>			
Interest rate swaps	<b>(697)</b>	(846)	(767)
Forward foreign currency contracts	<b>(4)</b>	(18)	(9)
Cross-currency swaps	<b>(480)</b>	(331)	(507)
Carrying value of derivative financial liabilities before collateral	<b>(1,181)</b>	(1,195)	(1,283)
Collateral <sup>1</sup>	<b>82</b>	66	75
Total carrying value of derivative financial liabilities	<b>(1,099)</b>	(1,129)	(1,208)
Total carrying value of derivative financial instruments	<b>(560)</b>	(391)	(565)
<b>Analysed as:</b>			
Interest rate swaps	<b>(164)</b>	(114)	(137)
Forward foreign currency contracts	<b>-</b>	(14)	3
Cross-currency swaps	<b>(478)</b>	(329)	(506)
Collateral <sup>1</sup>	<b>82</b>	66	75
Total carrying value of derivative financial instruments	<b>(560)</b>	(391)	(565)

<sup>1</sup> Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex

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, and are consistent with those applied during the year ended 30 September 2017.

## OTHER INFORMATION

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### Webcast and Conference Call

Imperial Brands PLC will be hosting a live webcast for investors and investment analysts with senior management following the publication of our Interim Results on 9 May 2018. The webcast will be hosted by Alison Cooper, Chief Executive, and available on [www.imperialbrandspc.com](http://www.imperialbrandspc.com) from 9.00am (BST). An archive of the webcast and the presentation script and slides will also be available.

The webcast can also be accessed on a listen only basis using the following telephone details:

United Kingdom: +44(0)330 336 9411 or 0800 279 7204

USA: +1 323 701 0225 or 888 394 8218

Confirmation code: 7508186

A media conference call will be hosted at 7.30am, at which there will be the opportunity for questions.

Dial-in Number: +44 (0)330 336 9411

Participant code: 8092474

A replay of this call will be available for one week. To listen, please dial:

Replay number: +44 (0) 207 9660 0134

Access Code: 8092474