IMPERIAL BRANDS PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2018

6 NOVEMBER 2018

DELIVERING QUALITY GROWTH IN TOBACCO AND NGP

Delivering Against Our Strategy

- Net revenue up 2% (1% tobacco and 1% NGP); adjusted EPS up 5%
- Sustained tobacco investment delivering quality growth with Asset Brands now 67% of net revenue
- Strong NGP results: blu growth and expanding innovation pipeline
- Reported EPS down 2.7% at actual rates impacted by Palmer & Harvey write-off and adverse FX
- Dividend growth of 10%, supported by cash conversion of 97%
- Divestment programme on track to deliver up to £2bn of proceeds

Overview – Adjusted Basis		**Full Year Result**		**Change**	
		2018	2017	Actual	Constant Currency[1]
Total tobacco volume	bn SE	**255.5**	265.2	-3.6%	
Growth Brand volume	bn SE	**162.9**	159.6	+2.1%	
Tobacco & NGP net revenue	£m	**7,730**	7,757	-0.3%	+2.1%
Tobacco & NGP adjusted operating profit	£m	**3,557**	3,595	-1.1%	+1.9%
Distribution adjusted operating profit	£m	**212**	181	+17.3%	+15.5%
Total adjusted operating profit	£m	**3,766**	3,761	+0.1%	+2.9%
Adjusted earnings per share	pence	**272.2**	267.0	+1.9%	+5.0%
Adjusted net debt	£m	**(11,474)**	(12,147)		

Overview – Reported Basis		**Full Year Result**		**Change**
		2018	2017	Actual
Revenue	£m	**30,524**	30,247	+0.9%
Operating profit	£m	**2,407**	2,278	+5.7%
Basic earnings per share	pence	**143.6**	147.6	-2.7%
Dividend per share	pence	**187.8**	170.7	+10.0%
Reported net debt	£m	**(11,899)**	(12,490)	

See page 5 for basis of preparation and page 16 for the reconciliation between reported and adjusted measures.
Adjusted operating profit excludes a one-off impact of £110m in FY18 which resulted from the administration of the UK distributor Palmer & Harvey, partly offset by lower restructuring costs.
Basic EPS reduction is driven by the movements in fair value of derivatives and by the administration of the UK distributor Palmer and Harvey.
[1] Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations.

Alison Cooper, Chief Executive, commented

"FY18 was a successful year of delivery against our strategy and I'm pleased with the progress we are making in creating something better for the world's smokers. In NGP our main focus is on transitioning smokers to blu, a significantly less harmful alternative to cigarettes. NGP also offers additive opportunities for our shareholders and the success of the international rollout of *my*blu has put us in a strong position to further invest and accelerate sales growth in FY19. In tobacco we focus on providing smokers with an evolving portfolio of high quality brands. Following our additional brand investment in tobacco over the past two years, we have increased Growth Brand volume, share and revenue in our priority markets. Our financial delivery was strong, with revenue and earnings growth, high cash generation and a further dividend increase of 10 per cent. Capital discipline remains central to all our activities, providing funds for investment and enhancing returns. We have the strategy, assets and capabilities to realise the significant opportunities presented by a changing environment and to generate growing returns for our shareholders."

Highlights show movements based on adjusted numbers at constant currency

Creating Something Better for the World's Smokers

Investments in Tobacco Maximisation driving enhanced performance

- Reported volumes down 3.6%, outperforming industry volumes across footprint
- Share growth in many of our priority markets; Growth Brand share up 70 bps
- Improved price/mix delivered tobacco net revenue growth of 0.9%
- Asset Brand net revenue up 8.0% and up 420 bps; now 66.9% of net revenue
- Strong performances from tobacco Specialist Brands: Backwoods, Kool, Rizla, Skruf and Premium Cigars

Strong growth in Next Generation Products focused on smoker conversion

- Delivering a satisfying, safer experience with a trusted brand, blu, supported by leading-edge science
- Net revenue grew strongly to £200m, with an annualised exit rate of c. £300m
- *my*blu available in US, UK, France, Germany, Japan, Italy and Russia
- Strong innovation pipeline focused on reduced risk products in vapour, heated tobacco and oral nicotine
- Creating optionality with the launch of Pulze, our first heated tobacco product, planned for early 2019

Cost and Capital Discipline

- Cost optimisation is on track and has delivered £110m of incremental savings in FY18
- Divestment programme on track with proceeds to date of £281m from the sell down of Logista stake (£234m) and the sale of 'other tobacco products' in the US (£47m)
- Cash conversion of 97%
- Adjusted net debt reduced by £0.8bn at constant currency; adjusted net debt/EBITDA at 2.9 times
- Reported net debt lower by £0.6bn at actual exchange rates
- Annual dividend of 187.8p up 10%; dividend pay-out ratio of 69%

Delivering Quality Growth in our Priority Tobacco Markets

In Tobacco Maximisation, we focus our investment behind our Growth Brands in priority markets. The additional investment we have made over the last two years behind our Market Repeatable Model has delivered share gains in priority markets and improved revenue. Our Growth Brand focus has meant we have further enhanced our quality of growth. The tobacco environment improved during the year enabling us to achieve significantly stronger price mix in the second half. We have also continued to make clear choices to balance share growth with financial returns, in line with our strategy.

MAT share %	**Share**	**Change**	
Growth			
USA	8.7%	-10 bps	Improving share trajectory with growth in Winston, Kool and Maverick offset by decline in Portfolio Brands
Russia	7.8%	+90 bps	Continued growth in Parker & Simpson in the queen size and crushball segments supported by growing presence in key accounts
Saudi Arabia	14.5%	+60 bps	Growth in the value segment with West
Italy	5.1%	+40 bps	JPS continues to increase share
Japan	1.0%	+20 bps	West share gains continue in the value segment
Returns			
Germany	22.2%	-20 bps	Fine cut tobacco growth more than offset by a lower cigarette share mainly in Gauloises; portfolio being realigned to strengthen performance
UK	42.0%	+10 bps	Focused investment driving continued share growth led by Players and Gold Leaf
Australia	32.2%	-160 bps	Share decline in H1 driven by price discipline to prioritise returns; spot share recovering with new portfolio initiatives capturing demand shifts
France	19.7%	-120 bps	Profitability and value share growth prioritised at the expense of volume share following significant excise increases
Spain	29.0%	-50 bps	Dark segment continues decline while blonde share trend is improving driven by new formats

Highlights show movements based on adjusted numbers at constant currency

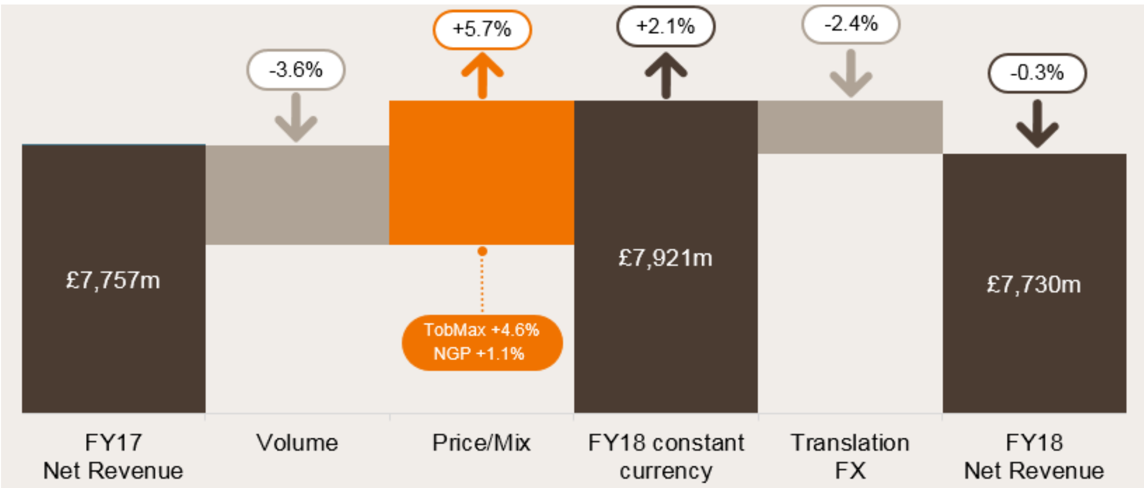
Financial Overview

Volumes Outperform Market – Recent Investments Continue to Support Share Growth

- Share momentum in priority markets, with overall share up +10bps
- Volume 255.5bn SE, down 3.6%, outperforming a 5.0% decline in industry volumes
- Growth Brands up 2.1% and share up 70 bps; up across all divisions
- Portfolio Brands declined due to continued migration activity and market size impacts

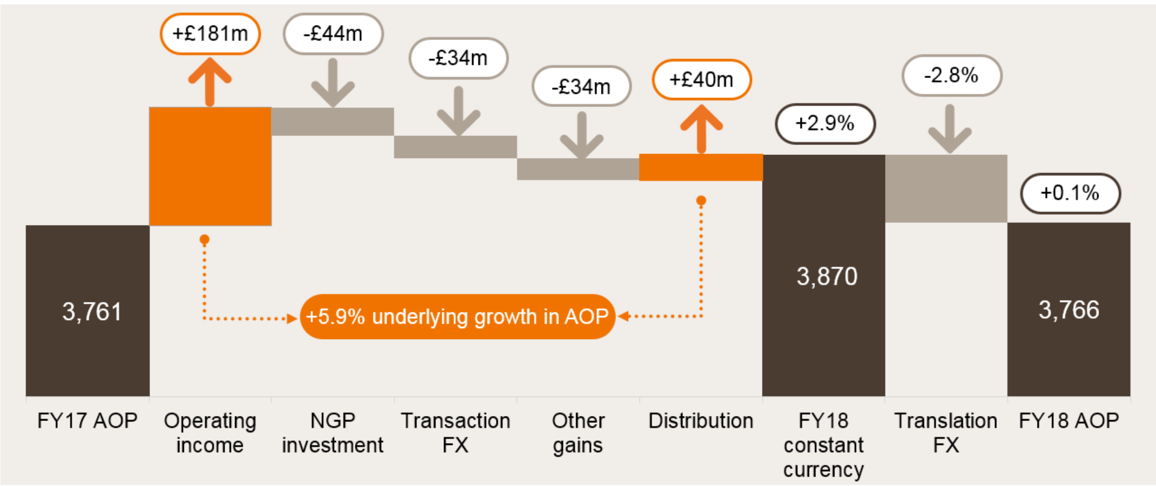
Tobacco & NGP Net Revenue up 2.1% at Constant Currency with Price/Mix Benefit in Tobacco & NGP Growth

- Net revenue up 2.1% at constant currency with 0.9% from tobacco and 1.2% from NGP; H1: -2.1% H2: +6.0%
- Tobacco & NGP net revenue benefited from improved price/mix, supporting H2 revenue gains
- blu performing strongly, driving NGP revenue growth
- Asset Brand net revenue now 66.9% of total tobacco net revenue, up 420bps
- Growth Markets revenue up strongly driven by growth in NGP and Russia, more than offsetting declines in Saudi Arabia and Taiwan following significant excise increases last year
- USA Market net revenue benefiting from pricing in both FMC and MMC
- Returns Markets net revenue declined driven by Returns South, particularly France, which more than offset revenue growth in Returns North, notably Germany and Australia



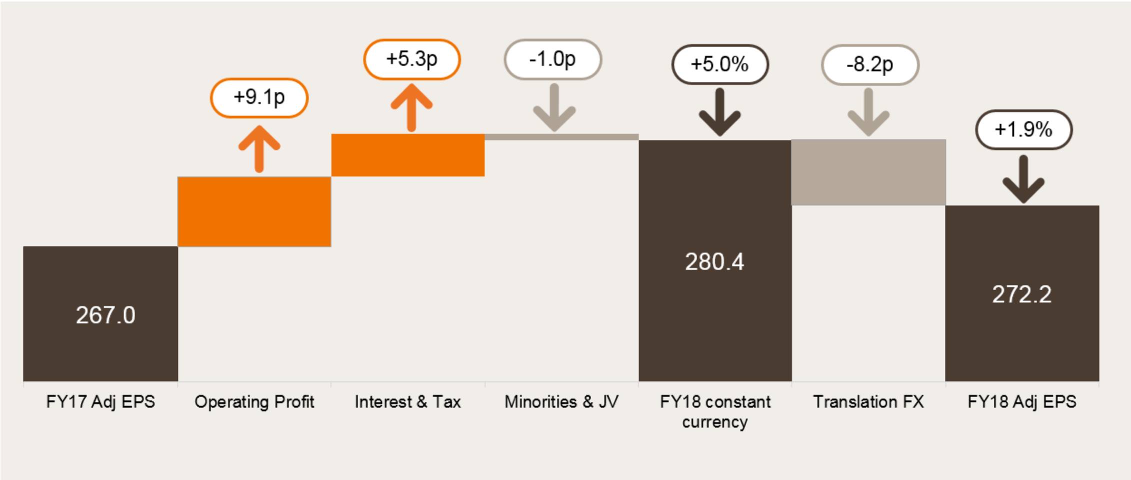
Adjusted operating profit up 2.9% at constant currency benefiting from net revenue increases and cost control

- Adjusted operating profits up 0.1% at actual rates and up 2.9% at constant currency
- Includes £80m of other gains (2017: £114m) including £40m sale of OTP assets in USA and £40m of property sales in the UK
- Adjusted profits impacted by £44m of increased NGP investment, £34m of transaction FX and the £34m reduction in other gains described above; excluding these items adjusted operating profits were up 5.9%
- Tobacco & NGP adjusted operating profit margin of 46.0%, flat at constant currency despite higher investment
- Reported operating profit up 5.7% due to reduced restructuring charge partially offset by Palmer & Harvey write-off



Adjusted Earnings per Share up 5.0% at Constant Currency

- Adjusted EPS of 272.2p, up 1.9%, after foreign exchange headwind of 3.1%
- Adjusted EPS excludes one off impact of 9.3p from the Palmer & Harvey write-off
- Interest & tax benefited EPS by 5.3p due to deleverage and marginally lower adjusted tax rate of 19.5%
- Reported EPS was 143.6p, down 2.7% due to the impact of Palmer & Harvey and changes in fair value of derivatives



Outlook

The Group is well positioned to deliver strong, sustainable shareholder returns. We remain committed to our Tobacco Maximisation strategy and investment in growth opportunities to enhance the performance of our Growth Brands and priority markets. Our tobacco business will continue to deliver modest revenue growth, high margins and strong cash flows. Our NGP business is a significant additive opportunity on top of tobacco, with its stronger growth prospects contributing to margins and cash returns over time.

In the year ahead, we expect to deliver constant currency revenue growth at, or above, the upper end of our 1-4% revenue growth range driven by consistent growth in tobacco and an acceleration in NGP revenues. We will increase our investment in blu by around £100m in the first half to support further revenue acceleration. This will result in a slightly lower adjusted operating profit in the first half that will be more than offset in the second half to deliver full year profit growth. We have clear levers to drive profitability and expect the NGP business to begin to contribute to Group profit as we exit FY19, with margins continuing to build thereafter. Our medium term guidance for constant currency EPS growth of 4-8% remains in place.

OTHER INFORMATION

Investor Contacts		Media Contacts	
Peter Durman	+44 (0)7970 328 093	Alex Parsons	+44 (0)7967 467 241
Matt Sharff	+44 (0)7964 110 921	Simon Evans	+44 (0)7967 467 684
Mat Slade	+44 (0)7811 974 438		

Webcast

Imperial Brands PLC will be hosting a live webcast for investors and investment analysts with senior management following the publication of our Preliminary Results on 6 November 2018. The webcast will be hosted by Alison Cooper, Chief Executive, and available on www.imperialbrandsplc.com from 9.00am (GMT). An archive of the webcast and the presentation script and slides will also be available.
The webcast audio can also be accessed on a listen only basis using the following telephone details. Please join the event conference 5-10 minutes prior to the start time. You will be asked to provide the confirmation code.
United Kingdom: +44(0)330 336 9411 or 0800 279 7204
USA: +1 929 477 0324 or 800 289 0571
Confirmation code: 1337923

Basis of Presentation

- To aid understanding of our results, we use 'adjusted' (non-GAAP) measures in accordance with our usual practice. Reconciliations between adjusted and reported (GAAP) measures are also included in the relevant notes. Further definitions of adjusted measures are provided in the 2018 Annual Report and Accounts.
- Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.
- Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. References in this document to percentage growth and increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise. These are calculated by translating current year results at prior year exchange rates.
- Market share is presented as a 12 month average (MAT). Aggregate market share is a weighted average across markets within our footprint.

Cautionary Statement

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

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

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

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

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

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

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

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

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

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

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

Substantial NGP Growth Ambitions

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

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

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

Growing Sales of blu

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

Our aim is to transition adult smokers through all four elements of the model, converting them to blu in the process. Once smokers belong to the blu community we keep interacting with them in order to minimise their potential to revert to tobacco.

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

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

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

Innovation Transforming Portfolio

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

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

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

NGP Success Driving Reporting Change

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

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

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

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

Oxford Cannabinoid Technologies

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

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

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

Growth Brands Up and Gains in Priority Markets

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

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

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

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

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

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

Disciplined Cost and Cash Management

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

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

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

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

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

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

Active Capital Allocation

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

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

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

Accelerating Growth to Create Value

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

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

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

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

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

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

Alison Cooper
Chief Executive

Brand Performances

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

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

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

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

Growth Brands

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

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

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

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

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

Specialist Brands

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

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

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

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

blu

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

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

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

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

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

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

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

Portfolio Brands

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

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

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

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

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

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

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

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

USA Market

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

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

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

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

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

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

Returns Markets

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

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

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

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

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

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

Returns Markets North

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

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

Returns Markets South

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

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

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

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

Strong Financial Delivery

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

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

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

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

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

Building Growth Momentum

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

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

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

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

Group adjusted operating profit increased 2.9 per cent at constant currency driven by our increased net revenue, strong cost controls and after increased NGP investment.

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

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

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

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

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

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

Group Results – Constant Currency Analysis

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

Group Earnings Performance

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

Reconciliation of Adjusted Performance Measures*

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

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

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as the USA and lower rates in other markets such as the UK. The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the OECD's (Organisation for Economic Co-operation and Development) Base Erosion Profit Shifting (BEPS) work. Our Taxation Policy is publicly available and can be found in the Governance section of our corporate website: www.imperialbrandsplc.com

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

The strengthening of sterling versus the US dollar has negatively impacted reported and adjusted measures, partly offset by the weakening of sterling against the Euro. On a constant currency basis, adjusted earnings per share increased by 5 per cent.The restructuring charge for the year of £196 million (2017: £391 million) relates mainly to our cost optimisation programmes announced in 2013 and 2016. The total restructuring cash flow in the year ended 30 September 2018 was £241 million (2017: £201 million).

Cost Optimisation

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

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

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

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

Capital Discipline

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

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

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

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

Palmer & Harvey

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

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

Cash Flow and Net Debt

The conversion of adjusted operating profit to operating cash flow remained strong at 97 per cent (2017: 96 per cent). Movements in working capital were broadly flat compared to prior year, and there was a slight increase in capital expenditure relative to depreciation to support our growth agenda. Principal financing cash flows in FY18 comprise the payment of the final dividend, interest payments, the repayment of $1.75 billion and €850 million bonds, and the sale of Logista shares which reduced our holding by 9.99 per cent of the share capital.

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

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

Strong Dividend Growth

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

The Group has paid two interim dividends totalling 56.87 pence per share in June 2018 and September 2018, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board has approved a further interim dividend of 65.46 pence per share and will propose a final dividend of 65.46 pence per share, bringing the total dividend for the year to 187.79 pence per share.

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

Brexit

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

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

New Segmental Reporting and Accounting Standards

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

From FY19, our financial reporting will be split into four areas: Europe, Americas and Africa, Asia & Australasia plus Distribution. Similarly, our tobacco business has been re-named Tobacco & NGP.

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

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

Liquidity and Going Concern

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

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

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

Oliver Tant
Chief Financial Officer

SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume					
Growth Markets	bn SE	**73.5**	74.8	-1.7%	
US Market	bn SE	**22.1**	23.3	-5.0%	
Returns Markets North	bn SE	**86.6**	89.8	-3.5%	
Returns Markets South	bn SE	**73.3**	77.3	-5.3%	
Returns Markets Total	bn SE	**159.9**	167.1	-4.3%	
Total Group	bn SE	**255.5**	265.2	-3.6%	
Tobacco & NGP Net Revenue					
Growth Markets	£m	**1,795**	1,768	+1.5%	+5.6%
US Market	£m	**1,671**	1,665	+0.4%	+6.7%
Returns Markets North	£m	**2,749**	2,755	-0.2%	+0.4%
Returns Markets South	£m	**1,515**	1,569	-3.4%	-3.7%
Returns Markets Total	£m	**4,264**	4,324	-1.4%	-1.1%
Total Group	£m	**7,730**	7,757	-0.3%	+2.1%
Net Revenue per '000 SE					
Growth Markets	£	**24.43**	23.64	+3.3%	+7.5%
US Market	£	**75.54**	71.47	+5.7%	+12.3%
Returns Markets North	£	**31.73**	30.69	+3.4%	+4.1%
Returns Markets South	£	**20.68**	20.29	+1.9%	+1.6%
Returns Markets Total	£	**26.67**	25.88	+3.0%	+3.4%
Total Group	£	**30.26**	29.25	+3.4%	+6.0%
Price/Mix					
Growth Markets	%			+3.2%	+7.3%
US Market	%			+5.4%	+11.7%
Returns Markets North	%			+3.3%	+3.9%
Returns Markets South	%			+1.9%	+1.6%
Returns Markets Total	%			+2.9%	+3.2%
Total Group	%			+3.3%	+5.7%
Adjusted Tobacco & NGP Operating Profit					
Growth Markets	£m	**364**	411	-11.3%	-4.4%
US Market	£m	**1,040**	1,013	+2.7%	+9.5%
Returns Markets North	£m	**1,507**	1,485	+1.5%	+2.4%
Returns Markets South	£m	**646**	686	-5.8%	-6.4%
Returns Markets Total	£m	**2,153**	2,171	-0.9%	-0.4%
Total Group	£m	**3,557**	3,595	-1.1%	+1.9%
Distribution					
Distribution Fees	£m	**989**	914	+8.2%	+6.6%
Operating Profit	£m	**212**	181	+17.3%	+15.5%
Operating Margin	%	**21.5**	19.8	+170 bps	

SUMMARY OF KEY PORTFOLIO FINANCIALS & METRICS

PORTFOLIO		Full Year Result 2018	Full Year Result 2017	Change Actual	Change Constant Currency
Growth Brand Volume					
Growth Markets	bn SE	**50.9**	49.9	+2.2%	
US Market	bn SE	**6.0**	6.2	-2.0%	
Returns Markets North	bn SE	**58.1**	58.3	-0.4%	
Returns Markets South	bn SE	**47.9**	45.3	+5.8%	
Returns Markets Total	bn SE	**106.0**	103.6	+2.3%	
Total Group	bn SE	**162.9**	159.6	+2.1%	
Growth Brands as % of Volume					
Growth Markets	%	**69.3**	66.7	+260 bps	
US Market	%	**27.3**	26.4	+90 bps	
Returns Markets North	%	**67.0**	64.9	+210 bps	
Returns Markets South	%	**65.4**	58.6	+680 bps	
Returns Markets Total	%	**66.3**	62.0	+430 bps	
Total Group	%	**63.8**	60.2	+360 bps	
Growth Brand Market Share					
Growth Markets	%	**4.7**	4.3	+40 bps	
US Market	%	**2.5**	2.4	+10 bps	
Returns Markets North	%	**17.0**	16.6	+40 bps	
Returns Markets South	%	**18.8**	16.8	+200 bps	
Returns Markets Total	%	**17.8**	16.7	+110 bps	
Total Group	%	**9.2**	8.5	+70 bps	
Growth Brand Net Revenue					
Growth Markets	£m	**823**	868	-5.1%	-2.3%
US Market	£m	**325**	315	+3.5%	+9.9%
Returns Markets North	£m	**1,725**	1,658	+4.0%	+4.5%
Returns Markets South	£m	**926**	850	+8.9%	+6.9%
Returns Markets Total	£m	**2,651**	2,508	+5.7%	+5.3%
Total Group	£m	**3,799**	3,690	+2.9%	+3.9%
Growth Brands as % of Net Revenue					
Growth Markets	%	**45.8**	49.1	-330 bps	
US Market	%	**19.5**	18.9	+60 bps	
Returns Markets North	%	**62.7**	60.2	+250 bps	
Returns Markets South	%	**61.1**	54.2	+690 bps	
Returns Markets Total	%	**62.2**	58.0	+420 bps	
Total Group	%	**49.1**	47.6	+150 bps	
Specialist Brand Net Revenue					
Total Group	£m	**1,375**	1,172	+17.3%	+20.9%
% of Total Net Revenue	%	**17.8**	15.1	+270 bps	
Growth & Specialist Brands as a % of Net Revenue		**66.9**	62.7	+420 bps	
Portfolio Brands Net Revenue					
Total Group	£m	**2,556**	2,895	-11.7%	-7.7%
% of Total Net Revenue	%	**33.1**	37.3	-420 bps	

The figures and financial information for year ended 30 September 2018 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the Auditors yet reported on them. The financial statements have been prepared in accordance with our accounting policies published in our financial statements available on our website www.imperialbrandsplc.com.

Consolidated Income Statement
for the year ended 30 September

£ million unless otherwise indicated	Notes	2018	2017
Revenue	3	**30,524**	30,247
Duty and similar items		**(15,125)**	(14,967)
Other cost of sales		**(8,949)**	(8,853)
Cost of sales		**(24,074)**	(23,820)
Gross profit		**6,450**	6,427
Distribution, advertising and selling costs		**(2,441)**	(2,434)
Amortisation of acquired intangibles		**(1,053)**	(1,092)
Administration of UK distributor	3	**(110)**	-
Restructuring costs	4	**(196)**	(391)
Other expenses		**(243)**	(232)
Administrative and other expenses		**(1,602)**	(1,715)
Operating profit	3	**2,407**	2,278
Investment income		**631**	910
Finance costs		**(1,257)**	(1,360)
Net finance costs	5	**(626)**	(450)
Share of profit of investments accounted for using the equity method		**42**	33
Profit before tax		**1,823**	1,861
Tax	6	**(396)**	(414)
Profit for the year		**1,427**	1,447
Attributable to:			
Owners of the parent		**1,368**	1,409
Non-controlling interests		**59**	38
Earnings per ordinary share (pence)			
- Basic	8	**143.6**	147.6
- Diluted	8	**143.2**	147.2

Consolidated Statement of Comprehensive Income
for the year ended 30 September

£ million	2018	2017
Profit for the year	**1,427**	1,447
Other comprehensive income/(expense)		
Exchange movements	**176**	(57)
Items that may be reclassified to profit and loss	**176**	(57)
Net actuarial gains on retirement benefits	**196**	649
Deferred tax relating to net actuarial gains on retirement benefits	**(54)**	(120)
Items that will not be reclassified to profit and loss	**142**	529
Other comprehensive income for the year, net of tax	**318**	472
Total comprehensive income for the year	**1,745**	1,919
Attributable to:		
Owners of the parent	**1,683**	1,870
Non-controlling interests	**62**	49
Total comprehensive income for the year	**1,745**	1,919

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2018	2017
Operating profit		**2,407**	2,278
Amortisation of acquired intangibles		**1,053**	1,092
Administration of UK distributor	3	**110**	-
Restructuring costs	4	**196**	391
Adjusted operating profit		**3,766**	3,761

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2018	2017
Net finance costs		**(626)**	(450)
Net fair value and exchange losses/(gains) on financial instruments	5	**126**	(112)
Post-employment benefits net financing cost	5	**13**	25
Adjusted net finance costs	5	**(487)**	(537)

Consolidated Balance Sheet
at 30 September

£ million	Notes	2018	2017
Non-current assets			
Intangible assets		**19,117**	19,763
Property, plant and equipment		**1,891**	1,865
Investments accounted for using the equity method		**845**	785
Retirement benefit assets		**598**	358
Trade and other receivables		**82**	123
Derivative financial instruments	10	**462**	583
Deferred tax assets		**600**	617
		23,595	24,094
Current assets			
Inventories		**3,692**	3,604
Trade and other receivables		**2,585**	2,539
Current tax assets		**164**	69
Cash and cash equivalents	9	**775**	624
Derivative financial instruments	10	**37**	60
		7,253	6,896
Total assets		**30,848**	30,990
Current liabilities			
Borrowings	9	**(2,397)**	(2,353)
Derivative financial instruments	10	**(105)**	(42)
Trade and other payables		**(8,270)**	(8,104)
Current tax liabilities		**(286)**	(192)
Provisions	4	**(179)**	(187)
		(11,237)	(10,878)
Non-current liabilities			
Borrowings	9	**(9,598)**	(10,196)
Derivative financial instruments	10	**(1,073)**	(1,166)
Trade and other payables		**(47)**	(21)
Deferred tax liabilities		**(1,113)**	(1,091)
Retirement benefit liabilities		**(1,061)**	(1,074)
Provisions	4	**(274)**	(338)
		(13,166)	(13,886)
Total liabilities		**(24,403)**	(24,764)
Net assets		**6,445**	6,226
Equity			
Share capital		**103**	103
Share premium and capital redemption		**5,837**	5,837
Retained earnings		**(1,150)**	(1,084)
Exchange translation reserve		**980**	828
Equity attributable to owners of the parent		**5,770**	5,684
Non-controlling interests		**675**	542
Total equity		**6,445**	6,226

Consolidated Statement of Changes in Equity

for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2017	**103**	**5,837**	**(1,084)**	**828**	**5,684**	**542**	**6,226**
Profit for the year	**-**	**-**	**1,368**	**-**	**1,368**	**59**	**1,427**
Other comprehensive income	**-**	**-**	**142**	**173**	**315**	**3**	**318**
Total comprehensive income							
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	**-**	**-**	**2**	**-**	**2**	**-**	**2**
Costs of employees' services compensated by share schemes	**-**	**-**	**25**	**-**	**25**	**-**	**25**
Current tax on share-based payments	**-**	**-**	**1**	**-**	**1**	**-**	**1**
Cancellation of share capital	**-**	**-**	**(41)**	**-**	**(41)**	**-**	**(41)**
Change in non-controlling interests	**-**	**-**	**(121)**	**(21)**	**(142)**	**142**	**-**
Proceeds, net of fees, from disposal of Logista shares	**-**	**-**	**234**	**-**	**234**	**-**	**234**
Dividends paid	**-**	**-**	**(1,676)**	**-**	**(1,676)**	**(71)**	**(1,747)**
At 30 September 2018	**103**	**5,837**	**(1,150)**	**980**	**5,770**	**675**	**6,445**
At 1 October 2016	104	5,836	(1,525)	896	5,311	431	5,742
Profit for the year	-	-	1,409	-	1,409	38	1,447
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)
Change in non-controlling interests	-	-	(111)	-	(111)	111	-
Proceeds, net of fees, from disposal of Logista shares	-	-	221	-	221	-	221
Dividends paid	-	-	(1,528)	-	(1,528)	(49)	(1,577)
At 30 September 2017	103	5,837	(1,084)	828	5,684	542	6,226

Consolidated Cash Flow Statement
for the year ended 30 September

£ million	2018	2017
Cash flows from operating activities		
Operating profit	**2,407**	2,278
Dividends received from investments accounted for under the equity method	**25**	28
Depreciation, amortisation and impairment	**1,266**	1,364
Profit on disposal of assets	**(36)**	(24)
Profit on disposal of brands	**(40)**	-
Post-employment benefits	**(60)**	(157)
Costs of employees' services compensated by share schemes	**26**	27
Provision in respect of loan to third parties	**4**	-
Movement in provisions	**(87)**	52
Operating cash flows before movement in working capital	**3,505**	3,568
Increase in inventories	**(112)**	(76)
(Increase)/decrease in trade and other receivables	**(35)**	189
Increase/(decrease) in trade and other payables	**136**	(46)
Movement in working capital	**(11)**	67
Tax paid	**(407)**	(570)
Net cash flows generated from operating activities	**3,087**	3,065
Cash flows from investing activities		
Interest received	**10**	11
Loan to joint ventures	**-**	(17)
Loan to third parties	**28**	(30)
Proceeds from sale of assets	**87**	30
Proceeds from sale of brands	**47**	-
Purchase of property, plant and equipment	**(259)**	(191)
Purchase of intangible assets - software	**(47)**	(44)
Purchase of intellectual property rights	**(21)**	(15)
Purchase of businesses (net of cash acquired)	**(8)**	-
Purchase of brands and operations	**(67)**	(31)
Net cash used in investing activities	**(230)**	(287)
Cash flows from financing activities		
Interest paid	**(501)**	(548)
Cash from employees on maturity/exercise of share schemes	**2**	12
Increase in borrowings	**1,619**	852
Repayment of borrowings	**(2,261)**	(2,183)
Cash flows relating to derivative financial instruments	**41**	(37)
Repurchase of shares	**(41)**	(119)
Proceeds from sale of shares in subsidiary to non-controlling interests	**234**	221
Dividends paid to non-controlling interests	**(71)**	(49)
Dividends paid to owners of the parent	**(1,676)**	(1,528)
Net cash used in financing activities	**(2,654)**	(3,379)
Net increase/(decrease) in cash and cash equivalents	**203**	(601)
Cash and cash equivalents at the start of year	**624**	1,274
Effect of foreign exchange rates on cash and cash equivalents	**(52)**	(49)
Cash and cash equivalents at the end of year	**775**	624

1. Accounting Policies

New Accounting Standards and Interpretations

The Group has adopted the Amendment to IAS 7 Statement of Cash Flows with effect from 1 October 2017. This amendment requires reporting entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, by disclosing changes arising from cash flows as well as non-cash changes. There is no material impact of the adoption on the Group. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

The following Standards which have not been adopted in these financial statements that are in issue but not yet effective for the 2018 year end are: IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. These will be adopted in the financial year commencing 1 October 2018. IFRS 16 'Leases' will be adopted in the year commencing 1 October 2019.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets will be classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables and derivative financial instruments, the Group does not currently hold any significant financial assets. The application of this requirement is not expected to materially impact the financial statements.

Impairment of financial assets: Impairment provisions will be calculated using a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. The expected credit loss model requires the recognition of a provision which reflects future impairment risk. Provision levels will be calculated on the residual credit risk after consideration of any credit protection which is used by the Group.

Receivables which have already become overdue will continue to be provided in line with the current provisioning policy. With the exception of the Palmer and Harvey debt write-off, the Group has historically experienced low levels of credit default. Given this, we do not expect the level of the additional expected credit loss provision to be significant.

Hedge Accounting: Adoption of aspects of IFRS 9 relating to hedge accounting are currently optional as organisations are allowed to continue to apply the IAS 39 requirements. IFRS 9 aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group will adopt the hedge accounting aspects of IFRS 9 from 1 October 2019. However, it is expected that the hedging approach will continue to be limited to the use of net investment hedging. Consequently, the adoption of this area of IFRS 9 is not expected to materially impact the financial statements.

IFRS 15 'Revenue from Contracts with Customers' will be effective for the period beginning 1 October 2018. IFRS 15 introduces an amended framework for revenue recognition and replaces the existing guidance in IAS 18 'Revenue'. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

The Group has assessed the impact of the adoption of IFRS 15. Following the review of our performance obligations revenue will continue to be recognised when a Group company has delivered products to a customer, the customer has accepted those products and collectability of the related receivables is reasonably assured. We will reclassify certain distribution, advertising and selling costs arising from payments to customers, from overheads / other costs of sales to discounts from revenue. These costs are judged as not distinct from the related sales to the customer. This will reduce revenue, but will have no net impact on gross profit. The Group will take the option to restate the comparative figures on adoption of the standard. We estimate that the adoption will reduce the level of revenue recorded in the year ended 30 September 2018 by approximately £458 million.

The Group has also reviewed the presentation of duties, levies and similar payments against the guidance given by IFRS 15. Levy payments made in the United States under the Master Settlement Agreement (MSA) are currently deducted from net revenue. Following the adoption of the standard MSA payments will be recognized in other cost of sales. We estimate that this change will increase the level of net revenue recorded in the year ended 30 September 2018 by approximately £425 million. The adoption of the standard is not expected to have any other material impact on the Group's net assets or gross profit.

IFRS 16 'Leases' will be effective for the period beginning 1 October 2019. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs, subject to the exemptions on amount and duration. The Group is currently assessing the impact of the new standard. Our initial assessment of IFRS 16 leases is that it will not have a material effect on the Group's net assets or results.

IFRIC 23 'Uncertainty over income tax treatments' will be effective, subject to EU endorsement, for the period beginning 1 October 2019. The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Work is ongoing to assess the impact of the Interpretation.

2. Critical Accounting Estimates and Judgements

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability. The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the financial statements for the year ended 30 September 2018, which will be available on our website www.imperialbrandsplc.com in due course.

3. Segment Information

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

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

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

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

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

Our focus on NGP and the growth opportunity this provides across all our markets means that our current segmental descriptors of Growth and Returns are no longer applicable. As a result of an internal reorganisation, our segmental reporting for our tobacco and NGP businesses for the year ending 30 September 2019 will be changed to: Europe, Americas and Africa, Asia & Australasia. These three regions will include all tobacco and NGP sales in their respective geographies, reflecting the new way we run the business. At the same time, blu will be reclassified as a Growth Brand, reinforcing our global ambitions for the brand, and all NGP revenue and profit, currently reported in Growth Markets, will be included within the countries and segments where the sales occur. We will also separately disclose our NGP revenue.

Tobacco & NGP

£ million unless otherwise indicated	2018	2017
Revenue	**22,885**	22,786
Net revenue	**7,730**	7,757
Operating profit	**2,282**	2,199
Adjusted operating profit	**3,557**	3,595
Adjusted operating margin %	**46.0**	46.3

Distribution

£ million unless otherwise indicated	2018	2017
Revenue	**8,383**	8,269
Distribution fees	**989**	914
Operating profit	**128**	94
Adjusted operating profit	**212**	181
Adjusted operating margin %	**21.4**	19.8

Revenue

		2018		2017
£ million	**Total revenue**	**External revenue**	Total Revenue	External revenue
Tobacco & NGP				
Growth Markets	**3,754**	**3,686**	3,665	3,602
USA	**2,971**	**2,971**	3,125	3,125
Returns Markets North	**13,698**	**13,689**	13,533	13,503
Returns Markets South	**2,462**	**1,795**	2,463	1,748
Total Tobacco	**22,885**	**22,141**	22,786	21,978
Distribution	**8,383**	**8,383**	8,269	8,269
Eliminations	**(744)**	**-**	(808)	-
Total Group	**30,524**	**30,524**	30,247	30,247

Reconciliation from Tobacco & NGP revenue to Tobacco & NGP net revenue

£ million	2018	2017
Revenue	**22,885**	22,786
Duty and similar items	**(15,125)**	(14,967)
Sale of peripheral products	**(30)**	(62)
Net revenue	**7,730**	7,757

Tobacco & NGP net revenue

£ million	2018	2017
Growth Markets	**1,795**	1,768
USA	**1,671**	1,665
Returns Markets North	**2,749**	2,755
Returns Markets South	**1,515**	1,569
Total Tobacco & NGP	**7,730**	7,757

Adjusted operating profit and reconciliation to profit before tax

£ million	2018	2017
Tobacco & NGP		
Growth Markets	**364**	411
USA	**1,040**	1,013
Returns Markets North	**1,507**	1,485
Returns Markets South	**646**	686
Total Tobacco	**3,557**	3,595
Distribution	**212**	181
Eliminations	**(3)**	(15)
Adjusted operating profit	**3,766**	3,761
Amortisation of acquired intangibles – Tobacco & NGP	**(970)**	(1,005)
Amortisation of acquired intangibles - Distribution	**(83)**	(87)
Administration of UK distributor	**(110)**	-
Restructuring costs - Tobacco & NGP	**(196)**	(391)
Operating profit	**2,407**	2,278
Net finance costs	**(626)**	(450)
Share of profit of investments accounted for using the equity method	**42**	33
Profit before tax	**1,823**	1,861

On 28 November 2017 Palmer & Harvey (P&H) announced that they had entered administration. As a result P&H receivables of £104 million have been written off and a provision has been made of £6 million in the current year financial statements in respect of loan and receivables monies considered irrecoverable. There has been no significant disruption to UK operations as well-prepared contingency plans ensured that the on-going supply to retail customers was unaffected.

4. Restructuring Costs and Provisions

Restructuring costs

£ million	2018	2017
Employment related	**170**	244
Asset impairments	**3**	79
Other charges	**23**	68
	196	391

Restructuring costs analysed by workstream:

£ million	2018	2017
Cost optimisation programme (1)	**181**	383
Acquisition integration costs	**15**	4
Other restructuring activities (1)	**-**	4
	196	391

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is a discrete, time bound project which, given its scale, will be delivered over a number of years and once delivered the associated restructuring costs will cease.

Costs of implementing cost savings that do not arise from the change in strategic direction are excluded from restructuring costs.

Cost optimisation programme costs of £181 million (2017: £383 million) comprise £56 million incurred in restructuring our product manufacturing activities including France, Morocco, Russia and the US, and £125 million in respect of restructuring overheads mainly by implementing a standardised operating model.

Of the remaining £15 million (2017: £8 million), £13 million of post-acquisition integration costs were in respect of the Nerudia acquisition and £2 million (2017: £4 million) of post-acquisition integration costs were in respect of the assets acquired from Lorillard in 2015, (2017: £4 million was in respect of pre-2013 restructuring).

Cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million in respect of the savings of £300 million per annum that the programme has generated by 2018 (the last year of the programme), and Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million per annum by 2020. In 2018 the cash cost of Phase I of the programme was £43 million (2017: £42 million) and £173 million (2017: £132 million) for Phase II, bringing the cumulative net cash cost of the programme to £826 million (Phase I £521 million, Phase II £305 million).

The total restructuring cash spend in the year was £241 million (2017: £201 million).

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

Provisions

	2018		
£ million	**Restructuring**	**Other**	**Total**
At 1 October 2017	**380**	**145**	**525**
Additional provisions charged to the consolidated income statement	**99**	**62**	**161**
Amounts used	**(171)**	**(26)**	**(197)**
Unused amounts reversed	**(13)**	**(22)**	**(35)**
Exchange movements	**2**	**(3)**	**(1)**
At 30 September 2018	**297**	**156**	**453**

Analysed as:

£ million	**2018**	2017
Current	**179**	187
Non-current	**274**	338
	453	525

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

£ million	**2018**	2017
Reported net finance costs	**626**	450
Fair value gains on derivative financial instruments	**492**	744
Fair value losses on derivative financial instruments	**(567)**	(679)
Exchange (losses)/gains on financing activities	**(51)**	47
Net fair value and exchange (losses)/gains on financial instruments	**(126)**	112
Interest income on net defined benefit assets	**129**	107
Interest cost on net defined benefit liabilities	**(142)**	(132)
Post-employment benefits net financing cost	**(13)**	(25)
Adjusted net finance costs	**487**	537
Comprising		
Interest on bank deposits	**(10)**	(12)
Interest on bank loans and other loans	**497**	549
Adjusted net finance costs	**487**	537

6. Tax and Reconciliation to Adjusted Tax Charge

Analysis of charge in the year

£ million	**2018**	2017
Current tax		
UK Corporation tax	**55**	97
Overseas tax	**367**	367
Total current tax	**422**	464
Deferred tax movement	**(26)**	(50)
Total tax charged to the consolidated income statement	**396**	414

Reconciliation from reported tax to adjusted tax

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

£ million	**2018**	2017
Reported tax charge	**396**	414
Deferred tax on amortisation of acquired intangibles	**196**	228
Administration of UK distributor	**21**	-
Tax on net fair value and exchange movements on financial instruments	**22**	(14)
Tax on post-employment benefits net financing cost	**5**	7
Tax on restructuring costs	**55**	121
Deferred tax impact of US tax reforms	**29**	-
Tax on unrecognised losses	**(76)**	(105)
Adjusted tax charge	**648**	651

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 19.0 per cent (2017: 19.5 per cent) as follows:

£ million	**2018**	2017
Profit before tax	**1,823**	1,861
Tax at the UK Corporation tax rate	**346**	363
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(44)**	(47)
Movement in provision for uncertain tax positions	**10**	22
Remeasurement of deferred tax balances	**51**	4
Remeasurement of deferred tax balances arising from changes in tax rates	**(68)**	(93)
Deferred tax on unremitted earnings	**26**	42
Permanent differences	**66**	120
Adjustments in respect of prior years	**9**	3
Total tax charged to the consolidated income statement	**396**	414

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties.

Remeasurement of deferred tax balances includes £35 million (2017: nil) in relation to the de-recognition of deferred tax assets for tax losses in the Group's Dutch business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

Remeasurement of deferred tax balances arising from changes in tax rates includes £29 million (2017: nil) in relation to the remeasurement of deferred tax assets and liabilities on US liabilities and assets following the enactment of tax rate reductions and £39 million (2017: £93 million) in relation to the remeasurement of deferred tax liabilities on French assets following the enactment of future tax rate reductions which will be effective for the Group from 1 October 2019.

During the year the Group has provided for deferred tax on unremitted earnings of £26 million (2017: £42 million). The tax will arise on the distribution of profits through the group and on planned group simplification.

Permanent differences include £5 million (2017: £10 million) in respect of non-deductible exchange losses and £26 million (2017: £29 million) in respect of non-deductible interest expense and nil (2017: £57 million) in respect of taxable disposals of assets intra group.

Movement on current tax account

£ million	2018	2017
At 1 October	**(123)**	(239)
Charged to the consolidated income statement	**(422)**	(464)
Credited to equity	**1**	3
Cash paid	**407**	570
Exchange movements	**3**	2
Other movements	**12**	5
At 30 September	**(122)**	(123)

The cash tax paid in the year is £15 million lower than the current tax charge (2017: £106 million higher). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

Uncertain tax positions

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2018 the total value of these provisions, including foreign exchange movements, was £202 million (2017: £190 million). It is possible that amounts paid will be different from the amounts provided.

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

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £250 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra group transfer of the shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In September 2018 the dispute was heard before the Commission Nationale, an independent adjudication body, whose decision is advisory only. In October 2018 the Commission issued its report which is favourable to the Group's position. A meeting is being arranged with the French tax authorities to discuss the status of the French tax authority's challenge following the report. At this time it is appropriate to maintain the £42 million (2017: £42 million) held in the provision for uncertain tax positions in respect of this matter.

The Group continues to monitor developments in relation to EU State Aid investigations. If the EU Commission confirms its preliminary finding of State Aid in respect of the UK's Controlled Foreign Company regime and this is ultimately upheld through the judicial process the Group considers that the amount of additional tax payable would be between nil and £300m depending on the basis of calculation. Based upon advice taken the Group does not consider any provision is required in relation to this investigation or any other EU State Aid investigation. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

In 2017 new legislation was introduced, prospectively limiting the amount of production that could take place prior to new excise tax increases. On 28 September 2018, the Russian tax authorities issued a preliminary tax audit report for the calendar years 2014-2016 seeking to assess retrospectively additional excise and VAT with associated interest and penalties of approximately £132 million in respect of pre-production prior to new excise duty increases. In the event that the Russian tax authorities were to apply the same ruling to 2017, the Group estimates further excise and VAT with associated interest and penalties of £74 million could be assessed. The Group believe they have strong grounds for objecting to the preliminary report and are preparing a defence. The Group has complied with this legislation since it became effective. The Group is unable to make a reliable estimate of any provision until its objections to the preliminary report have been discussed with the Russian tax authorities, and furthermore, disclosure of a provision could be prejudicial.

7. Dividends

Distributions to ordinary equity holders

£ million	2018	2017	2016
Paid interim of 56.87 pence per share (2017: 111.21p, 2016: 101.1p)			
- Paid June 2016	**-**	-	225
- Paid September 2016	**-**	-	225
- Paid December 2016	**-**	-	517
- Paid June 2017	**-**	247	-
- Paid September 2017	**-**	247	-
- Paid December 2017	**-**	567	-
- Paid June 2018	**271**	-	-
- Paid September 2018	**271**	-	-
Interim dividend paid	**542**	1,061	967
Proposed interim of 65.46 pence per share (2017: nil, 2016: nil)			
- To be paid December 2018	**624**	-	-
Interim dividend proposed	**624**	-	-
Proposed final of 65.46 pence per share (2017: 59.51, 2016: 54.1p)			
- Paid March 2017	**-**	-	517
- Paid March 2018	**-**	567	-
- To be paid March 2019	**624**	-	-
Final dividend	**624**	567	517
Total ordinary share dividends of 187.79 pence per share (2017: 170.72, 2016: 155.2p)	**1,790**	1,628	1,484

The third interim dividend for the year ended 30 September 2018 of 65.46 pence per share amounts to a proposed dividend of £624 million, which will be paid in December 2018.

The proposed final dividend for the year ended 30 September 2018 of 65.46 pence per share amounts to a proposed dividend payment of £624 million in March 2019 based on the number of shares ranking for dividend at 30 September 2018, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2018 will be £1,790 million (2017: £1,628 million). The dividend paid during 2018 is £1,676 million (2017: £1,528 million).

8. Earnings per Share

Basic earnings per share is based on the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the year excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2018	2017
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,368**	1,409
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**952.4**	954.6
Potentially dilutive share options	**3.0**	2.3
Shares for diluted earnings per share	**955.4**	956.9
Pence		
Basic earnings per share	**143.6**	147.6
Diluted earnings per share	**143.2**	147.2

Reconciliation from reported to adjusted earnings and earnings per share

£ million unless otherwise indicated	2018 Earnings per share (pence)	2018 Earnings	2017 Earnings per share (pence)	2017 Earnings
Reported basic	**143.6**	**1,368**	147.6	1,409
Amortisation of acquired intangibles	**90.0**	**857**	90.5	864
Administration of UK distributor	**9.3**	**89**	-	-
Net fair value and exchange movements on financial instruments	**10.9**	**104**	(10.3)	(98)
Post-employment benefits net financing cost	**0.8**	**8**	1.9	18
Restructuring costs	**14.9**	**141**	28.3	270
Deferred tax impact of US tax reforms	**(3.0)**	**(29)**	-	-
Tax on unrecognised losses	**8.0**	**76**	11.0	105
Adjustments attributable to non-controlling interests	**(2.3)**	**(22)**	(2.0)	(19)
Adjusted	**272.2**	**2,592**	267.0	2,549
Adjusted diluted	**271.3**	**2,592**	266.4	2,549

9. Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2017	**624**	**(2,353)**	**(10,196)**	**(565)**	**(12,490)**
Reallocation of current borrowings from non-current borrowings	**-**	**(721)**	**721**	**-**	**-**
Cash flow	**203**	**642**	**-**	**(41)**	**804**
Accretion of interest	**-**	**14**	**(2)**	**(2)**	**10**
Change in fair values	**-**	**-**	**-**	**(71)**	**(71)**
Exchange movements	**(52)**	**21**	**(121)**	**-**	**(152)**
As at 30 September 2018	**775**	**(2,397)**	**(9,598)**	**(679)**	**(11,899)**

Adjusted net debt

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

£ million	2018	2017
Reported net debt	**(11,899)**	(12,490)
Accrued interest	**197**	208
Fair value of derivatives providing commercial hedges	**228**	135
Adjusted net debt	**(11,474)**	(12,147)

10. Derivative Financial Instruments

£ million	2018 Assets	2018 Liabilities	2018 Net Fair Value	2017 Assets	2017 Liabilities	2017 Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**28**	**(24)**	**4**	47	(33)	14
Foreign exchange contracts	**6**	**(7)**	**(1)**	12	(9)	3
Cross-currency swaps	**3**	**(127)**	**(124)**	1	-	1
Total current derivatives	**37**	**(158)**	**(121)**	60	(42)	18
Collateral	**-**	**53**	**53**	-	-	-
	37	**(105)**	**(68)**	60	(42)	18
Non-current derivative financial instruments						
Interest rate swaps	**462**	**(700)**	**(238)**	583	(734)	(151)
Cross-currency swaps	**-**	**(402)**	**(402)**	-	(507)	(507)
Total non-current derivatives	**462**	**(1,102)**	**(640)**	583	(1,241)	(658)
Collateral	**-**	**29**	**29**	-	75	75
	462	**(1,073)**	**(611)**	583	(1,166)	(583)
Total carrying value of derivative financial instruments	**499**	**(1,178)**	**(679)**	643	(1,208)	(565)
Analysed as						
Interest rate swaps	**490**	**(724)**	**(234)**	630	(767)	(137)
Foreign exchange contracts	**6**	**(7)**	**(1)**	12	(9)	3
Cross-currency swaps	**3**	**(529)**	**(526)**	1	(507)	(506)
Collateral	**-**	**82**	**82**	-	75	75
Total carrying value of derivative financial instruments	**499**	**(1,178)**	**(679)**	643	(1,208)	(565)

The Groups' derivative financial instruments are held at fair value. Fair values are determined based on observable market data (Level 2 classification hierarchy) and are consistent with those applied during the year ended 30 September 2017.

11. Acquisitions

For each acquisition, an exercise to value the net assets and apportion the consideration has taken place and the values have been recognised in the year end accounts. We engaged external consultants to assist in the valuation of the intangible assets, which make up the most significant element of the assets acquired and have been valued using the income method.

Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions to contingent consideration or asset values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

Von Erl

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17m plus an estimated contingent consideration of £15 million payable on performance measures being achieved. There are also amounts payable as contingent consideration to purchase additional share capital of 40 per cent which is based on future product sales. The payment is capped at a maximum of €200 million. In August 2018 a payment of £3 million was made under this forward contract to purchase an additional 10 per cent of the share capital, taking the total shareholding to 60 per cent.

Following the completion of the measurement period, values for consideration of £32 million and acquired net liabilities of £4 million, including intangible assets of £18 million and goodwill of £36 million, have been recognised based on the valuation conditions existing at the acquisition date. The value of the contingent consideration will be reassessed at each future reporting point.

The acquisition builds on Imperial's strategy of developing non-tobacco consumer experiences.

Nerudia

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for an estimated total cash consideration of £86 million, comprised of an initial consideration of £64 million plus an estimated contingent consideration of £22 million. The maximum amount of contingent consideration payable is £42 million with the amount payable based on certain performance targets being met.

Following the completion of the measurement period, values for consideration of £86 million and acquired net assets of £35 million, including intangible assets of £36 million and goodwill of £51 million, have been recognised based on the valuation conditions existing at the acquisition date. The value of the contingent consideration will be reassessed at each future reporting point.

Nerudia Limited is a nicotine products and services group with a strong track record of developing innovative e-vapour and nicotine products. The acquisition further strengthens our portfolio of intellectual property assets and our research and development capabilities across the entire next generation product landscape.

12. Contingent Liabilities

Legal Proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements.

Competition Authority Investigations

The Group is currently co-operating with relevant national competition authorities in relation to a number of ongoing competition law investigations, none of which have resulted in findings of infringement.

13. Changes in Non-Controlling Interests

In August 2018 the Group reduced its holding in its Distribution business, Compañía de Distribución Integral Logista Holdings SA to a holding of 50.01 per cent. This increased non-controlling interests by £142 million. Sales proceeds were €264 million. Net proceeds after fees and costs were £234 million. A net gain of £92 million was recognised in equity attributable to owners of the parent.

14. Post Balance Sheet Events

Guaranteed Minimum Pension Equalisation

The IAS 19 DBO does not make any allowance for the impact of Guaranteed Minimum Pension (GMP) equalisation. This issue may have a significant effect on the eventual cost of providing benefits, as well as the accounting results. There is currently too much uncertainty regarding the outcome to make appropriate allowance in the IAS 19 figures, although following the legal judgement of 26 October 2018 in relation to the Lloyds Banking Group case it is likely the Company will need to equalise GMPs. Given the timing of the approval of the Annual Report and Accounts and complexity of the calculation this has meant that it is not possible to estimate the additional liability. However, this will be reviewed during the next financial year, and any impact will be reflected in the DBO.

Reidsville Site Closure

On 2 November 2018 the Group announced the closure, during 2020, of the Reidsville, North Carolina factory, a cigarette manufacturing facility employing 117 people. Production will be moved to the Greensboro, North Carolina site, lowering manufacturing and regulatory costs, and supporting the Group's strategy to continue to reinvest in its business and grow its brands.