IMPERIAL BRANDS

ANNUAL REPORT AND ACCOUNTS **2017**

INVESTING FOR **GROWTH**

Our business is built on great brands and great people.

Our brands are recognised and enjoyed by millions of people around the world. And our people are focused on creating the great moments that bring our business to life on a daily basis.

2017 has been an important year of progress for Imperial Brands. We've stepped up investment to support growth and created further value for our shareholders.

See how we're delivering against our strategy.

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

2017 AT A GLANCE

GROWTH BRAND VOLUMES

+5.5%

159.6bn

TOBACCO NET REVENUE*

-2.6%

£7.8bn

ADJUSTED EARNINGS PER SHARE*

-2.2%

267.0p

REPORTED EARNINGS PER SHARE

+123%

147.6p

DIVIDEND PER SHARE

+10%

170.7p

* on a constant currency basis

FURTHER GOOD PROGRESS AGAINST STRATEGY

SIGNIFICANT INVESTMENT IN GROWTH AND SPECIALIST BRANDS

IMPROVING SHARE IN PRIORITY MARKETS

STRENGTHENING THE BUSINESS IN A CHALLENGING ENVIRONMENT

INCREASED INVESTMENT IMPACTED REVENUE AND PROFIT, AS EXPECTED

Turn to page 8
for our performance by KPI

PERFORMANCE MEASURES

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

"Welcome to our 2017 Annual Report and Accounts. This was a year of achievement in which we made further progress against our long-term strategy."

MARK WILLIAMSON
Chairman

We successfully delivered share gains in many of our priority markets following our decision to significantly increase investment in Growth and Specialist Brands in support of our drive for quality growth. This has strengthened the business and enhanced our long-term growth potential.

Our investments were focused on the markets that offer Imperial the best growth opportunities and were aligned with the rollout of our Market Repeatable Model, which provides a structured approach for generating growth across our geographic footprint.

Our brand investments are being part-funded by a new phase of cost optimisation, through which we continue to reduce complexity and improve our ways of working.

In Next Generation Products we continued to prioritise e-vapour. We have an exciting programme of initiatives planned for the coming year, which will substantially enhance our e-vapour position.

As well as being a period of significant operational delivery, 2017 is the ninth consecutive year that we have delivered dividend growth of 10 per cent. The Board is proposing a total dividend for the year of 170.7 pence per share and remains committed to maintaining an annual 10 per cent growth rate over the medium term.

OUR PEOPLE

Our talented people work tirelessly, often in very challenging conditions, to bring our strategy to life.

We have more than 30,000 employees and benefit enormously from the diverse nature of our global workforce. My thanks to everyone for their continued hard work and commitment.

A RESPONSIBLE BUSINESS

The responsible way we run our business is of paramount importance to the Board and fundamental to our long-term sustainability.

We are proud to have a robust Corporate Responsibility Framework that sets out the priorities for our business, our people and our stakeholders. The progress we have made against these priorities is set out on pages 29-32, with more detailed information available on our corporate website www.imperialbrandsplc.com

BOARD CHANGES

In February Senior Independent Non-Executive Director Michael Herlihy stepped down from the Board after completing nine years' service and I would like to thank him for the contribution he made to our success.

In June I was delighted to welcome Simon Langelier to the Board as an independent Non-Executive Director. Simon has tremendous international experience and is proving to be a strong addition to the business. During a 30 year career with Philip Morris International he held a number of senior commercial positions, including President of Next Generation Products & Adjacent Businesses.

The Board remains committed to ensuring that Imperial is governed in the right way at all times. Our Governance Report starts on page 33 and provides an overview of our governance framework, as well as the work of the Board and its Committees.

SUSTAINABLE SHAREHOLDER RETURNS

The investments we made in 2017 have delivered encouraging results, putting Imperial in a stronger position to deliver sustainable quality growth. Maintaining this momentum is a priority for us, as we continue to focus on driving the performance of our key tobacco brands and building our e-vapour presence.

Significant growth opportunities lie ahead for the business and I believe we are well placed to be able to capitalise on these opportunities and create further value for shareholders.

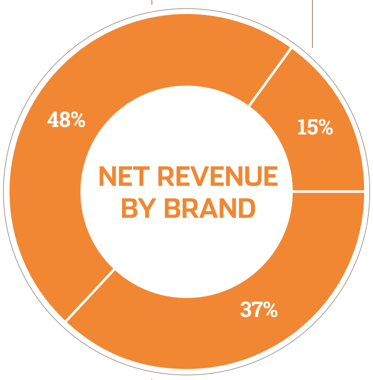
MARK WILLIAMSON
Chairman

OUR BRANDS AND MARKETS

We focus on maximising opportunities for our brands and markets by building the contribution from our Growth and Specialist Brands and strategically managing our markets to deliver either growth or returns.

GROWTH BRANDS

Growth Brands have broad consumer appeal and are managed to drive quality sustainable growth.



SPECIALIST BRANDS

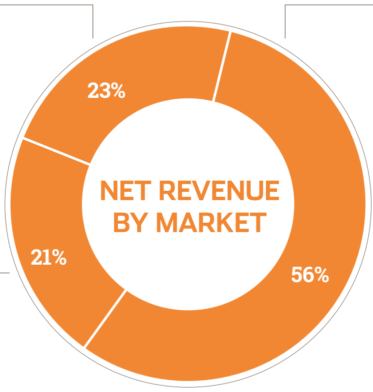
Specialist Brands appeal to specific consumer groups and have a track record of generating strong returns.

PORTFOLIO BRANDS

Some Portfolio Brands support our volume and revenue development, while others are delisted or migrated into Growth Brands.

GROWTH MARKETS

In Growth Markets we aim to deliver long-term share and profit growth.



RETURNS MARKETS

In Returns Markets we focus on sustainable profit delivery, while actively managing our large share positions.

USA MARKET

We have a significant presence in the USA and therefore manage it as a standalone Growth Market.

OUR STRATEGY AND BUSINESS MODEL

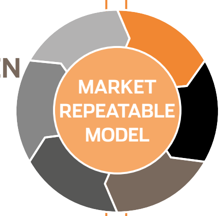
STRATEGY

Our strategy articulates how we create value for shareholders and is focused on driving performance in four key areas. We are strengthening our portfolio and developing our footprint by deploying our Market Repeatable Model, a structured 'go to market' framework for generating quality growth. Cost optimisation is about being more efficient and effective, and in focusing on cash generation and working capital management, we continue to embed capital discipline in the business. Aligning resource behind these strategic pillars enables us to make the most of growth opportunities in tobacco and consumer adjacencies, while ensuring we remain in a strong position to continue delivering sustainable returns to shareholders.

MAXIMISING SUSTAINABLE SHAREHOLDER RETURNS

QUALITY GROWTH FROM TOBACCO MAXIMISATION AND CONSUMER ADJACENCIES

STRENGTHEN PORTFOLIO



DEVELOP FOOTPRINT

DRIVE COST OPTIMISATION

EMBED CAPITAL DISCIPLINE

HOW WE SUPPORT GROWTH

STRONG GOVERNANCE

High standards of governance are critical to our success.

Turn to page 33
for more information

MANAGING RISK

We actively identify, manage and mitigate the risks facing our business.

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for more information

ACTING RESPONSIBLY

Operating responsibly is integral to the way we do business.

Turn to page 29
for more information

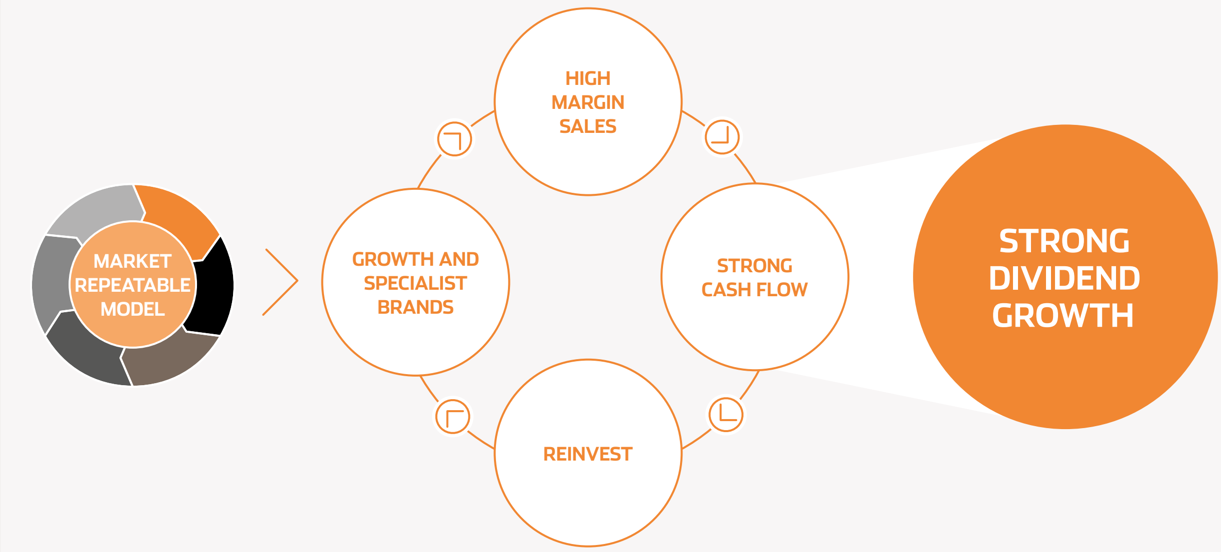
REWARDING SUCCESS

Our people are rewarded fairly and incentivised to deliver our strategy.

Turn to page 52
for more information

BUSINESS MODEL

Our business model illustrates how we create value for shareholders. Consistently applying our Market Repeatable Model to our portfolio drives the performance of our Growth and Specialist Brands. This, combined with effective cost management, delivers quality sales with high operating margins and generates the strong cash flows that are a hallmark of our business. We use this cash to reinvest to support growth, pay down debt or return to shareholders through dividends, which we are committed to growing by at least 10 per cent a year over the medium term.



MARKET REPEATABLE MODEL

As part of the review of our strategy last year we affirmed the capabilities required for delivering long-term quality growth based on our experiences, successes and learnings in key markets. These capabilities were codified into our Market Repeatable Model (MRM) to create a simple, effective and consistent operating framework, building on the Sales Growth Drivers we had been using in the business for many years. All six elements of the MRM are applied together in markets to deliver quality growth across our brand and product portfolio, both in tobacco and related consumer adjacencies such as e-vapour. Find out more over the page.

MARKET REPEATABLE MODEL

Our Market Repeatable Model has become an integral component of our strategy, strengthening our ability to maximise the performance of our brands and markets. All six elements of the model are holistically applied to deliver quality market share growth.

SIMPLE MARKET FOCUSED PORTFOLIO

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

SUSTAINABLE BRAND INVESTMENTS

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

ALWAYS ON PRICE STRATEGY

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

CORE RANGE EVERYWHERE, ALL THE TIME

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

TAILOR CUSTOMER SOLUTIONS

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

HONEST ACCURATE LEARNING

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

HOW WE MEASURE OUR PERFORMANCE

We use key performance indicators and the supporting metrics in the Operating Review to measure the progress we make in delivering our strategy. These measures reflect our priorities and are used to monitor and drive business performance.

RETURN ON INVESTED CAPITAL (%)

PERFORMANCE
Return on invested capital increased to 14.3 per cent, underlining our continued focus on capital discipline.

DEFINITION
Return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted net operating profit after tax by invested capital. Invested capital is reported equity adding back amortisation of intangibles and adjusting back to foreign exchange rates at the time of relevant acquisitions.

ADJUSTED EARNINGS PER SHARE[1] (PENCE)

PERFORMANCE
Adjusted earnings per share rose by 7 per cent but declined by 2.2 per cent on a constant currency basis.

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

MAXIMISING SHAREHOLDER RETURNS

STRENGTHEN PORTFOLIO

GROWTH BRAND VOLUMES[1] (BN)

PERFORMANCE
We continued to focus on driving the performance of our Growth Brands, increasing volumes by 5.5 per cent and market share by 80 basis points.

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

DEVELOP FOOTPRINT

TOBACCO NET REVENUE[1] (£BN)

PERFORMANCE
Tobacco net revenue declined 2.6 per cent on a constant currency basis and increased 8.2 per cent at actual rates. Sixty-three per cent of tobacco net revenue is now generated by our Growth and Specialist Brands, up on last year, reflecting our focus on quality growth.

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

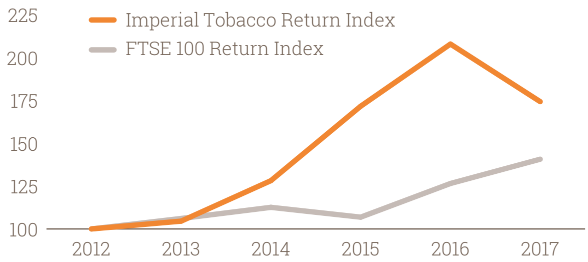
1. KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 52 for more information.

DIVIDEND PER SHARE (PENCE)

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

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

TOTAL SHAREHOLDER RETURN[1]



PERFORMANCE
Over a five year period we have outperformed the FTSE 100 but underperformed by 27 per cent in 2017. With dividends reinvested, £100 invested in Imperial Brands in 2012 would now be worth £174 compared with £155 if invested in the FTSE 100 Index.

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

MAXIMISING SHAREHOLDER RETURNS

COST OPTIMISATION

TOBACCO OPERATING MARGIN (%)

PERFORMANCE
Our focus on cost optimisation has resulted in consistently strong tobacco operating margins.

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

CAPITAL DISCIPLINE

CASH CONVERSION RATE[1] (%)

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

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

OUR OPERATING ENVIRONMENT

Although tobacco volumes continue to decline year-on-year the value of the world tobacco market remains significant at around US$770 billion, with around a billion adult smokers consuming more than five trillion cigarettes a year.

OUR GEOGRAPHIC FOOTPRINT

Our operations extend across a broad spread of markets, providing us with a balanced geographic footprint that supports our drive to deliver quality growth and sustainable shareholder returns.

The macro-economic environment continues to impact consumer spending in some territories and political instability, including Brexit, creates further uncertainty.

We are experienced at developing our business in challenging conditions and continue to focus on realising quality growth opportunities to create further value for shareholders.

REGULATING TOBACCO

The tobacco industry is one of the most highly regulated in the world.

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

During the year the FDA said it would begin public dialogue about lowering nicotine levels in cigarettes as a way of transitioning smokers to 'alternative and less harmful' sources of nicotine and we look forward to taking part in this dialogue.

We encourage regulators to draw on our expertise when they are considering regulation and oppose attempts to exclude tobacco companies from the ongoing debates about our industry and our products.

We support reasonable regulation, especially when it aims to reduce illicit trade and prevent children smoking. We also support appropriate ingredients disclosure and ensure that our products display written health warnings.

We oppose disproportionate regulation, such as legislation that seeks to ban smoking in public or private places, plain packaging, pictorial health warnings and bans on the display of tobacco products in retail outlets.

We market and sell our products responsibly and adhere to regulation at all times, wherever we do business. Our International Marketing Standard (IMS) sets out clear rules and principles to ensure our advertising and marketing is only ever aimed at adult smokers across the world. The IMS applies to all our employees, as well as the agencies who work with us, and is published in full on our corporate website www.imperialbrandsplc.com

ILLICIT TRADE

Every year around 500 billion illegal cigarettes are consumed, depriving governments of around £30 billion in taxes.

The smuggling and counterfeiting of tobacco has considerably wider impacts: children can more easily obtain cigarettes, consumers are deprived of the quality they associate with their favourite brands and the livelihoods of independent retailers are threatened.

We apply stringent controls to our distributors and have a dedicated team of specialists leading our anti-illicit trade initiatives.

We invest in systems with law enforcement agencies to improve the security and traceability of our products and share intelligence to help disrupt the supply of illegal cigarettes.

We also talk to governments to highlight the scale of the problem and encourage them to recognise how high tobacco taxes and extreme regulation can fuel the growth of illicit trade.

NEXT GENERATION PRODUCTS

Next Generation Products (NGP) provide smokers with alternatives to combustible tobacco and are broadly divided into two categories: e-vapour products and heated tobacco products.

E-vapour is by far the largest and most developed opportunity within NGP. It is estimated that sales of e-vapour products (EVPs) are currently worth around $4 billion a year and could be worth more than $30 billion by 2020.

E-cigarettes are the most common EVPs and we are represented in this category by blu, which has strong positions in the USA and UK – the world's two largest e-vapour markets – and is managed by our subsidiary Fontem Ventures.

Fontem Ventures has its own stringent marketing standards and ensures that all marketing activity is aimed solely at adult smokers who are seeking an alternative to tobacco. EVPs are not for children and Fontem actively supports bans on the sale of EVPs to anyone under the age of 18.

A growing number of regulators and public health bodies have concluded that EVPs are safer than cigarettes and therefore have a role to play in reducing tobacco-related disease.

The regulation of EVPs is evolving and we continue to engage with stakeholders to support the development of effective legislation.

Heated tobacco is a considerably smaller category but one that is growing, most notably in Japan. We do not currently sell these products but continue to monitor their development. This includes planning for the potential launch of our own heated tobacco products, should the category start showing broader signs of significant and sustainable growth.

Unlike EVPs, heated tobacco products contain tobacco and in our view should therefore be regulated and taxed as conventional tobacco products.

INVESTING FOR GROWTH

CREATING VALUE FOR SHAREHOLDERS

"This was an important year of progress in which we improved our share position in a number of priority markets. We invested significantly behind our Growth and Specialist Brands to deliver these results, creating a stronger platform for generating further quality growth in the years ahead."

ALISON COOPER
Chief Executive

Last year the Board and my senior leadership team conducted a review of our strategy to refine our priorities for growth over the next decade in tobacco and consumer adjacencies, including e-vapour.

A key element of our strategy is the simplification of our brand portfolio. By reducing the number of brands and stock keeping units, and prioritising our strongest equities, our Growth and Specialist Brands, we have created a more powerful portfolio that is delivering a higher quality of growth.

We increased investment in these brands by £310 million in the year, focusing spend in a number of areas including portfolio simplification, advertising and marketing, consistent pricing, our sales force and customer engagement. This higher level of support, aligned with the roll-out of our Market Repeatable Model, delivered market share gains in many of our priority markets and improved share trajectories in others. Growth Brands performed well, outperforming the market with volume growth and a share gain of 80 basis points. We also continued to make good progress in e-vapour, further building our capabilities and consumer insights in preparation for an enhanced programme of activity in 2018.

The increased investment in our brands impacted full year revenue and profit, while supporting a stronger second half revenue and share performance in a tough industry environment. It has also strengthened the business to support improved top-line growth over the medium term.

The drive and commitment of our people have been integral to the delivery of these results and I would like to thank everyone for their hard work and continued support.

MARKET REPEATABLE MODEL: OUR FOCUS FOR GROWTH

Our investments were aligned behind our Market Repeatable Model. This model builds on the success of the Sales Growth Drivers we have been using in the business for many years and provides a structured framework for quality growth that is being deployed across our markets.

The six elements of the model ensure that wherever we operate we always have: a simple market-focused portfolio, sustained brand investments, a consistent price strategy, a focus on maximising the availability of our core range, tailored customer solutions and honest and accurate learning mechanisms. How each section is applied in our markets is explained on page 7.

Our investments supported all six elements of the model, strengthening our ability to maximise the performance of our brands in market.

STRENGTHENING OUR PORTFOLIO: EXCELLENT RESULTS FROM GROWTH BRANDS

Streamlining our portfolio has not only improved our quality of growth, it has also substantially cut the level of complexity and cost in the business.

The core principle behind the reshaping of our portfolio has been to reduce the number of weaker Portfolio Brands through migrations and delistings, while driving the performance of our Growth and Specialist Brands.

As a result we have consistently increased the contribution that Growth and Specialist Brands make to our success and in doing so, we have steadily improved our quality of growth. These brands now deliver around 63 per cent of the Group's tobacco net revenue and our target is for them to eventually account for 75 per cent.

During the year we migrated multiple Portfolio Brands into Growth Brands in a variety of markets. We also began rolling out a more radical portfolio simplification exercise to reduce complexity and improve on-shelf availability of our brands in Russia, France, Germany, Italy, Spain and Australia, with other markets to follow.

Our Growth Brands delivered good results, with the performance of JPS, West, Winston, Davidoff and Gauloises Blondes benefiting from higher investment in a range of priority markets, including the UK, Germany, Italy, Japan, Australia and the USA.

This was complemented by strong revenue growth from a number of our Specialist Brands, including Skruf in Scandinavia, Backwoods in the USA and Premium Cigars in a number of markets.

NEXT GENERATION PRODUCTS: EXPANDING OUR POSITION

Next Generation Products (NGP) offer considerable growth opportunities and we will be significantly stepping up our level of activity in 2018, expanding our portfolio with new product launches in new and existing markets. This is building on the strong foundations and capabilities we have established over recent years.

E-vapour remains our priority; in our view this is by far the largest NGP opportunity and we believe it offers the greatest current potential for long-term sustainable growth.

In blu, we have one of the best e-vapour brands in the world and we continue to focus on improving the consumer experience. Vaping technology is continually evolving and in October 2017 we substantially enhanced our technical capabilities with the acquisition of the e-vapour innovation business Nerudia.

During the year we also continued to secure intellectual property royalties from companies using our first generation technology.

Heated tobacco is currently a much smaller NGP category that is growing, most notably in Japan. While our investments will continue to be focused on supporting e-vapour we have developed options in heated tobacco which can be deployed if we see broad-based sustainable growth developing and we will begin consumer trials of our own heated tobacco products in December 2017.

IMPERIAL BRANDS AND CHINA TOBACCO

In January we announced a long-term joint venture business with China Tobacco, aimed at developing growth opportunities in China and international markets.

China is the world's largest tobacco market, with annual volumes close to 2.5 trillion cigarettes.

The joint venture, Global Horizon Ventures Limited (GHVL), is based in Hong Kong and is focused on:

- leveraging the expertise of China's largest tobacco company, Yunnan Tobacco, to drive the sustainable development of our Growth Brands West and Davidoff in China
- maximising the potential of two Yunnan Tobacco cigarette brands, Jadé and Horizon, in markets outside of China

An early focus for GHVL was the migration of Style to Jadé. This was successfully completed and Jadé is now one of our Specialist Brands.

We have been very encouraged by the performance of GHVL in the first nine months of operation and believe that over the coming years, the joint venture has the potential to deliver additional meaningful Growth Brand volumes.

As well as driving the performance of the four cigarette brands, GHVL will also be evaluating other tobacco and Next Generation Product launches, along with potential merger and acquisition opportunities.

The joint venture builds on a track record of co-operation between Imperial and Yunnan Tobacco, which began in 2003.

DEVELOPING OUR FOOTPRINT: DRIVING SUCCESS IN PRIORITY MARKETS

We delivered a number of good performances in priority markets across our geographic footprint.

Our successes in Growth Markets included strong share gains in Japan, Saudi Arabia, Italy and Russia. In China, the world's largest tobacco market, we have been very encouraged by the performance of our new joint venture with China Tobacco.

ITG Brands delivered another strong performance in the USA, underpinned by 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 well following last year's changes to our route to market.

In Returns Markets we achieved share increases in three of our most important markets, the UK, Germany and Australia, complemented by additional share gains in other markets including Poland and Portugal. We also delivered improved share trends in France and Spain.

COST OPTIMISATION AND CAPITAL DISCIPLINE: NINTH YEAR OF 10 PER CENT DIVIDEND GROWTH

Effective cost and cash management supports our strategy by improving efficiencies and releasing funds to fuel growth.

We made good progress with our two cost optimisation programmes. The first programme will deliver annual savings of £300 million from the end of the 2018 financial year. The second programme will deliver a further £300 million of savings from the September 2020 financial year.

In 2017 we realised total savings of £130 million through a range of initiatives that are reducing complexity and enhancing the way we operate.

Strong cash flow is a hallmark of our business and we use this cash to reward our shareholders, invest in the business and pay down debt.

Cash conversion remained strong at 91 per cent and we grew the dividend per share by 10 per cent for the ninth consecutive year.

In September we sold 13,275,000 shares in our European distribution business Logista, reducing our stake by 10 per cent to approximately 60 per cent of Logista's issued share capital. The sale raised around £220 million, which has been used to buy back shares in Imperial Brands and reduce net debt.

OUTLOOK: PRIORITISING VALUE CREATION OPPORTUNITIES

The execution of our strategy has resulted in a stronger and more focused portfolio and footprint, which we have invested behind to deliver improving share performances in priority markets. Central to this has been the embedding of our codified Market Repeatable Model, which provides a structured approach for generating sustainable quality growth.

We will build on this momentum in the coming year and will continue to take necessary actions to protect our investments and deliver quality revenue growth in tobacco.

We will also be further enhancing our presence in Next Generation Products. We have added to our innovation capabilities and will be launching new e-vapour products in new and existing markets, as we look to realise the significant growth opportunities that e-vapour offers.

As always, our focus on driving the performance of our brands and products will be supported by our diligent approach to cost, capital discipline and cash management.

In the context of a volatile industry environment and our continued commitment to investing behind our tobacco and next generation products businesses, we are targeting delivery of constant currency revenue and earnings per share growth within our medium-term guidance.

We have the strategy and people to succeed in a challenging and changing world and will continue to prioritise opportunities that sustainably create value for our shareholders.

ALISON COOPER
Chief Executive

WHY INVEST IN IMPERIAL BRANDS?

Imperial Brands offers a clear proposition to investors, built around four key benefits: the attractiveness of our brand portfolio and geographic footprint, simplification and cost efficiencies, strong cash conversion and annual 10 per cent dividend growth.

INVESTING FOR QUALITY GROWTH; BRANDS, PRODUCTS AND MARKETS WITH LONG-TERM PROFIT POTENTIAL

INVESTING FOR QUALITY GROWTH

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

Our strategy is to strengthen our tobacco and non-tobacco portfolio by generating an increasing proportion of revenue from our strongest brands, while also prioritising our investment in those markets and products that offer the best returns.

Over many years we have had a proven track record of achieving strong price/mix growth to offset industry volume declines and enhance profitability. We are also investing in non-tobacco products and experiences through our subsidiary, Fontem Ventures, to deliver future growth opportunities alongside our tobacco business.

VALUE CREATION SUPPORTED BY SIMPLIFICATION AND COST EFFICIENCIES

SIMPLIFICATION AND COST EFFICIENCIES CREATE VALUE

Our strategic agenda means we are changing the way we operate to strengthen the business and improve our quality of growth.

Simplification and focus are at the heart of our new ways of working, as we reduce complexity and instil a more cost-conscious culture. We are also adopting lean principles through continuous improvement in everything we do.

This provides opportunities to reduce costs, improve effectiveness and create a more agile organisation that can drive consistent returns for shareholders in an ever changing world.

91% CASH CONVERSION

STRONG CASH GENERATION

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

Over recent years we have improved our cash conversion by reducing our working capital and prioritising our investments more effectively. Our current focus for our cash resources are: investment in our priority brands and markets, supporting double digit dividend growth for shareholders and reducing our net debt.

10% DIVIDEND GROWTH PA OVER MEDIUM TERM

ANNUAL 10% DIVIDEND GROWTH OVER MEDIUM TERM

A core part of our investment proposition is our commitment to grow the dividend by at least 10 per cent per annum over the medium term. This is a commitment we have now achieved for nine consecutive years.

Our ability to improve profitability and generate strong cash flows will enable us to continue to deliver this income growth to our shareholders.

OPERATING REVIEW

We are focused on delivering quality growth with the right brands in the right markets. Our increased investment aligned to our Market Repeatable Model is driving market share gains while our Growth Brands continue to outperform strongly.

BRAND PERFORMANCES

We achieved another strong performance with our Growth and Specialist Brands. These are the most important assets in our portfolio and together they now account for 62.7 per cent of our tobacco net revenue, up 260 basis points on last year. We have substantially increased our investment behind these brands, improving their growth momentum and supporting the success of our migration and stock keeping unit simplification programmes.

Total Group tobacco volumes were 265.2 billion stick equivalents (2016: 276.5 billion), with volumes down by 4.1 per cent outperforming industry volume declines of 4.4 per cent. We have achieved a strong momentum in second half volumes, down 2.6 per cent against industry volumes down 4.5 per cent, as our investment behind the Market Repeatable Model gained traction in a tough trading environment. Against this backdrop our Growth Brands increased volume by 5.5 per cent and market share by 80 basis points as we continue to migrate consumers from local, low priority brands. Excluding the benefit of brand migrations, Growth Brands grew volumes by 1.1 per cent. Our priority continues to be driving growth from our strongest brands supported by prioritised investment and portfolio simplification.

GROWTH BRANDS

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Market share	%	**8.5**	7.7	+80 bps	
Net revenue	£m	**3,690**	3,265	+13.0%	+1.2%
Percentage of Group volumes	%	**60.2**	54.7	+550 bps	
Percentage of tobacco net revenue	%	**47.6**	45.6	+200 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 amount of our volume and revenue.

Growth Brands outperformed the market in the period. Net revenue grew 13.0 per cent on a reported basis, although additional targeted price investment coupled with a weaker pricing environment resulted in growth of 1.2 per cent at constant currency. Growth Brand investment was also prioritised behind equity building campaigns, additional consumer activations and new formats such as queen size and crushball to meet changing consumer demands. This investment supported a stronger second half with volumes up 7.6 per cent and net revenue up 5.5 per cent.

Growth Brands now account for 60.2 per cent of total Group tobacco volumes, an increase of 550 basis points, and 47.6 per cent of overall tobacco net revenue, an increase of 200 basis points.

Brand Chassis	Highlights
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. Investments in JPS in Italy have increased share especially in soft pack variants. The launch of the Blue Stream variant has added to our share in Germany where we have also launched a new advertising campaign, 'Big Idea'.
West *(West, L&B, News and Bastos)*	West has grown volumes and share driven by Saudi Arabia and Japan, and by the migration of Stolichnye in Ukraine. L&B Blue crushball performed well with increasing market share in the UK. News is making excellent progress in France with both volume and share growth and is now the number two brand in the market.
Winston	Winston made further share gains supported by increased investment through our buydown programme coupled with a new pack design, digital marketing initiatives and an improved retailer presence, supported by our retailer programmes.
Davidoff	Investments in brand equity and activation have supported further share growth in Greece. Davidoff share is stabilising in the sharply declining premium segment in Saudi Arabia, supported by increased distribution. The launch of Davidoff Ice, a menthol Crushball variant, has boosted sales in our duty free business. Share declined in Taiwan due to pressure on the premium segment.
Gauloises	Increased investment in Germany behind the successful 'Vive le Moment' campaign supported the brand in the second half of the year, alongside the launch of Gauloises L'Autre. We also gained share in Morocco.

SPECIALIST BRANDS

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**1,172**	1,042	+12.5%	+2.2%
Percentage of tobacco net revenue	%	**15.1**	14.5	+60 bps	

Specialist Brands appeal to specific consumer groups and include: blu (e-vapour), Gitanes, Kool (cigarettes), Golden Virginia, Drum, Route 66 (fine cut tobacco), Cohiba, Montecristo, Romeo Y Julieta (premium cigars), Backwoods (cigars), Skruf (snus) and Rizla (papers). Our Specialist Brand Style was migrated to Jadé as part of our new Chinese joint venture. Jadé has replaced Style as a Specialist Brand and we are focused on building its international scale outside of China.

We continued to make good progress with these brands with revenue growth in Backwoods, Skruf in Scandinavia, 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 and these three brands now represent more than half of our Premium Cigar revenues.

We have invested in our e-vapour brand blu to create an exciting pipeline of new product formats which are scheduled for launch in the new financial year in new and existing markets.

Net revenue grew 2.2 per cent and Specialist Brands now represent a greater proportion of the business at 15.1 per cent of net revenue, up 60 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.

Portfolio Brand volumes fell 18.0 per cent with over a third of this decline driven by further migrations to Growth Brands and the rest by delistings and other volume declines. Net revenue declined by 8.6 per cent at constant currencies, with price mix gains of 9.3 per cent, as we further optimised 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

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**1,768**	1,568	+12.8%	-0.2%
Adjusted operating profit	£m	**411**	443	-7.2%	-17.2%
Growth Brand % of net revenue	%	**49.1**	47.2	+190 bps	
Growth Brand volume	bn SE	**49.9**	46.0	+8.5%	
Growth Brand market share	%	**4.3**	3.7	+60 bps	

Targeted investment in Growth Brands aligned with the implementation of our Market Repeatable Model has enabled us to deliver improved share trends in our priority Growth Markets.

We have strengthened our quality of growth through further migrations and more focused investment in Growth Brands. Growth Brand volumes grew 8.5 per cent and we increased revenues as a proportion of our total by 190 basis points. Growth Brand share gained 60 basis points.

Net revenue grew strongly at 12.8 per cent at actual rates, due to the benefit of currency translation. At constant currency, net revenue was marginally lower by 0.2 per cent as a result of a tough industry environment.

Our focus on Growth Brands, supported by additional investment, has driven improved share performances in Russia, Saudi Arabia, Italy and Japan. Adjusted operating profit fell 17.2 per cent at constant currency, materially driven by the increased investment as well as a difficult trading environment in Russia.

In January, we announced a new joint venture with a subsidiary of China Tobacco which is developing growth opportunities in China and international markets. The partnership will promote Davidoff and West in China and Horizon and Jadé in other markets outside China. The joint venture has made an excellent start, creating an exciting growth opportunity in the world's largest tobacco market.

Country	Performance
Russia	We grew market share in a challenging trading environment with strong growth in Parker & Simpson especially in the queen size format supported by increased investment in distribution. This was partly offset by a decline in Maxim share due to increased competition in the low price segment.
Saudi Arabia	We delivered further share growth driven by West, although the introduction of a new selective tax, effectively doubling retail sale prices, is affecting the premium segment and therefore Davidoff's market share.
Italy	We increased our share in Italy, achieving a record high, driven by a continued strong performance from JPS supported by Davidoff.
Greece	We delivered record share growth in Davidoff, maintaining the brand's growth momentum, while we also grew Golden Virginia's share in fine cut tobacco.
Sweden and Norway	We delivered increased revenue in Sweden and Norway. We maintained our Norwegian snus share, while delivering further share gains in Sweden.
Japan	Our investment in expanding our presence in the value segment with West is continuing to deliver volume and share growth.
Taiwan	We achieved strong share growth in Parker & Simpson although this was offset by share declines in Davidoff, reflecting pressure on the premium segment.

USA MARKET

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**1,665**	1,477	+12.7%	+0.3%
Adjusted operating profit	£m	**1,013**	823	+23.1%	+10.1%
Asset Brand % of net revenue	%	**44.5**	41.8	+270 bps	
Asset Brand volume	bn SE	**11.1**	10.9	+1.8%	
Growth Brand market share	%	**2.5**	2.3	+20 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 grew net revenue 0.3% reflecting increased pricing, despite additional investment in our buydown programmes. Net revenue was much stronger in the second half reflecting the timing of Master Settlement Agreement adjustments and the lapping of the start of buydowns in the prior period.

The percentage of tobacco net revenue generated by Asset Brands increased to 44.5 per cent. Winston and Kool benefited from our successful US retail programme which now encompasses 172,000 stores nationwide, as well as a new pack design and direct mail and digital marketing initiatives. We continued to focus investment behind Winston, through buydowns across more territories. We also invested in a new 'Bold Choice' campaign for the brand, as well as the relaunch of a Gold Select blend. These initiatives supported a 20 basis point gain in Winston share. Kool also gained 10 basis points in the fast growing menthol segment. Overall share declined 30 basis points, as these Winston and Kool gains were offset by declines in our defocused Portfolio Brands.

We are pleased with another strong performance from our mass market cigar business, which includes the Backwoods, Dutch Masters and Phillies brands. Our investment behind new customer activation and engagement programmes, as well as the benefits from restructuring our route to market last year, has delivered excellent results, including further share gains.

Adjusted operating profit grew 10.1 per cent at constant currency, despite a significant net increase in brand and market-focused investment, which has been more than offset by further efficiencies and the benefit of a one-off gain of £18m arising from changes to post retirement benefits.

RETURNS MARKETS

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**4,324**	4,122	+4.9%	-4.5%
Net revenue per '000 SE	£	**25.88**	23.51	+10.1%	+0.2%
Adjusted operating profit	£m	**2,171**	2,094	+3.7%	-4.2%
Growth Brand % of net revenue	%	**58.0**	54.6	+340 bps	
Growth Brand market share	%	**16.7**	15.5	+120 bps	

In our Returns Markets, we increased investment behind our Growth Brands and in our priority markets aligned with the implementation of our Market Repeatable Model.

As a result, we achieved share gains in many of these priority markets despite a more challenging trading environment. We grew share in the UK, Australia, Germany and Poland, and although share was down in France and Spain, we have achieved better share trajectories in blond tobacco in both markets. These strong performances were offset by some share pressure in other non-priority investment markets such as Ukraine and Belgium.

Net revenue was down at constant currency reflecting the higher investment, a tougher trading environment and the impact of EUTPD II regulations on volume in some European markets. Positive currency translation supported gains at actual exchange rates. Our investment activities also supported a stronger second half momentum in volumes, revenue and profit.

We grew net revenue per thousand stick equivalents by 0.2 per cent and further improved the quality of our portfolio with Growth Brands now generating 58.0 per cent of tobacco net revenue, an increase of 340 basis points. Growth Brand volumes increased 4.5 per cent while industry volumes declined 3.0 per cent. Growth Brand share increased 120 basis points, supported by migrations and strong organic brand performances.

Adjusted operating profit was down 4.2 per cent at constant currency, reflecting the increased investment and the conclusion of the distribution contract for Philip Morris International in the UK and Morocco. Second half operating profit improved with the benefit of additional cost initiatives, including a pension scheme restructuring, which has helped mitigate a tough trading environment and protect our investment initiatives.

RETURNS MARKETS NORTH

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**2,755**	2,645	+4.2%	-4.2%
Net revenue per '000 SE	£	**30.69**	28.01	+9.6%	+0.7%
Adjusted operating profit	£m	**1,485**	1,439	+3.2%	-3.3%
Growth Brand % of net revenue	%	**60.2**	57.2	+300 bps	
Growth Brand market share	%	**16.6**	15.0	+160 bps	

Country	Performance
UK	Our consistent pricing strategy together with investment in activation and distribution supported share growth. Our fine cut share continues to grow with strong performances from Gold Leaf and Players. Cigarette share increased due to the success of Players.
Germany	We grew share supported by our investment behind distribution, brand equity building and activations. Fairwind and West grew in fine cut tobacco while JPS supported growth in cigarette share.
Benelux	We grew share in the Netherlands with JPS and Gauloises through the launch of larger formats supported by consumer activation.
Australia	We delivered another year of strong growth in share, revenue and operating profit supported by our focus on JPS.
Ukraine	Increased prices have supported revenue and profit growth despite the market size deterioration. West has grown share following the migration of Stolichnye and with the successful launch of larger formats.
Poland	We increased our market share in Poland led by Parker & Simpson fine cut tobacco performance, supported by sustained portfolio optimisation and wider distribution.

RETURNS MARKETS SOUTH

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**1,569**	1,477	+6.2%	-5.1%
Net revenue per '000 SE	£	**20.29**	18.27	+11.1%	-0.7%
Adjusted operating profit	£m	**686**	655	+4.7%	-6.0%
Growth Brand % of net revenue	%	**54.2**	50.0	+420 bps	
Growth Brand market share	%	**16.9**	16.2	+70 bps	

Country	Performance
Spain	Increased investment in Fortuna and West has supported an improving share trajectory in blond cigarettes in recent months, although overall year-on-year share is down due to fine cut tobacco and dark tobacco declines.
France	We delivered a strong performance in our News brand, benefiting from investment in trade programmes, while the environment remains challenging due to a number of tax and regulatory changes. Our blond tobacco portfolio held share in the year.
Algeria	Disruption to local third party production affected net revenue and operating profit. Our share declined following a strong performance last year due to increased competitive pressure.
Morocco	We achieved an improved share trajectory supported by our recently launched Maghreb brand and a continued good performance from Marquise.

"Our focus this year has been to drive improved market share in our priority markets while building the foundations for improved medium-term revenue growth. Our relentless focus on cost efficiencies and capital discipline has provided the resources to invest in this growth agenda, generate returns for shareholders and pay down debt."

OLIVER TANT
Chief Financial Officer

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

SUPPORTING OUR SALES GROWTH AGENDA

This year has been defined by the significant £310 million investment we have put behind our Growth and Specialist Brands to drive better market share trajectories and improve revenue momentum. This increased investment, together with a tough trading environment, has impacted our revenue and profit delivery this year. The investment has strengthened our share position in most of our priority markets and enhanced our ability to deliver an improved top-line over the medium term.

Our financial discipline has led to strong improvements in our margin and cash generation in recent years, laying the foundations to fund this step-up in investment. We will continue to take action to protect and sustain these investments and in our plans for 2018 we will invest in excess of £300 million in Next Generation Products.

Our focus on core assets, cost efficiencies and cash generation is providing resources to reinvest to support growth and continue to generate returns for shareholders. We delivered our ninth consecutive year of 10 per cent dividend growth and further reduced adjusted debt by £0.8 billion.

IMPROVING SECOND HALF

Our investment strategy has resulted in an improved performance in the second half. Our volumes declined 4.1 per cent, outperforming the industry volume declines of 4.4 per cent; while our second half volumes declined only 2.6 per cent against industry volumes down 4.5 per cent. Market size declines were affected by new regulations, including EUTPD II, and increased excise in certain markets.

We achieved an improving price/mix during the year with second half price/mix of 2.6 per cent to deliver a 1.5 per cent improvement for the year. Tobacco net revenue was down 2.6 per cent at constant currency for the year reflecting our decision to invest behind our portfolio but reported an improved second half performance up 0.1 per cent on the previous year. We improved the quality of our revenue with the proportion of Group net revenue from our Growth and Specialist Brands increasing to now represent 62.7 per cent.

Tobacco adjusted operating profit decreased 2.4 per cent at constant currency reflecting our increased investment to improve sales growth and the impact of the tough trading environment. We mitigated these through increased cost control initiatives, including our cost optimisation programme and other non-operating income of £114 million. This includes £81 million from pension restructuring and £18 million curtailment gain from US post-retirement benefits.

GROUP RESULTS – CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Year ended 30 September 2016	Foreign exchange	Constant currency movement	Year ended 30 September 2017	Change	Constant currency change
Tobacco Net Revenue						
Growth Markets	1,568	203	(3)	1,768	+12.8%	-0.2%
USA Market	1,477	184	4	1,665	+12.7%	+0.3%
Returns Markets North	2,645	222	(112)	2,755	+4.2%	4.2%
Returns Markets South	1,477	167	(75)	1,569	+6.2%	5.1%
Total Group	7,167	776	(186)	7,757	+8.2%	-2.6%
Tobacco Adjusted Operating Profit						
Growth Markets	443	44	(76)	411	-7.2%	-17.2%
USA Market	823	107	83	1,013	+23.1%	+10.1%
Returns Markets North	1,439	94	(48)	1,485	+3.2%	3.3%
Returns Markets South	655	70	(39)	686	+4.7%	6.0%
Total Group	3,360	315	(80)	3,595	+7.0%	-2.4%
Logistics						
Logistics distribution fees	809	95	10	914	+13.0%	+1.2%
Logistics adjusted operating profit	176	19	(14)	181	+2.8%	-8.0%
Group Adjusted Results						
Adjusted operating profit	3,541	332	(112)	3,761	+6.2%	-3.2%
Adjusted net finance costs	(524)	(57)	44	(537)	+2.5%	-8.4%
Adjusted EPS (pence)	249.6	22.9	(5.5)	267.0	+7.0%	-2.2%

GROUP EARNINGS PERFORMANCE

	Adjusted		Reported	
£ million unless otherwise indicated	2017	2016	2017	2016
Operating profit				
Tobacco	3,595	3,360	2,199	2,126
Logistics	181	176	94	98
Eliminations	(15)	5	(15)	5
Group operating profit	3,761	3,541	2,278	2,229
Net finance costs	(537)	(524)	(450)	(1,350)
Share of profit of investments accounted for using the equity method	33	28	33	28
Profit before tax	3,257	3,045	1,861	907
Tax	(651)	(609)	(414)	(238)
Profit for the period	2,606	2,436	1,447	669
Earnings per ordinary share (pence)	267.0	249.6	147.6	66.1

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	2017	2016	2017	2016	2017	2016
Reported	2,278	2,229	(450)	(1,350)	147.6	66.1
Amortisation of acquired intangibles	1,092	1,005	–	–	90.5	78.0
Fair value (gains)/losses on derivative financial instruments	–	–	(112)	807	(10.3)	76.2
Post-employment benefits net financing costs	–	–	25	19	1.9	1.3
Restructuring costs	391	307	–	–	28.3	23.9
Tax on unrecognised losses	–	–	–	–	11.0	5.9
Items above attributable to non-controlling interests	–	–	–	–	(2.0)	(1.8)
Adjusted	3,761	3,541	(537)	(524)	267.0	249.6

Logista reported adjusted operating profit of £181 million compared with £176 million last year, reflecting the benefit of foreign exchange movements. On a constant currency basis, adjusted operating profit fell 8.0 per cent as a result of the excise increases in France and Italy not being passed on by the tobacco manufacturers and a Spanish court ruling over pensioner free tobacco rights. These were partially offset with the benefit from the sale of shares in Banca ITB.

Adjusted net finance costs were higher at £537 million (2016: £524 million) reflecting the foreign currency impact of a higher euro and US dollar against the pound.

Reported net finance costs were £450 million (2016: £1,350 million), incorporating the impact of the net fair value and exchange gains on financial instruments of £112 million (2016: losses of £807 million) and post-employment benefits net financing costs of £25 million (2016: £19 million).

Our all in cost of debt remained at 3.9 per cent (2016: 3.9 per cent) as older debt maturing at higher rates was offset by higher USD floating interest rates. Our interest cover increased to 7.5 times (2016: 7.1 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

After tax at an effective adjusted rate of 20.0 per cent (2016: 20.0 per cent), adjusted earnings per share grew by 7.0 per cent to 267.0 pence, a reduction of 2.2 per cent at constant currency. The effective reported tax rate is 22.2 per cent (2016: 26.2 per cent).

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

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

Reported earnings per share were 147.6 pence (2016: 66.1 pence) reflecting non cash amortisation of £1,092 million (2016: £1,005 million) and restructuring costs of £391 million (2016: £307 million), as well as the effects of fair value and exchange losses in finance costs mentioned above. The difference between reported (147.6p) and adjusted earnings per share (267.0p) is materially due to the same three items.

The weakening of sterling versus the euro and US dollar positively impacted reported and adjusted measures. On a constant currency basis, adjusted earnings per share reduced by 2.2 per cent.

The restructuring charge for the year of £391 million (2016: £307 million) relates mainly to our cost optimisation programme announced in 2013 and 2016.

The total restructuring cash flow in the year ended 30 September 2017 was £201 million (2016: £268 million).

COST OPTIMISATION

We continue to simplify the business and optimise our manufacturing footprint and overhead base to realise operational efficiencies.

Phase 1 of our cost optimisation programme, announced in January 2013, is expected to deliver savings of £300 million per annum from September 2018 at a cash restructuring cost in the region of £600 million and Phase II, announced in November 2016, is expected to deliver a further £300 million of annual savings from September 2020, at a cash restructuring cost in the region of £750 million.

Through our continued focus on reducing product cost and overheads we realised cost savings of £130 million in 2017 (£50 million from Phase I and £80 million from Phase II) bringing the cumulative cost savings to £370 million (£290 million for Phase I and £80 million for Phase II).

The cash restructuring cost of Phase I of the programme was £42 million (2016: £123 million) and £132 million (£2016: nil) for Phase II, bringing the cumulative net cash cost of the programme to £610 million (Phase I £478 million, Phase II £132 million).

CAPITAL DISCIPLINE

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

We typically seek an overall internal rate of return in excess of 13 per cent across the investments we make in our existing business in order to support our investment choices and underpin returns for shareholders. Our ROIC measure increased this year to 14.3 per cent (2016: 13.9 per cent) assisted by our continued focus on capital discipline.

During the year we took the opportunity to realise value via a further sell-down of our Logista holding, and the proceeds have been used to repurchase shares and reduce debt, redeploying capital in an efficient manner.

CASH FLOW AND NET DEBT

The conversion of adjusted operating profit to operating cash flow remained strong at 91 per cent (2016: 95 per cent), rising to 96 per cent when restructuring cash flows are excluded. We achieved another year of working capital reduction and neutrality of net capex and depreciation. Principal financing cash flows in 2017 comprise the payment of the final dividend, interest payments, the repayment of a £450 million bond and $900 million term loans that were put in place to finance the US acquisition, the sale of Logista shares, which reduced our holding by 10 per cent of the share capital, and associated share buy-back.

Reported net debt and adjusted net debt have decreased by £0.8 billion and £0.7 billion respectively. The decrease in reported net debt represents a £0.8 billion debt reduction from our continued focus on capital discipline after reflecting the impact of the Group's share repurchases of £0.1 billion. Adjusted net debt decreased by £0.7 billion, reflecting reported net debt movements plus an adverse movement of £0.1 billion relating to the fair value of interest rate derivatives.

The denomination of our closing adjusted net debt was split approximately 57 per cent euro and 43 per cent US dollar. As at 30 September 2017, the Group had committed financing in place of around £15.7 billion. Some 21 per cent was bank facilities, and 79 per cent was raised through capital markets.

During the year the remaining bank facilities that were put in place specifically for the USA acquisition were repaid from free cash flow generation, and we issued a new capital markets bonds of €1 billion.

STRONG DIVIDEND GROWTH

Our continued strong cash flow generation has enabled a further £0.8 billion of debt reduction at constant currency, and delivered another year of 10 per cent growth in our dividend, demonstrating our commitment to growing shareholder returns. This is our ninth consecutive year of double digit dividend growth. Our dividend pay out ratio of 64 per cent remains one of the lowest among our tobacco peers.

The Group has paid two interim dividends of 25.85 pence per share each in June 2017 and September 2017, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board has approved a further interim dividend of 59.51 pence per share and will propose a final dividend of 59.51 pence per share, bringing the total dividend for the year to 170.72 pence per share, up 10 per cent and in line with our policy of growing dividends by at least 10 per cent per year over the medium term.

The third interim dividend will be paid on 29 December 2017 with an ex dividend date of 16 November 2017. Subject to AGM approval, the proposed final dividend will be paid on 29 March 2018, with an ex-dividend date of 22 February 2018.

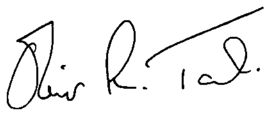
LIQUIDITY AND GOING CONCERN

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

The Board's statement on its assessment of longer-term viability is set out on page 28.



OLIVER TANT
Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

RISK IDENTIFICATION
Whilst the Board is ultimately accountable for risk management, it is the responsibility of all our people to manage the risks to which the Group is exposed. A key element of the risk management approach across our business is for our operational teams to identify risks that could impact them both locally and/or on a Group level. This operational awareness facilitates the timely identification of emerging risks, and ensures appropriate focus and action on known risks.

The ongoing identification of risks is supported by a formalised risk assessment process, completed across the business. The results of these assessments are reviewed by senior management to ensure an effective top-down input from the OPEX and the Board, enabling both operational and strategic perspectives to be considered in the risk assessment approach.

ASSESSMENT AND EVALUATION OF RISKS
The results of the formal risk assessments completed during the annual business planning process have not highlighted any significant changes in the operational nature or profile of the risks faced by the Group from the previous year. The strategic risks and their relative probability and impact have also remained materially consistent, with the key change being a reduction in the potential impact of cost optimisation and strategic change management programmes.

All principal risks identified through the risk assessment process could compromise the achievement of strategic objectives in the next 12 months. In line with the viability statement and our business plan, we further consider their impact over a longer three-year horizon.

The mitigation and management of these risks is therefore vital to the success of the Group. The Group's risk management and internal control framework and related reporting is further discussed in the Audit Committee Report on pages 39-44.

RISK LANDSCAPE
As is common with most large organisations, the Group is subject to general commercial risks, such as socio-economic changes, failure of our IT infrastructure, liabilities arising from defined benefit pension schemes, the impact of change programmes, the cost of our raw materials, the impact of competition, and the loss or failure of key routes to market.

As a multi-national organisation a large amount of the Group's revenue in the year was generated in markets outside the UK and the Group is also exposed to movements in foreign exchange rates due to its foreign subsidiaries, its commercial trading transactions denominated in foreign currencies and foreign currency cash deposits, borrowings and derivatives.

Additionally, we constantly assess and evaluate the risks posed by the changing environments in which we operate, whether geo-political, socio-economic or technological. By appropriately considering the potential impacts, and the most likely source of crystallisation, we can ensure a measured and appropriate response.

BREXIT
There continue to be a number of uncertainties in connection with the future of the UK and its relationship with the EU.

Whilst we remain of the view that it does not currently present any new material risks to the business, we are aware of the impacts it could have, notably in relation to the risks and opportunities arising from exchange rate, financing, and supply chain factors, and continue to monitor and consider the potential consequences of Brexit. It is a potential additional cause of changing environmental risks, and by aligning the management of the possible outcomes to existing risk responsibilities we are able to establish a more effective, and operationally focused, mitigation of these impacts on an ongoing and timely basis.

CYBER SECURITY
Cyber security risk is an ever-growing risk for all business. Malicious and intentional attacks from internal or external sources could impact the Group's ability to achieve continuity of supply, impacting market share and profitability.

In response to cyber risks, the Group has developed appropriate standards, policies and related training in order to ensure awareness within the business.

Experts are employed to assess and mitigate the risks, with changes being actioned as part of our ongoing IS strategy.

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the crystallisation of such risks. Not all of these principal risks are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment.

REDUCTION IN THE SIZE OF THE LEGITIMATE TOBACCO MARKET

Risk and potential impact	Mitigation
Product regulatory change Legislation designed to de-normalise the consumption of tobacco or to make its consumption more difficult. Changes in legislation can have a negative effect on consumer choice, reducing consumption levels, and revenues, and could result in increased costs of compliance.	Regulatory changes are proactively managed to ensure that the business is commercially positioned to positively manage the risks and opportunities that such change creates. The Group's expertise and resources are prioritised according to the relevant key regulatory issues. Cross-market liaison is promoted within the Group to ensure best practice and opportunities from markets already impacted are identified, understood and applied across all product categories.
Change in excise duty Adverse changes in the level or structure of excise duties as governments seek to raise public funds and use affordability as a means of tobacco control. Increased cost to the consumer could potentially reduce purchase volumes or an inability to pass on an increase in excise could result in lower product margins.	We engage with authorities to provide informed input to the unintended consequences of disproportionate changes in excise. The Group employs subject matter experts to monitor and manage the potential impact of excise changes, ensuring appropriate consumer focused choices exist at a market level.
Counterfeit and illicit non-duty paid product in market The consequence of excise and regulatory regimes is a widening gap between the price of legitimate and illegitimate product. As a result the legitimate tobacco industry continues to be subject to the significant impact of illicit trade. Counterfeit and illicit trade reduces the size of the legitimate market. The sales of counterfeit product and smuggled "illicit whites" in our markets act as a direct competitor to legitimate domestic duty paid, travel retail and duty free products, eroding our volumes, market shares, and providing access to product of inferior quality that could result in damage to our brands.	Specialist teams are employed to support the business, governments, and law enforcement agencies with targeted solutions to illicit trade. We maintain strong standards and controls for our business and our first-line customers to prevent diversion of our products. We work alongside the European Commission's Anti-Fraud Office (OLAF) and partner with governments and law enforcement agencies around the world on anti-illicit trade initiatives.
Macro-economic conditions in key markets The Group has a significant market presence in mature European markets and the US. An increase in economic uncertainty, or related government austerity measures, could influence consumer behaviour. These factors could impact affordability and result in a shift to value driven propositions, or a potential reduction in the size of the legitimate tobacco market from lower consumer expenditure or an increased propensity to purchase cheaper non-duty paid product from illicit channels. A material change in the economic circumstances of, and/or our related performance in, our key markets may affect our future profit development and have an adverse impact on the Group's revenue or profits.	We continually monitor and analyse economic indicators and consumption patterns to ensure that our current and future portfolio provides the consumer with a range of products across different price points. This analysis is completed at both a local and Group level and provides a key input to our product development, business planning and pricing strategies. The Group's international footprint and comprehensive portfolio provide an increasing balance in our exposure to both EU and non-EU markets.

OPTIMISING MARKET SHARE

Risk and potential impact	Mitigation
Changes in consumer trends The Group can be affected by changes in consumer choices. Affordability is a key driver of consumer preference, along with the availability of alternative product formats, and developments in Next Generation Products. Failure to identify threats and opportunities arising from these changes in consumer preferences could materially impact the Group.	The Group continually monitors consumer activity at both a local and Group level. This enables an effective means of profiling and predicting changes in order to best adapt the Group's product portfolio. The Group continues to develop its own portfolio of NGP products, along with strategic acquisitions in the sector, to provide consumers with appropriate choices in a dynamic market place.
Brand equity Failure to maintain and grow brand equity or an inability to utilise that brand equity (as a result of disproportionate product regulatory changes such as plain packaging). A reduction in customer brand loyalty could result in an adverse impact upon planned sales volumes and revenues.	Our MRM approach ensures a consistent strategic sales and marketing approach across markets, supported by monitoring of our brand equity. Brand migrations support the strategy to simplify the portfolio, reducing complexity in the supply chain and providing cost savings that can in turn be reinvested in the brand propositions. Market trends and competitor innovations are monitored in order to ensure we maintain the strength and relevance of our brand offerings. We employ experts to ensure that the intellectual property of our brands is appropriately protected.
Product quality Product fails to meet regulatory or consumer requirements. Brand and reputational damage resulting in reduced sales volumes. Potential financial penalty and regulatory censure resulting from failure to maintain appropriate product standards.	Quality control testing and monitoring is a core part of our manufacturing and supply chain processes, with robust regulatory compliance completed on a continual basis. Customer complaints monitoring and escalation processes exist across our markets, ensuring that customer feedback is acted upon and any quality issues are managed in an effective and appropriate manner. In the event of the requirement to recall product, effective processes exist to mitigate the risks to our supply chain.
Speed of response The Group fails to respond to market dynamics in a timely manner. Failure to maximise opportunities in markets results in a reduction in sales volume or revenues resulting from failure to maintain portfolio in line with changing consumer demands.	Product innovation and customer propositions are monitored across our markets. Customer trends and choices are analysed at both a local and Group level, with effective processes in place to support innovation.

COST OPTIMISATION

Risk and potential impact	Mitigation
Cost optimisation Failure to appropriately align the Group's cost base in line with the operating environment and expected levels could result in reduced profit and cash available for reinvestment in the business, and reduced stakeholder confidence.	The Group has a continued focus upon cost and cash embedded within the business planning and operational processes. The achievement of cost efficiencies is supported by performance monitoring, subject matter expert oversight, and a robust and effective investment appraisal process.

COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

Risk and potential impact	Mitigation
Failure to comply with legislation Failure to comply with local and international laws (including sanctions) may result in investigations and the enforcement of financial or regulatory censure. This may cause damage to our reputation and has the potential for financial and criminal penalties for both the Group and individuals. The cost of responding to any investigations can be substantial and require significant resource and management focus.	The Group's policies and standards provide employees with the Group's approach to managing risks, and mandate that all employees must comply with legislation relevant to a UK listed company and in the countries in which they operate. These policies include our Code of Conduct which is based on our company values and articulates the behaviours we expect from all our people. To support understanding across the organisation and to better ensure accountability to the Group's governance framework, training and support is provided by our 2nd line centres of expertise to ensure effective understanding of key regulatory and compliance requirements. Senior management certify the compliance of their area of the business with the Code of Conduct as part of an annual certification process. Exceptions are reported and mitigating actions taken. We closely monitor developments in international sanctions and actively seek external advice to ensure that we remain compliant with them. Centres of expertise and steering groups exist for key areas of legal compliance to provide expert advice in the development of policy, process, training and monitoring of compliance.
Tobacco litigation Tobacco litigation claims are pending against the Group. More claims may be brought in the future, including claims for personal injury and the recovery of medical costs allegedly incurred in treating smokers. The US, the jurisdiction with the greatest prevalence of smoking and health-related litigation, is also now a key market for the Group. If any claim was to be successful, it might result in a significant liability for damages and might lead to further claims against us. Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable.	To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages. We employ internal and external lawyers specialising in the defence of product liability litigation to provide advice and guidance on defence strategies and to direct and manage litigation risk and monitor potential claims around the Group. The US cigarette brands have been acquired without historic product liabilities and with an indemnity from Reynolds in respect of any liabilities relating to the period prior to acquisition.
Significant market positions Our market position in certain countries could result in investigations and adverse regulatory action by relevant competition authorities. Any allegation of inappropriate market behaviour creates the risk of financial penalty, and/or regulatory censure, and negative publicity.	The Group's policies and standards, including our Code of Conduct, mandate that all employees must comply with competition laws in the countries in which we operate. We provide training and guidance to relevant employees detailing the obligations and requirements of competition laws. We employ experienced internal and external lawyers specialising in competition laws to provide advice and guidance regarding interpretation and compliance with competition laws. In the event of any investigation (which may or may not result in actions being brought against us), we cooperate fully with the relevant authority making the investigation and will continue to do so.

ACCESS TO FUNDING

Risk and potential impact	Mitigation
Financial market risk We have a significant level of committed debt, financed in the debt capital and bank loan markets, and expect any future required refinancing of this debt prior to maturity to be obtained from these markets and for us to be able to rely on funds being available from our bank counterparties when requested to be drawn. Approximately 75 per cent of the Group's net debt is currently at fixed levels of interest, and therefore the Group is exposed to movements in interest rates which could result in higher funding costs and cash outflows on the remainder. A fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt from the current breadth of funders. We also place cash deposits and enter into derivative financial transactions with a diversified group of financial institutions and we would be affected if those counterparties did not honour their commitments.	We have a strong focus on cash generation and the reduction in our debt over time. This focus is supported by Group-wide guidance and governance processes that ensure appropriate authority and accountability for investments and spend, and the achievement of required return criteria. Our Treasury Committee (TC) oversees the operation of the treasury function in accordance with the terms of reference set out by the Board. The TC sets out a framework for the treasury function to operate within, including, amongst other things, financing, liquidity and risk management, which includes interest rate, foreign exchange and counterparty risk. Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with business performance. This information is considered alongside conditions in the debt capital and bank loan markets to ensure we are well placed to meet the future financing needs of the Group and optimise its cost and availability. For significant acquisitions of overseas companies, borrowings are raised in the appropriate currency (or are swapped via derivatives into the appropriate currency) to minimise the balance sheet foreign exchange translation risk.

VIABILITY STATEMENT

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

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

The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants, and other key financial ratios, including those relevant to maintaining our investment grade ratings.

Where appropriate, sensitivity analysis is undertaken to stress-test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. This stress-testing takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on page 42, is taken into account.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2020. This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out above, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

The Board confirms that its assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks and Uncertainties section on pages 24 to 28 was robust.

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2020.

OPERATING RESPONSIBLY

Operating responsibly supports our strategy and is integral to the way we do business.

Our Corporate Responsibility (CR) performance is measured against our CR Framework, which sets out the CR priorities for our business, our people and our stakeholders.

Our values and Code of Conduct are an essential part of our CR Framework. Our values reflect the behaviours we expect from everyone who works for us and our Code of Conduct is aligned with policies, internal controls and risk management processes that underpin our strategy.

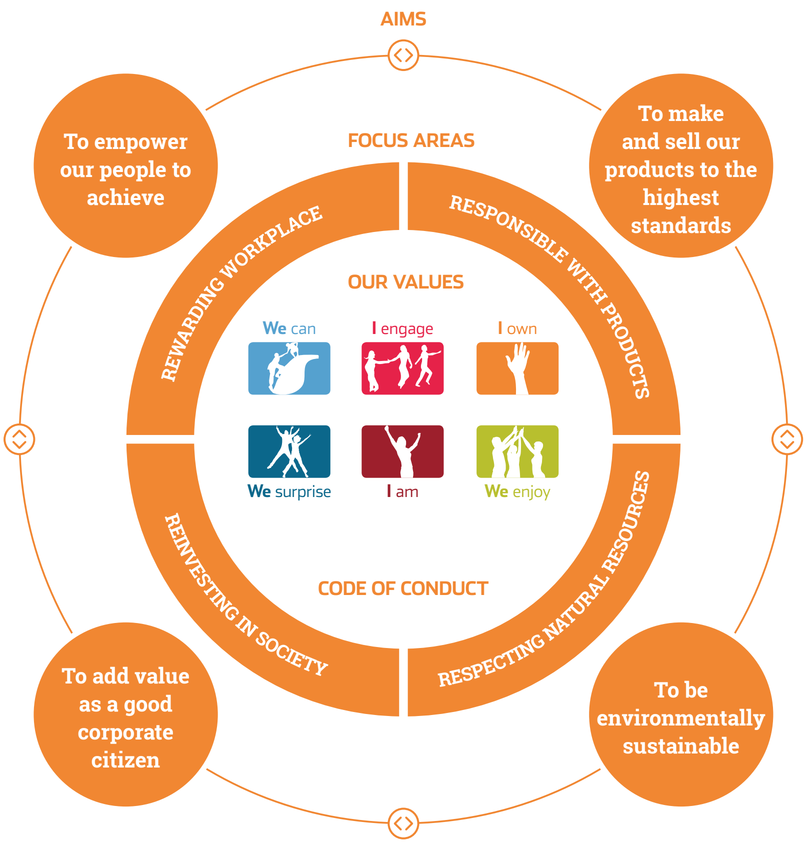
Our CR performance on material issues is subject to independent assurance and verification. We measure our health and safety and environmental performance by comparing our results with our 2009 baseline year, using independently assured data.

The following pages provide an overview of our achievements; more detailed information, including our Sustainability Report, is available in the Responsibility section of our website: www.imperialbrandsplc.com/responsibility.

Our CR initiatives benefit immeasurably from the support of our employees and continue to be recognised externally, including in the 2017 Dow Jones Sustainability Index where we scored an excellent 84 per cent, up from 76 per cent last year.

Our CR Framework is regularly reviewed to ensure that it supports our strategy and remains in line with the issues that are material to our business and our stakeholders.

We are currently reviewing our CR programmes and objectives and are mapping these against the UN Sustainable Development Goals (SDGs). The outputs from this exercise will be used to further refine our CR priorities.



Key data reported in the Annual Report and Accounts for the year to 30 September 2017 as indicated in footnotes has been independently assured by PwC under the limited assurance requirements of the ISAE 3000 standard.

The full assured data and PwC's assurance report are included in the Corporate Responsibility section of our website www.imperialbrandsplc.com/responsibility.

RESPONSIBLE WITH PRODUCTS

We ensure our products are manufactured, marketed and sold responsibly.

PRODUCT SCIENCE, INNOVATION AND PORTFOLIO

We recognise society's concerns about the health risks of smoking and agree that smoking is a cause of serious disease in smokers.

We uphold high standards, rigorously testing and analysing our products to ensure we continually build our knowledge and are able to fulfil our duty of care to consumers, as well as meet legal requirements for scientific disclosures and submissions.

We do not commission or conduct research involving animals and would do so only if required by governments or recognised authorities.

Innovation, research and development are important to ensure that we continue to meet consumer needs for tobacco and Next Generation Products.

The global market for e-vapour products (EVPs) continues to evolve and there is growing consensus that these products may be a safer alternative to smoking tobacco.

We continue to invest in science and technology to strengthen our position in this growing sector, whilst monitoring developments in other Next Generation Product categories.

ADULT CHOICE

Our products are for adults and should never be sold to children.

Legislation that governs the way tobacco should be advertised and marketed to the public exists in most markets. We also have our own stringent International Marketing Standard (IMS) and publish this on our website. We insist that all Imperial Brands companies and employees, as well as the agencies who work with us, stringently adhere to our IMS and local legislation at all times. To support IMS awareness and understanding we have developed an e-learning module that is available in 12 languages.

We work with retailers to reinforce this message that children should never smoke and support initiatives aimed at preventing sales of tobacco to children, including schemes that highlight the minimum age at the point of sale.

Fontem Ventures has its own stringent marketing standards for e-vapour products and ensures that all marketing activity is only ever aimed at adults.

TACKLING ILLICIT TRADE

The illegal market in tobacco undermines society's efforts to ensure that tobacco products are marketed responsibly.

We work with governments and customs and law enforcement agencies to tackle the problem of tobacco smuggling and counterfeiting. We have 28 Memoranda of Understanding (MoU) with these authorities around the world and continue to invest in our long-term anti-illicit trade partnership agreement with the European Commission and Member States.

Sharing our intelligence resulted in a number of successful law enforcement operations across 17 countries during the year, resulting in the seizure of more than a billion illicit cigarettes.

REWARDING WORKPLACE

We aim to provide a safe and enjoyable working environment that inspires our people to do their best.

CELEBRATING DIVERSITY

We employ 33,800 people including 13,400 women, representing 40 per cent of our total workforce. At a senior leadership level, 11 per cent of the Operating Executive and 30 per cent of the Board are female, as of 30 September 2017.

We're proud of the diverse nature of our international workforce and recognise the benefits that it brings to the business.

During the year we enhanced our focus on diversity, developing an integrated approach built around three pillars: inspire, strengthen and empower.

Through 'Inspire' we seek to raise awareness of diversity and demonstrate how it helps us to achieve our commercial goals. 'Strengthen' looks at the way we recruit, retain and develop people and 'Empower' is about enabling everyone to contribute to the delivery of our strategy.

The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct and underpinned by our values.

Our drive to provide the best possible working environment and opportunities for our people was further recognised in the year with a number of Best Employer awards, including two for our subsidiaries in Poland.

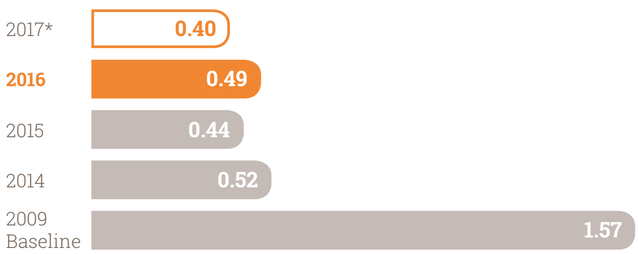
ENGAGING WITH OUR PEOPLE

Regular engagement with our people helps motivate them to do their best. We provide updates on our strategic priorities and performance through a broad range of communication channels including meetings, emails, videos, the intranet, social media, webinars, conferences and employee magazines. Our next global engagement survey, which is conducted every 18 months, is due to take place in 2018. This complements the smaller surveys we regularly conduct to track employee engagement levels.

HEALTH, SAFETY AND WELLBEING

The welfare of our people is of paramount importance to us. We have reduced our Lost Time Accident (LTA) rate by 69 per cent since 2009 and continue to focus on improving health and safety standards across the business, including last year's drive to raise awareness of the importance of reporting all near misses and accidents. We believe this resulted in the slight increase in our LTA rate in 2016; however provisional data for 2017 shows that the LTA rate has since improved as a result of our stronger safety culture.

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



In our manufacturing operations we use health and safety management systems independently certified to the international standard OHSAS 18001 to drive performance improvement. Eighty-seven per cent of our factories were certified as of 30 September 2017.

We support employee wellbeing through a range of initiatives including flexible working, health checks, resilience training and the promotion of good personal activity levels.

REINVESTING IN SOCIETY

We are proud to have developed strong partnerships with a wide range of stakeholders in many different communities around the world.

SHARED WEALTH

We support community initiatives across our market footprint, provide employment for more than 30,000 people worldwide and return significant taxes to governments.

We fund projects that benefit our local communities, with a particular focus on supporting the most disadvantaged communities around our factories, offices and tobacco sourcing activities.

We were delighted to see so many employees take part in our global volunteering event, Mobilise for May, which benefitted more than 86 projects in 38 countries this year.

RESPECTING HUMAN RIGHTS

Our respect for human rights extends throughout our operations and is reflected in our Code of Conduct and Supplier Standards, which we implement across our business and our supply chain. In 2017, 92 per cent of our leaf suppliers took part in the Sustainable Tobacco Programme (STP).

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

FARMER LIVELIHOODS AND CHILD LABOUR

We oppose child labour and continue to support the Eliminating Child Labour in Tobacco (ECLT) Foundation. We also work directly with our suppliers to tackle the issue.

Our Leaf Partnership Programme funds projects that enhance the livelihoods of farmers and the environmental sustainability of their activities, including reducing their overall labour requirements and improving their operational and resource-use efficiency. This helps secure future tobacco supplies and is essential for providing farmers with a better income and higher standards of living, reducing poverty and the potential reliance on child labour.

We also operate a Supplier Qualification Programme for our key suppliers of non-tobacco materials, such as paper, board and filters.

RESPECTING NATURAL RESOURCES

We are committed to reducing our environmental impact by minimising waste, improving energy efficiency and reducing emissions.

In our manufacturing operations we use environmental management systems independently certified to the international standard ISO 14001 to drive environmental performance improvement. Ninety-two per cent of our factories were certified as of 30 September 2017.

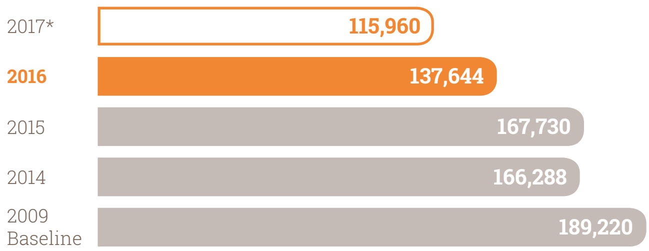
OUR DATA TRENDS

We have long-term targets for the environmental performance indicators of energy use, waste and water use and track our progress against our revised[2] 2009 baseline year. We measure our performance against the amount of tobacco net revenue we generate, and we report one year in arrears to allow for data collection, validation and external assurance.

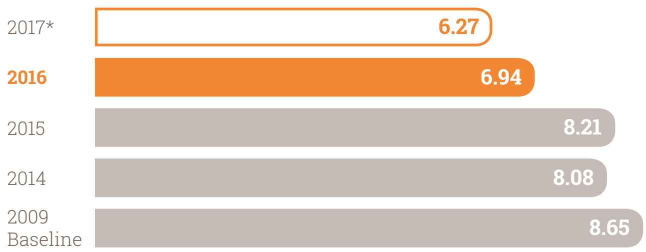
RESOURCE EFFICIENCY

Getting the most out of the materials and natural resources we use is good for our business and good for environmental sustainability.

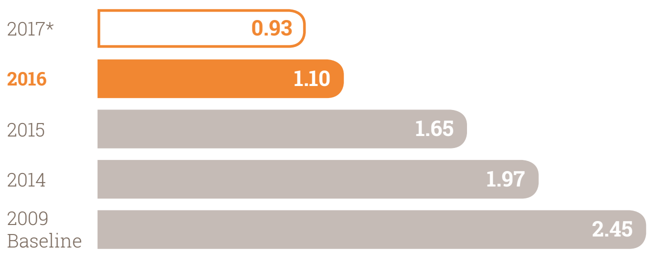
ENERGY CONSUMPTION (KWH/£MILLION)[1,2]



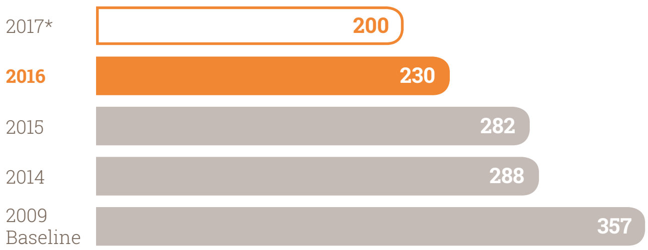
WASTE (TONNES/£MILLION)[1,2,3]



WASTE TO LANDFILL (TONNES/£MILLION)[1,2,3]



WATER CONSUMPTION (M3/£MILLION)[1,2]



Since 2009 we have reduced waste by 20 per cent, waste to landfill by 55 per cent and water consumption by 36 per cent.

In our factories we focus on local water management initiatives to reduce our water use. We also have a number of projects under our Leaf Partnership Programme to enhance water security for farmers and their communities. This was recognised in our 2017 CDP (formally the Carbon Disclosure Project) Water Disclosure, where we achieved a B rating.

FORESTRY

Forestry protection and biodiversity management are core elements of our CR agenda and we work with suppliers and communities to support wood sustainability. In tobacco production, wood may be used as either a fuel for curing or as construction material for barns. We are investing in projects to increase the number of fuel-efficient curing barns and reduce the level of wood consumption. We are particularly focused on farmers having a sustainable source of wood in Africa. Working with our suppliers, we are operating a programme that has planted 1.7 million trees in 2017 and aims to achieve wood sustainability for our farmers in Africa by 2022. We took part in the CDP Forest Disclosure for the first time in 2017 and achieved a B rating, indicating that we have assessed deforestation risks and are measuring and monitoring the impacts.

CLIMATE CHANGE

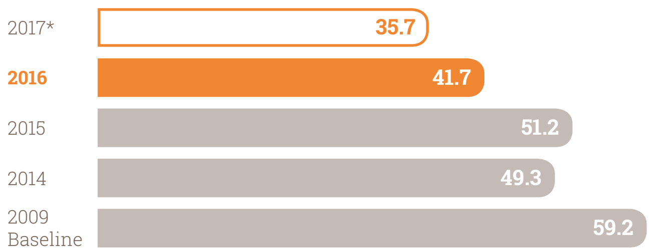
Each year we participate in the CDP Climate Change Programme, which works with organisations to measure and reduce their emissions and climate change impacts. This year we achieved our highest ever rating of A-, which indicates that we have implemented a range of actions to manage climate change. We also work with the CDP Supply Chain Programme to gather information about how our major suppliers are managing climate change and water matters.

GREENHOUSE GAS EMISSIONS REPORTING

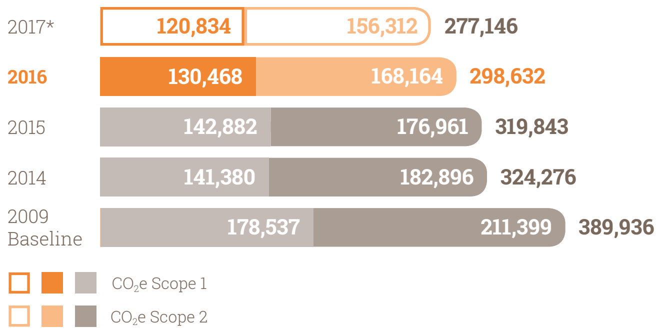
We report on greenhouse gas emissions resulting from operations which fall within our consolidated financial statements using the operational control reporting approach.

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

CO_2 EQUIVALENT EMISSIONS (TONNES/£MILLION)[1,2]



ABSOLUTE CO_2 EQUIVALENT EMISSIONS (TONNES)[1,2]



We report separately below externally assured data provided by Logista, the Group's subsidiary transport and logistics business which is managed remotely due to commercial sensitivities. Logista has provided independently assured data since FY14 for absolute Scope 1, 2 and 3 emissions.

LOGISTA

		Scope 1	Scope 2	Scope 3
CO_2 equivalent emissions (Tonnes)	FY16	36,735	1,441	187,572
	FY15	35,065	4,378	199,953
	FY14	35,731	4,455	213,081

In 2017, Logista achieved an A rating in the CDP Climate Change Programme; the highest achievable level.

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

Logista's FY16 relative Scope 1 and 2 emissions comprise 47.2 tonnes (FY15: 52.7) of CO_2 equivalents per £million of FY16 distribution fees (our non-GAAP revenue measure for Logista). Further information on the scope of Logista's GHG reporting is available at www.grupologista.com.

1. Environmental and LTA data is reported 12 months in arrears to allow for data collection, validation and external assurance. The monetary value '£ million' is for tobacco net revenue. 2016 data has been independently assured by PwC; see www.imperialbrandsplc.com/responsibility for more information.
2. We have restated our 2009 baseline and subsequent years' data to incorporate our Greensboro site in the US and improvements in our internal reporting system. 2016 data includes the impact of ITG Brands on tobacco net revenue in terms of relative environmental performance per £ million.
3. 2016 waste data for our Dominican Republic site is based on 2015 data due to under-reporting by an interim waste contractor.

* Unverified 2017 data is estimated based on data from the last six months of FY16 and the first six months of FY17. Verified data for 2017 will be published next year.

"Good governance is key to the delivery of our sustainable growth agenda."

DEAR SHAREHOLDER

The Board is responsible to shareholders and other stakeholders for the long-term sustainable delivery of our strategy and for setting the right tone to ensure that we deliver the strategy in a way that reflects our values. The Operating Review on page 15 highlights how we delivered against our strategy during the year; whilst at the same time enhanced our governance framework to further support our sustainable growth agenda.

The standards the Board expects from employees worldwide are often more stringent than those required by local regulations and have been further embedded during the year through our governance framework. This framework, together with our values, fosters a culture which ensures we both individually and collectively act with honesty and integrity.

In this Report we provide an overview of the work of the Board and its Committees and our governance framework, which together with our Code of Conduct (available on our website) sets out the standards we require from our employees and our partners in the supply chain.

More details of our governance framework and how it underpins the delivery of our sustainable growth agenda are set out in the following sections.

MARK WILLIAMSON
Chairman

ENSURING OUR ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

A number of long-established and embedded processes underpin the compilation of the Annual Report to help provide the Board with the assurance that it is fair, balanced and understandable, including:

- reviewing the use of adjusted measures and their appropriateness in aiding users of our financial statements to better understand our performance year-on-year;
- drafting of the Annual Report by appropriate senior management who monitor regulatory changes and who are briefed regarding the fair, balanced and understandable regulations;
- an extensive verification process undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report undertaken by members of the OPEX and other senior management;
- consideration and review of an advanced draft by Internal Audit and the Disclosure Committee;
- the Audit Committee discussing the draft Annual Report with both management and PwC and, where appropriate, challenging the content and any judgements and assumptions used;
- all Board members receiving drafts of the Annual Report with sufficient time for review and comment prior to the year-end meetings in November 2017; and
- the Audit Committee reviewing the final draft at its meeting in November 2017 on which it was required to express its opinion prior to consideration by the Board.

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

1. MARK WILLIAMSON, CA (SA)
Chairman of the Board

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

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

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

D N Chairman

2. ALISON COOPER, BSC, ACA
Chief Executive Officer

Skills and experience
Since being appointed as Chief Executive Alison has led the development and implementation of the Group's sustainable sales growth strategy. Alison joined the Group in 1999 and, through a number of senior roles, has contributed significantly to the international expansion of the Group.

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

External appointments
No external Director appointments.

E

3. OLIVER TANT, BSC, CA (SCOTLAND)
Chief Financial Officer

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

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

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

External appointments
No external Director appointments.

E

4. MATTHEW PHILLIPS, LLB
Chief Development Officer

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

In his current role he is responsible for Fontem Ventures, corporate development and corporate, legal and regulatory affairs.

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

External appointments
No external Director appointments.

E

5. THERESE ESPERDY
Non-Executive Director

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

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

Appointment
Appointed Non-Executive Director in July 2016.

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

D A N

6. DAVID HAINES
Non-Executive Director

Skills and experience
David brings considerable senior level board experience and was until March 2016 Chairman and Chief Executive Officer of Grohe Group Sárl and Chief Executive Officer of Lixil Water Technology Group. He joined Grohe in 2004 from Vodafone Group PLC where he was Global Marketing Director. David is Chairman and Co-Founder of Grace Founders Sárl, a Luxembourg-based investment company. He is also a former Chairman of Vimpelcom A/O.

Appointment
Appointed Non-Executive Director in February 2012, and Chairman of the Remuneration Committee in April 2012.

External appointments
Chairman and Co-Founder of Grace Founders Sárl.

D A N R Chairman

7. SIMON LANGELIER

Non-Executive Director

Skills and experience

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

Appointment

Appointed Non-Executive Director in June 2017.

External appointments

Chairman of PharmaCielo Limited and Ambassador of Lancaster University.

D A N

8. STEVEN STANBROOK

Non-Executive Director

Skills and experience

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

Appointment

Appointed Non-Executive Director in February 2016.

External appointments

Partner of Wind Point Partners and a Director of Autism Speaks.

D N R

9. KAREN WITTS, FCA

Non-Executive Director

Skills and experience

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

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

Appointment

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

External appointments

Chief Financial Officer and Executive Director of Kingfisher plc.

D A Chairman **N R**

10. MALCOLM WYMAN, CA (SA)

Non-Executive Director

Skills and experience

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

Appointment

Appointed Non-Executive Director in October 2011. In February 2017 he was appointed as Senior Independent Non-Executive Director.

External appointments

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

D N R

11. JOHN DOWNING, MA, SOLICITOR

Company Secretary

Skills and experience

John joined Imperial in 2005 having worked for the law firm Linklaters.

He has had a number of senior legal roles in Imperial and was appointed Head of Group Legal in 2010 and played a leading role in the Altadis acquisition. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters.

Appointment

Appointed Company Secretary in June 2012.

S

Key

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

“Consistent execution against our strategy continues to create sustainable shareholder returns.”

MARK WILLIAMSON
Chairman

MEMBERS

Mark Williamson
Chairman

Alison Cooper

Therese Esperdy

David Haines

Michael Herlihy
(to 1 February 2017)

Simon Langelier
(from 12 June 2017)

Matthew Phillips

Steven Stanbrook

Oliver Tant

Karen Witts

Malcolm Wyman

John Downing
Company Secretary

FOCUS IN 2017

- Investment step-up behind our MRM to leverage our strengthened brand portfolio in priority markets;
- Board meetings held in Italy and Spain to review and support the implementation of the strategy; and
- Update and endorsement of the Group’s NGP strategy.

LOOKING AHEAD TO 2018

- Continued focus on our strategy and the drivers behind it, including:
  - The MRM and our priority market investments; and
  - NGP activity, including new launches in an extended footprint.

OVERVIEW

The Directors are collectively responsible and accountable to our shareholders for the long-term sustainable success of the Group.

The Board has a key role in both setting the strategy and ensuring that its implementation is done by management operating responsibly within our governance framework, whilst clearly demonstrating our values and high ethical standards. The Directors are also mindful of their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders whilst having regard to the interests of other stakeholders.

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

Within this framework the Board delegates responsibility for developing and implementing strategy and for day-to-day management to our Chief Executive, Alison Cooper, who is supported by her fellow Executive Directors and by the Operating Executive (OPEX), which she chairs. The Board also delegates matters to Board Committees. Clearly defined terms of reference and written limits support these delegations.

The OPEX consists of senior executives from across the business. It oversees operational execution and delivers our strategic and financial plans. The OPEX and Audit Committee also ensure that appropriate internal controls, which function effectively, are in place, and effective risk management processes operate throughout the Group.

MATTERS CONSIDERED BY THE BOARD IN 2017

Eight Board meetings were held during the year.

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

2016	2017					
November (Bristol)	**January (Bristol)**	**March (Rome)**	**April (Madrid)**	**June (two meetings – Bristol)**	**August (call)**	**September (Bristol)**
– Business plan finalisation – Product supply strategy – Report and Accounts sign-off – Dividend approval – Principal risks	– Strategic review: MRM & NGP – Pension Fund triennial valuation update – Consideration of Board Committee membership – Appointment of Senior Independent Director – Investor audit – AGM	– Strategy in action: MRM & Growth Division priority investment markets	– Strategy in action: MRM & Returns Division priority investment markets – Half-Year Report – Dividend approval – Principal risks	– Strategic review: NGP & corporate development projects – Appointment of Simon Langelier – Group financing update	– Sell-down of 10% in Logista – Share buy-back	– CR & safety review – IT strategic review – Business plan review – Board evaluation

SUCCESSION AND NOMINATIONS COMMITTEE

"We aim to have the right people focused on the things that really matter to deliver our strategy and value creation for our stakeholders."

MARK WILLIAMSON
Chairman

MEMBERS

Mark Williamson
Chairman[1]

Therese Esperdy

David Haines

Michael Herlihy
(to 1 February 2017)

Simon Langelier
(from 12 June 2017)

Steven Stanbrook

Karen Witts

Malcolm Wyman

John Downing
Company Secretary

1. Unless dealing with the succession of the Chairman.

Executive Directors are invited to attend when appropriate.

FOCUS IN 2017

– Executive and Non-Executive Director succession planning, including the appointment of Simon Langelier;
– Review of skillset and composition of the Board's Committees;
– Review of the Group's people strategy within the context of the Group's overall strategy; and
– Senior management succession and talent development.

LOOKING AHEAD TO 2018

– Ongoing Executive and Non-Executive Director succession planning;
– Senior management succession and talent development; and
– Further building organisational capability.

OVERVIEW

ROLE

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

The Committee also retains an overview of the development plans for OPEX members together with the wider organisational structure and talent management processes.

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

BOARDROOM DIVERSITY

As a global business, with our products sold in over 160 countries, diversity is an integral part of how we do business. As set out on page 30, the business celebrates diversity, which is something the Board also fully supports.

The Committee is mindful of the Davies review on gender diversity and is pleased that at the year-end women, including our Chief Executive, made up 30 per cent of our Board. Notwithstanding this, however, any search for Board candidates and any subsequent appointments are made purely on merit regardless of gender, race, religion, age or disability. We look to ensure we have the appropriate balance of skills, diversity of knowledge and thinking, professional and geographic backgrounds and experience on our Board and recruit accordingly. We are committed to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group and as such we do not think it is appropriate to set specific targets for Board appointments.

Turn to page 30
for further details on our workforce diversity

SUCCESSION AND NOMINATIONS COMMITTEE IN 2017

ELECTION AND RE-ELECTION OF DIRECTORS

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

The performance of each Director is considered as part of the annual Board evaluation process. Following the 2017 evaluation, a review of the independence of each NED (particularly in respect of those who have served six years or more) and consideration of attendance, the Board recommends the re-election of all Directors at our 2018 AGM.

REFRESHING THE BOARD AND ITS COMMITTEES

During the year Simon Langelier joined the Board as a Non-Executive Director and member of the Audit Committee. Michael Herlihy stepped down after nine years' service and was succeeded as Senior Independent Director by Malcolm Wyman.

The Committee identified the profile and skillset required for a new NED to support our strategy and instructed Spencer Stuart & Associates Limited[1] (Spencer Stuart) to identify appropriate candidates. Within the Company's policy of appointing the best people, Spencer Stuart was requested to give consideration to candidates who, in addition to meeting the profile and skillset, would add to the overall diversity of the Board. From the list of strong candidates, and following a robust interview process, the Committee decided to appoint Simon.

Following the 2016 Board evaluation which identified the need to optimise the use of Directors' time, the membership of the Audit and Remuneration Committees was restructured such that not all NEDs now sit on both Committees as was previously the case.

1. Spencer Stuart did not provide any other services to the Group during the financial year.

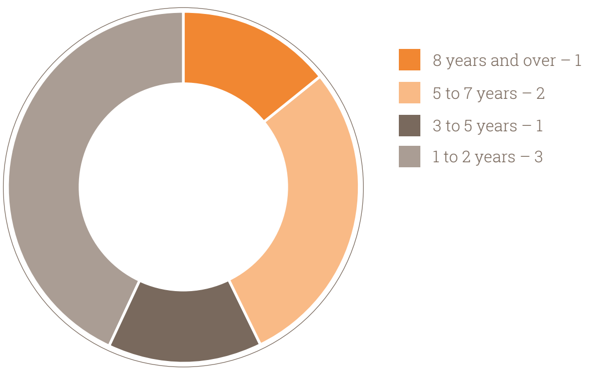
MEETINGS OF THE BOARD, BOARD COMMITTEES AND AGM

	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in Financial Year	8	4	4	5	1
Number of meetings attended in Financial Year					
Executive Directors					
Alison Cooper	8/8	–	–	–	1/1
Oliver Tant	8/8	–	–	–	1/1
Matthew Phillips	8/8	–	–	–	1/1
Non-Executive Directors					
Mark Williamson	8/8	4/4	–	–	1/1
Therese Esperdy	8/8	4/4	4/4	2/2	1/1
David Haines	8/8	4/4	4/4	4/4	1/1
Simon Langelier[1]	3/3	1/1	1/1	–	–
Steven Stanbrook	8/8	4/4	2/2	5/5	1/1
Karen Witts[1]	8/8	4/4	4/4	5/5	1/1
Malcolm Wyman	8/8	4/4	2/2	5/5	1/1

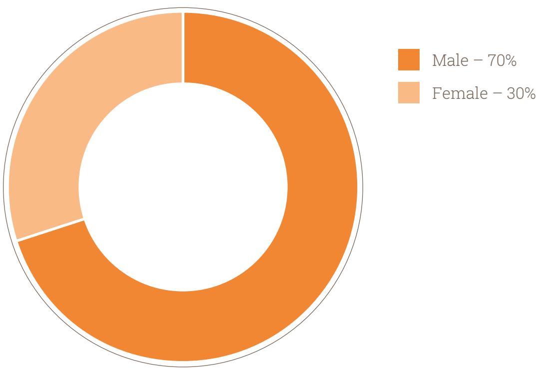
1. Simon Langelier was appointed to the Board on 12 June 2017.

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

TENURE OF NON-EXECUTIVE DIRECTORS



BOARD GENDER BALANCE



AUDIT COMMITTEE

"As a Committee we continued to focus on risk management and in particular the Group's ongoing enhancements to systems of governance and internal control."

KAREN WITTS
Chairman

MEMBERS[1]

Karen Witts[2]
Chairman (from 1 February 2017)

Malcolm Wyman
(to 1 February 2017)
Former Chairman

Therese Esperdy

David Haines

Michael Herlihy
(to 1 February 2017)

Simon Langelier
(from 12 June 2017)

Steven Stanbrook
(to 1 February 2017)

John Downing
Company Secretary

OTHER REGULAR ATTENDEES

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

1. All members are independent Non-Executive Directors.
2. Karen Witts meets the Code's requirement of having "recent and relevant financial experience". The Committee is satisfied that she also has the appropriate sectoral competence in accounting and auditing.
3. At each meeting, both the Director of Assurance and Risk and PwC have the opportunity to meet with the Committee without management present.

Other Non-Executive Directors are invited to attend each meeting.

DEAR SHAREHOLDER

This Audit Committee Report provides insight into the Committee's activities and its deliberations during the 2017 financial year.

Upon Malcolm's appointment as Senior Independent Director, I gladly accepted the role of Chair of the Audit Committee. At the same time, the number of members on the Committee was reduced; which was in response to proposed actions from our Board evaluation. In June, I was pleased to welcome Simon on the Committee.

As a Committee we continued to focus on risk management and in particular the Group's ongoing enhancements to systems of governance and internal control, whilst continuing to ensure the integrity of its financial statements and the quality of both the external and internal audits. We meet four times in the year at key points in the Group's reporting cycle. As Chairman I meet regularly with management, Internal Audit and the external auditor between Committee meetings.

In May 2017, the Group received an enquiry from the Financial Reporting Council (FRC) on its accounting for restructuring costs within alternative performance measures. The Committee worked closely with management to formulate its response to the FRC's questions, following which the FRC closed its enquiry in June 2017, as described in the Key Matters Considered section below.

An important aspect of our work is to critically review the detailed reports from both internal and external audit. This allows the Committee to understand any issues in the area under review and to instigate action as appropriate.

I am satisfied that our activities provided the Committee with a good understanding of the key matters impacting the Group during the year. These key matters are set out on pages 40 and 41. This understanding, in conjunction with the Committee's oversight of the governance and operation of the Group's significant controls and processes, enables it to draw the conclusions set out on page 42.

KAREN WITTS
Chairman of the Audit Committee

MAIN OBJECTIVE

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

- maintaining appropriate oversight over the work and effectiveness of the Internal Audit department, including reviewing its audit findings and monitoring management's responses;
- monitoring and evaluating the effectiveness of our risk management and internal control systems, including obtaining assurance that they are designed and implemented effectively;
- assessing and delivering the medium-term viability of the Group;
- assisting the Board in confirming that, taken as a whole, our Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy (see page 33);
- scrutinising the independence, approach, objectivity, effectiveness, compliance and remuneration of PwC; and
- considering the key matters detailed below, including taking account of PwC's views.

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

AUDIT COMMITTEE MEETINGS HELD IN RESPECT OF THE 2017 FINANCIAL YEAR

Four Committee meetings were held in respect of the 2017 financial year at key points in our reporting and audit calendar and included the following matters on the agenda:

2017

February	April	September	November
– External audit planning – Internal audit and risk management review – External auditors' effectiveness review – Governance and internal control – Restructuring costs and benefits – Tax strategy and policy	– Half-Year Report – Goodwill and impairment review – Going concern and solvency risk review – External auditors' report – External auditors' fees and independence – Internal audit and risk updates – Governance and internal control – Fraud policy update – Pension fund risk management	– Goodwill and impairment considerations – Tax update – FRC correspondence on alternative performance measures – Internal audit and risk management review – External auditors' report and independence – Governance and internal control – Distributable reserves – Restructuring costs and benefits – Impact of new accounting standards	– Annual Report and Accounts – Goodwill and impairment review – Tax risk management – FX risk management – Viability and going concern statements – External auditors' report – Internal audit and risk management review – External auditors' fees, independence and reappointment – Governance and internal control – Revenue recognition

KEY MATTERS CONSIDERED

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

	Focus area	Why this area is significant	How we as a Committee addressed this area
1	Goodwill and intangible asset impairment reviews See note 11 of the financial statements for further information.	Goodwill and intangible assets form a major part of the Group's balance sheet and their current valuations must be supported by future prospects.	We regularly received and considered detailed reports from management and challenged the methodology applied, the achievability of underlying business forecasts, and macro-economic assumptions used. For the groupings of cash generating units with the lowest headroom (Growth Division and Other Premium Cigars), we examined different scenarios and sensitivities to assess whether management's conclusions were fair and balanced. During the period, a strategic investment programme was initiated in all priority markets. This investment included initiatives to build long-term improvement in our market share and support a consistent pricing strategy. The Committee noted that long-term cash flow forecasts, including strategic investment expenditure for the Growth Division, had been prepared. The Committee reviewed the significant financial assumptions used, including the selection of appropriate discount and long-term growth rates. The Committee also considered detailed reporting from, and held discussions with PwC. Resulting from the above, we concluded that management's assertion that goodwill and intangible assets were not impaired was reasonable and, therefore, approved the disclosures in our financial statements.

	Focus area	Why this area is significant	How we as a Committee addressed this area
2	Use of adjusted measures See note 1 for further information.	Non-GAAP or adjusted measures provide an appropriate and useful assessment of business performance and reflect the way in which the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors.	The Committee considered whether adjusted performance measures had been prepared in accordance with our policy on the use of adjusted measures set out in note 1 to the Group financial statements, and discussed this with PwC. The Committee concluded that adjusted performance measures had been prepared in accordance with our policy. The Committee also considered whether the Group's policy was compatible with the ESMA guidelines on alternative performance measures. The items excluded from adjusted operating profit have been applied consistently for a number of years and are clearly disclosed. The Committee concluded that this presentation is helpful in allowing users of the Group financial statements to understand the underlying business performance, especially in light of the scale and duration of the restructuring programme.
3	Treatment of restructuring costs See note 5 for further information.	Restructuring costs is one of the main items affecting our adjusted measures. There is a risk that restructuring costs are treated or presented inappropriately within the Group's financial statements.	In May 2017, the Group received an enquiry from the FRC on its accounting for restructuring costs within alternative performance measures. The Group's response explained the historic approach to accounting for restructuring costs and set out the rationale for treating the Cost Optimisation Programme as 'one-off' and accordingly to account for the costs outside of its adjusted measures. In June 2017, the FRC accepted the Group's response and closed its enquiry noting the Group's commitment to enhance its accounting approach for 'one-off' restructuring costs and to enhance restructuring disclosures. These changes have been made in the 2017 Annual Report and Accounts[1]. In addition, we periodically reviewed papers from management on actual and forecast levels of restructuring costs. The restructuring costs disclosure for inclusion within the Group's financial statements and Half-Year results were also reviewed and discussed with management and PwC. Following these detailed reviews and discussions, we concluded that determination of restructuring costs was consistently applied and that, notwithstanding the duration of some restructuring projects, costs were disclosed appropriately.
4	Going concern and viability statement See page 28 for further information.	The Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period.	We examined the Group's committed funding, its ability to generate cash and its ability to raise further funding. We challenged management's cash projections and sensitivity analysis including mitigating actions. In addition, in assessing the Group's longer-term viability we considered outputs of the annual corporate planning processes including the strategic review, a three-year business plan and a rolling re-forecast of current year business performance and prospects. We also considered the resilience of the Group to the potential impact of the Group's principal risks and mitigating actions. We reviewed the period covered by the statement and concluded that three years remains the most appropriate period, being that used by the Group for its business plan. We concluded that it was appropriate to prepare the financial statements on a going concern basis and that the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2020.
5	Revenue recognition See note 1 for further information.	There is a risk that revenue could be overstated through the inclusion of sales which are not in compliance with the Group's revenue recognition policy.	Discussions were held with management and PwC and the Committee was satisfied that the Group's criteria for revenue recognition were appropriate. No breaches of the Group's revenue recognition policy were brought to the Committee's attention.
6	Taxation See notes 8 and 21 for further information.	The Group is subject to taxation in a number of jurisdictions, and significant judgement is required in relation to taxation provisions which could materially affect the Group's reported results.	We received and discussed reports from management in respect of the taxation affairs of the Group, including the tax audit in France (see note 8 on page 95) and the potential impact on the Group of various UK and foreign taxation reform proposals. Following consideration and discussion of management's reports and a review of reports provided by PwC, we are satisfied that the taxation provisions and their disclosure are appropriate.
7	Tobacco-related litigation See page 50 for further information.	The Group is exposed to litigation arising from claimants alleging smoking-related health effects.	We considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings and concluded that risks in respect of tobacco-related litigation are appropriately disclosed in the Annual Report and Accounts.

1. The scope of the FRC's review was limited and was based on the Annual Report and Accounts without the benefit of detailed knowledge about the Group's business or an understanding of the underlying transactions entered into.

GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

The Board is ultimately responsible for risk management in accordance with the UK Corporate Governance Code, with accountability for the approach delegated to the Audit Committee.

In the course of the year the Group has further enhanced its governance and risk management framework, increasing accountability throughout the business.

Our governance and risk management framework has been designed around four simple foundations that form the core of our approach to risk management, as set out in 'Managing the Business the Right Way' below.

In designing our approach in this way, the Group operates in accordance with the recommendations of the FRC's UK Corporate Governance Code. The Group's systems of internal control are designed and operated to support the identification, evaluation and management of risks affecting the Group. The Group's risk management approach has further evolved in the year, to manage risks arising from the changing legal, regulatory, macro-economic and commercial environments in which the Group operates. The continuation of the programme to further embed risk management within our operations is enabling greater consistency in the identification, assessment and mitigation of risks at both a local and Group level.

The Operating Executive (OPEX) is responsible for the operational stewardship of the business, including the ownership of the Group risks and related assurance activities. OPEX ensures the successful and effective alignment of functional business plans to the Group strategy, with business unit and functional management responsible for the delivery of operational performance and the management of the related risks. These management teams are responsible for ensuring that the Group's strategic objectives are achieved in line with Group policies and standards, and that we conduct business in compliance with our Code of Conduct.

The Group's functional and divisional management structure, led by our OPEX, enable a continuous process for the identification, evaluation and management of significant risks to the achievement of business objectives at both a Group and local level, enabling effective and timely identification of actual and emerging risks and responses to mitigate impacts or realise opportunities. In order to achieve this the Group employs subject matter experts in its centres of expertise (CoEs) to provide effective solutions and support that enables our operational management to implement effective risk management approaches across our varied geographic footprint.

An example of this is our Finance function, which has responsibility for the financial policies, standards and best practice to be followed by operational finance management across the Group, as documented in our Finance Manual. Compliance with Group and local reporting requirements has been confirmed by finance management across the Group on a quarterly basis, providing a robust basis for the central Finance team to appropriately manage the Group financial reporting processes, allowing for the timely and accurate production of our Half Yearly and Annual Accounts, which in turn enables the Board to discharge its reporting responsibilities.

Operational management are held accountable for the compliance of their business units to Group policies and standards through the completion of the Group Control Matrix (GCM) assessment process, and certification of compliance to Group policies and standards.

MANAGING THE BUSINESS THE RIGHT WAY

Clear Roles

The Group's operating model defines the different roles that various areas of the business play in risk management, with the three lines of defence continuing to be the principal model used to articulate this:

1. Local management own the management of risks and it is their responsibility to identify and mitigate these risks;
2. CoEs, which are generally central functions employing technical experts, develop and provide appropriate policy, process, control structures and support to local management; and
3. Our Internal Audit team independently reviews the effectiveness of our risk management and internal control system.

Clear Rules

The Group's policies, procedures and internal controls provide the parameters within which the global business operates. This enables a consistent application of the Group's risk management framework.

The Group's online Policy Index clarifies the Group-wide policies and procedures that must be followed. In addition, a Group Controls Matrix has been developed with the 2nd line CoEs over the last year, which lists all expected minimum controls so as to clarify to operational management the standards of internal control expected of them.

Clear Authority

We have a centrally defined Group Approvals Matrix and aligned local schedules of authority. This ensures the formal and effective escalation of decisions to the appropriate level of responsibility and accountability, whilst also maximising the agility and efficiency of management decisions.

For those business units operating with organisational independence from the Group, such as ITG Brands and Fontem Ventures, we have bespoke Governance Frameworks in place to ensure the appropriate level of oversight and interaction with Group.

Clear Values

The Group expects all of its people to uphold the high corporate standards expected of them and to act with respect and integrity in everything they do.

The Group's values are a cornerstone of our Code of Conduct, which helps to determine the culture within which we operate, ensuring a consistency of moral and ethical behaviour across the organisation.

Training is provided across the Group on the expectations we have of our people, with tailored programmes developed for key elements, such as the Group's stance and processes to manage anti-bribery and corruption requirements.

Through these approaches management formally confirm the status of their unit's compliance with key controls. The results of this are shared with relevant CoEs for expert insights and to help further enhance controls and the guidance they provide to the business. Additionally, the information is provided to our Internal Audit department for reference during their audit testing.

The above processes and those described in the Principal Risks and Uncertainties section on pages 24 to 28 enable the Board, either directly or through the Audit Committee, to review and monitor regularly the effectiveness of the key procedures which have been established in order to provide appropriate internal controls. They also enable the Board to confirm that an ongoing process for identifying, evaluating and managing the Group's principal risks has operated throughout the year and up to the date of approval of the Annual Report and Accounts.

The Committee received regular updates during the year on the continued development and implementation of the governance and risk management framework and on the risk management systems and processes operating within the Group. Additionally, the Committee has reviewed the process for identification, assessment and reporting of the Company's principal risks set out on pages 24 to 28. The Committee has also considered and confirmed to the Board that this work is in accordance with the provisions in the 2016 UK Corporate Governance Code and the Financial Reporting Council's (FRC) associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

INTERNAL AUDIT

Internal Audit (IA) has continued to evolve and develop its practices in order to improve the independent challenge to the Group's activities, as required by the Audit Committee and management. IA performs a risk based audit programme aligned to the Group's strategic priorities, resulting in relevant individual and theme-based recommendations and insights to further strengthen the Group's control framework.

The Audit Committee reviews the annual IA plan, including its scope and extent, and reviews reports from IA at each quarterly Audit Committee meeting to monitor the function's achievements against plan. The Audit Committee considered the results of the audits undertaken by IA and monitored management responses to the audit matters raised. IA post audit surveys are completed by relevant management, with feedback on IA's performance over the year being positive.

EXTERNAL AUDIT

At the Committee's January 2017 meeting PwC set out its audit strategy, including the key items and risks to be reviewed, the overall scope and materiality thresholds for the Half-Year Report and for the audit of the consolidated financial statements for the year ended 30 September 2017.

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

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

INDEPENDENCE OF OUR EXTERNAL AUDITORS

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

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

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

During the year PwC undertook limited non-audit work. This non-audit work was awarded to PwC due to its knowledge of the Group and it being deemed best placed to provide effectively the services required. This non-audit work included:

- verification of our corporate social responsibility reporting and underlying processes; and
- provision of comfort letters to support renewal, and issuances, of the Group's EMTN debt issuance programme.

In the current year non-audit fees were 3 per cent (2016: 37 per cent) of total audit fees (see note 4 on page 93). Following the auditor independence reviews during the year, the Committee concluded that the level of non-audit fees is appropriate in the light of the above activities and the Committee does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

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

AUDIT QUALITY

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

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

APPROACH TO AUDIT TENDER

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

The Committee has determined that the likely timing of the audit tender will be in the year ending 30 September 2021 so that the incoming external audit firm can take up the role for the year ending 30 September 2023. The Committee believes that this timeframe for the audit tender is in the best interests of the Company and its members given the ongoing medium-term projects involving significant changes to the Group's operating model including the migration to finance shared services.

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

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

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

STATEMENT OF AUDITORS' RESPONSIBILITIES

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

Turn to page 75
for further details on PwC's opinions

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

– so far as they are aware, there is no relevant audit information (that is, information needed by PwC in connection with preparing its report) of which PwC is unaware; and

– each has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish PwC is aware of that information.

The Board accepted, at its November 2017 meeting, the Committee's recommendation to put to shareholders at the forthcoming AGM a resolution to reappoint PwC as auditors to the Company.

For the Board

KAREN WITTS
Chairman of the Audit Committee

APPLICATION OF THE UK CORPORATE GOVERNANCE CODE

The latest revision of the UK Corporate Governance Code (the Code) was published by the FRC in April 2016.

We are pleased to confirm that the Company has complied in full with the Code throughout this financial year.

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

THE BOARD AND ITS COMMITTEES

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

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

Our NEDs play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee are considered on pages 37 to 39 and 53. The open atmosphere at our Committee meetings enables our NEDs to use their judgement, experience and independence to review critically and, where appropriate, challenge constructively strategies proposed by management. This ensures the further development of our business, effective use of our resources and maintenance of our high standards of conduct.

MATTERS RESERVED FOR THE BOARD

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

DIVISION OF RESPONSIBILITIES OF OUR CHAIRMAN AND CHIEF EXECUTIVE

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

Board composition and roles

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

CONFLICTS OF INTEREST AND INDEPENDENCE

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

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

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

As part of our annual review process, during the Board meeting in September 2017 we reviewed and reconsidered all situations entered in the Conflicts Register and the Board is satisfied that the independence of those Directors who have external board appointments has not been compromised. At this meeting, and taking into account the annual Board performance evaluation discussed below, the Board concluded that all our NEDs continue to contribute effectively and constructively to Board debate, demonstrate commitment to their role, challenge objectively and question management robustly and at all times have the best interests of our shareholders in mind. We confirm, therefore, that, with the exception of our Chairman who met the independence criteria of the Code on appointment, our NEDs remained independent throughout the year as defined in the Code.

EXTERNAL APPOINTMENTS

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

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

INFORMATION AND TRAINING

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

Through its 'NEDucation' programme the Company is also committed to the continuing development of its NEDs in order that they may build on their expertise and develop their understanding of the business and the markets in which we operate.

Through this programme ongoing training is available to NEDs to meet their individual needs. We also provide regular briefings to all Directors on matters such as legislation and regulation changes and corporate governance developments. Members of our Audit and Remuneration Committees also received briefings from PwC and New Bridge Street respectively. No specific training needs were identified in 2017.

In addition to the NEDucation programme we held our March 2017 Board meeting in Rome and our April 2017 meeting in Madrid, with sessions focusing on how our strategy is being executed in our Growth and Returns divisions respectively. At its June 2017 meeting the Board considered the NGP landscape and reviewed the Group's NGP strategy within that.

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

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

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

PERFORMANCE EVALUATION

The Chairman held meetings with the NEDs during the year to consider, amongst other things, the performance of the Executive Directors. In addition, the Senior Independent Director held separate meetings with individual Board members and the Board as a whole, both without the Chairman present, to consider the performance of the Chairman.

To enhance the effectiveness of the Board, and in line with Principle 6 of the UK Corporate Governance Code, during the year an interview based external review of its performance and of its Committees was undertaken.

This review considered the overall functioning of the Board and its Committees, the balance and range of Directors' skills, diversity, succession planning, and how the Board works as a unit.

The report was presented to the Board at its September 2017 meeting. The evaluation showed that the Board and its Committees continue to function and perform effectively and neither significant areas for concern nor any requirement to provide extra training for our Directors were identified.

Areas identified for further consideration were ensuring the Board makes the best use of each of the NEDs' diverse skill sets, optimising the use of the Board's time and a continued focus on succession.

We addressed the areas raised for consideration in the 2016 evaluation as follows:

Area for consideration	How we addressed this area
Focus on succession	Simon Langelier appointed to the Board and enhanced succession planning across the Group.
Increasing the NEDs' understanding of changing/emerging risks facing the Group	Risk presentations received by the Board and the Audit Committee.
Ensuring the Board has adequate time to consider appropriately all matters requiring its attention	Agendas planned to ensure Board's time focused on matters requiring its attention and membership of Committees reviewed.

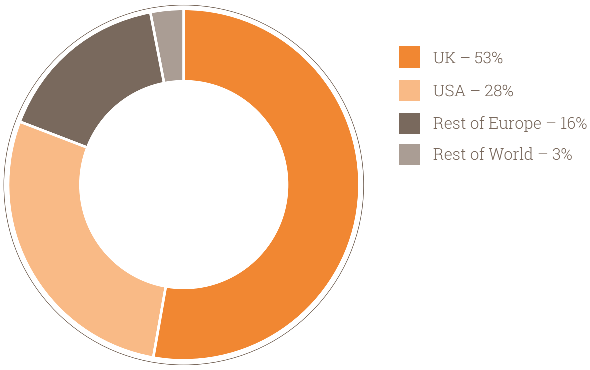
INSURANCE AND INDEMNITIES

We have purchased and maintain appropriate insurance cover in respect of directors' and officers' liabilities. The Company has also entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Act. These indemnities were in force throughout the year and up to the date of this Annual Report.

DIALOGUE WITH OUR INVESTORS

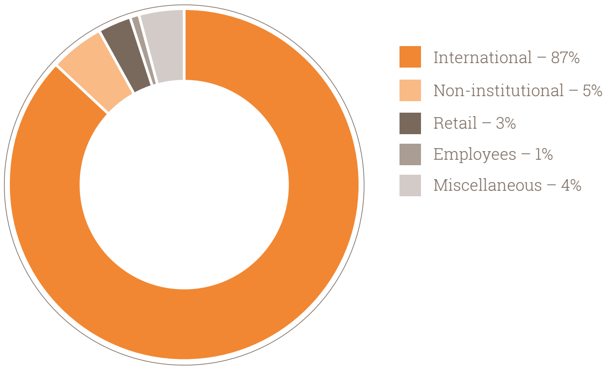
GEOGRAPHICAL ANALYSIS OF SHAREHOLDERS

(as at 30 September 2017)



SHAREHOLDER COMPOSITION

(as at 30 September 2017)



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

We maintain an active engagement with our key financial audiences, including institutional shareholders, debt stakeholders and sell-side analysts as well as potential shareholders. During the year we made regular presentations to, and had meetings with, institutional investors from the UK, Europe, USA and Asia to communicate progress towards achieving our sales growth strategy and to answer questions. Throughout the year our senior management team presented at industry conferences organised by investor bodies and investment banks for their institutional investor bases. Our Investor Relations and management team managed the interaction with these audiences and provided additional regular presentations during the year.

We hosted two webinars during the year for investors and analysts. The first in March 2017 focused on our Strategy, including the four strategic pillars: strengthening our brand portfolio; prioritising investment across our footprint while driving the benefits from cost optimisation and our focus on capital discipline. It also set out our Market Repeatable Model to deliver market share gains in our priority markets. In June 2017, in our second webinar we provided a more detailed review of how we are strengthening our portfolio to deliver quality revenue growth and cost efficiencies through brand migrations and radical SKU rationalisation as well as prioritised brand investment. Both webinars were well attended by investors and the materials have been made available on our website. Looking ahead, we plan to continue with this format to support increased investor understanding of our business and strategy.

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

Our next AGM will be held on 7 February 2018, full details of which are contained in the Notice of Meeting available on our website and, where applicable, posted with this Report. We ensure our Annual Report and Accounts and Notice of the AGM are made available at least 20 working days prior to the meeting to allow shareholders time to consider them fully before submitting their proxy votes.

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

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

At our 2017 AGM we received votes representing approximately 79 per cent of our issued share capital (excluding shares held in treasury at the date of the meeting).

OTHER INFORMATION – INTRODUCTION

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

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

In accordance with the UK Companies Act 2006 (the Act) the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Act, is included in the Strategic Report. The information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the Chief Executive's Review;
- information relating to our people is included in the Rewarding Workplace section;
- our principal risks are detailed on pages 24 to 28; and
- the Directors of the Company are listed on pages 34 and 35.

SHARE CAPITAL

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

At our AGM on 1 February 2017 shareholder authority for the buyback of up to 95,870,000 shares was obtained.

As at 30 September 2017 we held 77,289,137 shares in treasury, which represented 7.49 per cent of issued share capital and had an aggregate nominal value of £7,728,914.

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

At 30 September 2017 we had been notified of the following interests in 3 per cent or more of our shares and there have been no changes to this information up to the date of this Annual Report.

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

1. Indirect holding.

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

The share interests of the Directors, their families and any connected persons are shown on page 67. Other than as disclosed on page 59, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

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

FINANCIAL RESULTS AND DIVIDENDS

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

The profit attributable to equity holders of the Company for the financial year was £1,409 million, as shown in our Consolidated Income Statement. Note 3 to the financial statements gives an analysis of revenue and operating profit.

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

We pay quarterly dividends. The first and second dividends for financial year 2017 were paid on 30 June 2017 and 29 September 2017 respectively. The third dividend will be paid on 29 December 2017 and, subject to AGM approval, the final dividend will be paid on 29 March 2018 to our shareholders on the Register of Members at the close of business on 23 February 2018. The associated ex-dividend date will be 22 February 2018.

The Directors have declared and proposed dividends as follows:

£ million	2017	2016
Ordinary Shares		
Interim paid – June 2017, 25.85p per share	**247**	225
Interim paid – September 2017, 25.85p per share	**247**	225
Proposed interim – December 2017, 59.51p per share	**569**	516
Proposed final – March 2018, 59.51p per share	**569**	516
Total ordinary dividends, 170.72p per share (2016: 155.2p)	**1,632**	1,482

RELATIONS WITH OTHER STAKEHOLDERS

RESPONSIBLITIES TO A BROAD STAKEHOLDER GROUP

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

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

http://www.imperialbrandsplc.com/content/dam/imperial-brands/corporate/responsibility/approach-and-performance/Responding_to_our_Stakeholders_2016_update.pdf

CHARITABLE AND POLITICAL DONATIONS

As part of our responsible approach and commitment to reinvesting in society, we continued to support a number of communities in which we operate by allocating a well-considered central budget. In addition to our central budget a number of entities donate to charitable and community endeavours from local budgets. We further support community activities through in-kind activities including management time, volunteering and gifts in-kind. In 2017 we dissolved our Altadis Foundation, deciding to support a number of select charitable projects directly and to make associated overhead savings with the dissolution. Globally we continued our Group-wide volunteering initiative, which in its third year has supported some 86 charitable projects in 38 countries.

More information on our approach to supporting community livelihoods can be found on our website www.imperialbrandsplc.com/responsibility.

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

No political donations were made to EU political parties, organisations or candidates (2016: Nil). This approach is aligned with our Group Policy and Code of Conduct.

PENSION FUND

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

Turn to page 65
Further details are contained in our Remuneration Report.

ARTICLES OF ASSOCIATION

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

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

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

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

The nine credit agreements are:

- a credit facilities agreement dated July 2014 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited: (a) committed acquisition credit facilities originally across three tranches of $4,100 million, $1,500 million and $1,500 million, for a maximum period of up to three years, four years and six years respectively; (b) committed credit facilities originally of €1,000 million for a period of up to three years; and (c) committed credit facilities in two tranches of €2,835 million and £500 million for a period of up to five years. The Group has subsequently either repaid, cancelled or extended certain of these facilities, such that as at 30 September 2017 the following remained outstanding: committed credit facilities of €2,835 million until July 2021 and £500 million until July 2021;
- seven deeds of counter-indemnity each dated July 2017 made on substantially the same terms under which certain insurance companies each make available to Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £600 million, until January 2023; and
- a credit facility agreement dated June 2015 in which Bank of America Merrill Lynch Limited makes available to Imperial Brands Finance PLC and Imperial Brands Enterprise Finance Limited a committed credit facility of $300 million for a period of up to three years.

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

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

The bonds issued in such manner are as follows:

- 15 September 2008 £600 million 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000 million 9 per cent guaranteed notes due 2022;
- 24 June 2009 £500 million 7.75 per cent guaranteed notes due 2019;
- 5 July 2011 €850 million 4.5 per cent guaranteed notes due 2018;
- 26 September 2011 £500 million 5.5 per cent guaranteed notes due 2026;
- 1 December 2011 €750 million 5 per cent guaranteed notes due 2019;
- 28 February 2014 €1,000 million 2.25 per cent guaranteed notes due 2021;
- 28 February 2014 €650 million 3.375 per cent guaranteed notes due 2026;
- 28 February 2014 £500 million 4.875 per cent guaranteed notes due 2032;
- 27 January 2017 €500 million 0.5 per cent guaranteed notes due 2021; and
- 27 January 2017 €500 million 1.375 per cent guaranteed notes due 2025.

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

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

The bonds issued in such manner are as follows:

- 11 February 2013 $1,250 million 2.05 per cent guaranteed notes due 2018;
- 11 February 2013 $1,000 million 3.5 per cent guaranteed notes due 2023;
- 21 July 2015 $500 million 2.05 per cent guaranteed notes due 2018;
- 21 July 2015 $1,250 million 2.95 per cent guaranteed notes due 2020;
- 21 July 2015 $1,250 million 3.75 per cent guaranteed notes due 2022; and
- 21 July 2015 $1,500 million 4.25 per cent guaranteed notes due 2025.

UPDATE ON TOBACCO-RELATED LITIGATION

ITALY

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

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

MOROCCO

In June 2015, a claim was filed in the Casablanca Court by the heirs of a deceased individual against our Moroccan subsidiary, Société Marocaine des Tabacs (SMT). The total amount of compensation sought was not specified. On 9 February 2016, the Casablanca Court found in favour of SMT and dismissed the claim. No appeal has been filed.

ARGENTINA

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

RUSSIA

In August 2016, a claim was filed in the Russian Court against 18 tobacco companies including JSC Imperial Tobacco Yaroslavl by an individual claiming RUB 523,480,297 and other amounts related to the profits of the defendants. Imperial was notified of the claim by the Russian Court in February 2017. The claim was dismissed in full at a hearing in April 2017. The claimant appealed the decision. The appeal was heard on 18 July 2017 by Moscow Court's Judicial Panel for Civil Cases. The appeal was dismissed in full and the claimant has until 18 January 2018 to appeal the decision.

THE NETHERLANDS

Reports in the public media indicate that a complaint has been lodged with the Public Prosecutor in the Netherlands directed at the four major tobacco manufacturers, including Imperial Tobacco Benelux. Neither Imperial Tobacco Benelux nor any of its employees has been charged by the Public Prosecutor in the Netherlands, but we are monitoring developments.

POLAND

On 9 October 2017, Imperial Tobacco Polska SA ("Imperial Polska") received notice that a claim has been filed against it in the Regional Court in Poznań by an individual claiming PLN 1,000,000 by way of compensation for alleged smoking related health effects. Imperial Polska has not yet filed a Statement of Defence but it intends to deny liability.

USA

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

To date, no action has been successful or settled in favour of any claimant in any tobacco-related litigation against Imperial Brands or any of its subsidiaries. Imperial Brands has been advised by its lawyers that it has meritorious defences to the legal proceedings set out above. We will continue vigorously to contest all such litigation against us.

UPDATE ON E-VAPOUR-RELATED LITIGATION

We are currently defending one e-vapour-related claim in the USA. This is a consolidation of two purported class actions (Diek and Whitney) seeking to recover unquantified damages, including punitive damages. The parties have reached a framework for settlement of the claims which will not involve payment of any monies to plaintiffs or any class, subject to court approval. The parties are discussing plaintiffs' counsels' claims for legal fees, which, if not agreed, will be determined by the court through a contested hearing.

A claim that had been brought by the Center for Environmental Health alleging violations of the California Safe Drinking and Toxic Enforcement Act has been settled and the action is concluded.

OTHER INFORMATION – LISTING RULES

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

Section	Information	Page
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	52, 57, 58, 64, 65, 67, and 68
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	56, 57, 63, 69, and 70
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Non pre-emptive issue by major subsidiary undertakings	Not applicable
(9)	Listed subsidiary	Not applicable
(10)	Contracts of significance	49 and 50
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	See below
(13)	Shareholder waivers of future dividends	See below
(14)	Agreements with controlling shareholders	Not applicable

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom GAAP (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and Applicable Law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently;

– state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;

– make judgements and accounting estimates that are reasonable and prudent; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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.

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

Each of the Directors, whose names and functions are listed on pages 34 and 35, confirms that, to the best of their knowledge:

– the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, and United Kingdom Accounting Standards respectively give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and

– the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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

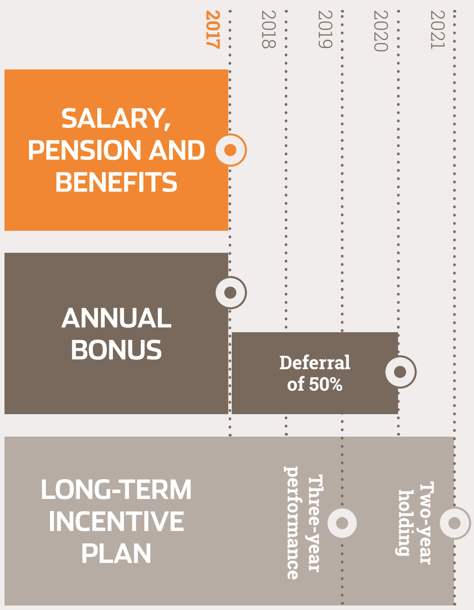
JOHN DOWNING
7 November 2017

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

REMUNERATION AT A GLANCE

Our remuneration policy aligns the interests of management with those of our shareholders, ensuring our ability to attract and retain high performing executives whilst incentivising the delivery of our strategic objectives and sustained returns for investors. Remuneration is weighted towards performance-related variable elements with measures aligned to the key performance indicators we use to monitor and assess the progress we make in delivering our strategy.

1. OUR REMUNERATION POLICY



Link to strategy	Key features
Recruit and retain high calibre executives.	Reviewed annually. Increases based on individual performance, inflation and taking into consideration increases for the wider employee population.
Drives delivery of annual objectives. Deferred element incentivises sustained performance aligned to shareholder interests.	Maximum potential of 200% of salary. At least 60% linked to financial metrics. 50% deferred in shares for three years. Clawback and malus provisions in place.
Aligns interests with stakeholders by incentivising delivery of long-term strategic objectives and retaining high calibre executives.	Maximum award value of 350% of salary. Three-year performance criteria linked to business key performance indicators. Two-year post vesting holding period. Clawback and malus provisions in place.

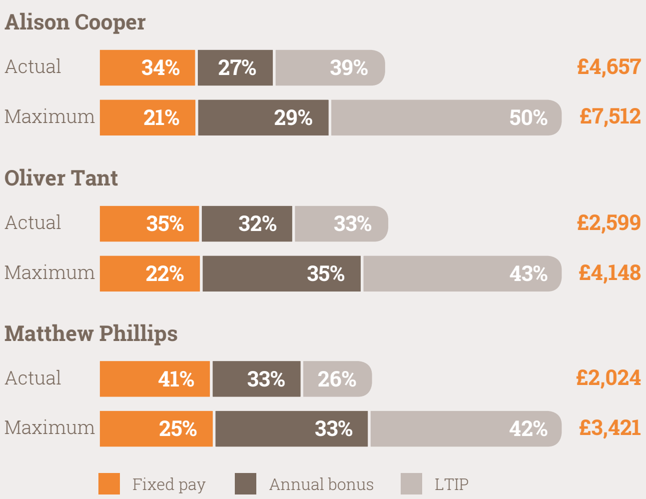
Turn to page 56
for more on our remuneration policy

2. WHAT DIRECTORS WERE PAID IN 2017

2017 REMUNERATION ACTUAL VS POLICY

Total remuneration is below 2016 levels as a result of lower bonus and LTIP vesting together with the impact of a recent reduction in the share price.

Remuneration (£000s)

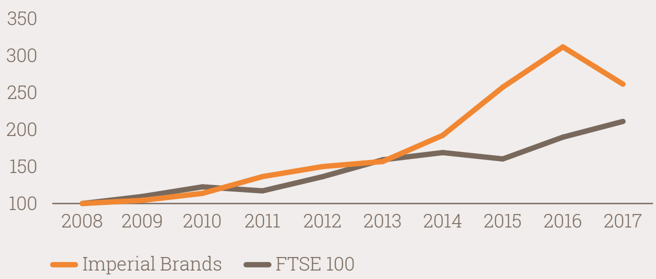


3. PAY ALIGNED WITH SHAREHOLDER RETURNS

A TRACK RECORD OF OUT-PERFORMANCE

Delivery of our strategy has resulted in Imperial Brands outperforming the FTSE and delivering a total shareholder return of 161 per cent, as set out in the chart below.

TOTAL RETURN INDICES – IMPERIAL BRANDS AND FTSE 100



FTSE 100 Index for each of our financial year ends to 30 September 2017. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a nine-year period.

Turn to page 62
for more on our single figure reporting

REMUNERATION COMMITTEE

"An important year of investment behind our priority markets, our brands and our Next Generation Products."

DAVID HAINES
Chairman

MEMBERS

David Haines
Chairman
Therese Esperdy
(to 1 February 2017)
Michael Herlihy
(to 1 February 2017)
Steven Stanbrook
Karen Witts
Malcolm Wyman

Trevor Williams
Committee Secretary

OTHER REGULAR ATTENDEES

Board Chairman[1]
Chief Executive[1]
Group Company Secretary
Group Human Resources and Transformation Director[1]
Group Reward and Capability Director
New Bridge Street, the Committee's principal advisor[2]

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

FOCUS IN 2017

- Consultation with shareholders on previously proposed changes to remuneration policy;
- Monitoring of, and reaction to, a significant shift in the external environment and shareholder sentiment regarding remuneration policy, leading to a decision to withdraw the previously proposed policy prior to the 2017 AGM; and
- Consideration of remuneration policy for proposal at the 2018 AGM.

LOOKING AHEAD TO 2018

- Propose the 'roll-over' of our remuneration policy at the 2018 AGM when it is due to be renewed;
- Appointment of the principal advisor to the Committee;
- Continued engagement with shareholders on remuneration approach and policy; and
- Monitor and where appropriate implement remuneration governance developments.

DEAR SHAREHOLDER

A year of investment, restructuring and growth

At the start of the year, we communicated our intention to invest behind our strategy and that, in order to deliver this, there would be a short-term reduction in earnings growth as we increased investment significantly in our priority markets, our Growth and Specialist Brands and our Fontem business.

These investments have already started to show positive results, successfully delivering share growth in many of our priority markets. Cost and capital discipline was maintained with 91 per cent cash conversion delivered.

The impact on earnings of these investments was, in part, mitigated through the successful implementation of our restructuring programme, which delivered £130 million of benefits in the year. In addition, we undertook action to reduce the long-term liabilities of our UK defined benefit pension through the introduction of a cap on pensionable salary of £75,000 or, if higher, the member's pensionable pay at 1 September 2017. This change means that any future salary increases above this level will not be taken into account in pension benefits, protecting the pensions of lower paid workers but reducing benefits for higher earners, including for two Executive Directors who are members of the plan.

Incentive plan results

The impact of the investment decisions, particularly on EPS, has reduced pay-out levels under both the annual bonus and long-term incentive. The annual bonus pay-out for Executive Directors was 60 per cent of maximum opportunity and 44 per cent of the LTIP awards made in February 2015 will vest.

The Remuneration Committee is mindful of the fact that the Executive Directors have made investment decisions which are in the long-term interests of shareholders and other stakeholders and yet, due to the impact on revenue and profit, these decisions have adversely affected incentive pay-outs. On this occasion, the Committee has determined that no discretion should be applied. We will continue to monitor incentive results and consider whether they appropriately reflect performance delivered.

Shareholder consultation
Last year, the Committee undertook a wide ranging review of our remuneration policy, including consulting with shareholders holding in excess of 65 per cent of our shares. Our review concluded that pay outcomes in recent years had not sufficiently reflected the performance of the Company in delivering its strategy and growing long-term shareholder value. This was primarily due to lower opportunity in variable pay and we were concerned that this placed us at a disadvantage in attracting and retaining the talent required to maximise our growth potential.

To that end, we proposed a new policy that sought to address these concerns. A large number of our shareholders were supportive of the Committee's revised policy during the consultation. However, having listened carefully to feedback from a number of investors in the lead up to our AGM, the Committee judged that there was insufficient consensus in shareholders' views to provide a firm base for proceeding with a new policy at that time, and the AGM resolution was withdrawn.

Policy renewal
Since then, and in preparation for the forthcoming AGM, the Committee has further engaged with a number of investors. Reflecting concerns regarding executive pay levels and the current lack of a consensus regarding alternative pay models, we are proposing to "roll-over" the current policy with no change at the 2018 AGM, when it is due to be renewed. This approach will result in us continuing to operate a remuneration policy which received strong support from our shareholders in 2015 and implementation of which has had high support at annual votes since. All of the features of the policy, which are in line with current market practice, will therefore remain, including clawback and malus for all incentive schemes, significant shareholding requirements and a two-year post-vesting holding period for vesting LTIP awards.

In the longer term, however, we are conscious that the issues we sought to address last year remain. In the context of increasingly challenging tobacco markets together with significant growth opportunities in Next Generation Products (NGP), this will need thoughtful consideration. As a Committee, we therefore intend to keep the policy and the broader executive market under review and will further engage with our shareholders about how and when these issues might best be addressed.

Implementation of policy
Whilst the intended "roll-over" means that no changes are proposed to the remuneration policy, the Committee intends to make two changes to how the policy is implemented in 2018. These changes further align our approach with our strategy and with current shareholder priorities.

The Committee has listened to shareholder and stakeholder concerns over executive pension arrangements that are higher than those offered to other employees. Whilst there are no differences between the benefits received by Executives and other employees in the UK defined benefit plan (of which two Executive Directors are members), we currently provide a higher level of employer contribution to one Executive Director and some other executives in the UK defined contribution plan than is offered to other employees. Going forward, the Committee intends to limit employer contributions for new Executives to the same level (14 per cent) that is provided to other UK based employees.

Reflecting the importance of NGP to Imperial's future success and long-term value creation for shareholders, we will introduce NGP performance measures into both the annual bonus and LTIP for 2018. In the annual bonus, all Executives will have the 15% weighting for Strategic/Individual Objectives aligned with the development of our NGP business, with a focus on increasing the number of NGP consumers. Within the LTIP, 20% weighting will be aligned to growing our revenues in NGP products.

The rolled over remuneration policy will be submitted for a binding vote at the upcoming AGM, and the Annual Report on Remuneration will be submitted for an advisory vote. We look forward to receiving your support and to constructive dialogue about the future structure and approach to remuneration.

DAVID HAINES
Chairman of the Remuneration Committee

THE ROLE OF THE REMUNERATION COMMITTEE

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

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

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

The Committee's other responsibilities include:

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

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

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

The Regulations require our auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The auditors' opinion is set out on page 75 and we have clearly marked the audited sections of the Report.

REMUNERATION COMMITTEE MEETINGS 2016/2017

2016	2017			
November	**January**	**April**	**June**	**September**
– Remuneration policy including update from consultation – Finalise 2015/2016 Directors' Remuneration Report – Variable remuneration – Satisfaction of performance criteria – Consideration of FY17 bonus targets – LTIP 2017 grant and performance criteria – Approval of 2017 Sharesave grant	– Update on shareholder views regarding policy proposals – Recommendation to withdraw policy proposal	– AGM voting and shareholder feedback – Market practice update – Review of policy – Update on changes to reward structure and UK pensions across the Group	– Review of proposals for remuneration policy – Investor communications for proposed policy – Consideration of tender for remuneration advisor	– Market practice update – Potential outturn for FY17 bonus and LTIP – Update on policy proposals and FY18 salary and incentive structures – Review of Chairman's fees – Gender pay reporting – Decision on tender for remuneration advisor

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

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

As stated earlier in this Report, following the withdrawal of the proposed policy at the 2017 AGM, we have once more reviewed our remuneration policy during 2017. As a result of this process and shareholder feedback received during consultation, we are not proposing any changes to the Directors' remuneration policy and are rolling over the remuneration policy approved by shareholders in 2015. The Directors' remuneration policy will, nevertheless, as required by the Regulations, be submitted for shareholder approval at our 2018 AGM.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	Operation	Maximum opportunity
Salary	Attract and retain high performing individuals, reflecting market value of role and the Executive Director's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Committee taking into account each Executive Director's performance together with changes in role and responsibility. Salary increases, if any, are generally effective from 1 October. The Committee considers pay data for UK listed companies closest to us by FTSE ranking (and excluding those in the financial services sector). These comparators serve to define a "playing field" within which an individual's reward needs to be positioned. In determining individual remuneration, the primary factors taken into account are individual performance, the scale of the challenges intrinsic to that individual's role, their ability and experience.	Whilst there is no maximum salary or maximum increase in salary, the Committee would only set a salary which exceeded the top quartile of salaries of the comparator group in unforeseen and exceptional circumstances. The Committee takes into account each Executive Director's performance, together with changes in role and responsibility and considers general increases for the wider UK management population.
Benefits	Competitive benefits taking into account market value of role and benefits offered to the wider UK management population.	Benefits include provision of company car, health insurance, life insurance and permanent health insurance which are provided directly or through the Company pension scheme. Opportunity to join the Sharesave Plan. Provision of relocation assistance upon appointment if/when applicable.	The level of benefit provision is fixed although the value may vary depending on the cost of providing such provisions.
Annual bonus plan	Incentivise delivery of Group strategic objectives and enhance performance, including against the indicators we use to measure our performance as detailed on pages 8 and 9.	At least 60% of the annual bonus will be linked to key financial metrics and no more than 15% will be linked to individual measures. Performance below the threshold results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any annual bonus earned is paid in shares to be held, in the corporate nominee, for a minimum of three years, with the other half paid in cash. Malus provisions apply before payment and clawback provisions are in place for the three years following payment of annual bonus. The deferred shares are not subject to performance conditions.	200% of base salary or such lower sum as determined by the Committee.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS CONTINUED

Element	Purpose and link to strategy	Operation	Maximum opportunity
Long-Term Incentive Plan	Incentivise long-term Group financial performance in line with the Group's strategic objectives, including against the indicators we use to measure our performance as detailed on pages 8 and 9, and long-term shareholder returns. Align Executive Directors' interests with those of long-term shareholders.	Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 20% on relative Total Shareholder Return (TSR) vs a peer group and 80% on financial measures. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Clawback and malus provisions are in place. Dividend equivalents accrued on vested shares are paid at the time of vesting. Any awards which vest will be subject to a further two-year holding requirement.	Chief Executive Officer: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Committee. Plus shares equivalent to the value of the dividend roll-up.
Pensions	Attract and retain high performing Executive Directors.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors who joined the Fund prior to 1 October 2010 are members of the defined benefit section whereas Executive Directors joining the Fund on or after this date are offered membership of the defined contribution section. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual. Members of the defined benefit section of the Fund accrue pension at a rate between 1/47th and 1/60th of pensionable salary. Further detail is provided in the Annual Report on Remuneration on pages 65 and 66. The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service. The Committee may amend the form of any Executive Director's pension arrangements in response to changes in pensions' legislation or similar developments, so long as any amendment does not increase the cost to the Company of an Executive Director's pension provision.	Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary should they choose to leave the Fund. Current policy is for a defined contribution and cash supplement limit of 26% of salary.

Note: Legacy awards – Subject to the achievement of any applicable performance conditions, Executive Directors remain eligible to receive payments, and existing awards may vest, in accordance with the terms of any such award made prior to the approval and implementation of this renewed remuneration policy. For completeness, this includes awards made under the existing remuneration policy which was approved by shareholders at the 2015 AGM.

COMMITTEE DISCRETIONS RELATING TO VARIABLE PAY SCHEMES

The Committee operates each of the Company's incentive plans for which it has responsibility according to their respective rules and, where relevant, in accordance with the Listing Rules. The Committee has discretion, consistent with market practice, in respect of, but not limited to:

- participants;
- the timing of grant of an award and/or payment;
- the size of an award (subject to the maxima set out in our policy);
- the performance measures and targets;
- the determination of vesting and confirmation that the calculation of performance is made in an appropriate manner, with due consideration of whether and, if so, how adjustments should be made (subject to the provision that any adjustments to targets set should result in the revised target being no less challenging than the original target);
- discretion required when dealing with a change of control and any adjustments required in special circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- determination of a good/bad leaver for plan purposes based on the rules of the plan and the appropriate treatment chosen.

In relation to the annual bonus and LTIP awards, the Committee retains the ability to adjust the targets set if events occur which cause it to determine that the conditions are no longer appropriate and amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy than was intended. Adjustment may also be made for any changes to accounting policy over the performance period. Any use of discretion beyond the normal operation of the plan would be justified in the Annual Report on Remuneration and, if appropriate, be subject to consultation with the Company's major shareholders. The use of discretion in relation to the Company's Sharesave Plan is as permitted under HMRC rules.

In the past three years the Committee has exercised its discretion on two occasions; both of these were to increase targets within the LTIP in order to reduce payments following the acquisition of USA assets, in order to ensure that the rewards received by the management team were in line with the Committee's original intentions when it set the performance criteria. The Committee will continue to review targets to ensure they reflect its original intentions.

PAYMENTS FROM EXISTING AWARDS

Subject to the achievement of applicable performance measures, Executive Directors are eligible to receive payment, and existing awards may vest, in accordance with the terms of any such award made prior to the approval and implementation of the remuneration policy detailed in this Report. Any employee appointed to the Board as an Executive Director will remain eligible to receive payments, and existing awards may vest, in accordance with the terms of any award under any of the Group's share plans made prior to such appointment.

PERFORMANCE MEASURE SELECTION

The measures used under the annual bonus plan are selected annually to reflect the Group's key initiatives for the year and reflect both financial and non-financial objectives. Performance measures used within the LTIP are more consistent from year to year, however, they are reviewed annually to ensure they continue to reflect our medium and longer-term priorities.

Performance targets are set to be stretching yet achievable, taking into account the Company's strategic priorities and the economic environment at the time.

For 2018, an important change is made through the inclusion of NGP performance measures in both the annual bonus and the LTIP. This reflects our planned step-up in activity in NGP and the importance to Imperial and our shareholders of growing revenues outside of core tobacco. The annual bonus measure targets growth in the number of consumers, targeting rapid expansion of our blu e-vapour brand. This is complemented in the LTIP with an NGP revenue measure, targeting accelerated growth in sales of e-vapour and other NGP products.

DIFFERENCES IN REMUNERATION POLICY FOR EXECUTIVE DIRECTORS COMPARED TO OTHER EMPLOYEES

The remuneration policy for Executive Directors is designed having regard to the remuneration policy for employees across the Group. The structure of the remuneration policy for Executive Directors and other senior employees is closely aligned. The key differentiator is the increased emphasis on long-term performance in respect of Executive Directors, with a greater percentage of their total remuneration being performance related. This includes mandatory three-year deferral of 50 per cent of bonus and an additional two-year holding period on vested LTIPs, neither of which apply to other managers. There are also variations in the performance metrics which the Committee believes are necessary to reflect the different levels of responsibility.

The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

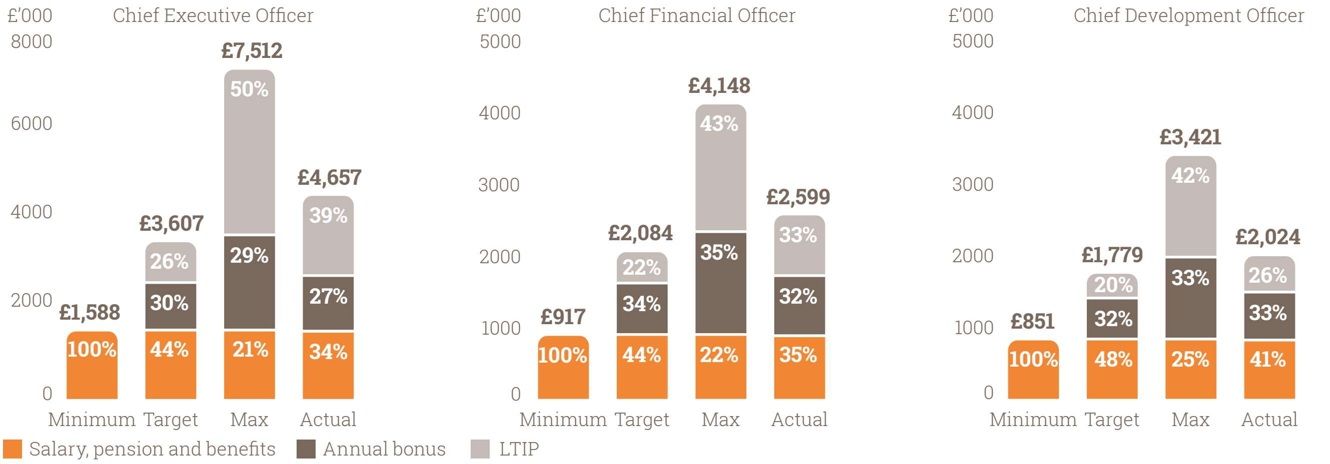
All managers are eligible to participate in an annual bonus plan with similar metrics to those used for the Executive Directors. Other employees are eligible to participate in performance led annual bonus plans. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Senior managers are eligible to participate in the LTIP (c.500 individuals) whilst other managers are eligible to participate in a share matching scheme (c.500 individuals). Where possible, all employees are encouraged to become shareholders by participating in our Sharesave Plan on the same terms as Executive Directors.

Retirement benefit, typically in the form of a pension, is provided based on local market practice. Other benefits provided reflect local market practice and legislation.

TOTAL REMUNERATION OF THE EXECUTIVE DIRECTORS FOR MINIMUM, TARGET AND MAXIMUM PERFORMANCE

TOTAL REMUNERATION BY PERFORMANCE SCENARIO FOR 2017/18 FINANCIAL YEAR



The charts are indicative as share price movement and dividend accrual have been excluded. For simplicity Sharesave Plan awards have also been excluded. Assumptions made for each scenario are as follows:

- Minimum: fixed remuneration only (i.e. current salary, benefits and pension).
- Target: fixed remuneration plus half of maximum annual bonus opportunity plus 25 per cent vesting of LTIP awards. Note that the Company does not have a stated 'target' for either its financial measures or incentive pay-outs.
- Maximum: fixed remuneration plus maximum annual bonus opportunity plus 100 per cent vesting of LTIP awards.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS AND LOSS OF OFFICE PAYMENTS

The Company's policy is that Executive Directors' service agreements normally continue until their agreed retirement date or such other date as the parties agree, are terminable on no more than one year's notice and contain no liquidated damages provisions nor any other entitlement to the payment of a predetermined amount on termination of employment in any circumstances. In addition, in some limited cases career counselling may be provided after the cessation of employment for a defined period. Under the terms of our Articles of Association, all Executive Directors are subject to annual re-election by shareholders and copies of their service agreements are available for viewing at our registered office during normal business hours and both prior to and at the AGM.

Executive Directors' service agreements contain provisions for payment in lieu of notice in respect of base salary, pension contributions and 5 per cent of base salary in respect of other benefits, but these are at the Committee's sole discretion. The Company is unequivocally against rewards for failure. The circumstances of any termination (including performance) and an individual's duty and opportunity to mitigate losses would be taken into account in every case; our policy is to stop or reduce compensatory payments to former Executive Directors to the extent that they receive remuneration from other employment during the compensation period and so any such payments would be paid monthly in arrears.

For Executive Directors leaving employment for specified reasons (including death, redundancy, retirement, ill health and disability, the business or company in which they are employed ceasing to be part of the Group or on a change of control) annual bonus awards will be based on performance, adjusted for time served, and paid at the same time as for other employees. The Committee has discretion to adjust the timing and pro-rating to take account of any prevailing exceptional circumstances.

Under the rules of the LTIP, outstanding awards vest if a participant leaves for the specified reasons as detailed above. In these circumstances awards vest as the Committee determines, having regard to the time the award has been held and the achievement of the performance criteria. Awards will normally vest at the normal vesting date. If the termination of employment is not for one of the specified reasons and the Committee does not exercise its discretion to allow an award to vest, awards lapse entirely.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

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

RECRUITMENT OF EXECUTIVE DIRECTORS

The remuneration package for a new Executive Director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment. The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and, therefore, shareholders. Any such buyout awards would be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash, shares or options), time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such awards at the time of appointment. The Committee may need to avail itself of the current Listing Rule 9.4.2 R if required in order to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual. The Committee confirms that this provision would only be used to compensate for remuneration lost.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay-out according to its terms on grant. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the Committee.

SHAREHOLDING GUIDELINES

Whilst placing significant weight on annual performance, our policy aligns the interests of shareholders and other stakeholders with those of management by incentivising the growth in the value of the business over the medium to longer term. To support this alignment, we have share ownership guidelines as we believe Executive Directors and other senior managers should be encouraged to hold a substantial portion of their personal wealth in the Company's shares.

Over a period of five years from appointment, Executive Directors are expected to build a holding in the Company's shares to a minimum value broadly equivalent to 300 per cent of gross base salary. Over a seven-year period other management are expected to build a holding to between half and twice base salary, dependent upon grade. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for LTIP awards.

Non-Executive Directors do not have a shareholding requirement, but are required to invest a minimum percentage of their fees in shares which they are required to retain for the duration of their appointment.

CONSULTATION WITH EMPLOYEES

Although the Committee does not consult directly with employees on the remuneration policy, the Committee does consider the general base salary increase, remuneration arrangements and employment conditions for the broader employee population when determining the remuneration policy for Executive Directors.

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee notes that shareholders do not speak with a single voice, but we engage with our largest shareholders to ensure we understand the range of views which exist on remuneration issues. When any material changes are proposed to be made to the remuneration policy the Committee chairman will inform and, where appropriate, consult with major shareholders in advance, and will offer a meeting to discuss these.

In line with this policy, prior to proposing a revised remuneration policy at its 2017 AGM, the Committee actively engaged with shareholders for some time and received considerable support. However, shortly before the meeting it became clear views had changed and that the right course of action was for the Board to withdraw the resolution.

Taking these revised views together with other feedback the Committee received from shareholders, the Committee deems the most appropriate action is to roll-over the current policy. This was discussed with our largest shareholders whilst other large shareholders were informed of the proposal and asked for their opinion. On the basis of the feedback received the roll-over of the policy will be put to shareholders at our 2018 AGM.

POLICY IN RESPECT OF EXTERNAL BOARD APPOINTMENTS

We recognise that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship and may not serve as the chairman of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Alison Cooper was a Non-Executive Director of Inchcape plc until the end of February 2017 and was permitted to retain the £25,000 fee received from this position in the financial year.

POLICY FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	Attract and retain high performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders.	Reviewed, but not necessarily increased, annually by the Board (after recommendation by the Committee in respect of the Chairman). Fee increases, if applicable, are normally effective from 1 October. The Board and, where appropriate, the Committee considers pay data at comparator companies of similar scale. The Senior Independent Director and the chairmen of the Audit and Remuneration Committees receive additional fees. From February 2017 additional fees are paid for Committee memberships. An allowance may be paid when regular intercontinental travel is required. No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans.	No prescribed maximum annual increase. Aggregate annual fees limited to £2.0 million by Articles of Association.
Benefits	Reimbursement of business related expenses.	Travel to the Company's registered office is recognised as a taxable benefit. To the extent that any other reasonable business related expenses are recognised as a taxable benefit, these will be reimbursed at cost (including any tax thereon).	Grossed-up costs.

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Chairman and Non-Executive Directors do not have service agreements, but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at our registered office during normal business hours and both prior to and at the AGM.

In line with our annual review policy, the Chairman's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 31 January 2017. There are no provisions regarding notice periods in their letters of appointment which state that the Chairman and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination. Under the terms of our Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

ANNUAL REPORT ON REMUNERATION – HOW THE COMMITTEE IMPLEMENTED THE REMUNERATION POLICY FOR FINANCIAL YEAR ENDED 30 SEPTEMBER 2017

IMPLEMENTING EXECUTIVE POLICY AND PRACTICE

In implementing the Company's remuneration policy (as detailed on pages 48 to 53 of the Company's Annual Report and Accounts 2014 available on our website and set out above), the Committee recognises that striking the right balance in finding a fair outcome in setting a competitive level of total remuneration is a matter of judgement. In forming this judgement, the Committee considered pay data at comparator companies of similar scale, primarily looking at a market capitalisation group made up of 10 companies above and 10 companies below the Company in the FTSE, excluding financial services. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most, serve to define a "playing field" within which an individual's reward should be positioned. In determining that positioning, the primary factors taken into account are the scale of the challenges intrinsic to that individual's role, their ability, experience and performance.

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

LINKING REMUNERATION WITH STRATEGY

We focus on delivering high quality sustainable sales growth whilst effectively managing our costs and cash flows. Investing behind our Market Repeatable Model in tobacco and our NGP portfolio is key to maximising long-term returns to shareholders. Our remuneration policy is designed to incentivise delivery against these key elements of our strategy.

Element	Purpose and link to strategy
Alignment with our strategy	Sustainable high quality growth is at the heart of our strategy. This is supported by the inclusion of the drivers of growth within our variable remuneration – both the annual bonus and LTIP. Stretching performance targets incentivise the delivery of sales in both our core tobacco business and Next Generation Products. Managing our costs and cash flows are the other elements of our strategic focus. Profitability, mainly in the form of earnings per share, forms a major part of the measurement in both the annual bonus and LTIP whilst cash conversion forms a measure for the annual bonus.
Alignment with our shareholders	To align their interest with shareholders, employees at all levels are encouraged to have an interest in the Company's shares through both direct shareholdings (supported by shareholding requirements for senior managers) and through our share plans, with the value of the Corporate Management Group's overall remuneration being heavily influenced by the performance of our share price.
Attracting and retaining the right people	Our remuneration policy is designed to ensure a high quality pool of talented employees at all levels who are engaged and incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks. We believe it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we neither pay more than necessary nor reward failure. Our policy is, therefore, significantly weighted towards performance based elements.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED)

£'000	**2017 Salary and fees**	2016 Salary and fees	**2017 Taxable benefits[1]**	2016 Taxable benefits	**2017 Annual bonus[2]**	2016 Annual bonus	**2017 Share plans vesting[3]**	2016 Share plans vesting[3]	**2017 Share-save vesting[4]**	2016 Share-save vesting	**2017 Pension benefits[5]**	2016 Pension benefits	**2017 Total**	2016 Total
Executive Directors														
Alison Cooper	**1,051**	1,020	**17**	17	**1,261**	1,469	**1,834**	2,308	**–**	–	**494**	590	**4,657**	5,404
Oliver Tant	**700**	649	**17**	17	**840**	934	**855**	938	**5**	–	**182**	169	**2,599**	2,707
Matthew Phillips	**557**	541	**23**	24	**668**	779	**519**	715	**–**	4	**257**	434	**2,024**	2,497
	2,308	2,210	**57**	58	**2,769**	3,182	**3,208**	3,961	**5**	4	**933**	1,193	**9,280**	10,608
Non-Executive Directors														
Mark Williamson	**525**	500	**3**	4	**–**	–	**–**	–	**–**	–	**–**	–	**528**	504
Therese Esperdy[6,7,8]	**98**	19	**16**	7	**–**	–	**–**	–	**–**	–	**–**	–	**114**	26
David Haines[9]	**104**	100	**5**	2	**–**	–	**–**	–	**–**	–	**–**	–	**109**	102
Michael Herlihy[9,10]	**34**	100	**1**	2	**–**	–	**–**	–	**–**	–	**–**	–	**35**	102
Simon Langelier[7,11]	**25**	–	**2**	–	**–**	–	**–**	–	**–**	–	**–**	–	**27**	–
Steven Stanbrook[7,8,12]	**98**	49	**10**	10	**–**	–	**–**	–	**–**	–	**–**	–	**108**	59
Karen Witts[9]	**96**	75	**2**	1	**–**	–	**–**	–	**–**	–	**–**	–	**98**	76
Malcolm Wyman[9]	**104**	100	**2**	3	**–**	–	**–**	–	**–**	–	**–**	–	**106**	103
	1,084	943	**41**	29	**–**	–	**–**	–	**–**	–	**–**	–	**1,125**	972

1. Taxable benefits principally include an allowance (£15,000 in respect of Alison Cooper and Oliver Tant) in lieu of or the provision of a company car (£21,046 in respect of Matthew Phillips), fuel and health insurance. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.
2. Annual bonus earned for performance over the financial year ending 30 September 2017. In line with policy half of the net value is deferred in shares for three years; no further performance conditions apply.
3. Share plans vesting represent the value of LTIP awards where the performance period ends in the year and are based on a share price of £32.923127 being the three-month average to 30 September 2017 and an estimate of the dividend roll-up based on announced dividend payable on December 2017 and the closing share price on 2 November 2017. The 2016 estimated figure has been restated to reflect actual share price at the date of vesting and includes awards vesting under the legacy Share Matching Scheme (SMS).
4. Gains made on exercise are calculated as the difference between the option price and the market price on the date of exercise. These sharesave options were the only options exercised in the year; 441 shares in respect of Oliver Tant.
5. Further details are contained in the Executive Directors' pension section on pages 65 and 66.
6. Therese Esperdy was appointed to the Board on 1 July 2016.
7. Includes payment in respect of Committee membership at an annual rate of £5,000.
8. Therese Esperdy and Steven Stanbrook receive a non-European allowance of £12,000.
9. Includes payment in respect of Senior Independent Director fees of £26,000 per annum and chairmanship of Remuneration and Audit Committees at an annual rate of £26,000
10. Michael Herlihy retired from the Board on 1 February 2017.
11. Simon Langelier was appointed to the Board on 12 June 2017.
12. Steven Stanbrook was appointed to the Board on 6 February 2016.

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

PAYMENTS TO FORMER DIRECTORS (AUDITED)

No payments were made to former Directors nor were any payments made for loss of office during the year.

ADDITIONAL NOTES TO THE SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

This section sets out supporting information for the single total figure columns relating to annual bonus, share plans and pension benefits. In particular, it details the extent to which performance conditions have been satisfied for the annual bonus and for each share plan, namely the LTIP and, in respect of the 2016 figures, the legacy SMS.

Determination of 2017 annual bonus

2017 was an important year of progress in which management delivered on our key objective to grow market share in priority markets whilst at the same time maintaining capital discipline and strong cash conversion. EPS growth in the year was adversely affected by the decision to significantly invest behind our key brands in priority markets and Next Generation Products.

The annual bonus payment, determined with reference to performance over the financial year ending 30 September 2017, is 60 per cent of maximum opportunity (2016: 72 per cent). This reflects the impact on EPS and revenue from the investment decisions made.

Performance against individual measures is set out below:

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency) KPI	Performance is measured based on EPS growth at constant currency. As communicated to investors in November 2016, the strong investment behind growth in our priority markets and NGP business through 2017 resulted in a significant drag on EPS. The target range of 4% to 8% EPS growth was not met and no payment is made on the EPS growth element of the annual bonus.	25	0
Cash conversion KPI	Performance is measured as cash flow as a percentage of adjusted operating profit. Continued focus on efficiently managing our cost base and commitment to capital discipline delivered cash conversion of 91%. This delivered a 100% achievement against a threshold target of 80% and a maximum target of 90%.	25	25
Revenue growth in Asset Brands KPI	Performance is measured based on revenue growth of our Asset Brands. Asset Brand net revenue was also impacted by the increased investment in the year. Growth of 1.1% in Asset Brand revenues delivered a payment of 20% of opportunity against a threshold target of 0% and a maximum target of 5.6%.	15	3
Market share	Non-financial measures consisted of a market share target reflecting how many of our priority markets are delivering share growth. Implementing our MRM has successfully supported increased share being delivered in 70% of our priority markets and improved trends in others. This performance delivered a 100% achievement against a threshold target of 10% and a maximum target of 60% of priority markets in growth.	20	20
Individual objectives	As in previous years, performance was rated by the Committee for the Executive team against delivery of our strategy, taking into account the key non-financial goals for the year, including: – Implementation of restructuring and cost optimisation programme, releasing £130 million of in-year benefits to support investment behind priority brands in priority markets. – Further developing our NGP business including the acquisitions of Von Erl and Nerudia, adding to our portfolio and innovation capabilities. – Delivery of business transformation programme, driving a simpler and more sustainable global operating model. – Delivery of Board business development agenda including evaluation of new growth opportunities and disposal of non-core assets, with Imperial's holding in Logista reduced. – Successful execution of the joint venture with China Tobacco, announced in January 2017 Overall, the Committee awarded a score of 12 out of the maximum 15 to the Executive team, reflecting the significant progress made through 2017 across the broader business agenda.	15	12
Achievement of bonus for 2017		100	60

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 8 and 9.

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

Long-Term Incentive Plan

LTIP awards made to Alison Cooper, Oliver Tant and Matthew Phillips in February 2015 will vest in February 2018, subject to continued service, based on performance conditions, measured over the three years, as set out below:

	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Actual percentage of award
Adjusted EPS [KPI,1]	3% – 8% average annual growth	5.7%	12.5%	50%	33%
Net revenue growth [KPI, 1,2]	5% – 8% average annual growth	3.61%	7.5%	30%	0%
TSR against comparator group[3]	Threshold at median of peer group Pro rata between median and upper quartile Maximum above upper quartile	23 of 38 companies exceeded	5%	20%	12%
Achievement of LTIP					44%

1. This is the first year of vesting using constant currency as introduced in 2015 by the Committee in order to mitigate the impact of and uncertainty caused by currency movement. The use of constant currency has removed the devaluation of sterling relating to Brexit which would otherwise have resulted in an achievement of 80%.
2. The target range of 5% to 8% includes the discretionary increase made by the Committee in consideration of the one-off impact of the acquisition of US assets.
3. The companies comprising the comparator group are:

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

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 8 and 9.

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

Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our long-term shareholders. Annually we offer as many employees as practicable, together with our Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent of the closing mid-market price of our shares on the day prior to invitation. The Sharesave Plan allows participants to save up to £250 per month over a period of three years, and in the UK only three or, for grants in 2013 and earlier, five years, and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2017, Oliver Tant had a Sharesave Plan vesting (2016: Matthew Phillips) and details are included in the single total figure table on page 62.

TOTAL PENSION ENTITLEMENTS (AUDITED)

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

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

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

With effect from 1 September 2017, the Company has introduced a cap on pensionable pay for active members such that pensionable pay will in future be limited to £75,000 or, if higher, the member's pensionable pay at 1 September 2017.

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

The salary supplements have been calculated by the independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable.

Matthew Phillips elected to use the Fund's scheme pays facility to settle his Annual Allowance charge for the 2011/12, 2012/13, 2013/14 and 2014/15 tax years. His accrued pension was reduced by £14,204.58 a year (including revaluation) to offset these Annual Allowance charge payments. This reduction to pension is reflected in the accrued pension figure as at 30 September 2017 (it is also reflected in the value of the benefits as at 30 September 2017).

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

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

None of the Executive Directors has made additional voluntary contributions.

EXECUTIVE DIRECTORS' PENSION DISCLOSURES (AUDITED)

					Single figure numbers			Extra information to be disclosed under 2013 Directors' Remuneration Regulations		
			Accrued annual pension							
£'000	Age at 30/09/2017	Pensionable service at 30/09/2017	01/10/2016	30/9/2017	Payment in lieu of retirement benefits (i.e. pension supplement) £'000	Value x 20 over year (net of Director's contributions) £'000	Total pension benefits £'000	Normal retirement age	Value x 20 at start of year £'000	Value x 20 at end of year £'000
Alison Cooper	51	18	219	243	102	392	494	60	4,380	4,860
Matthew Phillips	46	17	116	128	42	215	257	60	2,360	2,560
Oliver Tant[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He registered for Fixed Protection 2016 and as a result opted-out of contributory membership of the Fund and ceased pension contributions with effect from 1 April 2016. Since this date Mr Tant has received a salary supplement equal to 26 per cent of his basic salary and in the year to 30 September 2017 this amounted to £182,000.

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

	Chief Executive		All employees[1]
	to 30 September 2017	Percentage change (2017 vs 2016)	Percentage change (2017 vs 2016)
Salary	**£1,051,000**	3.0	4.1
Benefits	**£16,635**	0.9	6.0
Bonus	**£1,261,200**	(14.1)	(12.7)

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

RELATIVE IMPORTANCE OF SPEND ON PAY

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

£ million unless otherwise stated	**2017**	2016	Percentage change
Executive Director total remuneration	**9**	11	(12.5)
Overall expenditure on pay[1]	**856**	826	3.6
Dividend paid in the year	**1,528**	1,386	10.2

1. Excludes employer's social security costs.

SHARE INTERESTS AND INCENTIVES (AUDITED)

All Executive Directors who served in the financial year currently meet the Company's shareholding policy by either holding shares in excess of their requirement or being within five years of appointment. Current shareholdings are summarised in the following table:

	Shares held		Conditional awards and options held					
	Owned outright	Vested but subject to holding period	Awards unvested and subject to performance conditions	Options unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary)	Current shareholding (% salary)[1]	Requirement met[2]
Executive Directors								
Alison Cooper	193,668	29,365	311,013	354	–	300	676	Yes
Oliver Tant[3]	14,008	14,971	144,767	303	–	300	132	In role for less than five years
Matthew Phillips	53,750	11,241	107,066	212	–	300	372	Yes
Non-Executive Directors								
Mark Williamson	11,232	–	–	–	–	–	–	N/A
Therese Esperdy[4]	3,526	–	–	–	–	–	–	N/A
David Haines	1,254	–	–	–	–	–	–	N/A
Michael Herlihy[5]	5,388	–	–	–	–	–	–	N/A
Simon Langelier [6]	24,130	–	–	–	–	–	–	N/A
Steven Stanbrook[4]	18,237	–	–	–	–	–	–	N/A
Karen Witts	669	–	–	–	–	–	–	N/A
Malcolm Wyman	4,180	–	–	–	–	–	–	N/A

1. Based on a share price of £ 31.84 being the closing price on 29 September 2017.
2. Non-Executive Directors do not have a shareholding requirement, but are required to invest a minimum percentage of their fees in the Company's shares which they are required to retain for the duration of their appointment.
3. On 1 August 2017, Oliver Tant exercised 441 shares under the international sharesave plan at an option price of £20.40 with a market value of £31.20 per share.
4. Therese Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.
5. Michael Herlihy retired from the Board on 1 February 2017.
6. Simon Langelier was appointed to the Board on 12 June 2017.

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

VARIABLE AWARD GRANTS MADE DURING THE YEAR (AUDITED)

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

The resulting number of LTIP shares and the associated performance conditions are set out below.

	Number of nil cost options	Face value[1]	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance condition[2, 3]
Alison Cooper	98,897	£3,678,500	350%	30 September 2019	25%	50%	3 year adjusted EPS growth
					25%	30%	3 year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
Oliver Tant	47,059	£1,750,000	250%	30 September 2019	25%	50%	3 year adjusted EPS growth
					25%	30%	3 year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
Matthew Phillips	37,437	£1,392,500	250%	30 September 2019	25%	50%	3 year adjusted EPS growth
					25%	30%	3 year net revenue growth
					25%	20%	TSR relative to bespoke comparator group

1. Valued using the share price at the date of grant (15 February 2017) being £37.195 per share.
2. Vesting occurs as per the vesting schedule below.
3. Key performance indicators used to measure the progress we make in delivering our strategy – see how we measure our performance on pages 8 and 9.

Performance criterion – EPS element

This criterion is used for 50 per cent of the LTIP award. Vesting of awards on this element would occur as per the following vesting schedule.

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

Performance criterion – net revenue growth element

The net revenue growth criterion is used for 30 per cent of the LTIP award. Vesting of awards on this element would occur as per the following vesting schedule.

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

Performance criterion – TSR element

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

The companies within the comparator group and the vesting schedule are detailed on page 64.

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

AWARDS WITH NO PERFORMANCE CONDITIONS MADE DURING THE YEAR (AUDITED)

The deferred shares, being the deferred element of bonus, awarded during the year are set out below. No Executive Directors were granted Sharesave options during the year.

	Number of deferred shares	Face value[1]	Portion of net bonus	End of deferral period
Alison Cooper	11,024	£386,526	50%	30 September 2019
Oliver Tant	7,013	£245,899	50%	30 September 2019
Matthew Phillips	5,844	£204,916	50%	30 September 2019

1. Valued using the share price at the date of purchase (14 December 2016) being £35.061138 per share.

HOW THE COMMITTEE INTENDS TO IMPLEMENT THE REMUNERATION POLICY FOR THE FINANCIAL YEAR 2017/18

SALARY

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

An increase of 2.5 per cent in line with other UK employees, who on average received 2.6 per cent, was awarded to the Executive Directors.

	Salary 2017/18	Salary 2016/17	**Percentage change**
Alison Cooper	**£1,077,000**	£1,051,000	**2.5**
Oliver Tant	**£718,000**	£700,000	**2.5**
Matthew Phillips	**£571,000**	£557,000	**2.5**

No increase was awarded to the Chairman. There was also no increase in the base fee for the Non-Executive Directors. However, in February 2017, the Committee chairman's fees were increased from £25,000 to £26,000 per annum and a Committee membership fee of £5,000 per annum was introduced. The previous increase in NED's fees was effective from October 2014.

ANNUAL BONUS

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

For the 2018 financial year, the performance measures have been reweighted to reflect the Group's strategic focus for the year, with an increased weighting on top-line growth and a slightly reduced weighting on EPS and cash conversion. An NGP measure has been included in the annual bonus to reflect the importance of growing our business outside of core tobacco.

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

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

	Performance target	Maximum of bonus
Adjusted EPS growth	Commercially confidential	20%
Cash conversion	Commercially confidential	20%
Market share growth in priority markets	Commercially confidential	20%
Net revenue growth in Growth & Specialist Brands	Commercially confidential	25%
Strategic objectives – growth in NGP	Commercially confidential	15%

At this point, the above performance targets are considered commercially confidential, but to the extent that any bonuses are paid, further details will be provided retrospectively in the 2018 Annual Report. The Committee is not of the view that such targets will necessarily always be confidential but will review this on a year-by-year basis.

SHARE PLAN AWARDS

Following the withdrawal of the revised remuneration policy, which included an increase in LTIP opportunity, the awards granted in 2017 were lower than the proposed maximum as detailed in last year's report:

	Maximum opportunity as detailed in last year's report but not implemented as proposed policy was withdrawn – percentage of salary	Actual award granted – percentage of salary
Alison Cooper	450	350
Oliver Tant	350	250
Matthew Phillips	350	250

FEBRUARY 2018 LTIP GRANT

For 2018, the inclusion of an NGP revenue growth measure in the LTIP reflects the importance to Imperial and our shareholders of growing revenues outside of core tobacco.

Performance criteria	Weighting in LTIP
Adjusted EPS growth[1]	30%
Net revenue growth[1]	30%
Relative TSR	20%
NGP Revenue growth	20%

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

When setting the performance criteria the Committee takes account of the Group's long-term plans and analysts' forecasts.

Performance criterion – EPS element

This criterion is used for 30 per cent of the LTIP awards. Vesting of awards on this element would occur in accordance with a vesting schedule agreed by the Committee on an annual basis. The proposed vesting schedule is:

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

Performance criterion – net revenue growth element

This criterion will be used for 30 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

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

Performance criterion – TSR element

The performance criterion for the TSR element will be based on a single comparator group including 38 companies across a broadly defined consumer goods sector and will be applied to 20 per cent of the LTIP.

The companies within the comparator group remain unchanged, as detailed on page 64.

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

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

Performance criterion – NGP revenue growth element

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

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

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

VOTING ON THE REMUNERATION REPORT AT THE 2017 AGM

At the 2017 AGM we received a strong vote in favour of our Remuneration Report, with a small number of shareholders commenting on various aspects of our remuneration. We also received a strong vote in favour of our remuneration policy at our 2015 AGM, although a small number of shareholders expressed concern in respect of various aspects including the expectation that incentive targets should be adjusted for our USA acquisition. These were addressed by the Committee using its discretion to increase in-flight LTIP targets.

Prior to proposing a revised remuneration policy at our 2017 AGM the Committee actively engaged with shareholders for some time and received considerable support. However, shortly before the meeting it became clear that views had changed and that the right course of action was for the Board to withdraw the resolution.

Votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast including votes withheld
Directors' Remuneration Report (2017 AGM)	707,591,718	94.7	39,693,115	5.3	747,284,833	7,479,131	754,763,964
Directors' Remuneration Policy (2015 AGM)	704,892,593	93.6	48,447,661	6.4	753,340,254	9,328,030	762,668,284

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

ADVICE PROVIDED TO THE COMMITTEE

New Bridge Street (NBS) was retained for the financial year, having been appointed following a tendering process, by the Committee as its principal, and only material, external advisor. NBS advised on all aspects of our remuneration policy and practice and reviewed our structures against corporate governance best practice. NBS also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Committee members up-to-date with new developments and evolving best practice.

NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. NBS' parent companies, Aon Hewitt Limited and Aon plc, provide other human resources and insurance services respectively to the Group. Having reviewed the structures in place to ensure the independence of NBS' advice to the Committee, it is satisfied that the other work provided by the wider Aon group did not impact on NBS' independence.

During the year NBS was paid time based fees of £152,658.

NBS was last appointed as advisor to the Committee in 2011. Following a regular periodic review, the Committee has decided to appoint FIT Remuneration Consultants as principal advisor with effect from 1 November 2017.

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

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR related matters. During the year it was paid a fixed fee of £19,500. Alithos Limited provided no other services to the Group;
- Allen & Overy LLP is available to provide legal advice to the Committee as and when required. It was not used for remuneration-related advice during the financial year. Allen & Overy LLP also provided other legal services to the Group;
- Pinsent Masons LLP provided legal advice in respect of the operation of the Group's employee share plans;
- PricewaterhouseCoopers LLP (PwC), our auditors, perform agreed upon procedures on earnings per share (EPS) and net revenue calculations used in relation to our employee share plans' performance criteria. During the financial year PwC was paid a fixed fee of £1,900 in respect of services to the Committee; and
- Towers Watson provided market pay data to ensure the consistent application of our remuneration policy for executives. During the year it was paid time based fees of £62,000 for these services. Towers Watson also provided actuarial services to the Group.

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

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

OTHER INFORMATION

Our middle market share price at the close of business on 29 September 2017, being the last trading day of the financial year, was £31.87 and the range of the middle market price during the year was £31.125 to £41.285.

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

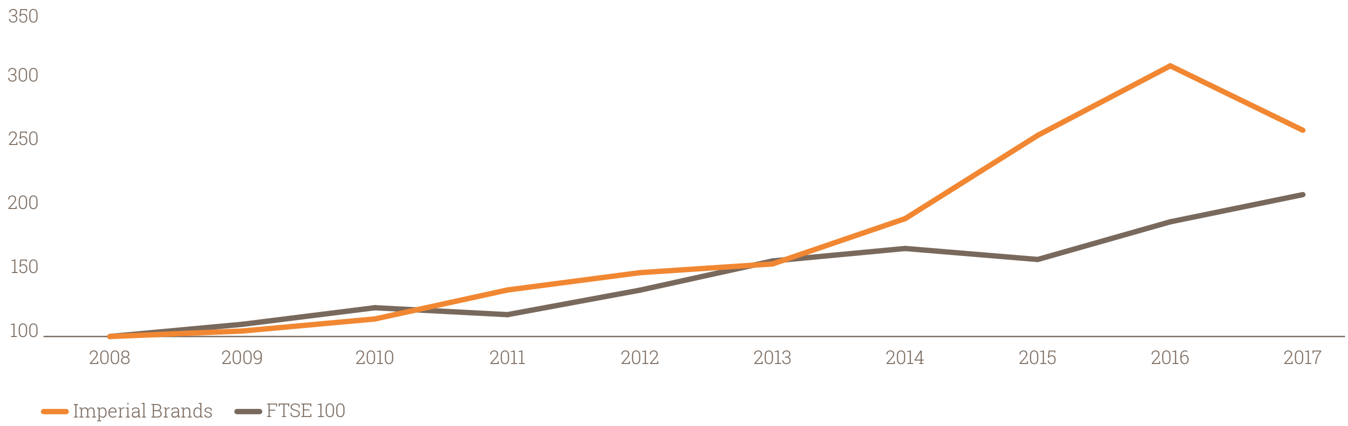
AWARD DATES

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

REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2008 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year ends to 30 September 2017. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a nine-year period.

TOTAL RETURN INDICES – IMPERIAL BRANDS AND FTSE 100



CHANGE IN CHIEF EXECUTIVE REMUNERATION

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

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

OPERATING EXECUTIVE (EXCLUDING EXECUTIVE DIRECTORS)

£'000	**2017**	2016
Base salary	**2,994**	2,402
Benefits	**156**	257
Pension salary supplement	**318**	263
Bonus	**2,234**	2,798
Termination payments	**1,548**	–
LTIP annual vesting[4]	**733**	1,838
SMS annual vesting[4]	**650**	266
	8,633	7,824

4. Share plans vesting represent the value of SMS and LTIP awards where the performance period ends in the year and are based on a share price of £32.923127 being the three-month average to 29 September 2017.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges, was £20,342,210 (2016: £20,959,617).

KEY MANAGEMENT[1] COMPENSATION FOR THE YEAR ENDED 30 SEPTEMBER 2017 (AUDITED)

£'000	2017	2016
Short-term employee benefits	**12,020**	12,340
Post-employment benefits	**1,798**	1,313
Other long-term benefits	**–**	–
Termination benefits	**1,548**	–
Share-based payment (in accordance with IAS 24)	**4,519**	3,598
	19,885	17,251

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

EMPLOYEE BENEFIT TRUSTS

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

As at 30 September 2017, we held 77,289,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

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

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

	Balance at 01/10/2016	Acquired during year	Distributed during year	Balance at 30/09/2017	Ordinary shares under award at 30/09/2017	Surplus/ (shortfall)
Executive Trust	637,816	0	(152,802)	485,014	768,037	(283,023)
2001 Trust	2,851,649	0	(1,429,320)	1,422,329	3,316,248	(1,893,919)

SHARE PLAN FLOW RATES

The Trust Deeds of the Employee Benefit Trusts and the rules of each of our employee share plans contain provisions limiting options and awards to 5 per cent of issued share capital in five years and 10 per cent in 10 years for all employee share plans, with an additional restriction to 5 per cent in 10 years for executive share plans. Currently, an aggregate total of 0.4 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under the Group's executive and all employee share plans.

SUMMARY OF OPTIONS AND AWARDS GRANTED

Limit on awards	Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury)	Options and awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	1.8	0.1
5% in 5 years	0.8	0.1
5% in 10 years (executive plans)	1.3	0.1

For the Board

DAVID HAINES
Chairman of the Remuneration Committee

7 November 2017

GROUP FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

– Imperial Brands PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2017 and of the Group's profit and cash flows for the year then ended;
– the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
– the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Imperial Brands PLC Balance Sheets as at 30 September 2017; the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Imperial Brands PLC Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the Group or the Parent Company in the period from 1 October 2016 to 30 September 2017.

OUR AUDIT APPROACH

OVERVIEW

– Overall Group materiality: £130 million (2016: £123 million), based on approximately 4 per cent of adjusted profit before tax.
– Overall Parent Company materiality: £10 million (2016: £10 million), based on 1 per cent of total assets, restricted due to component reporting requirements.

– Following our assessment of the risk of material misstatement we selected 22 reporting entities for full scope audits which represent the principal business units.
– We conducted full scope audit work at 22 of these reporting entities which included significant operations in the UK, Germany, Netherlands, Spain, USA, Australia, France and five other locations. We also conducted specific audit procedures in Russia.
– In addition, certain central reporting entities and group functions, including those covering treasury, taxation and retirement benefits, and the Parent Company were subject to a full scope audit.

– Goodwill and intangible assets impairment assessment (Group).
– Accounting for restructuring provisions (Group).
– Tax accounting and the level of tax provisions held against risks (Group).

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT ASSESSMENT (GROUP) We focused on this area because the determination of whether elements of goodwill and intangible assets are impaired involves complex and subjective judgements by the Directors about the future results of the relevant parts of the business. At 30 September 2017 the Group had £12,265 million of goodwill and £600 million of intangible assets with indefinite lives and reasonable headroom in the majority of the Group's groupings of cash generating units (CGUs). We focused on the valuation of the Growth Markets reporting segment (£2,317 million of goodwill and intangible assets with indefinite lives). Growth Markets is made up of a number of operating segments and individual CGUs, including the Drive Growth CGU grouping and the Other Premium Cigar CGU grouping. For both of these goodwill is analysed separately and management's assessment indicated low headroom in the Drive Growth Division CGU of £33 million. For the Drive Growth CGU grouping we focused on the valuation of the Russian business, which represents the most material part of this CGU grouping. In particular we considered the robustness of short-term growth included in the impairment models, together with discount rates and long term growth rates. For the Other Premium Cigar CGU grouping the valuation is dependent on continuing steady profit growth. As such we focused on the assumptions the Directors made about the growth rates in the context of constraints which could reasonably impact their ability to meet forecast.	We challenged the Directors' analysis around the key drivers of the cash flow forecasts including the ability to achieve sustained price increases, market size and market share. We also evaluated the appropriateness of the key assumptions including discount rates, short-term and long-term growth rates and performed sensitivities across the reporting segments. For the Russian business we considered the impact of investment in marketing programmes over the medium-term forecast, together with the broader potential to grow profits in the longer term. We also considered the impact of current and expected legislative and duty changes on the business and considered the accuracy of management's current year forecasts. For the Other Premium Cigar CGU, we evaluated the reasonableness of the Directors' forecast by challenging key assumptions about growth strategies including supply constraints, regulatory changes in key markets, opportunities in new markets and changes in the relationship between the USA and Cuba. We also considered the accuracy of management's current year forecasts. As a result of our work we concluded that the judgement by management that no impairment was required was reasonable. We note however that goodwill and intangibles held by these businesses remain highly sensitive to changes in key assumptions. In particular, for Drive Growth, this conclusion is dependent on a sustained recovery in the Russian market from the difficult trading conditions encountered this year and if this is delayed or does not occur an impairment would probably arise. Given this, management has disclosed relevant sensitivities (see note 11).
ACCOUNTING FOR RESTRUCTURING PROVISIONS (GROUP) The Group has continued in its significant multi-year cost optimisation programme including factory closures, organisational rationalisation and the establishment of shared service centres. The Group also continues to integrate its US businesses. Management has indicated they expect these programmes will require several years to complete. In 2017 the charge in the Consolidated Income Statement relating to these programmes was £391 million and there is a total restructuring provision held on the Consolidated Balance Sheet of £380 million. The restructuring charge is separately identified on the face of the Income Statement and excluded from the non-GAAP earnings measure Adjusted Operating Profit. The recognition of restructuring costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the Group is externally committed. The presentation in the financial statements also requires consideration of whether the amounts included in the charge are fair and whether their separate presentation is helpful in understanding financial performance.	The cost optimisation programme operates predominantly through a series of distinct projects incorporating centralised governance and project management supporting local execution. This process gives rise to a series of specific restructuring charges being booked either at head office level or in individual component businesses. We conducted audit testing through our group team on centrally held charges and through local testing of charges at component businesses. Using this approach we tested the valuation, accuracy and completeness of the individual restructuring costs. These primarily consisted of redundancies and related costs, consulting and professional fees and asset impairments. We found no material exceptions in our testing. The principal areas of judgement underlying this work related to: – the estimation of uncertain liabilities and impairment losses, – the extent to which costs incurred on projects were sufficiently distinct and incremental to warrant inclusion in the restructuring charge, and – projects which did not fit readily into the major elements of the programme but were considered by management to be appropriate for inclusion within the overall restructuring charge. We challenged management over the basis for their judgements in these areas and determined that the amounts included in the charge were reasonable. We also considered the merits of separate disclosure of the restructuring charge and discussed this with management and the Audit Committee. We concurred with their conclusion that the extensive scale and cost of the programme, its duration over several years and the level of centralised Group-wide control and Board focus, indicated that separate disclosure was acceptable. We also considered disclosures, to ensure consistency with the correspondence between the Company and the FRC in the year.
TAX ACCOUNTING AND THE LEVEL OF TAX PROVISIONS HELD AGAINST RISKS (GROUP) There are a number of significant judgements involved in the determination of tax balances, specifically in relation to the recognition of tax losses and the assessment of deferred taxation liabilities in relation to the distribution of reserves held in overseas subsidiaries. The Group also has a number of uncertain tax positions in relation to which management apply judgement in setting provisions. Given the number of judgements involved and the complexities of dealing with tax rules and regulations in numerous jurisdictions, this was an area of focus for us.	In the calculation of deferred taxes, we assessed the adequacy of tax loss recognition and the level of provision established in relation to a number of uncertain tax positions primarily in Europe including the challenge from the French tax authorities in relation to Altadis Distribution France. We determined that the position adopted in the financial statements was reasonable based on our consideration of management's assessment of risks combined with their use of experts in support of their provision for uncertain tax outcomes. We also considered the reasonability of the tax losses recognised. We considered the overall clarity of disclosure in relation to tax provisioning and the discussion of contingent liabilities including Altadis Distribution France and a more general assessment of cross border transfer pricing and determined that they were fair and proportionate.

We determined that there were no key audit matters applicable to the Parent Company to communicate in our report.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along two business lines being Tobacco and Logistics. The Group financial statements are a consolidation of 277 legal entities represented by 225 reporting entities, comprising the Group's operating businesses and centralised functions.

The Group's accounting process is structured around a local or regional finance function for each of the territories in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol through an integrated consolidation system. In our view, due to their significance and/or risk characteristics, 22 of the 225 reporting entities, including the Logistics sub-group, required an audit of their complete financial information and we used component auditors from other PwC network firms who are familiar with the local laws and regulations in each of these territories to perform this audit work. We also conducted specific audit procedures in Russia based on our assessment of the risk of misstatement and the scale of operations at this business unit.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The group engagement team visits the component teams on a rotational basis. In the current year the group team visited the USA, Morocco, France, Spain, Russia and Italy, as well as in-scope UK reporting locations and the Logistics sub-group. Video conferences were held at least once with the component auditors and management of every in-scope reporting entity and those undertaking specific procedures to discuss the results of the work performed. In addition the group engagement team reviewed working papers of the auditors of the more significant components.

The Group consolidation, financial statement disclosures and a number of complex items were audited by the Group engagement team at the head office. These included derivative financial instruments, net investment hedge accounting, treasury, taxation and retirement benefits. The Parent Company was also subject to a full scope audit.

Taken together, the reporting entities and Group functions where we performed audit work accounted for approximately 82 per cent of Group revenues and in excess of 83 per cent of both Group profit before tax and Group adjusted profit before tax.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£130 million (2016: £123 million).	£10 million (2016: £10 million).
How we determined it	Approximately 4 per cent of adjusted profit before tax.	1 per cent of total assets.
Rationale for benchmark applied	We believe that adjusted profit before tax is the primary measure used by shareholders and other users in assessing the performance of the Group, and that by excluding items it provides a clearer view on the performance of the underlying business.	The Parent entity is principally an investment holding company and therefore it is not appropriate to use profit before tax or revenues to calculate materiality, rather materiality is considered with reference to total assets. Overall materiality applied is limited to £10 million, lower than 1 per cent of total assets, due to being restricted for Group reporting for the purposes of the audit of the consolidated financial statements of the Group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £10 million and £40 million for the trading entities and £80 million for the financing and treasury entity. For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (Group audit) (2016: £10 million) and £10 million (Parent Company audit) (2016: £10 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 28 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 28 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the Code); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 33, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 39 to 44 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities set out on page 51, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 6 August 1996 to audit the financial statements for the year ended 27 September 1997 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 27 September 1997 to 30 September 2017.

John Maitland

JOHN MAITLAND (SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Bristol

7 November 2017

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September

£ million unless otherwise indicated	Notes	2017	2016
Revenue	3	**30,247**	27,634
Duty and similar items		**(14,967)**	(13,535)
Other cost of sales		**(8,853)**	(8,143)
Cost of sales		**(23,820)**	(21,678)
Gross profit		**6,427**	5,956
Distribution, advertising and selling costs		**(2,434)**	(2,070)
Amortisation of acquired intangibles	11	**(1,092)**	(1,005)
Restructuring costs	5	**(391)**	(307)
Other expenses		**(232)**	(345)
Administrative and other expenses		**(1,715)**	(1,657)
Operating profit	3	**2,278**	2,229
Investment income		**910**	634
Finance costs		**(1,360)**	(1,984)
Net finance costs	7	**(450)**	(1,350)
Share of profit of investments accounted for using the equity method	13	**33**	28
Profit before tax	4	**1,861**	907
Tax	8	**(414)**	(238)
Profit for the year		**1,447**	669
Attributable to:			
Owners of the parent		**1,409**	631
Non-controlling interests		**38**	38
Earnings per ordinary share (pence)			
– Basic	10	**147.6**	66.1
– Diluted	10	**147.2**	66.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September

£ million	Notes	2017	2016
Profit for the year		**1,447**	669
Other comprehensive (expense)/income			
Exchange movements		**(57)**	1,260
Items that may be reclassified to profit and loss		**(57)**	1,260
Net actuarial gains/(losses) on retirement benefits	22	**649**	(604)
Deferred tax relating to net actuarial (gains)/losses on retirement benefits	21	**(120)**	115
Items that will not be reclassified to profit and loss		**529**	(489)
Other comprehensive income for the year, net of tax		**472**	771
Total comprehensive income for the year		**1,919**	1,440
Attributable to:			
Owners of the parent		**1,870**	1,336
Non-controlling interests		**49**	104
Total comprehensive income for the year		**1,919**	1,440

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2017	2016
Operating profit		**2,278**	2,229
Amortisation of acquired intangibles	11	**1,092**	1,005
Restructuring costs	5	**391**	307
Adjusted operating profit		**3,761**	3,541

RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	2017	2016
Net finance costs		**(450)**	(1,350)
Net fair value and exchange (gains)/losses on financial instruments	7	**(112)**	807
Post-employment benefits net financing cost	7	**25**	19
Adjusted net finance costs		**(537)**	(524)

CONSOLIDATED BALANCE SHEET
at 30 September

£ million	Notes	2017	2016
Non-current assets			
Intangible assets	11	**19,763**	20,704
Property, plant and equipment	12	**1,865**	1,959
Investments accounted for using the equity method	13	**785**	744
Retirement benefit assets	22	**358**	5
Trade and other receivables	15	**123**	89
Derivative financial instruments	20	**583**	1,063
Deferred tax assets	21	**617**	631
		24,094	25,195
Current assets			
Inventories	14	**3,604**	3,498
Trade and other receivables	15	**2,539**	2,671
Current tax assets	8	**69**	45
Cash and cash equivalents	16	**624**	1,274
Derivative financial instruments	20	**60**	46
		6,896	7,534
Total assets		**30,990**	32,729
Current liabilities			
Borrowings	18	**(2,353)**	(1,544)
Derivative financial instruments	20	**(42)**	(118)
Trade and other payables	17	**(8,104)**	(7,991)
Current tax liabilities	8	**(192)**	(284)
Provisions	23	**(187)**	(188)
		(10,878)	(10,125)
Non-current liabilities			
Borrowings	18	**(10,196)**	(12,394)
Derivative financial instruments	20	**(1,166)**	(1,646)
Trade and other payables	17	**(21)**	(17)
Deferred tax liabilities	21	**(1,091)**	(1,034)
Retirement benefit liabilities	22	**(1,074)**	(1,484)
Provisions	23	**(338)**	(287)
		(13,886)	(16,862)
Total liabilities		**(24,764)**	(26,987)
Net assets		**6,226**	5,742
Equity			
Share capital	24	**103**	104
Share premium and capital redemption		**5,837**	5,836
Retained earnings		**(1,084)**	(1,525)
Exchange translation reserve		**828**	896
Equity attributable to owners of the parent		**5,684**	5,311
Non-controlling interests	31	**542**	431
Total equity		**6,226**	5,742

The financial statements on pages 80-125 were approved by the Board of Directors on 7 November 2017 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2016	**104**	**5,836**	**(1,525)**	**896**	**5,311**	**431**	**5,742**
Profit for the year	–	–	1,409	–	1,409	38	1,447
Exchange movements	–	–	–	(68)	(68)	11	(57)
Net actuarial gains on retirement benefits	–	–	649	–	649	–	649
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(120)	–	(120)	–	(120)
Other comprehensive income	–	–	529	(68)	461	11	472
Total comprehensive income	–	–	1,938	(68)	1,870	49	1,919
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	12	–	12	–	12
Costs of employees' services compensated by share schemes	–	–	25	–	25	–	25
Current tax on share-based payments	–	–	3	–	3	–	3
Cancellation of share capital	(1)	1	(119)	–	(119)	–	(119)
Changes in non-controlling interests	–	–	(111)	–	(111)	111	–
Proceeds, net of fees, from disposal of Logista shares (note 31)	–	–	221	–	221	–	221
Dividends paid	–	–	(1,528)	–	(1,528)	(49)	(1,577)
At 30 September 2017	**103**	**5,837**	**(1,084)**	**828**	**5,684**	**542**	**6,226**
At 1 October 2015	104	5,836	(315)	(298)	5,327	369	5,696
Profit for the year	–	–	631	–	631	38	669
Exchange movements	–	–	–	1,194	1,194	66	1,260
Net actuarial losses on retirement benefits	–	–	(604)	–	(604)	–	(604)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	115	–	115	–	115
Other comprehensive income	–	–	(489)	1,194	705	66	771
Total comprehensive income	–	–	142	1,194	1,336	104	1,440
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	9	–	9	–	9
Purchase of shares by Employee Share Ownership Trusts	–	–	(7)	–	(7)	–	(7)
Costs of employees' services compensated by share schemes	–	–	26	–	26	–	26
Current tax on share-based payments	–	–	6	–	6	–	6
Dividends paid	–	–	(1,386)	–	(1,386)	(42)	(1,428)
At 30 September 2016	104	5,836	(1,525)	896	5,311	431	5,742

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September

£ million	2017	2016
Cash flows from operating activities		
Operating profit	**2,278**	2,229
Dividends received from investments accounted for under the equity method	**28**	19
Depreciation, amortisation and impairment	**1,364**	1,244
(Profit)/loss on disposal of assets	**(24)**	6
Post-employment benefits	**(157)**	(111)
Costs of employees' services compensated by share schemes	**27**	29
Movement in provisions	**52**	4
Operating cash flows before movement in working capital	**3,568**	3,420
Increase in inventories	**(76)**	(149)
Decrease in trade and other receivables	**189**	171
(Decrease)/increase in trade and other payables	**(46)**	116
Movement in working capital	**67**	138
Tax paid	**(570)**	(401)
Net cash generated from operating activities	**3,065**	3,157
Cash flows from investing activities		
Interest received	**11**	7
Loan to joint ventures	**(17)**	(9)
Loan to third parties	**(30)**	–
Purchase of property, plant and equipment	**(191)**	(164)
Proceeds from sale of property, plant and equipment	**30**	42
Purchase of intangible assets – software	**(44)**	(51)
Purchase of intangible assets – intellectual property rights	**(15)**	(14)
Internally generated intellectual property rights	**–**	(2)
Purchase of brands and operations (see notes 11 and 13)	**(31)**	–
Net cash used in investing activities	**(287)**	(191)
Cash flows from financing activities		
Interest paid	**(548)**	(547)
Cash from employees on maturity/exercise of share schemes	**12**	9
Purchase of shares by Employee Share Ownership Trusts	**–**	(7)
Increase in borrowings	**852**	897
Repayment of borrowings	**(2,183)**	(2,637)
Cash flows relating to derivative financial instruments	**(37)**	(209)
Repurchase of shares	**(119)**	–
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 31)	**221**	–
Dividends paid to non-controlling interests	**(49)**	(42)
Dividends paid to owners of the parent	**(1,528)**	(1,386)
Net cash used in financing activities	**(3,379)**	(3,922)
Net decrease in cash and cash equivalents	**(601)**	(956)
Cash and cash equivalents at start of year	**1,274**	2,042
Effect of foreign exchange rates on cash and cash equivalents	**(49)**	188
Cash and cash equivalents at end of year	**624**	1,274

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRSIC) as published by the International Accounting Standards Board and adopted by the EU. In addition, the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis as detailed on page 28.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions. This could affect future financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

A summary of the more important accounting policies is set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the results of Imperial Brands PLC (the Company) and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

JOINT VENTURES

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of profit of investments accounted for using the equity method'.

FOREIGN CURRENCY

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intragroup loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

Foreign exchange rate versus GBP	2017		2016	
	Closing rate	**Average rate**	Closing rate	Average rate
Euro	**1.1341**	**1.1480**	1.1614	1.2834
US Dollar	**1.3389**	**1.2668**	1.2962	1.4244

1. ACCOUNTING POLICIES CONTINUED

REVENUE RECOGNITION

For the Tobacco business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales of services, which include fees for distributing certain third party products, are recognised in the accounting period in which the services are rendered.

For the Logistics business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or services provided. The Logistics business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Customer rebates and discounts may be offered to promote sales. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

DUTY AND SIMILAR ITEMS

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Payments due in the USA under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

TAXES

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns where the applicable tax regulation is subject to interpretation and establishes provisions on the basis of amounts expected to be paid to the tax authorities only where it is considered more likely than not that an amount will be paid or received. This test is applied to each individual uncertain position which is then measured on the single most likely outcome based on interpretation of legislation, management experience and professional advice.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

INTANGIBLE ASSETS – GOODWILL

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

INTANGIBLE ASSETS – OTHER

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

These assets consist mainly of acquired trademarks, intellectual property, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment.

Intellectual property (including trademarks), supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 10 years	straight line

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

FINANCIAL INSTRUMENTS AND HEDGING

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the consolidated income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IAS 39) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are net-settled and are therefore netted off the carrying value of those derivatives in the consolidated balance sheet.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

PROVISIONS

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

RETIREMENT BENEFIT SCHEMES

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

1. ACCOUNTING POLICIES CONTINUED

SHARE-BASED PAYMENTS

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

USE OF ADJUSTED MEASURES

Management believes that non-GAAP or adjusted measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, tax, attributable earnings and earnings per share exclude, where applicable, acquisition costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and significant one-off tax provision charges or credits arising from the resolution of prior year tax matters. Reconciliations between adjusted and reported operating profit are included within note 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported tax in note 8, and adjusted and reported earnings per share in note 10.

The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted results are those which are one-off in nature or items which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted measures are used by management to assess the Group's financial performance and aid comparability of results year-on-year.

The principal adjustments made to reported profits are as follows:

ACQUISITION COSTS

Adjusted measures exclude costs associated with major acquisitions as they do not relate to the day to day operational performance of the Group.

AMORTISATION AND IMPAIRMENT OF ACQUIRED INTANGIBLES

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. We exclude from our adjusted measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

FAIR VALUE GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS AND EXCHANGE GAINS AND LOSSES ON BORROWINGS

IAS 39 requires that all derivative financial instruments are recognised in the consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IAS 39, in order to reduce income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as they will reverse over time or are matched in future periods by interest charges. Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the commercially hedged item are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

RESTRUCTURING COSTS

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

POST-EMPLOYMENT BENEFITS NET FINANCING COST

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

TAX MATTERS

Significant one-off tax charges or credits arising from the resolution of prior year tax matters (outside of changes in estimates in the normal course of business) are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance. The recognition and utilisation of deferred tax assets relating to losses not historically generated as a result of the underlying business performance are excluded on the same basis.

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

Tobacco net revenue comprises tobacco and Fontem Ventures revenue less duty and similar items, excluding peripheral products. Management considers this an important measure in assessing the performance of Tobacco operations.

DISTRIBUTION FEES

Distribution fees comprises the Logistics segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Logistics operations.

ADJUSTED NET DEBT

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

There have been no 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 the 2017 year end. 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. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets will be classified as either amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. The application of this requirement is not expected to materially impact the financial statements.

Impairment of financial assets: Impairment will be based on a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. At the current time the application of this requirement has not been fully quantified, however is not expected to materially impact the financial statements.

Hedge accounting: Adoption of the IFRS 9 hedge accounting requirements is currently optional as organisations are allowed to continue to apply the IAS 39 requirements. IFRS 9 contains revised requirements on hedge accounting, which aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group is currently assessing whether to adopt the hedge accounting aspects of IFRS 9, or continue to apply the IAS 39 rules on hedge accounting.

IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 introduces an amended framework for revenue recognition and replaces the existing guidance in IAS 18 'Revenue'. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

The Group is assessing the impact of adopting IFRS 15. From the work undertaken to date, the Group expects to reclassify certain distribution, advertising and selling costs arising from payments to customers as discounts from revenue. This will reduce the overall level of revenue, but will have no net impact on gross profit. The adoption of the standard has not yet been fully quantified however is not expected to have any other material impact on the Group's net assets or results.

IFRS 16 'Leases' (not yet endorsed by the EU) is effective from 1 January 2019, with early adoption permitted. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs, subject to the exemptions on amount and duration. The Group is currently assessing the impact of the new standard. Our initial assessment of IFRS 16 is that it will not have a material effect on the Group's net assets or results.

There are no other standards or interpretations that are expected to have a material effect on the Group's net assets or results.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed below.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

The Group allocates the purchase price of acquired businesses to their identifiable tangible and intangible assets. For major acquisitions we engage external consultants to assist in the valuation of identifiable intangible assets. The valuation process is based on discounted forecast cash flows and is dependent on assumptions about cash flows, economic factors and business strategy.

On acquisition intangible assets and property, plant and equipment are valued at fair value – intangible assets using the income method and property, plant and equipment using assessments of independent valuers. Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Intangible assets (other than goodwill, the Davidoff cigarette trademark and certain premium cigar trademarks) and property, plant and equipment are amortised or depreciated over their useful lives which are based on management's estimates of the period over which the assets will generate revenue, and are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of intangible assets and property, plant and equipment subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, goodwill arising on acquisitions and indefinite lived assets are subject to impairment review. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review of intangible assets and/or property, plant and equipment include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets and property, plant and equipment affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements. Further information on intangible assets is given in note 11.

INCOME TAXES

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Further information on income taxes is given in notes 8 and 21 to these financial statements.

LEGAL PROCEEDINGS AND DISPUTES

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

A summary of significant legal cases in which the Group is currently involved is disclosed in note 28.

RETIREMENT BENEFITS

The Group holds a number of defined benefit retirement schemes across various jurisdictions. The valuation of these schemes requires estimates of various market, demographic and mortality assumptions, which are fully reviewed by external actuaries. See note 22 for further details.

PROVISIONS

The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate. Further information on provisions is given in notes 5 and 23.

3. SEGMENT INFORMATION

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

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

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

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

Growth Markets – Iraq, Norway, Russia, Saudi Arabia, Taiwan (also includes premium cigar and Fontem Ventures);

Returns Markets North – Australia, Belgium, Germany, Netherlands, Poland, United Kingdom; and

Returns Markets South – France, Spain and our African markets including Algeria, Ivory Coast, Morocco.

TOBACCO

£ million unless otherwise indicated	2017	2016
Revenue	22,786	20,890
Net revenue	7,757	7,167
Operating profit	2,199	2,126
Adjusted operating profit	3,595	3,360
Adjusted operating margin %	46.3	46.9

LOGISTICS

£ million unless otherwise indicated	2017	2016
Revenue	8,269	7,505
Distribution fees	914	809
Operating profit	94	98
Adjusted operating profit	181	176
Adjusted distribution margin %	19.8	21.8

REVENUE

	2017		2016	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Growth Markets	3,665	3,602	3,137	3,085
USA	3,125	3,125	2,942	2,942
Returns Markets North	13,533	13,503	12,537	12,504
Returns Markets South	2,463	1,748	2,274	1,598
Total Tobacco	22,786	21,978	20,890	20,129
Logistics	8,269	8,269	7,505	7,505
Eliminations	(808)	–	(761)	–
Total Group	30,247	30,247	27,634	27,634

3. SEGMENT INFORMATION CONTINUED

RECONCILIATION FROM TOBACCO REVENUE TO TOBACCO NET REVENUE

£ million	2017	2016
Revenue	**22,786**	20,890
Duty and similar items	**(14,967)**	(13,535)
Sale of peripheral products	**(62)**	(188)
Net Revenue	**7,757**	7,167

TOBACCO NET REVENUE

£ million	2017	2016
Growth Markets	**1,768**	1,568
USA	**1,665**	1,477
Returns Markets North	**2,755**	2,645
Returns Markets South	**1,569**	1,477
Total Tobacco	**7,757**	7,167

Tobacco net revenue excludes revenue from the sale of peripheral products of £62 million (2016: £188 million).

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	2017	2016
Tobacco		
Growth Markets	**411**	443
USA	**1,013**	823
Returns Markets North	**1,485**	1,439
Returns Markets South	**686**	655
Total Tobacco	**3,595**	3,360
Logistics	**181**	176
Eliminations	**(15)**	5
Adjusted operating profit	**3,761**	3,541
Amortisation of acquired intangibles – Tobacco	**(1,005)**	(927)
Amortisation of acquired intangibles – Logistics	**(87)**	(78)
Restructuring costs – Tobacco	**(391)**	(307)
Operating profit	**2,278**	2,229
Net finance costs	**(450)**	(1,350)
Share of profit of investments accounted for using the equity method	**33**	28
Profit before tax	**1,861**	907

OTHER INFORMATION

	2017		2016	
£ million	**Additions to property, plant and equipment**	**Depreciation and software amortisation**	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Growth Markets	**53**	**42**	32	33
USA	**36**	**38**	42	31
Returns Markets North	**54**	**70**	53	65
Returns Markets South	**29**	**41**	24	37
Total Tobacco	**172**	**191**	151	166
Logistics	**19**	**32**	13	31
Total Group	**191**	**223**	164	197

Additions to property, plant and equipment exclude those obtained as part of acquisitions (see note 12).

ADDITIONAL GEOGRAPHIC ANALYSIS

External revenue and non-current assets are presented for the UK and for individually significant countries. The Group's products are sold in over 160 countries.

£ million	2017 External revenue	2017 Non-current assets	2016 External revenue	2016 Non-current assets
UK	**4,243**	**83**	4,356	98
Germany	**3,841**	**3,401**	3,559	3,405
France	**3,711**	**2,720**	3,461	2,844
USA	**3,299**	**7,356**	3,065	8,057
Other	**15,153**	**8,853**	13,193	9,003
Total Group	**30,247**	**22,413**	27,634	23,407

Non-current assets comprise intangible assets, property, plant and equipment, and investments accounted for using the equity method.

4. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

£ million	2017	2016
Raw materials and consumables used	**915**	899
Changes in inventories of finished goods – Tobacco	**2,341**	1,765
Changes in inventories of finished goods – Logistics	**5,499**	4,587
Operating lease charges	**52**	56
Net foreign exchange (gains)/losses	**(44)**	467
Write down of inventories	**45**	49
(Profit)/loss on disposal of assets	**(24)**	6
Impairment of trade receivables	**4**	5

ANALYSIS OF FEES PAYABLE TO PRICEWATERHOUSECOOPERS LLP AND ITS ASSOCIATES

£ million	2017	2016
Audit of Parent Company and consolidated financial statements	**1.3**	0.9
Audit of the Company's subsidiaries	**4.0**	3.4
Audit related assurance services	**0.3**	–
	5.6	4.3
Tax advisory services	**–**	1.1
Tax compliance services	**–**	0.3
Other services	**0.2**	0.3
	5.8	6.0

5. RESTRUCTURING COSTS

£ million	2017	2016
Employment related	**244**	144
Asset impairments	**79**	51
Other charges	**68**	112
	391	307

Restructuring costs analysed by workstream:

£ million	2017	2016
Cost optimisation programme[1]	**383**	222
Acquisition integration costs	**4**	49
Other restructuring activities[1]	**4**	36
	391	307

1. £34 million of costs classified as other restructuring activities in the 2016 financial statements have been restated to be included within the cost optimisation programme.

5. RESTRUCTURING COSTS CONTINUED

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is a discrete project which, given its scale, will be delivered over a number of years and once delivered the associated restructuring costs will cease.

Costs of implementing cost savings that do not arise from the change in strategic direction are excluded from restructuring costs.

Cost optimisation programme costs of £383 million (2016: £222 million) comprise £278 million incurred in restructuring our product manufacturing activities including France, Morocco, Russia and the US and £105 million in respect of restructuring overheads mainly by implementing a standardised operating model.

Of the remaining £8 million (2016: £85 million), £4 million (2016: £49 million) of acquisition integration costs were in respect of the assets acquired from Lorillard in 2015 and £4 million (2016: £36 million) of other restructuring activity was in respect of pre-2013 restructuring.

The cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million and generate savings of £300 million by 2018, and Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million by 2020. In 2017 the cash cost of Phase I of the programme was £42 million (2016: £123 million, including cash impact of (1) above) and £132 million (£2016: nil) for Phase II, bringing the cumulative net cash cost of the programme to £610 million (Phase I £478 million, Phase II £132 million).

The total restructuring cash spend in the year was £201 million (2016: £268 million).

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

6. DIRECTORS AND EMPLOYEES

EMPLOYMENT COSTS

£ million	2017	2016
Wages and salaries	**856**	826
Social security costs	**173**	172
Pension costs (note 22)	**–**	34
Share-based payments (note 25)	**27**	29
	1,056	1,061

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 52-73 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NUMBER OF PEOPLE EMPLOYED BY THE GROUP DURING THE YEAR

	2017		2016	
	At 30 September	**Average**	At 30 September	Average
Tobacco	**27,800**	**27,900**	27,900	28,700
Logistics	**6,000**	**6,000**	6,000	5,900
	33,800	**33,900**	33,900	34,600

NUMBER OF PEOPLE EMPLOYED BY THE GROUP BY LOCATION DURING THE YEAR

	2017		2016	
	At 30 September	**Average**	At 30 September	Average
European Union	**15,500**	**15,600**	15,800	16,000
Americas	**8,600**	**8,500**	8,500	8,800
Rest of the World	**9,700**	**9,800**	9,600	9,800
	33,800	**33,900**	33,900	34,600

7. NET FINANCE COSTS

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	2017	2016
Reported net finance costs	**450**	1,350
Fair value gains on derivative financial instruments	**744**	484
Fair value losses on derivative financial instruments	**(679)**	(825)
Exchange gains/(losses) on financing activities	**47**	(466)
Net fair value and exchange gains/(losses) on financial instruments	**112**	(807)
Interest income on net defined benefit assets (note 22)	**107**	143
Interest cost on net defined benefit liabilities (note 22)	**(132)**	(162)
Post-employment benefits net financing cost	**(25)**	(19)
Adjusted net finance costs	**537**	524
Comprising:		
Interest on bank deposits	**(12)**	(7)
Interest on bank and other loans	**549**	531
Adjusted net finance costs	**537**	524

8. TAX

ANALYSIS OF CHARGE IN THE YEAR

£ million	2017	2016
Current tax		
UK corporation tax	**97**	33
Overseas tax	**367**	467
Total current tax	**464**	500
Deferred tax movement	**(50)**	(262)
Total tax charged to the consolidated income statement	**414**	238

RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2017	2016
Reported tax	**414**	238
Deferred tax on amortisation of acquired intangibles	**228**	261
Tax on net fair value and exchange movements on financial instruments	**(14)**	80
Tax on post-employment benefits net financing cost	**7**	7
Tax on restructuring costs	**121**	79
Tax on unrecognised losses	**(105)**	(56)
Adjusted tax charge	**651**	609

The use of adjusted measures is explained in note 1, Accounting Policies (Use of Adjusted Measures).

8. TAX CONTINUED

FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 19.5 per cent (2016: 20.0 per cent) as follows:

£ million	2017	2016
Profit before tax	**1,861**	907
Tax at the UK corporation tax rate	**363**	181
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(47)**	(90)
Movement in provision for uncertain tax positions	**22**	43
Remeasurement of deferred tax balances	**4**	(101)
Remeasurement of deferred tax balances arising from changes in tax rates	**(93)**	–
Deferred tax on unremitted earnings	**42**	–
Permanent differences	**120**	170
Adjustments in respect of prior years	**3**	35
Total tax charged to the consolidated income statement	**414**	238

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.5 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties. The movement between 2016 and 2017 is largely driven by changes in UK legislation enacted during 2017 which restrict the Group's ability to deduct interest in the UK.

Remeasurement of deferred tax balances of £101 million in 2016 mainly represented the recognition of deferred tax assets previously not recognised in relation to the Group's Spanish business, £89 million related to tax deductible amortisation and the balance of £12 million related to losses and other deferred tax assets. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

Remeasurement of deferred tax balances arising from changes in tax rates of £93 million (2016: nil) mainly represents the remeasurement of deferred tax liabilities on French assets following the enactment of a future tax rate reduction which will be effective for the Group with effect from 1 October 2019.

During the year the Group has provided for deferred tax on unremitted earnings of £42 million (2016: nil). The tax will arise on the distribution of profits through the Group and on planned group simplification.

Permanent differences include £10 million in respect of non-deductible exchange losses (2016: £79 million), £29 million (2016: £31 million) in respect of non-deductible interest expense and £57 million (2016: nil) in respect of taxable disposal of assets intra group.

MOVEMENT ON THE CURRENT TAX ACCOUNT

£ million	2017	2016
At 1 October	**(239)**	(111)
Charged to the consolidated income statement	**(464)**	(500)
Credited/(charged) to equity	**3**	(6)
Cash paid	**570**	401
Exchange movements	**2**	(24)
Other movements	**5**	1
At 30 September	**(123)**	(239)

The cash tax paid in the year is £106 million higher (2016: £99 million lower) than the current tax charge. This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

Analysed as:

£ million	2017	2016
Assets	**69**	45
Liabilities	**(192)**	(284)
	(123)	(239)

UNCERTAIN TAX POSITIONS

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets. The Group is also monitoring developments in relation to EU State Aid investigations including the EU Commission's announcement on 26 October 2017 that it will be opening a State Aid investigation into the UK's Controlled Foreign Company regime. The Group does not currently consider any provision is required in relation to EU State Aid. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2017 the total value of these provisions, including foreign exchange movements, was £190 million (2016: £165 million). It is possible that amounts paid will be different from the amounts provided.

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

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £253 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group transfer of the shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. Based on professional advice, an amount of £42 million (2016: £41 million) is included in the provision for 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 any provision is required.

9. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2017	2016	2015
Paid interim of 51.7 pence per share (2016: 101.1 pence, 2015: 91.9 pence)			
– Paid June 2015	**–**	–	204
– Paid September 2015	**–**	–	204
– Paid December 2015	**–**	–	468
– Paid June 2016	**–**	225	–
– Paid September 2016	**–**	225	–
– Paid December 2016	**–**	517	–
– Paid June 2017	**247**	–	–
– Paid September 2017	**247**	–	–
Interim dividend paid	**494**	967	876
Proposed interim of 59.51 pence per share (2016: nil, 2015: nil)			
– To be paid December 2017	**567**	–	–
Interim dividend proposed	**567**	–	–
Proposed final of 59.51 pence per share (2016: 54.1 pence, 2015: 49.1 pence)			
– Paid March 2016	**–**	–	468
– Paid March 2017	**–**	517	–
– To be paid March 2018	**567**	–	–
Final dividend	**567**	517	468
Total ordinary share dividend of 170.72 pence per share (2016: 155.2 pence, 2015: 141.0 pence)	**1,628**	1,484	1,344

The third interim dividend for the year ended 30 September 2017 of 59.51 pence per share amounts to a proposed dividend of £567 million, which will be paid in December 2017.

The proposed final dividend for the year ended 30 September 2017 of 59.51 pence per share amounts to a proposed dividend payment of £567 million in March 2018 based on the number of shares ranking for dividend at 30 September 2017, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2017 will be £1,628 million (2016: £1,484 million). The dividend paid during 2017 is £1,528 million (2016: £1,386 million).

10. EARNINGS PER SHARE

Basic earnings per share is based on the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the year excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2017	2016
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,409**	631

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**954.6**	954.0
Potentially dilutive share options	**2.3**	2.7
Shares for diluted earnings per share	**956.9**	956.7

Pence		
Basic earnings per share	**147.6**	66.1
Diluted earnings per share	**147.2**	66.0

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

	2017		2016	
£ million unless otherwise indicated	**Earnings per share (pence)**	**Earnings**	Earnings per share (pence)	Earnings
Reported basic	**147.6**	**1,409**	66.1	631
Amortisation of acquired intangibles	**90.5**	**864**	78.0	744
Net fair value and exchange movements on financial instruments	**(10.3)**	**(98)**	76.2	727
Post-employment benefits net financing cost	**1.9**	**18**	1.3	12
Restructuring costs	**28.3**	**270**	23.9	228
Tax on unrecognised losses	**11.0**	**105**	5.9	56
Adjustments above attributable to non-controlling interests	**(2.0)**	**(19)**	(1.8)	(17)
Adjusted	**267.0**	**2,549**	249.6	2,381
Adjusted diluted	**266.4**	**2,549**	248.9	2,381

11. INTANGIBLE ASSETS

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total
					2017
Cost					
At 1 October 2016	**13,631**	**12,470**	**1,358**	**309**	**27,768**
Additions	**10**	**15**	**–**	**44**	**69**
Acquisitions	**25**	**–**	**–**	**–**	**25**
Disposals	**–**	**(1)**	**–**	**(13)**	**(14)**
Reclassifications	**–**	**–**	**(2)**	**(1)**	**(3)**
Exchange movements	**167**	**(54)**	**45**	**4**	**162**
At 30 September 2017	**13,833**	**12,430**	**1,401**	**343**	**28,007**
Amortisation and impairment					
At 1 October 2016	**1,533**	**4,477**	**868**	**186**	**7,064**
Amortisation charge for the year[1]	**–**	**983**	**110**	**38**	**1,131**
Disposals	**–**	**(1)**	**–**	**(10)**	**(11)**
Reclassifications	**–**	**–**	**(1)**	**(1)**	**(2)**
Exchange movements	**35**	**(7)**	**31**	**3**	**62**
Accumulated amortisation	**–**	**5,078**	**1,008**	**216**	**6,302**
Accumulated impairment	**1,568**	**374**	**–**	**–**	**1,942**
At 30 September 2017	**1,568**	**5,452**	**1,008**	**216**	**8,244**
Net book value					
At 30 September 2017	**12,265**	**6,978**	**393**	**127**	**19,763**

1. Amortisation of acquired intangibles excluded from adjusted operating profit comprises amortisation on intellectual property of £982 million (2016: £906 million) and amortisation on supply agreements of £110 million (2016: £99 million). No adjustment is made for amortisation on internally generated intellectual property of £1 million (2016: £5 million).

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total
					2016
Cost					
At 1 October 2015	11,698	10,672	1,179	244	23,793
Additions	3	16	–	51	70
Disposals	–	(7)	–	(14)	(21)
Exchange movements	1,930	1,789	179	28	3,926
At 30 September 2016	13,631	12,470	1,358	309	27,768
Amortisation and impairment					
At 1 October 2015	1,318	2,983	662	140	5,103
Amortisation charge for the year[1]	–	911	99	34	1,044
Disposals	–	(7)	–	(10)	(17)
Exchange movements	215	590	107	22	934
Accumulated amortisation	–	4,103	868	186	5,157
Accumulated impairment	1,533	374	–	–	1,907
At 30 September 2016	1,533	4,477	868	186	7,064
Net book value					
At 30 September 2016	12,098	7,993	490	123	20,704

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of Von Erl. Gmbh for a total consideration of £26.7 million (of which £9.1 million is deferred). The acquisition builds on Imperial's strategy of developing non-tobacco consumer experiences.

The provisional valuation of Von Erl. Gmbh's net assets as at the acquisition date was £1.5 million with goodwill of £25.2 million. The provisional fair values represent management's current best estimates and may be revised following a valuation exercise which will be completed prior to June 2018.

11. INTANGIBLE ASSETS CONTINUED

The revenue for the period from the acquisition date to 30 September 2017 was £1.4 million, and net assets at 30 September 2017 were £1.2 million.

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Logistics customer relationships and exclusive supply arrangements in Cuba. All were acquired as part of the Altadis purchase.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT REVIEW

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2017		2016	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	**4,471**	**200**	4,360	196
Returns Markets South	**1,685**	**105**	1,648	103
Growth	**2,022**	**295**	1,974	295
USA	**2,351**	**–**	2,427	–
Tobacco	**10,529**	**600**	10,409	594
Logistics	**1,736**	**–**	1,689	–
	12,265	**600**	12,098	594

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) and ITG Brands in 2015 (USA).

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGU, or group of CGUs as appropriate, is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

GROWTH RATES AND DISCOUNT RATES USED

The compound annual growth rates implicit in these value-in-use calculations are shown below.

	2017		
%	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Returns Markets North	**9.1**	**0.3**	**1.8**
Returns Markets South	**10.3**	**(2.1)**	**1.8**
Growth Markets	**9.2-20.0**	**(9.0)-113**[1]	**1.2-4.0**
USA	**9.9**	**(0.7)**	**2.5**
Logistics	**9.1**	**17.8**	**1.8**

1. Initial growth rate for the Russian CGU is calculated for years 2 to 5 of the initial five year forecast period.

Cash flows from the business plan period are extrapolated out to year five using the implicit growth rate, shown in the table on the previous page as the initial growth rate. Estimated long-term weighted average compound growth rates of between 1.2 per cent and 4.0 per cent are used beyond year five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans. In particular, the restrictions of IAS 36 mean that the impairment assessment prepared in relation to Drive Growth does not include the expected contribution from our next generation products (NGP) portfolio in any of those territories where we plan to launch these products but have not yet done so. Accordingly, we anticipate that we will generate additional cash flows over the forecast period.

GROWTH MARKETS

Within our Growth Markets reporting segment, there are a number of CGU groupings based on our operating segments, including Drive Growth and Other Premium Cigar.

The Drive Growth CGU grouping includes our markets in Russia, Italy, Japan and Turkey. Our impairment test for this CGU grouping indicated headroom of £33 million and that an impairment would result in the event of relatively small changes in an individual assumption or assumptions.

The major market in this CGU grouping is Russia. During the period, a strategic investment programme was initiated in a number of our priority markets, including Russia, in order to enhance the growth opportunity for our business. This investment included initiatives to build long-term improvement in our market share and support a consistent pricing strategy. The actions involved in this programme reflect our confidence in the ongoing opportunity for sustainable growth offered by the Russian market despite it being a very competitive market. The consequence of these actions reduced net cash flows in the current period, but is expected to deliver significantly higher growth and profitability in future years.

The Russian market experienced a period of intense competition in 2017 and this, coupled with the cost of our strategic investment programme, has had a significant negative impact on cash flows in the year. We have subsequently reassessed our forecasts for the next five years which are based on the expectation that, consistent with recent market trends, a steady market recovery will occur. The combination of an improving market and the benefit of our strategic investment in Russia means that we expect a return to profit in 2018 and then to achieve a compound annual growth rate of 113 per cent over the subsequent four years which would see the business return to profit levels equivalent to those achieved in 2015 and 2016. This is based on a 10.3 per cent per annum increase in net revenue over the same period.

In addition, the impairment test assumed a 100 basis point reduction in the post-tax discount rate, from 13.5 per cent to 12.5 per cent for the Russian market reflecting the improved macro-economic factors. The long-term growth rate of 4.0 per cent has remained consistent with the prior year.

Any one or combination of the following changes in assumptions in the Russian CGU could represent a reasonably possible scenario:

– 100 basis point increase in the post-tax Russian discount rate – impact of £49 million
– 10 per cent reduction in Russian cash flows – impact of £46 million
– 10 per cent devaluation of the Russian rouble – impact of £42 million

The inclusion of NGP cash flows would lead to a further increase in headroom.

Our impairment testing confirms that there are sufficient future cash flows to support the current carrying values. Taking account of all of these factors, we have concluded that the carrying value for the Drive Growth CGU grouping included in our 30 September 2017 balance sheet is appropriate, but remains highly sensitive to adverse movements in any individual assumption or assumptions.

OTHER CGU GROUPINGS

For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

12. PROPERTY, PLANT AND EQUIPMENT

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total 2017
Cost				
At 1 October 2016	**1,012**	**2,106**	**390**	**3,508**
Additions	**7**	**146**	**38**	**191**
Disposals	**(72)**	**(286)**	**(19)**	**(377)**
Reclassifications	**4**	**3**	**(4)**	**3**
Exchange movements	**9**	**20**	**3**	**32**
At 30 September 2017	**960**	**1,989**	**408**	**3,357**
Depreciation and impairment				
At 1 October 2016	**180**	**1,111**	**258**	**1,549**
Depreciation charge for the year	**17**	**134**	**34**	**185**
Impairment	**2**	**45**	**1**	**48**
Disposals	**(40)**	**(253)**	**(18)**	**(311)**
Reclassifications	**1**	**2**	**(1)**	**2**
Exchange movements	**4**	**12**	**3**	**19**
At 30 September 2017	**164**	**1,051**	**277**	**1,492**
Net book value				
At 30 September 2017	**796**	**938**	**131**	**1,865**

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total 2016
Cost				
At 1 October 2015	926	1,816	366	3,108
Additions	6	137	21	164
Disposals	(79)	(121)	(25)	(225)
Reclassifications	30	(12)	(18)	–
Exchange movements	129	286	46	461
At 30 September 2016	1,012	2,106	390	3,508
Depreciation and impairment				
At 1 October 2015	169	955	216	1,340
Depreciation charge for the year	16	112	35	163
Impairment	15	22	–	37
Disposals	(52)	(106)	(23)	(181)
Reclassifications	3	(3)	–	–
Exchange movements	29	131	30	190
At 30 September 2016	180	1,111	258	1,549
Net book value				
At 30 September 2016	832	995	132	1,959

The impairment charges in 2017 were mainly due to the closure of our Riom and Les Aubrais factories in France. The impairment charges in 2016 were mainly due to the proposed closure of our Logrono manufacturing facility, as announced in 2016.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the joint venture entities, which are accounted for by the Group under the equity method, is shown below:

£ million	Corporación Habanos 2017	Altabana 2017	Global Horizon Ventures 2017	Others 2017	Total 2017
Revenue	**184**	**308**	**3**	**67**	**562**
Profit after tax	**27**	**46**	**–**	**6**	**79**
Non-current assets	**449**	**15**	**24**	**13**	**501**
Current assets	**73**	**206**	**29**	**60**	**368**
Total assets	**522**	**221**	**53**	**73**	**869**
Current liabilities	**(79)**	**(52)**	**(6)**	**(41)**	**(178)**
Non-current liabilities	**(20)**	**(5)**	**–**	**(5)**	**(30)**
Total liabilities	**(99)**	**(57)**	**(6)**	**(46)**	**(208)**
Net assets	**423**	**164**	**47**	**27**	**661**

£ million	Corporación Habanos 2016[1]	Altabana 2016[1]	Others 2016[1]	Total 2016[1]
Revenue	158	244	56	458
Profit after tax	25	36	5	66
Non-current assets	474	14	16	504
Current assets	86	172	56	314
Total assets	560	186	72	818
Current liabilities	(102)	(49)	(37)	(188)
Non-current liabilities	(17)	(3)	(5)	(25)
Total liabilities	(119)	(52)	(42)	(213)
Net assets	441	134	30	605

1. 2016 financial statements disclosed the Group's share of the summarised financial information of each joint venture.

TRANSACTIONS AND BALANCES WITH JOINT VENTURES

£ million	2017	2016
Sales to	**81**	67
Purchases from	**92**	77
Accounts receivable from	**11**	14
Accounts payable to	**(13)**	(16)

MOVEMENT ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

£ million	2017	2016
At 1 October	**744**	598
Profit for the year from joint ventures	**33**	28
Increase in investment in joint ventures	**38**	–
Increase in investment in associates	**2**	5
Dividends	**16**	–
Foreign exchange	**(48)**	113
At 30 September	**785**	744

On 9 January 2017 a new joint venture, Global Horizon Ventures Limited, was incorporated. The loss for the period from incorporation until 30 September 2017 is £0.2 million, and net assets at 30 September 2017 are £25.6 million. The Group has transferred intangible assets valued at £23.5 million into the joint venture. The joint venture has been separately analysed in the analysis above.

IFRS 11 Joint Arrangements came into effect for the Group from 1 October 2014. As a result of this standard, the profit and loss items from joint ventures are shown in the consolidated income statement below net finance costs as "Share of investments accounted for using the equity method". Similarly, the asset and liability amounts are classified as "Investments accounted for using the equity method".

14. INVENTORIES

£ million	2017	2016
Raw materials	**970**	1,072
Work in progress	**54**	57
Finished inventories	**2,349**	2,215
Other inventories	**231**	154
	3,604	3,498

Other inventories mainly comprise duty-paid tax stamps.

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £181 million (2016: £280 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

15. TRADE AND OTHER RECEIVABLES

	2017		2016	
£ million	Current	Non-current	Current	Non-current
Trade receivables	**2,366**	**–**	2,477	–
Less: provision for impairment of receivables	**(58)**	**–**	(59)	–
Net trade receivables	**2,308**	**–**	2,418	–
Other receivables	**54**	**111**	119	72
Prepayments and accrued income	**177**	**12**	134	17
	2,539	**123**	2,671	89

The Group has an important trading relationship with Palmer and Harvey (P&H), the UK wholesaler, and has been working with other key stakeholders to seek a sustainable future for P&H. If ultimately unsuccessful, failure of P&H would result in material trading balances being at risk. On 26 October 2017, P&H announced that it had entered into a period of exclusivity with Carlyle Investment Management LLC with the intention of securing significant capital investment.

Trade receivables may be analysed as follows:

	2017		2016	
£ million	Current	Non-current	Current	Non-current
Within credit terms	**2,179**	**–**	2,357	–
Past due by less than 3 months	**93**	**–**	55	–
Past due by more than 3 months	**36**	**–**	6	–
Amounts that are impaired	**58**	**–**	59	–
	2,366	**–**	2,477	–

16. CASH AND CASH EQUIVALENTS

£ million	2017	2016
Cash at bank and in hand	**599**	1,266
Short-term deposits and other liquid assets	**25**	8
	624	1,274

£143 million (2016: £119 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

17. TRADE AND OTHER PAYABLES

£ million	2017 Current	2017 Non-current	2016 Current	2016 Non-current
Trade payables	**1,245**	**–**	946	–
Duties payable	**4,837**	**–**	4,901	–
Other taxes and social security contributions	**1,256**	**–**	1,223	–
Other payables	**163**	**–**	182	–
Accruals and deferred income	**603**	**21**	739	17
	8,104	**21**	7,991	17

18. BORROWINGS

The Group's borrowings are held at amortised cost, are as follows.

£ million	2017	2016
Current borrowings		
Bank loans and overdrafts	**285**	95
Capital market issuance:		
European commercial paper (ECP)	**–**	978
£450m 5.5% notes due November 2016	**–**	471
$1,250m 2.05% notes due February 2018	**936**	–
€850m 4.5% notes due July 2018	**757**	–
$500m 2.05% notes due July 2018	**375**	–
Total current borrowings	**2,353**	1,544
Non-current borrowings		
Bank loans	**–**	925
Capital market issuance:		
$1,250m 2.05% notes due February 2018	**–**	966
€850m 4.5% notes due July 2018	**–**	739
$500m 2.05% notes due July 2018	**–**	387
£200m 6.25% notes due December 2018	**210**	210
£500m 7.75% notes due June 2019	**510**	510
€750m 5.0% notes due December 2019	**689**	672
$1,250m 2.95% notes due July 2020	**937**	968
€1,000m 2.25% notes due February 2021	**892**	869
€500m 0.5% notes due July 2021	**440**	–
£1,000m 9.0% notes due February 2022	**1,055**	1,055
$1,250m 3.75% notes due July 2022	**938**	968
$1,000m 3.5% notes due February 2023	**749**	773
£600m 8.125% notes due March 2024	**626**	626
€500m 1.375% notes due January 2025	**444**	–
$1,500m 4.25% notes due July 2025	**1,120**	1,155
€650m 3.375% notes due February 2026	**584**	569
£500m 5.5% notes due September 2026	**499**	499
£500m 4.875% notes due June 2032	**503**	503
Total non-current borrowings	**10,196**	12,394
Total borrowings	**12,549**	13,938
Analysed as:		
Capital market issuance	**12,264**	12,918
Bank loans and overdrafts	**285**	1,020

Current and non-current borrowings include interest payable of £15 million (2016: £24 million) and £192 million (2016: £199 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

18. BORROWINGS CONTINUED

On 22 November 2016, £450 million 5.5 per cent notes were repaid. On 27 January 2017, €500 million 0.5 per cent notes and €500 million 1.375 per cent notes were issued, with maturities of 4.5 years and 8 years respectively.

On 27 January 2017, $900 million bank term loans were repaid and cancelled.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2016: no defaults).

NON-CURRENT FINANCIAL LIABILITIES

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2017 (including net derivative financial instruments detailed in note 20) is as follows:

			2017			2016
£ million	Borrowings	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:						
Between one and two years	720	47	767	3,017	(39)	2,978
Between two and five years	4,951	196	5,147	3,229	9	3,238
In five years or more	4,525	340	4,865	6,148	613	6,761
	10,196	583	10,779	12,394	583	12,977

FAIR VALUE OF BORROWINGS

The fair value of borrowings as at 30 September 2017 is estimated to be £13,530 million (2016: £15,439 million). £13,245 million (2016: £14,419 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

		2017		2016
£ million	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	3,403	4,085	3,874	4,835
EUR	3,806	3,984	3,827	4,122
USD	5,055	5,176	5,217	5,462
Total capital market issuance	12,264	13,245	12,918	14,419

UNDRAWN BORROWING FACILITIES

At 30 September the Group had the following undrawn committed facilities:

£ million	2017	2016
Amounts maturing:		
In less than one year	–	301
Between one and two years	–	–
Between two and five years	3,000	2,941
	3,000	3,242

On 15 January 2017, a €350 million bank revolving credit facility was not extended and matured.

19. FINANCIAL RISK FACTORS

FINANCIAL RISK MANAGEMENT

OVERVIEW

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group-wide insurance programmes. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets regularly throughout the year when needed and comprises the Chief Financial Officer, the Company Secretary, the Deputy Chief Financial Officer and other senior management from finance and treasury. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

(A) MARKET RISK

PRICE RISK

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 22. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

FOREIGN EXCHANGE RISK

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

TRANSACTION RISK

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

TRANSLATION RISK

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2017. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

	2017	2016
£ million	Increase in income	Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2016: 10%)	491	458
10% appreciation of US dollar (2016: 10%)	111	46

An equivalent depreciation in the above currencies would cause a decrease in income of £600 million and £136 million for euro and US dollar exchange rates respectively (2016: £560 million and £57 million).

19. FINANCIAL RISK FACTORS CONTINUED

Movements in equity in the table below relate to hedging instruments designated as net investment hedges in hedging the Group's euro denominated assets.

£ million	2017 Change in equity	2016 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2016: 10%)	**484**	494
10% appreciation of US dollar (2016: 10%)	**20**	83

An equivalent depreciation in the above currencies would result in a change in equity of -£591 million and -£24 million for euro and US dollar exchange rates respectively (2016: -£604 million and -£102 million).

At 30 September 2017, after the effect of derivative financial instruments, approximately -1 per cent (2016: -1 per cent) of the Group's net debt was denominated in sterling, 62 per cent in euro (2016: 58 per cent), 42 per cent in US dollars (2016: 43 per cent), and -3 per cent in other currencies (2016: nil per cent).

INTEREST RATE RISK

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2017, after adjusting for the effect of derivative financial instruments detailed in note 20, approximately 75 per cent (2016: 71 per cent) of net debt was at fixed rates of interest and 25 per cent (2016: 29 per cent) was at floating rates of interest.

INTEREST RATE SENSITIVITY ANALYSIS

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2017, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2016: nil).

The movement in interest rates is considered reasonable for the purpose of this analysis and the estimated effect assumes a lower limit of zero for interest rates where relevant.

£ million	2017 Change in income	2016 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2016: 1%)	**12**	17
+/- 1% increase in US dollar interest rates (2016: 1%)	**20**	23

(B) CREDIT RISK

The Group is primarily exposed to credit risk arising from trade receivables due from its customers, cash deposits and other amounts due from external financial counterparties on other financial instruments. The maximum aggregate credit risk to these sources was considered to be £3,633 million at 30 September 2017 (2016: £4,860 million).

TRADE AND OTHER RECEIVABLES

The Group has some significant concentrations of customer credit risk. In order to manage its exposure to customer credit risk, policies have been implemented to ensure that sales of products are made to customers with an appropriate credit history, with non-recourse factoring arrangements and credit support guarantees being used and obtained where appropriate. Analysis of trade and other receivables is provided in note 15.

FINANCIAL INSTRUMENTS

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In a few historical cases, collateral has been deposited against derivative financial liabilities and supported by an ISDA Credit Support Annex.

The table overleaf summarises the Group's largest exposures to financial counterparties as at 30 September 2017. At the balance sheet date management does not expect these counterparties to default on their current obligations. The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

Counterparty exposure	2017 S&P credit rating	2017 Maximum exposure to credit risk £ million	2016 S&P credit rating	2016 Maximum exposure to credit risk £ million
Highest	A-	17	AA-	150
2nd highest	AA-	8	AA-	125
3rd highest	A-	7	AA-	87
4th highest	A+	6	A+	85
5th highest	A	4	BBB+	52

(C) LIQUIDITY RISK

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short-term liquidity requirements in line with short-term cash flow forecasts. As at 30 September 2017, the Group held liquid assets of £624 million (2016: £1,274 million).

The table below summarises the Group's non-derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2017. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 20.

2017

£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	285	287	287	–	–	–
Capital market issuance	12,264	14,637	2,554	1,138	5,823	5,122
Trade payables	1,245	1,245	1,245	–	–	–
Total non-derivative financial liabilities	13,794	16,169	4,086	1,138	5,823	5,122

2016

£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	1,020	1,038	105	933	–	–
Capital market issuance	12,918	15,767	1,947	2,576	4,303	6,941
Trade payables	946	946	946	–	–	–
Total non-derivative financial liabilities	14,884	17,751	2,998	3,509	4,303	6,941

CAPITAL MANAGEMENT

The Group manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient financing mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in different countries, the Group's only external imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group continues to target an investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in ongoing discussions with the relevant ratings agencies.

As at 30 September 2017 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/stable outlook by Fitch Ratings Limited.

19. FINANCIAL RISK FACTORS CONTINUED

The Group regards its total capital as follows.

£ million	2017	2016
Adjusted net debt (note 29)	12,147	12,882
Equity attributable to the owners of the parent	5,684	5,311
Total capital	17,831	18,193

HEDGE ACCOUNTING

The Group hedges its underlying exposures in an efficient, commercial and structured manner in line with the policies above, although the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting in respect of these transactions.

The Group does apply hedge accounting in respect of certain net investments in foreign operations where appropriate. The hedge of a net investment in a foreign operation is a hedge of the translation foreign currency risk arising on the foreign operation. As at 30 September 2017 the Group had made net investment hedge designations in foreign operations in respect of external euro borrowings with a carrying value of €4,250 million (2016: €4,387 million), US dollar borrowings with a carrying value of $7,050 million (2016: $7,950 million), and cross-currency swaps with a notional value of €4,164 million (2016: €3,871 million).

The Group also treats certain permanent intragroup loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intragroup loans with a notional value of €2,381 million (2016: €1,943 million) and US dollar loans with a notional value of $6,761 million (2016: $6,761 million) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

FAIR VALUE ESTIMATION AND HIERARCHY

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 20. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 18.

NETTING ARRANGEMENTS OF FINANCIAL INSTRUMENTS

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's Balance Sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments under ISDA Credit Support Annex. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

					2017
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	718	(75)	643	(603)	40
Cash and cash equivalents	624	–	624	–	624
	1,342	(75)	1,267	(603)	664
Liabilities					
Derivative financial instruments	(1,283)	75	(1,208)	603	(605)
Bank loans and overdrafts	(285)	–	(285)	–	(285)
	(1,568)	75	(1,493)	603	(890)

£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
					2016
Assets					
Derivative financial instruments	1,243	(134)	1,109	(1,069)	40
Cash and cash equivalents	1,678	(404)	1,274	–	1,274
	2,921	(538)	2,383	(1,069)	1,314
Liabilities					
Derivative financial instruments	(1,898)	134	(1,764)	1,069	(695)
Bank loans and overdrafts	(499)	404	(95)	–	(95)
	(2,397)	538	(1,859)	1,069	(790)

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

£ million	2017 Assets	2017 Liabilities	2017 Net Fair Value	2016 Assets	2016 Liabilities	2016 Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**47**	**(33)**	**14**	32	(60)	(28)
Foreign exchange contracts	**12**	**(9)**	**3**	9	(11)	(2)
Cross-currency swaps	**1**	**–**	**1**	5	(121)	(116)
Total current derivatives	**60**	**(42)**	**18**	46	(192)	(146)
Collateral[1]	**–**	**–**	**–**	–	74	74
	60	**(42)**	**18**	46	(118)	(72)
Non-current derivative financial instruments						
Interest rate swaps	**583**	**(734)**	**(151)**	1,063	(1,279)	(216)
Cross-currency swaps	**–**	**(507)**	**(507)**	–	(427)	(427)
Total non-current derivatives	**583**	**(1,241)**	**(658)**	1,063	(1,706)	(643)
Collateral[1]	**–**	**75**	**75**	–	60	60
	583	**(1,166)**	**(583)**	1,063	(1,646)	(583)
Total carrying value of derivative financial instruments	**643**	**(1,208)**	**(565)**	1,109	(1,764)	(655)
Analysed as:						
Interest rate swaps	**630**	**(767)**	**(137)**	1,095	(1,339)	(244)
Foreign exchange contracts	**12**	**(9)**	**3**	9	(11)	(2)
Cross-currency swaps	**1**	**(507)**	**(506)**	5	(548)	(543)
Collateral[1]	**–**	**75**	**75**	–	134	134
Total carrying value of derivative financial instruments	**643**	**(1,208)**	**(565)**	1,109	(1,764)	(655)

1. 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. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 19.

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

MATURITY OF OBLIGATIONS UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Group's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2017. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2017. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non-derivative financial instruments are detailed in note 19.

						2017
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(107)	(353)	12	(9)	(172)	(184)
Gross settled derivatives	(458)					
– receipts		5,449	1,548	818	1,273	1,810
– payments		(5,712)	(1,525)	(923)	(1,288)	(1,976)
	(565)	(616)	35	(114)	(187)	(350)

						2016
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(205)	(374)	(23)	(6)	(136)	(209)
Gross settled derivatives	(450)					
– receipts		6,048	2,018	132	1,017	2,881
– payments		(6,317)	(2,117)	(107)	(1,076)	(3,017)
	(655)	(643)	(122)	19	(195)	(345)

DERIVATIVES AS HEDGING INSTRUMENTS

As outlined in note 19, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross-currency swaps. Foreign exchange contracts are used to manage the Group's short-term liquidity requirements in line with cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IAS 39, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

INTEREST RATE SWAPS

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination or duration and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2017, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance was £12,393 million equivalent (2016: £11,676 million equivalent) with a fair value of £579 million asset (2016: £1,093 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2016: 2.0 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2017, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk was £11,049 million equivalent (2016: £12,462 million equivalent) with a fair value of £686 million liability (2016: £1,298 million liability). The fixed interest rates vary from 0.8 per cent to 4.4 per cent (2016: 0.8 per cent to 5.2 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £1,452 million equivalent (2016: £2,459 million equivalent) with tenors extending for five years, starting between October 2020 and May 2022.

CROSS-CURRENCY SWAPS

The Group enters into cross-currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

As at 30 September 2017, the notional amount of cross-currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was nil (2016: £650 million) and the fair value of these swaps was nil net liability (2016: £56 million net liability).

As at 30 September 2017, the notional amount of cross-currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £3,300 million (2016: £3,100 million) and the fair value of these swaps was £461 million net liability (2016: £392 million net liability).

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

As at 30 September 2017, cross-currency swaps with a notional amount of €4,164 million (2016: €3,871 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £92 million (2016: £474 million losses) were recognised in other comprehensive income in respect of cross-currency swaps that had been designated as hedges of a net investment in foreign operations.

FOREIGN EXCHANGE CONTRACTS

The Group enters into foreign exchange contracts to manage short-term liquidity requirements in line with cash flow forecasts. As at 30 September 2017 the notional amount of these contracts was £1,482 million equivalent (2016: £1,531 million equivalent) and the fair value of these contracts was a net asset of £3 million (2016: £2 million net liability).

21. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

DEFERRED TAX ASSETS

	2017			
£ million	**Accelerated depreciation and amortisation**	**Retirement benefits**	**Other temporary differences**	**Total**
At 1 October 2016	**(226)**	**269**	**588**	**631**
Credited/(charged) to consolidated income statement	**202**	**(1)**	**10**	**211**
Charged to other comprehensive income	**–**	**(28)**	**(1)**	**(29)**
Transfers	**212**	**(114)**	**(296)**	**(198)**
Exchange movements	**(7)**	**3**	**6**	**2**
At 30 September 2017	**181**	**129**	**307**	**617**

	2016			
£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
At 1 October 2015	104	49	380	533
(Charged)/credited to consolidated income statement	(21)	8	41	28
Credited to other comprehensive income	–	108	–	108
Transfers	(221)	75	85	(61)
Exchange movements	(88)	29	82	23
At 30 September 2016	(226)	269	588	631

21. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

DEFERRED TAX LIABILITIES

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2017
At 1 October 2016	**(1,143)**	**47**	**62**	**(1,034)**
Charged to consolidated income statement	**(61)**	**(32)**	**(68)**	**(161)**
Credited to other comprehensive income	**–**	**(91)**	**–**	**(91)**
Transfers	**(212)**	**114**	**296**	**198**
Other movements	**–**	**–**	**(12)**	**(12)**
Exchange movements	**13**	**(1)**	**(3)**	**9**
At 30 September 2017	**(1,403)**	**37**	**275**	**(1,091)**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2016
At 1 October 2015	(1,334)	125	39	(1,170)
Credited/(charged) to consolidated income statement	159	(16)	91	234
Credited to other comprehensive income	–	7	–	7
Transfers	221	(75)	(85)	61
Exchange movements	(189)	6	17	(166)
At 30 September 2016	(1,143)	47	62	(1,034)

DEFERRED TAX EXPECTED TO BE RECOVERED WITHIN 12 MONTHS

£ million	2017	2016
Deferred tax assets	**340**	351
Deferred tax liabilities	**(270)**	(246)
	70	105

DEFERRED TAX EXPECTED TO BE RECOVERED IN MORE THAN 12 MONTHS

£ million	2017	2016
Deferred tax assets	**277**	280
Deferred tax liabilities	**(821)**	(788)
	(544)	(508)

Within other temporary differences, deferred tax assets of £250 million (2016: £345 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at the balance sheet date, deferred tax assets of £106 million (2016: £125 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets £7 million are expected to expire in 2018, nil (2016: £9 million) are expected to expire within five years and nil (2016: nil) are expected to expire between 2023 and 2028.

Also within other temporary differences, deferred tax assets of £33 million (2016: £15 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £143 million (2016: £159 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £44 million (2016: £63 million) are expected to expire between 2022 and 2028.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2016 we recognised deferred tax assets of £118 million previously not recognised on the basis that it is more likely than not that these are recoverable. No material movement has arisen in 2017.

A deferred tax liability of £89 million (2016: £50 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £8 billion (2016: £1.6 billion).

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £140 million (2016: £5 billion). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Finance (No. 2) Act 2015 and the Finance Bill 2016 have the reduced the UK corporation tax rate to 19 per cent from 1 April 2017 and to 17 per cent from 1 April 2020. These proposed changes are reflected in the deferred tax balances.

22. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 64 per cent, 11 per cent and 8 per cent of the Group's total defined benefit obligations and 44 per cent, 23 per cent and 8 per cent of the current service cost respectively.

IMPERIAL TOBACCO PENSION FUND

The UK scheme, the Imperial Tobacco Pension Fund or ITPF, is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF was offered to employees who joined the Company before 1 October 2010 and has a weighted average maturity of 18 years. The population comprises 65 per cent in respect of pensioners, 32 per cent in respect of deferred members and 3 per cent in respect of current employees. New employees in the UK are now offered a defined contribution scheme. Should surplus funds arise in the defined benefit section they may be used to finance defined contribution section contributions on the Company's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases and any salary increases above inflation) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the fund were to be wound up.

The latest valuation of the ITPF was carried out as at 31 March 2016 when the market value of the invested assets was £3,302 million. Based on the ongoing funding target the total assets were sufficient to cover 96 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, Imperial Tobacco Limited and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly.

Following the valuation, the level of employer's contributions to the scheme was increased from £65 million per year. The Company paid £75 million in the year to 31 March 2017 and agreed to pay £80 million in the year to 31 March 2018 and £85 million each year for the subsequent 13 years. Further contributions were agreed to be paid by the Company in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees with a total value of £600 million and a parental guarantee with Imperial Brands PLC have been put in place.

The Scheme Actuary prepares an annual update of the funding position as at 31 March each year. The latest annual update on an ongoing basis was carried out as at 31 March 2016 and showed a deficit of £382 million in relation to past service accrued benefits.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be influenced by the factors noted above). The level of equity returns will be a key determinant of overall investment return. The investment portfolio is also subject to a range of other risks typical of the asset classes held, in particular exposure to equity markets, credit risk on bonds and exposure to the property market.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a significant proportion of the assets invested in equities and other return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

A past service credit of £81 million has been recognised during the year as a result of the introduction of a pension cap effective from 1 September 2017. The past service cost has been calculated using assumptions based on the market conditions as at 31 August 2017, to reflect the date around which the agreed changes were communicated to members following a consultation period.

THE REEMTSMA CIGARETTENFABRIKEN PENSION PLAN

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 18 years. The scheme population comprises 52 per cent in respect of pensioners, 16 per cent in respect of deferred members and 32 per cent in respect of current employees.

22. RETIREMENT BENEFIT SCHEMES CONTINUED

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £23 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the DBO and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

ITG BRANDS HOURLY PENSION PLAN

The main USA pension scheme, the ITG Brands Hourly Pension Plan (ITGBH), is a defined benefit pension plan that is open to new entrants. It has a weighted average maturity of 11 years. The population comprises 71 per cent in respect of pensioners, 10 per cent in respect of deferred members and 19 per cent in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

OTHER PLANS

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2017 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

DEFINED BENEFIT PLANS

			2017			2016
£ million	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(6,099)	4,620	(1,479)	(4,790)	3,973	(817)
Consolidated income statement expense						
Current service cost	(64)	–	(64)	(57)	–	(57)
Past service credit – Spanish free tobacco settlement	–	–	–	32	–	32
Past service credits	91	–	91	16	–	16
Cost of termination benefits	(10)	–	(10)	(7)	–	(7)
Net interest (expense)/income on net defined benefit (liability)/ asset	(132)	107	(25)	(162)	143	(19)
Administration costs paid from plan assets	–	(3)	(3)	–	(3)	(3)
Cost recognised in the income statement			(11)			(38)
Remeasurements						
Actuarial gain due to liability experience	204	–	204	52	–	52
Actuarial gain/(loss) due to financial assumption changes	299	–	299	(1,160)	–	(1,160)
Actuarial gain/(loss) due to demographic assumption changes	25	–	25	10	–	10
Return on plan assets excluding amounts included in net interest (expense)/income above	–	121	121	–	494	494
Remeasurement effects recognised in other comprehensive income			649			(604)
Cash						
Employer contributions	–	140	140	–	127	127
Employee contributions	(1)	1	–	(1)	1	–
Benefits paid directly by the company	46	(46)	–	43	(43)	–
Benefits paid from plan assets	205	(205)	–	202	(202)	–
Net cash			140			127
Other						
Obligations and assets of acquired operations	–	–	–	–	–	–
Spanish free tobacco settlement [1]	–	–	–	27	(13)	14
Exchange movements	(12)	(3)	(15)	(304)	143	(161)
Total other			(15)			(147)
At 30 September	(5,448)	4,732	(716)	(6,099)	4,620	(1,479)

1. During the year ended 30 September 2016 we reached agreements in Spain with both current employees and a proportion of pensioners who would have received or had previously received payments in respect of former entitlements to free cigarettes to accept one-off cash payments in full settlement. Payments to current employees were disbursed during the year. The cash settlement to pensioners was paid in October 2016 and the liability was recognised in the balance sheet at 30 September 2016 in other liabilities.

Termination benefits in the year ended 30 September 2017 mainly relate to restructuring activity in Germany. The past service credit arises as a result of the implementation of a salary cap on the UK pension fund.

RETIREMENT BENEFIT SCHEME COSTS CHARGED TO OPERATING PROFIT

£ million	2017	2016
Defined benefit (income)/expense in operating profit	(14)	19
Defined contribution expense in operating profit	17	18
Total retirement benefit scheme cost in operating profit	3	37

Split as follows in the consolidated income statement:

£ million	2017	2016
Cost of sales	3	14
Distribution, advertising and selling costs	–	13
Administrative and other expenses	–	10
Total retirement benefit scheme costs in operating profit	3	37

22. RETIREMENT BENEFIT SCHEMES CONTINUED

ASSETS AND LIABILITIES RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

£ million	2017	2016
Retirement benefit assets	358	5
Retirement benefit liabilities	(1,074)	(1,484)
Net retirement benefit liability	(716)	(1,479)

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

	2017			2016		
£ million unless otherwise indicated	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Defined benefit obligation (DBO)	3,485	613	418	3,979	658	437
Fair value of scheme assets	(3,790)	–	(394)	(3,632)	–	(419)
Net defined benefit (asset)/liability	(305)	613	24	347	658	18
Current service cost	28	15	5	25	10	6
Employer contributions	75	22	–	58	20	–
Principal actuarial assumptions used (% per annum)						
Discount rate	2.7	1.9	3.8	2.3	1.2	3.7
Future salary increases	3.7	2.9	n/a	3.5	2.7	n/a
Future pension increases	3.2	1.8	n/a	3.0	1.6	n/a
Inflation	3.2	1.8	2.5	3.0	1.6	n/a

	2017					
	ITPF		RCPP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.9	23.5	19.3	23.3	19.8	22.3
Member currently aged 50	23.3	25.5	21.3	25.2	21.1	23.5

	2016					
	ITPF		RCPP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.7	23.1	19.1	23.1	20.3	22.7
Member currently aged 50	23.0	24.6	21.1	25.1	21.5	24.0

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S2 tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S2 All Pensioner Male Amounts table with a 97.9 per cent multiplier. An allowance for improvements in longevity is made using the 2015 CMI improvement rates with a long-term trend of 1.25 per cent per annum.

SENSITIVITY ANALYSIS FOR KEY ASSUMPTIONS AT THE END OF THE YEAR

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

	2017			2016		
% increase in DBO	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Discount rate: 0.5% decrease	**9.0**	**9.4**	**5.6**	10.3	10.1	5.8
Rate of inflation: 0.5% decrease	**7.3**	**6.3**	**n/a**	(8.1)	(7.1)	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	**3.7**	**4.6**	**4.1**	3.5	4.8	4.0

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5 per cent decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £10 million.

An approximate split of the major categories of ITPF scheme assets is as follows:

	2017		2016	
£ million unless otherwise indicated	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	**1,430**	**38**	1,598	44
Bonds – index linked government	**915**	**24**	981	27
Bonds – corporate and other	**305**	**8**	581	16
Property	**529**	**14**	436	12
Absolute return	**589**	**15**	–	–
Other – including derivatives, commodities and cash	**22**	**1**	36	1
	3,790	**100**	3,632	100

The majority of the assets are quoted.

Excluding any self-investment through pooled fund holdings, the ITPF investments in financial instruments of Imperial Brands PLC amounted to £1 million (2016: £6 million).

An approximate split of the major categories of ITGBH scheme assets is as follows:

	2017		2016	
£ million unless otherwise indicated	Fair value	Percentage of ITGBH scheme assets	Fair value	Percentage of ITGBH scheme assets
Investment funds	**257**	**65**	276	66
Bonds – fixed government	**75**	**19**	61	15
Bonds – corporate and other	**58**	**15**	59	14
Other – including derivatives, commodities and cash	**4**	**1**	23	5
	394	**100**	419	100

The majority of the assets are non-quoted.

23. PROVISIONS

			2017
	Restructuring	Other	Total
At 1 October 2016	304	171	475
Additional provisions charged to the consolidated income statement	222	52	274
Amounts used	(119)	(22)	(141)
Unused amounts reversed	(31)	(59)	(90)
Exchange movements	4	3	7
At 30 September 2017	380	145	525

Analysed as:

£ million	2017	2016
Current	187	188
Non-current	338	287
	525	475

Restructuring provisions relate mainly to our cost optimisation programme (see note 5).

Other provisions principally relate to commercial legal claims and disputes and are expected to be used over a period of up to 10 years.

24. SHARE CAPITAL

£ million	2017	2016
Authorised, issued and fully paid		
1,032,340,000 ordinary shares of 10p each (2016: 1,036,000,000)	103	104

During September 2017, 3,660,000 shares were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve.

25. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

SHARE MATCHING SCHEME

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

LONG-TERM INCENTIVE PLAN (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.

SHARESAVE PLAN

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically there were also granted for a five year period.

DISCRETIONARY SHARE AWARDS PLAN (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25 per cent of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

ANALYSIS OF CHARGE TO THE CONSOLIDATED INCOME STATEMENT

£ million	2017	2016
Share Matching Scheme	**19**	21
Long-Term Incentive Plan	**6**	5
Sharesave Plan	**2**	3
	27	29

The awards are predominantly equity-settled. The balance sheet liability in respect of cash-settled schemes at 30 September 2017 was £2.1 million (2016: £2.6 million).

RECONCILIATION OF MOVEMENTS IN AWARDS/OPTIONS

	2017				
Thousands of shares unless otherwise indicated	**Share matching scheme awards**	**LTIP awards**	**Sharesave options**	**DSAP awards**	**Sharesave weighted average exercise price £**
Outstanding at 1 October 2016	**2,265**	**1,100**	**1,085**	**19**	**24.73**
Granted	**662**	**397**	**340**	**26**	**29.62**
Lapsed/cancelled	**(109)**	**(104)**	**(86)**	**–**	**25.59**
Exercised	**(911)**	**(203)**	**(342)**	**–**	**20.62**
Outstanding at 30 September 2017	**1,907**	**1,190**	**997**	**45**	**27.73**
Exercisable at 30 September 2017	**–**	**–**	**43**	**–**	**20.40**

	2016				
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2015	2,730	959	1,519	–	21.05
Granted	730	409	329	19	25.40
Lapsed/cancelled	(313)	(209)	(287)	–	21.18
Exercised	(882)	(59)	(476)	–	18.57
Outstanding at 1 October 2016	2,265	1,100	1,085	19	24.73
Exercisable at 30 September 2016	–	–	23	–	18.66

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £36.96 (2016: £36.24). The weighted average fair value of sharesave options granted during the year was £6.12 (2016: £6.68).

25. SHARE SCHEMES CONTINUED

SUMMARY OF AWARDS/OPTIONS OUTSTANDING AT 30 SEPTEMBER 2017

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2015	615	5	n/a
2016	637	17	n/a
2017	655	29	n/a
Total awards outstanding	1,907		
Long-Term Incentive Plan			
2014	2	–	n/a
2015	391	5	n/a
2016	400	17	n/a
2017	397	29	n/a
Total awards outstanding	1,190		
Sharesave Plan			
2012	1	–	20.45
2013	18	–	18.40
2014	42	–	20.40
2015	308	10	25.40
2016	293	22	29.68
2017	335	34	29.62
Total options outstanding	997		
Discretionary Share Awards Plan			
2016	18	14	n/a
2016	1	22	n/a
2017	24	32	n/a
2017	2	35	n/a
Total options outstanding	45		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

PRICING

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan and Discretionary Share Awards Plan. A summary of the assumptions used in the Black-Scholes model for 2017 and 2016 is as follows.

			2017			2016
	Share matching	Sharesave	DSAP	Share matching	Sharesave	DSAP
Risk-free interest rate %	0.8	0.1	0.6-0.9	0.8	0.1-0.3	0.4-1.0
Volatility (based on 3 or 5 year history) %	24.1	24.4	24.1-24.8	23.0	22.8-23.8	23.4-24.1
Expected lives of options granted years	3	3	3	3	3	3
Dividend yield %	4.2	4.2	4.2	5.4	4.6-5.2	4.6
Fair value £	32.66	6.02-6.48	28.25-32.03	30.25	6.14-6.69	32.16-34.74
Share price used to determine exercise price £	37	35.47-36.29	32.01-36.29	35.54	37.10-37.51	36.54-39.55
Exercise price £	n/a	29.62	n/a	n/a	29.68	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2017 and 2016 are given in the following table.

%	2017	2016
Future Imperial Brands share price volatility	**21.0**	18.9-19.9
Future Imperial Brands dividend yield	**–**	3.6-3.9
Share price volatility of the tobacco and alcohol comparator group	**16.0-37.0**	16.0-35.0
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**34.0**	37.0

EMPLOYEE SHARE OWNERSHIP TRUSTS

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £181.9 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2017. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

SHARES HELD BY EMPLOYEE SHARE OWNERSHIP TRUSTS

Millions of shares	2017	2016
At 1 October	**3.5**	3.2
Distribution of shares held by Employee Share Ownership Trusts	**(1.6)**	(1.3)
Gift of treasury shares	**–**	1.6
At 30 September	**1.9**	3.5

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2016: 0.5 million at a cost of £13.2 million) and 1.9 million (2016: 3.0 million) treasury shares gifted to the Trusts by the Group. There were nil million (2016: £1.6 million) shares gifted in the financial year 2017.

26. TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 3,660,000 shares at a cost of £119 million (2016: nil), and cancelled 3,660,000 shares (2016: nil). Shares held in treasury do not qualify for dividends.

	2017		2016	
£ million unless otherwise indicated	**Millions of shares (number)**	**Value**	Millions of shares (number)	Value
At 1 October	**77.3**	**2,183**	78.9	2,229
Purchase of shares	**3.6**	**119**	–	–
Cancellation of shares	**(3.6)**	**(119)**	–	–
Gifted to Employee Share Ownership Trusts	**–**	**–**	(1.6)	(46)
At 30 September	**77.3**	**2,183**	77.3	2,183
Percentage of issued share capital	**7.5**	**n/a**	7.5	n/a

27. COMMITMENTS

CAPITAL COMMITMENTS

£ million	2017	2016
Contracted but not provided for:		
Property, plant and equipment and software	195	162

OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

	2017			2016		
£ million	Property	Other	Total	Property	Other	Total
Within one year	41	15	56	42	15	57
Between one and five years	92	33	125	99	22	121
Beyond five years	22	–	22	32	–	32
	155	48	203	173	37	210

A review of operating leases has identified two leases with a total commitment greater than £10 million. A summary of these commitments is detailed below.

The German head office lease commenced on 1 January 2014 for a term of 10 years, due to terminate on 31 December 2024. Currently there is an annual commitment of €3.2 million which is price index graduated on an annual basis. There is the option to terminate up to 30 per cent of the remaining lease space from 31 December 2019 to 31 December 2023, subject to notice of 14 months and a pro-rata payment penalty.

The Logista head office lease commenced on 1 January 2015 for a term of nine years, due to terminate on 31 December 2023. Currently there is an annual commitment of €1.8 million which is price index reviewed on an annual basis. There is the option to terminate the lease on 31 December 2021, subject to an indemnity of two months rent, and an option to extend the lease at expiry for a further nine years.

28. LEGAL PROCEEDINGS

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements. For further details see page 50 of the Directors' Report.

29. NET DEBT

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2016	1,274	(1,544)	(12,394)	(655)	(13,319)
Reallocation of current borrowings from non-current borrowings	–	(2,324)	2,324	–	–
Cash flow	(601)	1,465	(134)	37	767
Accretion of interest	–	22	(6)	(3)	13
Change in fair values	–	–	–	56	56
Exchange movements	(49)	28	14	–	(7)
At 30 September 2017	624	(2,353)	(10,196)	(565)	(12,490)

ANALYSIS BY DENOMINATION CURRENCY

					2017
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	45	176	43	360	624
Total borrowings	(3,436)	(3,814)	(5,278)	(21)	(12,549)
	(3,391)	(3,638)	(5,235)	339	(11,925)
Effect of cross-currency swaps	3,177	(3,683)	–	–	(506)
	(214)	(7,321)	(5,235)	339	(12,431)
Derivative financial instruments					(59)
Net debt					(12,490)

£ million	GBP	EUR	USD	Other	2016 Total
Cash and cash equivalents	212	275	471	316	1,274
Total borrowings	(3,868)	(3,901)	(6,144)	(25)	(13,938)
	(3,656)	(3,626)	(5,673)	291	(12,664)
Effect of cross-currency swaps	3,629	(4,172)	–	–	(543)
	(27)	(7,798)	(5,673)	291	(13,207)
Derivative financial instruments					(112)
Net debt					(13,319)

ADJUSTED NET DEBT

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

£ million	2017	2016
Reported net debt	**(12,490)**	(13,319)
Accrued interest	**208**	221
Fair value of derivatives providing commercial hedges	**135**	216
Adjusted net debt	**(12,147)**	(12,882)

30. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2017	2016
Decrease in cash and cash equivalents	**(601)**	(956)
Cash flows relating to derivative financial instruments	**37**	209
Increase in borrowings	**(852)**	(897)
Repayment of borrowings	**2,183**	2,637
Change in net debt resulting from cash flows	**767**	993
Other non-cash movements including revaluation of derivative financial instruments	**69**	(998)
Exchange movements	**(7)**	(1,364)
Movement in net debt during the year	**829**	(1,369)
Opening net debt	**(13,319)**	(11,950)
Closing net debt	**(12,490)**	(13,319)

31. CHANGES IN NON-CONTROLLING INTERESTS

In September 2017 the Group reduced its holding in its Logistics business, Compañía de Distribución Integral Logista Holdings SA. This increased non-controlling interests by £111 million. Sales proceeds were €252 million. Net proceeds after fees and costs were £221 million. A net gain of £110 million was recognised in equity attributable to owners of the parent.

32. POST BALANCE SHEET EVENTS

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 including contingent consideration of up to £42.6 million. 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.

33. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2017, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

IMPERIAL BRANDS PLC BALANCE SHEET
at 30 September

£ million	Notes	2017	2016
Fixed assets			
Investments	iii	**7,968**	7,968
Current assets			
Debtors	iv	**8,221**	9,063
Creditors: amounts falling due within one year	v	**(27)**	(1)
Net current assets		**8,194**	9,062
Total assets less current assets		**16,162**	17,030
Net assets		**16,162**	17,030
Capital and reserves			
Called up share capital	vi	**103**	104
Capital redemption reserve		**4**	3
Share premium account		**5,833**	5,833
Profit and loss account		**10,222**	11,090
Total shareholders' funds		**16,162**	17,030

The financial statements on pages 126-129 were approved by the Board of Directors on 7 November 2017 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Total equity
At 1 October 2016	**104**	**5,836**	**11,090**	**17,030**
Profit for the year	**–**	**–**	**33**	**33**
Dividends received	**–**	**–**	**746**	**746**
Total comprehensive income	**–**	**–**	**779**	**779**
Transactions with owners				
Cancellation of share capital	**(1)**	**1**	**(119)**	**(119)**
Dividends paid	**–**	**–**	**(1,528)**	**(1,528)**
At 30 September 2017	**103**	**5,837**	**10,222**	**16,162**
At 1 October 2015	104	5,836	2,094	8,034
Profit for the year	–	–	37	37
Dividends received	–	–	10,345	10,345
Total comprehensive income	–	–	10,382	10,382
Transactions with owners				
Dividends paid	–	–	(1,386)	(1,386)
At 30 September 2016	104	5,836	11,090	17,030

I. ACCOUNTING POLICIES

BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH FRS 101

These financial statements were prepared in accordance with the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and applicable accounting standards.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 118(e) of IAS 38 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period;
- The following paragraphs of IAS 1 'Presentation of financial statements':
  - (i) 10(d) – statement of cash flows;
  - (ii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
  - (iii) 16 – statement of compliance with all IFRS;
  - (iv) 38A – requirement for minimum of two primary statements, including cash flow statements;
  - (v) 38B-D – additional comparative information;
  - (vi) 40A-D – requirements for a third statement of financial position;
  - (vii) 111 – cash flow information; and
  - (viii) 134-136 – capital management disclosures;
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- IFRS 7 'Financial Instruments: Disclosures'; and
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently, are set out below.

INVESTMENTS

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. Investments are tested for impairment annually to ensure that the carrying value of the investment is supported by their recoverable amount.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

I. ACCOUNTING POLICIES CONTINUED

Non-derivative financial liabilities are classified as loans and payables. Payables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds. When such shares are cancelled they are transferred to the capital redemption reserve.

II. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2017	2016	2015
Paid interim of 51.7 pence per share (2016: 101.1 pence, 2015: 91.9 pence)			
– Paid June 2015	–	–	204
– Paid September 2015	–	–	204
– Paid December 2015	–	–	468
– Paid June 2016	–	225	–
– Paid September 2016	–	225	–
– Paid December 2016	–	517	–
– Paid June 2017	247	–	–
– Paid September 2017	247	–	–
Interim dividend paid	494	967	876
Proposed interim of 59.51 pence per share (2016: nil, 2015: nil)			
– To be paid December 2017	567	–	–
Interim dividend proposed	567	–	–
Proposed final of 59.51 pence per share (2016: 54.1 pence, 2015: 49.1 pence)			
– Paid March 2016	–	–	468
– Paid March 2017	–	517	–
– To be paid March 2018	567	–	–
Final dividend	567	517	468
Total ordinary share dividend of 170.72 pence per share (2016: 155.2 pence, 2015: 141.0 pence)	1,628	1,484	1,344

The third interim dividend for the year ended 30 September 2017 of 59.51 pence per share amounts to a proposed dividend of £567 million, which will be paid in December 2017.

The proposed final dividend for the year ended 30 September 2017 of 59.51 pence per share amounts to a proposed dividend payment of £567 million in March 2018 based on the number of shares ranking for dividend at 30 September 2017, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2017 will be £1,628 million (2016: £1,484 million). The dividend paid during 2017 is £1,528 million (2016: £1,386 million).

III. INVESTMENTS

COST OF SHARES IN IMPERIAL TOBACCO HOLDINGS (2007) LIMITED

£ million	2017	2016
At 1 October	7,968	7,968
At 30 September	7,968	7,968

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 130-143.

IV. DEBTORS

£ million	2017	2016
Amounts owed from Group undertakings	8,221	9,063

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2017	2016
Cash at bank and in hand	27	1

VI. CALLED UP SHARE CAPITAL

£ million	2017	2016
Authorised, issued and fully paid		
1,032,340,000 ordinary shares of 10p each (2016: 1,036,000,000)	103	104

During September 2017, 3,660,000 shares were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve.

VII. RESERVES

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £779 million (2016: £10,382 million). This is after charging an audit fee of £1.3 million (2016: £0.9 million).

TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 3,660,000 shares at a cost of £119 million (2016: nil), and cancelled 3,660,000 shares (2016: nil). Shares held in treasury do not qualify for dividends.

	2017		2016	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	77.3	2,183	78.9	2,229
Purchase of shares	3.6	119	–	–
Cancellation of shares	(3.6)	(119)	–	–
Gifted to Employee Share Ownership Trusts	–	–	(1.6)	(46)
At 30 September	77.3	2,183	77.3	2,183
Percentage of issued share capital	7.5	n/a	7.5	n/a

VIII. GUARANTEES

Imperial Brands PLC has guaranteed various borrowings and liabilities of certain UK and overseas subsidiary undertakings, including various Dutch and Irish subsidiaries. At 30 September 2017, the contingent liability totalled £16,981 million (2016: £18,138 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2017 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, Imperial Brands PLC has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2017. The Irish companies, namely John Player & Sons Limited and Imperial Tobacco Mullingar, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

The Company has also provided a parental guarantee over the Imperial Tobacco Pension Fund.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

IX. RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 52-73 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2017 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

Name	Principal activity and registered address
Attendfriend Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
British Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Congar International UK Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Fontem UK Limited	In liquidation BDO LLP, Two Snowhill, Birmingham, B4 6GA, England
Imperial Brands Enterprise Finance Limited	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Finance PLC	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Investments Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Altadis Limited	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (1)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (2)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (3)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (4)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Group Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (1) Limited [iv]	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (2007) Limited [iv]	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Initiatives	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco International Limited	Export and marketing of tobacco products 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Lacroix Limited	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Limited	Manufacture, marketing and sale of tobacco products in the UK 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas (Polska) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (1) Limited [viii]	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (2) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (3) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Limited [x]	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees Limited [iv]	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
ITG Brands Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

Joseph & Henry Wilson Limited	Licensing rights for the manufacture and sale of tobacco products 121 Winterstoke Road, Bristol, BS3 2LL, England
La Flor de Copan UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Park Lane Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Rizla UK Limited	Entity ceased trading 121 Winterstoke Road, Bristol, BS3 2LL, England
Sinclair Collis Limited (iv)	Distributor of tobacco products in England, Scotland and Wales 121 Winterstoke Road, Bristol, BS3 2LL, England
Tabacalera de Garcia UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity and registered address
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Altadis Canarias SAU (ii)	Spain	Marketing and sale of tobacco products in the Canary Islands Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Altadis Emisiones Financieras SAU	Spain	Provision of finance to Altadis SA and its subsidiaries Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Altadis Luxembourg SA	Luxembourg	Holding investments in subsidiary companies Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam, Netherlands
Altadis Management Services Corporation	United States of America	Trademark service company 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309 USA
Altadis Mayotte SAS	France, Mayotte Island	Sales and distribution of tobacco products in Mayotte Island C/o SOMACO, BP 15 – Mamoudzou, 97600, Mayotte
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates
Altadis Ocean Indien SAS	France (La Réunion Island)	Sales and distribution of tobacco products in La Réunion Island ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Réunion
Altadis Retail Corporation	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the USA 217 Shaker Road, Somers, CT, 06071, USA
Altadis USA Inc	United States of America	Manufacture and sale of cigars in the USA 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Association pour la Recherche sur les Nicotianées (ARN)	France	Research and development 48 rue Danton, Fleury-les-Aubrais, 45404, France
Athena IP Vermogensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Badische Tabakmanufaktur Roth-Händle GmbH,	Germany	Trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Cacique, SA – Comércio, Importaçao e Exportaçao	Brazil	Dormant Rua Marechal Deodoro, 690 – Centro Arapiraca, Alagoas, Brazil
Casa Blanca Inc	United States of America	Restaurant 301 Route 10 East, Whippany, New Jersey, 07981, USA
Casa de Montecristo Inc	United States of America	Retail Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Casa de Montecristo FL LLC	United States of America	Retail CT Corporation Systems, 1200 South Pine Island Road Plantation, Florida, 33324, USA

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address
Casa de Montecristo TN LLC	United States of America	Retail C T Corporation System, 800 S. Gay Street, Suite 2021, Knoxville, TN 37929, USA
Casa de Montecristo TX LLC	United States of America	Retail Corporate Service Company, 211 E. 7th Floor, Suite 260, Austin, Texas, TX 78701, USA
CBHC Inc	United States of America	Dormant 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Cigar Savor Enterprises LLC	United States of America	Manufacture of tobacco products 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the USA 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the USA 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies 1013, Centre Road, Wilmington, New Castle, DE, 19805, USA
Consolidated Cigar Holdings Inc (vii)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Coralma International SAS	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Cuban Cigar Brands BV (v)	Netherlands Antilles	Trademark owner N.V. Fides, 15 Pietermaai, Curaçao, Netherlands Antilles
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, FL, 33309, USA
Dunkerquoise des Blends SAS	France	Tobacco processing 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
East Side Cigar, Inc	United States of America	Production and distribution of cigars Corporate Service Company, 80 State St, Albany, NY12207-2543, USA
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium Sint-Bavostraat 66, 2610 Wilrijk, Belgium
Fontem (Beijing) Technology Solutions Limited (i)	People's Republic of China	Research and development Units 701 and 702, Level 7, No 15 Southern Jiaodaokou Avenue, Dongcheng District, Beijing, China
Fontem Holdings 1 B.V.	The Netherlands	Holding investments in subsidiary companies 12th Floor, Barbara Strozzilaan 101, Amsterdam, 1083 HN, Netherlands
Fontem Holdings 2 B.V.	The Netherlands	Holding investments in subsidiary companies 12th Floor, Barbara Strozzilaan 101, Amsterdam, 1083 HN, Netherlands
Fontem Holdings 3 B.V.	The Netherlands	Holding investments in subsidiary companies 12th Floor, Barbara Strozzilaan 101, Amsterdam, 1083 HN, Netherlands
Fontem Holdings 4 B.V.	The Netherlands	Holding investments in subsidiary companies 12th Floor, Barbara Strozzilaan 101, Amsterdam, 1083 HN, Netherlands
Fontem Holdings B.V.	The Netherlands	Holding investments in subsidiary companies 12th Floor, Barbara Strozzilaan 101, Amsterdam, 1083 HN, Netherlands
Fontem International GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Fontem US, Inc.	United States of America	Sales and marketing of tobacco products in the US Suite 350, 1100 South Tryon Road, Charlotte, NC28203, USA
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies 12th Floor, Barbara Strozzilaan 101, Amsterdam, 1083 HN, Netherlands
Huotraco International Limited	Cambodia	Production and marketing of tobacco products No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia

Name	Country of incorporation	Principal activity and registered address
Imperial Brands Finance France SAS	France	Provision of finance to other Group companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Imperial Nominees Limited (ii)	New Zealand	Trustee Company 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco (Asia) Pte. Ltd.,	Singapore	Trading of tobacco related products 80 Robinson Road, #02-00, 068898, Singapore
Imperial Tobacco (Beijing) Limited (i)	People's Republic of China	In liquidation Rm. 305 D-3F, Vantone Center, Jia No. 6 Chaowai Street, Chaoyang District, Beijing, PRC 100020, China
Imperial Tobacco Australia Holdings B.V.	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia John Player Special House, Level 4, 4-8 Inglewood Place, Baulkham Hills, NSW 2153, Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria Schulhof 6, A-1010 Vienna, Austria
Imperial Tobacco BH doo (i)	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia Sarajevo, ul Adema Buce 102, Bosnia
Imperial Tobacco Brasil Comércio de Produtos de Tabaco Ltda.	Brazil	Co-ordinating and monitoring of WEST licence productions and distribution of tobacco products 5th andar (floor), Av. Brig. Faria Lima 3.729, itaim Bib, Sao Paolo, 04538-905, Brazil
Imperial Tobacco Bulgaria EOOD (i)	Bulgaria	Manufacture and sale of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco China Limited (i)	People's Republic of China	In liquidation Colombo 1 & Colombo 2, No 233 Tai Cang Road, Platinum Tower, Shanghai, 200020, China
Imperial Tobacco CR s.r.o.	Czech Republic	Sales and marketing of tobacco products in the Czech Republic Radlicka 14, Prague 5, 150 00, Czech Republic
Imperial Tobacco Denmark ApS	Denmark	Distribution of tobacco products in Denmark and Greenland Lyskaer 3 CD, 2730 Herlev, Denmark
Imperial Tobacco Distribution EOOD (i)	Bulgaria	Marketing and distribution of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco Distribution Romania srl	Romania	Marketing and distribution of tobacco products in Romania Nicolae Canea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies C/Via de los Poblados, 3 Edif. 7-8, Plantas 3a y 4a, Madrid, 28033, Spain
Imperial Tobacco Estonia OÜ	Estonia	Sales of tobacco products Valge 13, 11145, Tallinn, Estonia
Imperial Tobacco Finland Oy	Finland	Sales and marketing of tobacco products in Finland Poikluomantie 1-3, Piispanristi, 20760, Finland
Imperial Tobacco Germany Finance GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece 300 Klisthenous Str, 15344 Gerakas, Attikis, Athens, Greece
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Ireland Unlimited Company (v)	Ireland	Provision of finance to other Group companies 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Italy S.r.l.,	Italy	Holding investments in subsidiary companies Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Japan Kabushiki Kaisha	Japan	Sales and marketing of tobacco products in Japan 5-12-7 Shirokane dai, M6 Shirokane dai Building, Minato-ku, Tokyo, Japan
Imperial Tobacco Kyrgyzstan LLC (i)	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan 3 Floor, Prime Business Park, 100/2 Furmanov Str, Medeuskiy District, Almaty, 050000, Kazakhstan

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco Magyarország Dohányforgalmázo Kft (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary Váci út 141, 1138, Budapest, Hungary
Imperial Tobacco Management (1) Limited	Guernsey	Holding investments in subsidiary companies 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey
Imperial Tobacco Management (2) Limited	Guernsey	Holding investments in subsidiary companies 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey
Imperial Tobacco Management Luxembourg sarl	Luxembourg	Holding investments in subsidiary companies 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products Symphony Corporatehouse SdnBhd, Level 8 Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Imperial Tobacco Mullingar Unlimited Company	Ireland	Manufacture of fine cut tobacco in the Republic of Ireland Dublin Road, Mullingar, Co. Westmeath, Ireland
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand 124-130, Richmond Street, Petone, Wellington, New Zealand
Imperial Tobacco Norway AS	Norway	Sales and marketing of tobacco products in Norway Ryensvingen 2-4, 0680, Oslo, Norway
Imperial Tobacco Polska Manufacturing SA	Poland	Manufacture of tobacco products in Poland Ul. Tytoniowa 2/6, Radom, 26-600, Poland
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland Jankowice, ul. Przemyslowa 1, Pl-62-080, Tarnowo-Podgome, Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management 144, 7 DT, Avenida da Liberdade, Lisbon, Portugal
Imperial Tobacco Sales & Marketing LLC	Russia	Sales and marketing of tobacco products in Russia Degtjarnyi pereulok 4-1, 125009 Moskau, Russian Federation
Imperial Tobacco SCG doo Beograd (i)	Serbia	Marketing and distribution of tobacco products in Serbia PC VSCE, Bulevar Mihajla Pupina 6/XII Floor, Belgrade, 11070, Serbia
Imperial Tobacco Sigara ve Tutunculuck Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey Halide Edip Adivar Mahallesi, Darülaceze Cad. No:3, Akin Plaza Kat 7, Sisli, Istanbul, 34382, Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic 7A Galvaniho, 824 53 Bratislava, Slovakia
Imperial Tobacco South Africa S.A.	Panama	Provision of services to other Group companies Regus Business Centre, River Park, River Lane, Mowbray, Cape Town, 7700, South Africa
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan 14F, No 145, Sec 2, Jianguo N. Road, Taipei 104, Taiwan Province of China
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan No 8 Cyunyi Road, Jhunan, MiaoLi County 350, Taiwan Province of China
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey Halide Edip Adivar Mahallesi, Darülaceze Cad. No:3, Akin Plaza Kat 7, Sisli, Istanbul, 34382, Turkey
Imperial Tobacco Ukraine (i)	Ukraine	Sales and marketing of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Volga LLC (i)	Russia	Manufacture of tobacco products in Russia ul.Tomskaja 7, 400048 Volgograd, Russian Federation
Imperial Tobacco West Africa SAS (i)	Cote D'Ivoire	Holding investments in subsidiary companies Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan
Imperial Tobacco Yaroslavl CJSC (i)	Russia	Manufacture of tobacco products in Russia 22, Pobedy St., 150040 Yaroslavl, 150040, Russian Federation
Imperial Tobacco Zagreb doo (i)	Croatia	Marketing and distribution of tobacco related products in Croatia Gradičanska 30, Zagreb, HR-10000, Croatia
IMPTOB South Africa (Pty) Limited	South Africa	Provision of services to other Group companies Suite 107, Beacon Rock, 21 Lighthouse Road, Umhlanga 4319, South Africa
International Marketing Promotional Services Limited	Nigeria	Sales and marketing and of tobacco products in Nigeria 13 A, Dapo Solanke Close – Lekki Phase 1, Lagos, Nigeria

Name	Country of incorporation	Principal activity and registered address
ITB Corporation Limited	Bahamas	Trademark owner Building of the Canadian Imperial Bank of Commerce, Shirley Street, Nassau, Bahamas
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the USA Corporate Service Company, 211 E. 7th Floor, Suite 260, Austin, Texas, TX 78701, USA
ITG Holdings USA Inc (ix)	United States of America	Holding investments in subsidiary companies C/o The Corporation Trust Co, 1209 Orange Street, City of Wilmington, County of Newcastle, DE 19801, USA
ITI Cigars SL	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco related products Room 3907-09, 39th floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong
J & R Tobacco (New Jersey) Corp	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JAW-Invest Oy	Finland	Trademark owner Poikluomantie 1-3, Piispanristi, 20760, Finland
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
JR Cigar (DC) Inc	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JR Cigars.com, Inc.	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Mooresville, Inc	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco NC, Inc	United States of America	Sales of tobacco and tobacco related products 405 East Market Street, P.O. Drawer 1960, Smithfield, North Carolina, 27577, USA
JR Tobacco of America Inc	United States of America	Sales of tobacco and tobacco related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Burlington Inc	United States of America	Sales of tobacco and tobacco related products 327, Hillsborough Street, Raleigh, NC, 27603, USA
JR Tobacco of Michigan Inc	United States of America	Sales of tobacco and tobacco related products 601, Abbott Road, East lansing, Ingham, MI, 48823, USA
JR Tobacco Outlet Inc	United States of America	Sales of tobacco and tobacco related products 301 Route 10 East, Whippany, New Jersey, 07981, USA
JSNM SARL	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
La Flor de Copan SAS	France	Manufacture of cigars in Honduras 320, Rue Saint-Honore, Paris, 75001, France
Los Olvidados SRL	Dominican Republic	Manufacture and distribution of cigars 129, Independencia Street, Santiago, 51000, Dominican Republic
Max Rohr, Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE,19801, USA
MC Management, Inc.	United States of America	Provision of services to other Group companies 301 Route 10 East, Whippany, New Jersey, 07981, USA
Meccarillos France, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos International, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos Suisse, SA	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Midtown Cigar, Inc.	United States of America	Sales of tobacco and tobacco related products Corporate Service Company, 80 State St, Albany, NY12207-2543, USA

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address
Millennium Tobacco Unlimited Company	Ireland	Provision of finance to other Group companies 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Newglade International Unlimited Company	Ireland	Provision of finance to other Group companies 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Philippine Bobbin Corporation	Philippines	Manufacture of tobacco related products Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines
PT Reemtsma Indonesia	Indonesia	In liquidation Pondok Indah Office Tower 3, 17th floor, JL Sultan Iskandar Mudakav V-TA, Pondok Indah, Jakarta 12310, Indonesia
Real Club de Golf la Herrería S.A.	Spain	Management of golf course CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
REEMARK Gesellschaft für Markenkooperation mbH	Germany	Dormant Max-Born-Straße 4, Hamburg, 22761, Germany
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Robert Burton Associates Limited	United States of America	Marketing of papers in the US 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, Florida, FL 33309, USA
Santa Clara Inc	United States of America	Distribution of cigars 327, Hillsborough Street, Raleigh, NC, 27603, USA
Skruf Snus AB	Sweden	Manufacture, marketing, sales of tobacco products in Sweden Kungsgatan 12-14, Floor 7, Stockholm, SE-111 35, Sweden
Société Centrafricaine de Cigarettes SA (i)	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic Rue David Dacko, BP 1446, Bangui, Central African Republic
Société Centrafricaine de Distribution Sarl (i)	Central African Republic	Dormant Avenue Boganda Pk4, Bangui, Central African Republic
Société du Mont Nimba Sarl (i)	Guinea	Dormant BP 3391, Conakry, Guinea
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Société pour le Développement du Tabac en Afrique SAS	France	Purchasing company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
System Designed to Africa Sarl	Morocco	Distribution of tobacco products Km 17, Route national de Rabat, Ain Harrouda, Morocco
Tabacalera Brands Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE 19801, USA
Tabacalera Brands SLU	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Tabacalera de Garcia Limited	Bermuda	Holding investments in subsidiary companies Claredon House, 2 Church Street, Hamilton, HM 11, Bermuda
Tabacalera de Garcia SAS	France	Manufacture of cigars in the Dominican Republic 320, Rue Saint-Honore, Paris, 75001, France
Tabacalera SLU	Spain	Holding investments in subsidiary companies C/Via de los Poblados, 3 Edif. 7-8, Plantas 3a y 4a, Madrid, 28033, Spain
Tabacalera USA Inc	United States of America	Holding investments in subsidiary companies Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, DE, 19808, USA
Tahiti Tabacs SASU	France, Papeete (Tahiti)	Distribution of tobacco products in Denmark and Greenland PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobacco Products Fulfillments, Inc.	United States of America	Fulfilment services PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobaccor SAS (v)	France	Holding investments in subsidiary companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Tobačna 3DVA, trgovsko podjetje, d.o.o.	Slovenia	Retail of products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobačna Grosist d.o.o.	Slovenia	Marketing and distribution in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia

Name	Country of incorporation	Principal activity and registered address
Tobačna Ljubljana d.o.o. (v)	Slovenia	Sales and marketing tobacco products in Slovenia Cesta 24., junija 90, SI 1231 Ljubljana – Ĉrnuče, Slovenia
Tobamark International SA	France	Trademark owner 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Urex Inversiones SA	Spain	Holding investments in subsidiary companies Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain
Van Nelle Canada Limited (vii)	Canada	Import and distribution of tobacco and tobacco related products in Canada Suite 200, 389 Connell Street, Woodstock, NB, E7M 5G5, Canada
Van Nelle Tabak Nederland B.V. (x)	The Netherlands	Manufacture and sale of tobacco products in the Netherlands Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco related products Slachtedijk 28a, 8501 ZA, Joure, Netherlands
West Park Tobacco Inc.	United States of America	Purchase company for USA tobaccos c/o CT Corporation System, 4701 Cox Road, Ste 301,Glen Allen/ Richmond, VA 23060-6802, USA

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Be To Be Pharma, S.L	Spain	Distribution of pharmaceuticals C/ Trigo, 38 – Polígono Industrial Polvoranca – 38914 Leganés, Madrid, Spain	60.0
Caribbean Investment Corporation, SA (i)	Switzerland	Dormant c/o Alb. – Louis Dupont-Willemin, Rue du Vieux Collège 10 bis, Ch 1211 Genève 3, 3194, Switzerland	50.0
CDM Tampa, LLC	United States of America	Retail c/o Corporation Service Company, 1201 Hays Street, Tallahassee, Florida, 32301, United States	50.0
Comercial Iberoamericana SA (i)	Spain	Wholesale and distribution of tobacco products Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Compagnie Agricole et Industrielle des Tabacs Africains SAS	France	Management company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France	99.9
Compagnie Agricole et Industrielle des Tabacs de Cote D'Ivoire SA, IL (i)	Cote D'Ivoire	In liquidation BP 418 – Bouake, Cote d'lvoire, Cote d'Ivoire	74.6
Compagnie Réunionnaise des Tabacs SAS	France, St Pierre (La Réunion)	Manufacture of cigarettes ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Réunion	98.6
Compañía de Distribución Integral de Publicaciones Logista SLU (iv)	Spain	Distribution of published materials and other products C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
Compañía de Distribución Integral Logista Holdings, S.A. (iii)	Spain	Holding investments in subsidiary companies C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL)	Poland	Distribution of tobacco products in Poland Avenida Jerozolimskie 133/131, 02-304 Varsaw, Poland	60.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
Coprova SAS (i)	France	Distribution of Cuban cigars in the Caribbean 171 Avenue Jean Jaures – Paris CEDEX 19, 75927, France	50.0
Cuba Cigar, S.L. (i)	Spain	Distribution of Cuban cigars in the Canary Islands Avenida Andrés Perdomo S/N, Edificio de Zona Franca, Planta Baja, Puerto de la Luz (Las Palmas de Gran Canaria), 35008, Spain	50.0
Cubacigar (Benelux) N.V. (i)	Belgium	Distribution of cigars in Belgium Reutenbeek, 5 – 3090 Overijse, Belgium	50.0

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Cyberpoint, S.L.U.	Spain	Distribution of POS software C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
Dalso, S.R.L. (i)	Dominican Republic	Distribution of Cuban cigars in Republic Dominican Avenida Gustavo Mejía Ricart esquina Avenida Abraham Lincoln, Torre Piantini, sexto piso, Ensanche Piantini, Santo Domingo, Distrito Nacional, Dominican Republic	50.0
Distribérica SA	Spain	Holding investments in subsidiary companies C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain	48.0
Distribuidora de Ediciones SADE, SAU	Spain	Distribution of published materials and other products in Spain Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain	60.0
Distribuidora de las Rias SA	Spain	Distribution of published materials and other products in Spain Avda. Cerezos, Parcela D-28, Polígono Industrial PO.CO. MA.CO , 15190 Mesoiro, La Coruña, Spain	60.0
Distribuidora del Este S.A.U.	Spain	Distribution of published materials and other products in Spain Avenida Saturno, 11, 03007, Alicante, Spain	60.0
Distribuidora del Noroeste SL	Spain	Distribution of published materials and other products in Spain C/ Gandarón, 34, interior, Vigo, Pontevedra, 36214, Spain	60.0
Dronas 2002, SLU	Spain	Industrial parcel and express delivery service Energía, 25-29; Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain	60.0
Empor – Importação e exportação, SA (i)	Portugal	Distribution of tobacco products in Portugal Rua João Santos, Lote 2, Lisboa, 1300-325, Portugal	50.0
Habanos Nordic AB (i)	Sweden	Distribution of Cuban cigars in Scandinavia August Barks gata 30B SE-42132 Västra Frölunda, Sweden	50.0
Imperial Tobacco Production Ukraine (i)	Ukraine	Manufacture of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine	99.9
Imperial Tobacco TKS a.d. (i)	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia	99.1
Imperial Tobacco TKS a.d. – Dege Kosove	Kosovo	Manufacture, marketing and distribution of tobacco products in Kosovo Ahmet Krasniqi, Obj.Redoni C1 B Nr 23, Prishtina, Republic of Kosovo	99.1
Imprimerie Industrielle Ivoirienne SA (i)	Cote D'Ivoire	Printing company Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abidjan, Cote d'Ivoire	72.8
Infifon APS (i)	Denmark	Holding investments in subsidiary companies 21, INFIFON ApS, Harbour House, Sundkrogsgade, 2100 Copenhagen, Denmark	50.0
Infifon Hong Kong Limited (i)	China	Distribution of Cuban cigars in China 21/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	50.0
Infifon I, BV (i)	The Netherlands	Holding investments in subsidiary companies Parklaan 34, Rotterdam, 3016 BC, Netherlands	50.0
Infifon II NV (i)	Netherlands Antilles	Distribution of Cuban cigars in Russia Van Engelenweg 23, Curaçao, Netherlands Antilles	50.0
ITB Corporation y Cía., S.R.C.	Spain	Trademark owner Calle Antonio Maura número 9, Madrid, 28014, Spain	93.3
Jose Costa & Rodrigues, LDA	Portugal	Tobacco distribution through vending machines Rua de Santa Catarina, bloco E, Loja 20, 4720-352 Ferreiros AMR, freguesia de Ferreiros, Prozelo e Besteiros, Concelho de Amares, Portugal	60.0
La Mancha 2000, S.A., Sociedad Unipersonal	Spain	Logistics services Av. de la Veguilla, 12-Nave A- Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain	60.0

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Lao Tobacco Limited (i)	Laos	Manufacture and distribution of cigarettes in Laos KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic	53.0
Logesta Deutschland Gmbh, Sociedad Unipersonal	Germany	Long haul transportation in Germany Pilotystrasse, 4, 80538 München, Germany	60.0
Logesta France SARL	France	Long haul transportation in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	60.0
Logesta Gestión de Transporte SAU	Spain	Long haul transportation services in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
Logesta Italia, S.R.L., Sociedad Unipersonal	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	60.0
Logesta Lusa LDA	Portugal	Long haul transportation in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	60.0
Logesta Polska Sp Zoo	Poland	Long haul transportation in Poland Aleje Jerozolimskie 133/32, 02/304 Varsovia, Poland	60.0
Logista France Holding SA	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	60.0
Logista France SAS	France	Holding investments in subsidiary companies Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	60.0
Logista Italia Spa	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	60.0
Logista Pharma SA	Spain	Distribution of pharmaceuticals Industria, 53-65, Poligono Industrial Nordeste, 08740, Sant Andreu de la Barca, Barcelona, Spain	60.0
Logista Promotion et Transport SAS	France	Marketing and distribution of tobacco products in France Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	60.0
Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical logistics in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	60.0
Logista-Dis SAU	Spain	Sale of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0
MABUCIG (Manufacture Burkinabe de Cigarette)	Burkina Faso	Manufacture of cigarettes in Burkina Faso Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 – Bobo Dioulasso, Burkina Faso	72.7
Macotab SAS (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes Route Nationale 193, Furiani, 20600, France	99.9
Manufacture de Cigarettes du Tchad SA	Tchad	Manufacture and distribution of cigarettes in Chad 0502 rue 1039, Arrondissement 1, N'DJamena, Chad	95.0
Midsid – Sociedade Portuguesa de Distribução, S.A., Sociedad Unipersonal	Portugal	Wholesale of tobacco and other products Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	60.0
MTOA SA (i)	Senegal	Manufacture and sales of cigarettes in Senegal Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal	97.3
My Von Erl. USA Distribution LLC (i)	United States of America	Sale of e-vapour products in the US 1013 Centre Road, Suite 403S, City of Wilmington, County of New Castle, 19805 Delaware, USA	50.0
NITAF Limited, IL (i)	Nigeria	In liquidation 28, Ground Floor, Ajasa Street, Off King George V Road, Onikan, Lagos, Nigeria	50.0
Promotora Vascongada de Distribuciones SA	Spain	Distribution of published materials and other products in Biscay and Santander C/ Guipúzcoa, 5, Polígono Industrial Lezama Leguizamón, 48450 Echevarri, Vizcaya, Spain	60.0
Publicaciones y Libros SA	Spain	Publishing company C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	60.0

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED CONTINUED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Puro Tabaco SA (i)	Argentina	Distribution of Cuban cigars in Argentina and Chile Lavalle 445, Piso 1, Buenos Aires, Argentina	50.0
Reemtsma Kyrgyzstan OJSC (i)	Kyrgyzstan	Manufacture and sale of tobacco products in Kyrgyzstan 249 Ibraimov Street, Bishkek, Kyrghyz Republic, 720011, Kyrgyzstan	98.6
S3T Pte Ltd (i)	Singapore	Holding investments in subsidiary companies 80 Robinson Road, #02-00, 068898, Singapore	51.0
SACIMEM SA (i)	Madagascar	Manufacture of cigarettes in Madagascar 110 Antsirabe – Madagascar, Route d'Ambositra, BP 128, Madagascar	65.4
SITAB Industries SA (i)	Cote D'Ivoire	Manufacture of cigarettes in Cote D'Ivoire Rue de l'Industrie – Lot No 19, 01 – BP 607, Bouake, Cote d'Ivoire	80.5
SITAR Holding SAS	France (La Réunion Island)	Holding investments in subsidiary companies Z.I n2, B.P. 256, 97457 Saint Pierre, IIe de La Réunion, France	98.6
Société Africaine d'Impression Industrielle SA (i)	Senegal	Manufacture and distribution of cigarettes in Senegal route de Bel Air – Km 2200, Dakar, Senegal	99.8
Société Allumettiere Française SAS	France	Manufacture and distribution of cigarettes Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	60.0
Société de Distribution Sénégalaise SA (i)	Senegal	In liquidation Bld Felix Eboue, Dakar, Senegal	97.5
Société des Cigarettes Gabonaises SA (i)	Gabon	In liquidation 2381 bld Léon MBA, BP 2175, Libreville, Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical SA (i)	Congo	Manufacture and distribution of cigarettes in Congo Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo	89.7
Société Ivoirienne des Tabacs SA (i) (iii)	Cote D'Ivoire	Manufacture and distribution of cigarettes in Ivory Coast Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724, Abidjan	74.1
Société Marocaine des Tabacs SA	Morocco	Manufacture and distribution of cigarettes in Morocco Boulevard La Corniche, Anfa Place, Immeublep Bureaux Batiments Ousst, Casablanca, 20180, Morocco	99.9
SOCTAM SA (i)	Madagascar	Manufacture and distribution of cigarettes in Mali 15 Rue Geoges V, Mahajanga, Madagascar	50.5
Supergroup SAS	France	Wholesale of tobacco products Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	60.0
T2 Gran Canaria SA	Spain	Pharmaceutical products logistics in Canary Islands C/ Entreríos Nave 3; Las Palmas de Gran Canaria, 35600, Spain	60.0
Top Cigars Corporation LLC (i)	Russia	Distributor of Habanos in Russia Dimitrovskoe shosse 167, 127204 Moscow, Russian Federation	50.0
Universal Brands, S.A.	Spain	Trademark owner Calle Antonio Maura número 9, Madrid, 28014, Spain	93.3
Von Erl. Gmbh (i)	Austria	Sale of e-vapour products in the US and Europe Alte Landstrasse 27, 6060 Hall in Tirol, Austria	50.0
Von Erl. USA LLC (i)	United States of America	Holding investments in subsidiary companies 54 Merion Road, PO Box 72, Dover, 19904 Delaware, USA	50.0
Von Erl. USA Production LLC (i)	United States of America	Sale of e-vapour products in the US 1013 Centre Road, Suite 403S, City of Wilmington, County of New Castle, 19805 Delaware, USA	50.0
Xinet SA (i)	Uruguay	Distribution of Cuban cigars in Uruguay Ciudadela 1373, Montevideo, Uruguay	50.0

ASSOCIATES: REGISTERED IN ENGLAND AND WALES

Name	Principal activity and registered address	Percentage owned
C H (Downton) Limited (ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
F J (Downton) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Hunters & Frankau Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Incentive Marketing Services (UK) Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Jacon Financial Services Limited (ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Joseph Samuel & Son Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Knight Brothers Cigar Shippers Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Lancha House Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart & Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Melbourne Hart Holdings Limited (ix)	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Morris & Morris Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tabaco Torcido Traders Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
The English Import Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0
Tropic Tobacco Company Limited	Dormant Hurlingham Business Park, Sulivan Road, London, SW6 3DU, England	25.0

ASSOCIATES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
5th Avenue Products Trading GmbH (i) (iv)	Germany	Distribution of Cuban cigars in Germany Schwarzenbergstr. 3-7 ; Waldshut-Tiengen, 79761, Germany	27.5
Azur Finances SA	Cameroon	Holding investments in subsidiary companies B.P 1105, Douala, Cameroon	20.0
Caribbean Cigars Corporation NV (i)	Curacao	Distribution of Cuban cigars in the Caribbean Hato Economic Zone, Office D-28, Curacao, N.A.	25.0
Compañia Española de Tabaco en Rama SA (Cetarsa) (i)	Spain	Production and sale of raw tobacco Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain	20.8
Diadema Spa (i)	Italy	Distribution of Cuban cigars in Italy Via delle Terme Deciane, 10, Partita IVA 01213650995, Codice Fiscale 01374280509, 00153 Rome, Italy	30.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products Carretera de la Esclusa, S/N – Pariela 2, Modulo 4, Sevilla, 41011, Spain	30.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia Pedrapiquers, 5; Polígono Industrial Vara de Quart, 46014 Valencia, Spain	30.0
DTPU Kaliman Caribe Dooel Scopje	Macedonia	Distribution of Cuban cigars in Macedonia 5 Luj Pater Str., 1000 Scopje Center, Macedonia	25.0
Entreprises des Tabacs en Guinée (i)	Guinéa	Dormant B.P 3391, Conakry, Guinea	34.0
Havana House Cuban Products Specialist Limited (i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
Havana House Limited (i)	Canada	Distribution of Cuban cigars in Canada 9 Davies Avenue, Suite 112, Toronto ON, M4M 2A6, Canada	25.0
Importadora y Exportadora de Puros y Tabacos SA DE CV (IEPT) (i)	Mexico	Marketing and distribution of Cuban cigars in Mexico Presidente Mazaryk numero 393 local 28, colonia Polanco, C.P. 11560 Delegación Miguel Hidalgo México D.F., Mexico	25.0

ASSOCIATES: INCORPORATED OVERSEAS CONTINUED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Intertabak AG (i)	Switzerland	Distribution of Cuban cigars in Switzerland and Liechtenstein Intertabak AG, Salinenstrasse 61, CH-4133 Pratteln, Entrepots: Salinenstrasse, 63, Switzerland	25.0
Kaliman Caribe doo Beograd	Serbia	Distribution of Cuban cigars in Serbia 5 Igmanska Str., Beograd, Serbia	25.0
Kaliman Caribe ood	Bulgaria	Distribution of Cuban cigars in Bulgaria 118 Bulgaria Blvd., Abacus Business Center, fl. 2, 1618 Sofia, Bulgaria	25.0
Kaliman Caribe Tirana Sh. p.k.	Albania	Distribution of Cuban cigars in Albania Sheraton Tirano Hotel and Tower, Italia Sq., fl. 1, Tirana, Albania	25.0
Kaliman Caribe yer LLC	Armenia	Distribution of Cuban cigars in Armenia V. Papazyan / 16a/ 17; Yerevan, 0012, Armenia	25.0
Lippoel Tobacco Corporation International NV	Netherlands Antilles	Distributor of Cuban leaf Pietermaai 123, P.O. BOX 897. Willemstad, Curacao, Netherlands Antilles	27.5
Logista Libros SL	Spain	Distribution of books Avda. Castilla La Mancha, 2 – Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain	30.0
Manufacture Mauritanienne des Tabacs	Mauritanie	Manufacture and import of tobacco products Nouakchott, Mauitanie	34.6
Maori Tabacs, S.A. (i)	Andorra	Distribution of Cuban cigars in Andorra Av. Pont De La Tosca, 13, Andorra	25.0
New Mentality Limited (i)	British Virgin Islands	Dormant Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Pacific Holding (Thailand) Company Limited (i) (vi)	Thailand	Holding investments in subsidiary companies 39/7 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330 Thailand	25.0
Phoenicia Beirut SAL (i)	Lebanon	Retail in Lebanon New Starco Center, Sixth Floor, Beirut Central District, Lebanon	25.0
Phoenicia TAA Cyprus Ltd (i)	Cyprus	Distribution of Cuban cigars in the Middle East and Africa 249, 28 Oct Street, Lophitis Business Center, Limassol, 3035, Cyprus	25.0
Pit Stop Limited (i)	British Virgin Islands	Dormant Portcullis TrustNet Chambers, Road Town, Tortola, 3444, British Virgin Islands	25.0
Promotion et Distribution a Madagascar (i)	Madagascar	Distribution of cigarettes in Madagascar Tour ZITAL Ankorondrano, Antananarivo, Madagascar	33.4
SITABAC S.A,	Cameroon	Manufacture and distribution of tobacco products in Cameroon 113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon	34.5
Société Internationale des Tabacs Malgaches (i)	Madagascar	Leaf processing BP 270, 401 Mahajanga, Madagascar	47.9
Société Nationale des Tabacs et Allumettes du Mali SA (i)	Mali	Manufacture and distribution of cigarettes in Mali Route Sotuba – Z.I., BP 59, Bamako, Mali	28.0
Terzia SPA	Italy	Wholesale to tobacconists in Italy Via Valadier, 37 – 00193 Roma, Italy	40.8
The Pacific Cigar (Thailand) Co Limited (i) (vii)	Thailand	Distribution of Cuban cigars in Thailand 25 Alma Link Building, 2nd Floor, Soi Chidlom, Ploenchit Road, Kwaeng Lumpinee, Khet Patumwan, Bangkok Metropolis, Bangkok, Thailand	25.0
The Pacific Cigar Co. (Singapore) Pte Limited (i)	Singapore	Distribution of Cuban cigars in Singapore 150 Cecil Street, #15-01, 069543, Singapore	25.0
The Pacific Cigar Company (Australia) Pty Limited (i)	Australia	Distribution of Cuban cigars in Australia 17/23, Bowden Street Australia, Alexandria, NSW 2015, Australia	25.0
The Pacific Cigar Company (Macau) Limited (i)	Macau	Distribution of Cuban cigars in Macau Avenida Praia Grande No. 369-371, Edif. Keng Ou 8 Andar, A, Macau	25.0
The Pacific Cigar Company (Malaysia) SDN BHD (i)	Malaysia	Dormant 83A, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul, Ehsan, 47500, Malaysia	25.0
The Pacific Cigar Company (New Zealand) Limited (i)	New Zealand	Distribution of Cuban cigars in New Zealand Level 16, 66 Wyndham Street, Auckland, New Zealand	25.0
The Pacific Cigar Company Limited (i)	China	Distribution of Cuban cigars in Asia 21/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	25.0
The Pacific Cigar International Co Limited (i)	British Virgin Islands	Distribution of Cuban cigars in Asia Akara Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	25.0

JOINT VENTURES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Altabana SL (i)	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars Paseo de la Castellana, 143 – 10ºA, Madrid, 28046, Spain	50.0
Compañía de Distribución Integral Logista S.A.U. y GTECH Global Lottery, S.L.U., U.T.E.	Spain	Services and distribution C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	30.0
Corporación Habanos SA (i)	Cuba	Export of cigars manufactured in Cuba Centro de Negocios Miramar, Edificio Habana, 3ra. Planta, Avenida 3ra. e/ 78 y 80, C.P., 11300, Cuba	50.0
Global Horizon Ventures Limited	Hong Kong	Sales and marketing of cigarettes in Asia Room 3907-09, 39th floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong	50.0
International Cubana de Tabaco SA (i)	Cuba	Manufacture of cigarillos in Cuba Ave. Independencia #34501 entre Ave. 345 y 1ºde Mayo, Municipio Boyeros, Ciudad de La Habana, Cuba	50.0
Intertab SA (i)	Switzerland	Holding investments in subsidiary companies Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland	50.0
Promotora de Cigarros SL (i)	Spain	Sales and marketing of cigars manufactured in Cuba Parque Empresarial Cristalia, Vía de los Poblados, 3, Edificio 7/8, Madrid, 28033, Spain	50.0
West Tobacco Pte Ltd (i)	Singapore	Dormant 50 Raffles Place #32-01, Singapore Land Tower, 048623, Singapore	50.0

PARTNERSHIPS

The Group also owns the following partnerships:

Name	Country	Principal activity, registered address and principal place of business
Fabrica de Tabacos La Flor de Copan S de R.L. de CV	Honduras	Holding investments in subsidiary companies Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras
Imperial Tobacco (Efka) GmbH & Co. KG	Germany	Manufacture of tubs in Germany Registed address: Postfach 1257, Industriestrasse 6, Trossingen, 78636, Germany Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany
Imperial Tobacco Kazakhstan LLP (i)	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Registered address and principal place of business: 3rd Floor, Prime Business Park, 100/2 Furmanov Str, Medeuskiy District, Almaty, 050000, Kazakhstan
ITG Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27408, USA

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified. All dormant UK entities have taken the exemption available to not have an audit of their financial statements.

Unless otherwise stated the entities are unlisted, have one type of ordinary share capital and a reporting period ending on 30 September each year.

(i) December year end

(ii) March year end

(iii) Listed entity

(iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue). Only applicable to partly owned entities – percentage ownership is shown in the tables above.

(v) Holding of two types of ordinary share (where more than one type of ordinary share is authorised / in issue). Only applicable to 100 per cent owned subsidiaries.

(vi) Holding of preference shares only

(vii) Holding of ordinary and preference shares

(viii) Holding of ordinary and redeemable shares

(ix) Holding of ordinary and deferred shares

(x) Holding of two types of ordinary share and redeemable shares

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, is held by a number of Group companies, and Compañía de Distribución Integral Logista SAU, Logista France SAS, and Logista Italia SpA are 100 per cent owned subsidiaries of Compañía de Distribución Integral Logista Holdings SA, which is itself 60 per cent owned by Altadis SAU.

FINANCIAL CALENDAR AND DIVIDENDS

Half-year results are expected to be announced in May 2018 and the full year's results in November 2018.

The Annual General Meeting of the Company will be held on Wednesday 7 February 2018 at the Bristol Marriott Hotel City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2017 final dividend, if approved, will be on 29 March 2018 to shareholders on the Register of Members at the close of business on 23 February 2018. The associated ex dividend date will be 22 February 2018.

Shareholders who do not currently mandate their dividends and who wish to do so should complete a mandate instruction form obtainable from our Registrars, Equiniti Limited, at the address shown.

SHARE DEALING SERVICE

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number which you can find on your share certificate.

INDIVIDUAL SAVINGS ACCOUNT

Investors in Imperial Brands PLC ordinary shares may take advantage of a low cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £12.50 and £1.75 respectively for the sale and purchase of shares.

For a brochure or to apply for an ISA or Investment Account go online to www.shareview.co.uk/dealing or call Equiniti on 0345 300 0430.

DIVIDEND REINVESTMENT PLAN

Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2268 (+44 (0)121 415 7173) or online at www.shareview.co.uk.

AMERICAN DEPOSITARY RECEIPT FACILITY

Imperial Brands PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'IMBBY'. The ADS facility is administered by Citibank, N.A. and enquiries should be directed to them at the address shown.

WEBSITE

Information on Imperial Brands PLC is available on our website: www.imperialbrandsplc.com

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk

REGISTERED OFFICE

121 Winterstoke Road
Bristol BS3 2LL
+44 (0)117 963 6636
Incorporated and domiciled in England and Wales No: 3236483

REGISTRARS

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
0371 384 2037*
+44 (0)121 415 7009
0371 384 2255* text phone for shareholders with hearing difficulties

* Lines are open 8:30am to 5:30pm, Monday to Friday excluding public holidays in England and Wales.

SHAREHOLDER SERVICES FOR ADR HOLDERS

Citibank Shareholder Services
PO Box 43077
Providence, RI 02940-3077
USA
Toll-free number in the USA: 1-877-CITI-ADR (1-877-248-4237)
email: citibank@shareholders-online.com

STOCKBROKERS

Credit Suisse International
One Cabot Square
Canary Wharf
London E14 4QJ
+44 (0)20 7888 8000

Barclays Bank PLC
5 The North Colonade
Canary Wharf
London E14 4BB
+44 (0)20 7623 2323

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol BS2 0FR

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IMPERIAL BRANDS

Registered Office
Imperial Brands PLC
121 Winterstoke Road
Bristol BS3 2LL
UK

www.imperialbrandsplc.com