IMPERIAL BRANDS PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

AN IMPORTANT YEAR OF PROGRESS

Delivering against our strategy

- Market share gains in most of our priority markets
- Strong results from Growth Brands, outperforming the market
- Constant currency results impacted by increased investment and a tough trading environment
- Second half improvement in volumes, net revenue and profitability
- Programme of new next generation products and market launches planned including heated tobacco trials
- Decisive action taken on costs to fund investment and mitigate a tough trading environment
- Capital discipline delivering 91% cash conversion and supporting 10% dividend growth

Alison Cooper, Chief Executive, commented

"This was an important year of progress. Building on the work we have done to strengthen the brand portfolio, we significantly increased investment behind our key brand equities and have delivered share gains in most of our priority markets. Our results benefited from the overall share momentum which supported improved second half net revenue despite a particularly tough industry backdrop. As anticipated, whilst the increased investment impacted current year revenue and profit it is strengthening the business to support improved top-line growth going forward from both tobacco and next generation products. Our Growth Brands performed well, reinforcing our focus on quality growth, which we will be building on in FY18. We will also be stepping up our activities in next generation products, with new e-vapour launches in new and existing markets and consumer trials of heated tobacco products. We have continued to take decisive cost action to mitigate a tough trading environment and to protect our investments. Cash conversion remains strong and this is our ninth consecutive year of 10% dividend growth. We are well placed to continue to enhance shareholder value by building on the momentum in our tobacco business and realising opportunities in next generation products."

Headline Financials

Overview – Adjusted Basis		**Full Year Result**		**Change**	
		2017	2016	Actual	Constant Currency[1]
Total tobacco volume	bn SE	**265.2**	276.5	-4.1%	
Growth Brand volume	bn SE	**159.6**	151.3	+5.5%	
Tobacco net revenue	£m	**7,757**	7,167	+8.2%	-2.6%
Tobacco adjusted operating profit	£m	**3,595**	3,360	+7.0%	-2.4%
Logistics adjusted operating profit	£m	**181**	176	+2.8%	-8.0%
Total adjusted operating profit	£m	**3,761**	3,541	+6.2%	-3.2%
Adjusted earnings per share	pence	**267.0**	249.6	+7.0%	-2.2%
Dividend per share	pence	**170.7**	155.2	+10.0%	
Adjusted net debt	£m	**(12,147)**	(12,882)		

Overview – Reported Basis		**Full Year Result**		**Change**
		2017	2016	Actual
Revenue	£m	**30,247**	27,634	+9.5%
Operating profit	£m	**2,278**	2,229	+2.2%
Basic earnings per share	pence	**147.6**	66.1	+123.1%

See page 5 for basis of preparation and page 16 for the reconciliation between reported and adjusted measures.
[1] Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations
Basic EPS up 123.1% to 147.6p primarily due to gains on the fair value of derivatives in finance costs and favourable foreign exchange translation.

Investing for Growth: Tobacco Maximisation and Next Generation Products

We have successfully delivered market share gains in our priority markets by investing consistently behind our Market Repeatable Model and in our Growth and Specialist Brands.

Market Share Gains in Many Priority Markets led by Growth Brands

MAT market share %	Share	Change	
Returns			
Germany	22.4%	+20 bps	Share gains led by JPS in cigarette and West and Fairwind in fine cut
UK	41.9%	+80 bps	Strong performances from Players cigarettes and Gold Leaf fine cut
Australia	33.8%	+50 bps	Continued share growth driven by the market leading brand, JPS
France	20.9%	-60 bps	Share down; improving recent trend led by share gains in News and JPS
Spain	29.5%	-90 bps	Fortuna and West grew blond share offset by declines in dark tobacco
Growth			
USA	8.9%	-30 bps	Winston and Kool share up; overall share down due to defocused brands
Russia	7.1%	+10 bps	Share growth led by Parker & Simpson
Saudi Arabia	13.8%	+250 bps	Share gains driven by continued success with West
Italy	4.7%	+60 bps	Record share achieved with growth in JPS
Japan	0.8%	+20 bps	West volume growth in a declining market

These markets account for c. 70% of our adjusted operating profit.

Strengthening our Portfolio

- Growth Brand volumes up 5.5% with a 80 bps increase in share; volumes outperforming ex. migrations, up 1.1%
- Growth and Specialist Brand revenue up 260 bps to 62.7% of reported tobacco net revenue
- Portfolio simplification strategy on track with more brand migrations and SKU rationalisation
- Continued growth from our Specialist Brands in Premium Cigars, Backwoods, Skruf and Rizla
- Strong e-vapour platform established with new launches and footprint expansion planned in FY18
- Acquisition of nicotine products and services group Nerudia further enhances NGP innovation capabilities
- Progressing optionality in heated tobacco with consumer trials commencing shortly
- Investment in NGP of around £300m included in our FY18 plans, of which £150m is capital investment

Developing our Footprint

- We have successfully delivered share growth in most priority markets despite a tough trading environment
- USA: Winston and Kool gained share; strong performance with mass market cigars
- Growth Markets: Russia, Japan, Saudi and Italy all growing share; China JV delivering strong early results
- Returns Markets: Share gains in UK, Germany and Australia; improved blond share trends in Spain and France

Cost Optimisation

- Cost optimisation programmes delivered £130m of savings
- Further decisive cost action taken to protect investment given a particularly tough environment
- New ways of working resulting in improved effectiveness and cost efficiencies

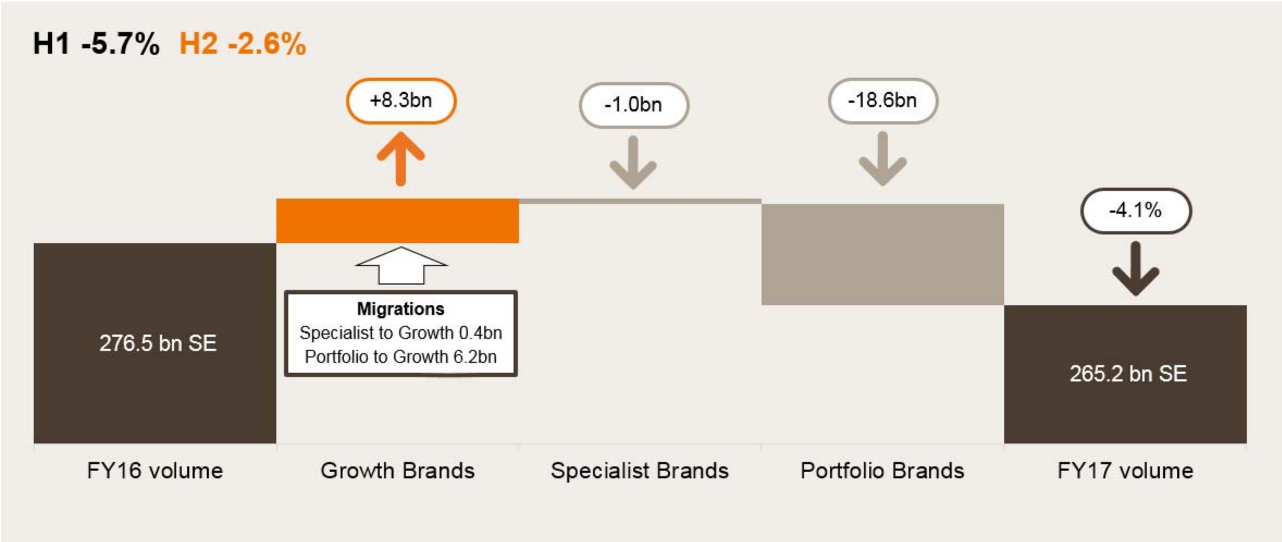
Capital Discipline

- Cash conversion of 91% and 96% excluding restructuring cash spend
- Proceeds from sell-down of Logista stake funding a share repurchase and net debt reduction
- Non-operating income of £114m including a non-recurring gain of £81m from pension restructure
- Net debt reduction of £0.8bn before adverse translation FX of £0.1bn: adjusted net debt of £12.1bn
- Annual dividend of 170.7p, up 10%; dividend payout ratio of 64%

Highlights show movements based on adjusted numbers at constant currency

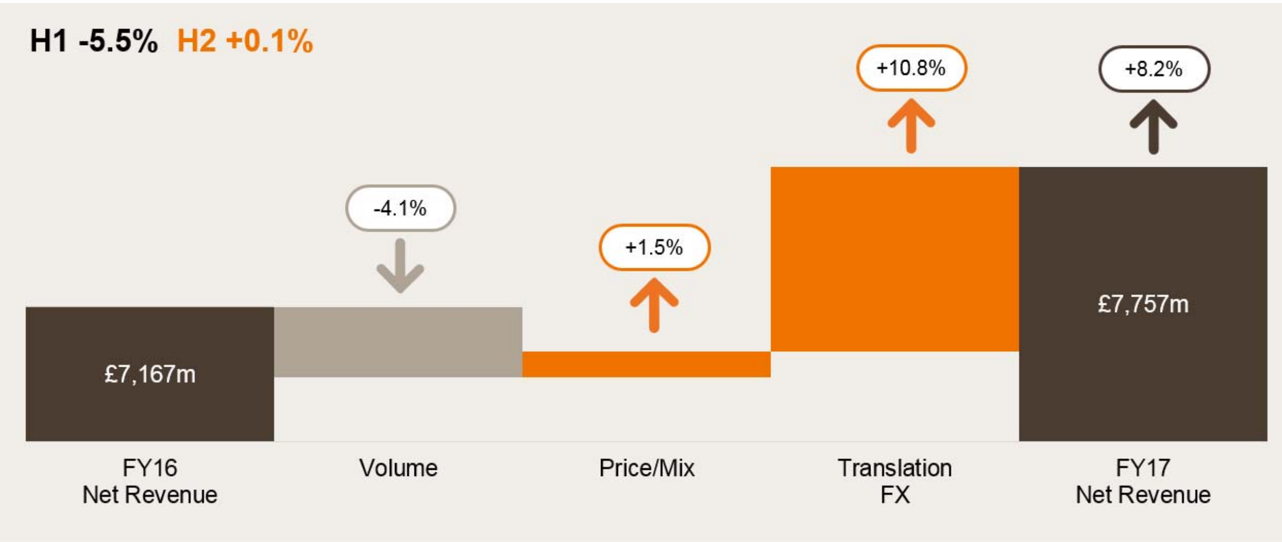
Volumes Outperforming Market Decline as Investments Gain Momentum in Second Half

- Stronger second half with volumes down 2.6% versus H2 industry volume declines of 4.5%
- Reported full year volume 265.2bn SE; down 4.1% outperforming an industry volume reduction of 4.4% (due to additional regulatory and excise pressures)
- Strengthened portfolio with Growth Brands gaining volume (up 5.5%) and share (up 80 basis points)
- Growth Brands organic growth with volumes up 1.1% excluding migration benefit of 6.6bn SE
- Specialist Brands volume down with the migration of Route 66 to Growth Brands (0.4bn SE); strong performances from Backwoods and Premium Cigars
- Portfolio Brands volume lower due to multiple migrations to Growth Brands, delistings and market size impacts



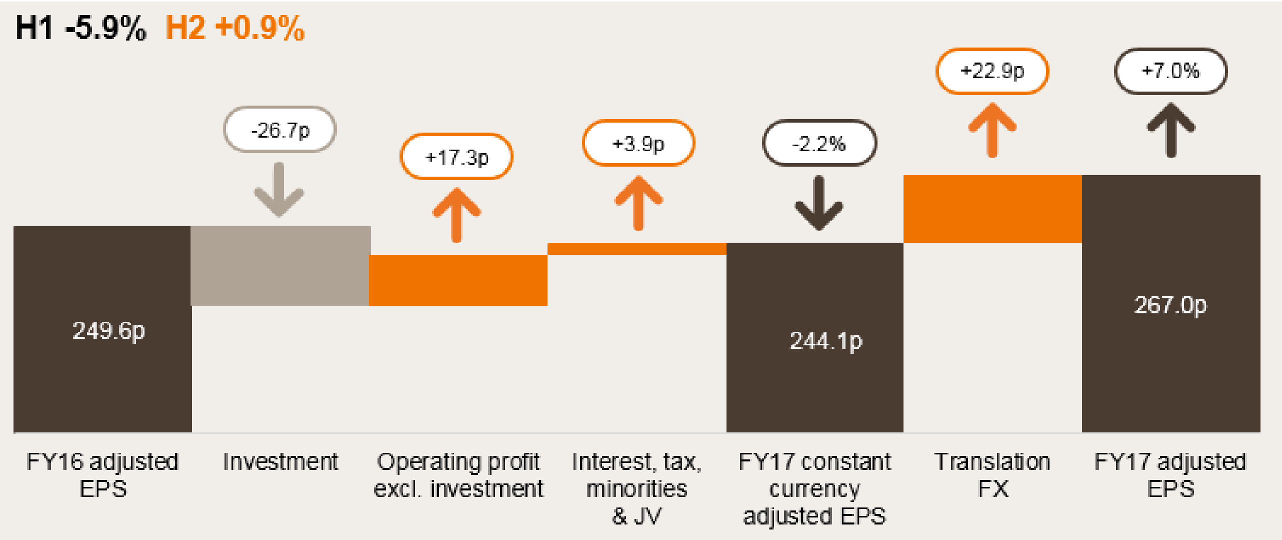
Tobacco Net Revenue Growth of 8.2% at Actual Exchange Rates; Improved Second Half

- Net revenue of £7.8bn; up 8.2% at actual exchange rates; down 2.6% on a constant currency basis
- Price/mix weak at 1.5% reflecting a tougher competitive environment in certain markets
- Improving second half with revenue up 0.1% at constant currency (H1: -5.5%) due to volume outperformance and 2.6% price/mix (H1: 0.2%)
- Asset Brand net revenue up 1.4% at constant currencies



Adjusted Earnings per Share up 7.0% at Actual Exchange Rates

- Adjusted EPS of 267p, up 7.0%, after foreign exchange benefit of 9.2%
- Constant currency adjusted EPS down 2.2% reflecting impact of increased investment of £310m
- Second half EPS up 0.9% with improving net revenue and benefit of additional cost initiatives to protect investment including £81m from pension restructuring
- Tobacco operating profit margin of 46.3% (H1 44.9%, H2 47.7%) reflecting the timing of investment and cost savings
- Translation FX benefit of 22.9p with 11.9p from US dollar, 4.7p Euro, 3.7p Australian dollar and 2.6p of other currencies
- Reported EPS up 123% to 147.6p driven primarily by the reduction in reported net finance costs driven by gains on the fair value of derivatives



Outlook: Prioritising Value Creation Opportunities

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

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

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

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

We continue to operate in a volatile industry environment in which we remain committed to investing behind our tobacco and next generation products businesses. In this context, we are targeting delivery of constant currency revenue and earnings per share growth within our medium-term guidance.

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

OTHER INFORMATION

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Webcast and Conference Call

Imperial Brands PLC will be hosting a live webcast for investors and investment analysts with senior management following the publication of our Full Year Results on 7 November 2017. 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 can also be accessed on a listen only basis using the following telephone details:
United Kingdom: +44(0)20 3427 1906 or 0800 279 4992
USA: +1 212 444 0895 or +1 877 280 2296
Confirmation code: 2784596

A media conference call will be hosted at 7.30am, at which there will be the opportunity for questions.
Dial-in Number: +44 (0)330 336 9411
Participant code: 4914662
A replay of this call will be available for one week. To listen, please dial:
Replay number: +44 (0) 207 984 7568
Access Code: 4914662

Basis of Presentation

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

Cautionary Statement

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

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

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

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

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

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

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

Market Repeatable Model: Our Focus for Growth

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

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

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

Strengthening our Portfolio: Excellent Results from Growth Brands

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

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

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

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

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

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

Next Generation Products: Expanding our Position

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

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

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

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

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

Developing our Footprint: Driving Success in Priority Markets

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

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

ITG Brands delivered another strong performance in the USA, underpinned by volume and share gains from our Growth Brand Winston and our Specialist Brand Kool, offset by declines in our defocused Portfolio Brands. In addition, our mass market cigar business continues to perform well following last year's changes to our route to market.

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

Cost Optimisation and Capital Discipline: Ninth Year of 10 per cent Dividend Growth

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

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

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

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

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

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

Outlook: Prioritising Value Creation Opportunities

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

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

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

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

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

Alison Cooper
Chief Executive

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

Brand Performances

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

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

Growth Brands

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

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

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

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

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

Specialist Brands

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

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

We continued to make good progress with these brands with revenue growth in Backwoods, Skruf in Scandinavia, Premium Cigars and Rizla papers. Backwoods has delivered strong revenue and share growth as we focus on the growing mass market cigar market in the USA. Our iconic cigar brands, Cohiba, Montecristo, Romeo Y Julieta, continue to deliver strong growth and these three brands now represent more than half of our Premium Cigar revenues.

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

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

Portfolio Brands

The rest of the portfolio is comprised of Portfolio Brands. Some of these are strong local brands that support our volume and revenue development, while others are delisted or migrated into Growth Brands as part of our portfolio simplification initiatives to improve the quality of growth and drive efficiencies.

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

Market Performances

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

Growth Markets

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

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

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

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

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

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

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

USA Market

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**1,665**	1,477	+12.7%	+0.3%
Adjusted operating profit	£m	**1,013**	823	+23.1%	+10.1%
Asset Brand % of net revenue	%	**44.5**	41.8	+270 bps	
Asset Brand volume	bn SE	**11.1**	10.9	+1.8%	
Growth Brand market share	%	**2.5**	2.3	+20 bps	

Our strategy in the USA is to grow our strongest brand equities, including Winston and Kool in cigarettes and Backwoods in mass market cigars. We grew net revenue 0.3% reflecting increased pricing, despite additional investment in our buydown programmes. Net revenue was much stronger in the second half reflecting the timing of Master Settlement Agreement adjustments and the lapping of the start of buydowns in the prior period.

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

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

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

Returns Markets

		Full Year Result		Change	
		2017	2016	Actual	Constant Currency
Net revenue	£m	**4.324**	4,122	+4.9%	-4.5%
Net revenue per '000 SE	£	**25.88**	23.51	+10.1%	+0.2%
Adjusted operating profit	£m	**2,171**	2,094	+3.7%	-4.2%
Growth Brand % of net revenue	%	**58.0**	54.6	+340 bps	
Growth Brand market share	%	**16.7**	15.5	+120 bps	

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

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

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

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

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

Returns Markets North

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

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

Returns Markets South

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

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

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

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

Supporting our Sales Growth Agenda

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

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

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

Group Results – Constant Currency Analysis

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

Group Earnings Performance

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

Reconciliation of Adjusted Performance Measures

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

Improving Second Half

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost Optimisation

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

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

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

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

Capital Discipline

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

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

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

Cash flow and Net Debt

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

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

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

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

Strong Dividend Growth

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

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

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

The third interim dividend will be paid on 29 December 2017 with an ex-dividend date of 16 November 2016. Subject to AGM approval, the proposed final dividend will be paid on 29 March 2018, with an ex-dividend date of 22 February 2018.

Liquidity and Going Concern

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

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

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

Oliver Tant
Chief Financial Officer

SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Full Year Result 2017	2016	Change Actual	Constant Currency
Volume					
Growth Markets	bn SE	**74.8**	76.3	-2.0%	
US Market	bn SE	**23.3**	24.9	-6.4%	
Returns Markets North	bn SE	**89.8**	94.4	-4.9%	
Returns Markets South	bn SE	**77.3**	80.9	-4.4%	
Returns Markets Total	bn SE	**167.1**	175.3	-4.7%	
Total Group	bn SE	**265.2**	276.5	-4.1%	
Tobacco Net Revenue					
Growth Markets	£m	**1,768**	1,568	+12.8%	-0.2%
US Market	£m	**1,665**	1,477	+12.7%	+0.3%
Returns Markets North	£m	**2,755**	2,645	+4.2%	-4.2%
Returns Markets South	£m	**1,569**	1,477	+6.2%	-5.1%
Returns Markets Total	£m	**4,324**	4,122	+4.9%	-4.5%
Total Group	£m	**7,757**	7,167	+8.2%	-2.6%
Net Revenue per '000 SE					
Growth Markets	£	**23.64**	20.56	+15.0%	+1.8%
US Market	£	**71.47**	59.23	+20.7%	+7.3%
Returns Markets North	£	**30.69**	28.01	+9.6%	+0.7%
Returns Markets South	£	**20.29**	18.27	+11.1%	-0.7%
Returns Markets Total	£	**25.88**	23.51	+10.1%	+0.2%
Total Group	£	**29.25**	25.92	+12.9%	+1.6%
Price/Mix					
Growth Markets	%			+14.8%	+1.8%
US Market	%			+19.3%	+6.9%
Returns Markets North	%			+9.1%	+0.7%
Returns Markets South	%			+10.6%	-0.7%
Returns Markets Total	%			+9.6%	+0.2%
Total Group	%			+12.3%	+1.5%
Adjusted Tobacco Operating Profit					
Growth Markets	£m	**411**	443	-7.2%	-17.2%
US Market	£m	**1,013**	823	+23.1%	+10.1%
Returns Markets North	£m	**1,485**	1,439	+3.2%	-3.3%
Returns Markets South	£m	**686**	655	+4.7%	-6.0%
Returns Markets Total	£m	**2,171**	2,094	+3.7%	-4.2%
Total Group	£m	**3,595**	3,360	+7.0%	-2.4%
Logistics					
Logistics Distribution Fees	£m	**914**	809	+13.0%	+1.2%
Logistics Operating Profit	£m	**181**	176	+2.8%	-8.0%
Logistics Operating Margin	%	**19.8**	21.8	-200 bps	

SUMMARY OF KEY PORTFOLIO FINANCIALS & METRICS

PORTFOLIO		Full Year Result 2017	2016	Change Actual	Constant Currency
Growth Brand Volume					
Growth Markets	bn SE	**49.9**	46.0	+8.5%	
US Market	bn SE	**6.2**	6.1	+1.6%	
Returns Markets North	bn SE	**58.3**	55.7	+4.7%	
Returns Markets South	bn SE	**45.3**	43.5	+4.1%	
Returns Markets Total	bn SE	**103.6**	99.2	+4.5%	
Total Group	bn SE	**159.6**	151.3	+5.5%	
Growth Brands as % of Volume					
Growth Markets	%	**66.7**	60.4	+630 bps	
US Market	%	**26.4**	24.5	+190 bps	
Returns Markets North	%	**64.9**	58.9	+600 bps	
Returns Markets South	%	**58.6**	53.8	+480 bps	
Returns Markets Total	%	**62.0**	56.6	+540 bps	
Total Group	%	**60.2**	54.7	+550 bps	
Growth Brand Market Share					
Growth Markets	%	**4.3%**	3.7%	+60 bps	
US Market	%	**2.5%**	2.3%	+20 bps	
Returns Markets North	%	**16.6%**	15.0%	+160 bps	
Returns Markets South	%	**16.9%**	16.2%	+70 bps	
Returns Markets Total	%	**16.7%**	15.5%	+120 bps	
Total Group	%	**8.5%**	7.7%	+80 bps	
Growth Brand Net Revenue					
Growth Markets	£m	**868**	741	+17.1%	+2.7%
US Market	£m	**315**	274	+15.0%	+2.1%
Returns Markets North	£m	**1,658**	1,512	+9.7%	-0.6%
Returns Markets South	£m	**850**	738	+15.2%	+2.9%
Returns Markets Total	£m	**2,508**	2,250	+11.5%	+0.6%
Total Group	£m	**3,690**	3,265	+13.0%	+1.2%
Growth Brands as % of Net Revenue					
Growth Markets	%	**49.1**	47.2	+190 bps	
US Market	%	**18.9**	18.6	+30 bps	
Returns Markets North	%	**60.2**	57.2	+300 bps	
Returns Markets South	%	**54.2**	50.0	+420 bps	
Returns Markets Total	%	**58.0**	54.6	+340 bps	
Total Group	%	**47.6**	45.6	+200 bps	
Specialist Brand Net Revenue					
Total Group	£m	**1,172**	1,042	+12.5%	+2.2%
% of Total Net Revenue	%	**15.1**	14.5	+60 bps	
Growth & Specialist Brands as a percentage of Group Net Revenue		**62.7**	60.1	+260 bps	
Portfolio Brands as % of Tobacco Net Revenue					
Total Group	£m	**2,895**	2,860	+1.2%	-8.6%
% of Total Net Revenue	%	**37.3**	39.9	-260 bps	

FINANCIAL STATEMENTS

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

Consolidated Statement of Comprehensive Income
for the year ended 30 September

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

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2017	2016
Operating profit		**2,278**	2,229
Amortisation of acquired intangibles		**1,092**	1,005
Restructuring costs	4	**391**	307
Adjusted operating profit		**3,761**	3,541

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2017	2016
Net finance costs		**(450)**	(1,350)
Net fair value and exchange (gains)/losses on financial instruments	5	**(112)**	807
Post-employment benefits net financing cost	5	**25**	19
Adjusted net finance costs	5	**(537)**	(524)

Consolidated Balance Sheet
at 30 September

£ million	Notes	**2017**	2016
Non-current assets			
Intangible assets		**19,763**	20,704
Property, plant and equipment		**1,865**	1,959
Investments accounted for using the equity method		**785**	744
Retirement benefit assets		**358**	5
Trade and other receivables		**123**	89
Derivative financial instruments	10	**583**	1,063
Deferred tax assets		**617**	631
		24,094	25,195
Current assets			
Inventories		**3,604**	3,498
Trade and other receivables		**2,539**	2,671
Current tax assets		**69**	45
Cash and cash equivalents	9	**624**	1,274
Derivative financial instruments	10	**60**	46
		6,896	7,534
Total assets		**30,990**	32,729
Current liabilities			
Borrowings	9	**(2,353)**	(1,544)
Derivative financial instruments	10	**(42)**	(118)
Trade and other payables		**(8,104)**	(7,991)
Current tax liabilities		**(192)**	(284)
Provisions	4	**(187)**	(188)
		(10,878)	(10,125)
Non-current liabilities			
Borrowings	9	**(10,196)**	(12,394)
Derivative financial instruments	10	**(1,166)**	(1,646)
Trade and other payables		**(21)**	(17)
Deferred tax liabilities		**(1,091)**	(1,034)
Retirement benefit liabilities		**(1,074)**	(1,484)
Provisions	4	**(338)**	(287)
		(13,886)	(16,862)
Total liabilities		**(24,764)**	(26,987)
Net assets		**6,226**	5,742
Equity			
Share capital		**104**	104
Share premium and capital redemption		**5,717**	5,836
Retained earnings		**(965)**	(1,525)
Exchange translation reserve		**828**	896
Equity attributable to owners of the parent		**5,684**	5,311
Non-controlling interests		**542**	431
Total equity		**6,226**	5,742

Consolidated Statement of Changes in Equity
for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2016	**104**	**5,836**	**(1,525)**	**896**	**5,311**	**431**	**5,742**
Profit for the year	-	-	**1,409**	-	**1,409**	**38**	**1,447**
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	-	**(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	**104**	**5,717**	**(965)**	**828**	**5,684**	**542**	**6,226**

£ 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 2015	104	5,836	(315)	(298)	5,327	369	5,696
Profit for the year	-	-	631	-	631	38	669
Other comprehensive income	-	-	(489)	1,194	705	66	771
Total comprehensive income	-	-	142	1,194	1,336	104	1,440
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	-	-	9	-	9	-	9
Purchase of shares by Employee Share Ownership Trusts	-	-	(7)	-	(7)	-	(7)
Costs of employees' services compensated by share schemes	-	-	26	-	26	-	26
Current tax on share-based payments	-	-	6	-	6	-	6
Dividends paid	-	-	(1,386)	-	(1,386)	(42)	(1,428)
At 30 September 2016	104	5,836	(1,525)	896	5,311	431	5,742

Consolidated Cash Flow Statement
for the year ended 30 September

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

New Accounting Standards and Interpretations

There have been no new standards or amendments which became effective for the current reporting period, that have had a material effect on the Group.

The following Standards which have not been adopted in these financial statements were in issue but not yet effective for the 2017 year end. IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' will be adopted in the financial year commencing 1 October 2018, and IFRS 16 'Leases' will be adopted in the year commencing 1 October 2019.

IFRS 9 'Financial Instruments' published in July 2014 is effective for periods beginning on or after 1 January 2018, with early adoption permitted. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets will be classified as either amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. The application of this requirement is not expected to materially impact the financial statements.

Impairment of financial assets: Impairment will be based on a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. At the current time the application of this requirement has not been fully quantified however is not expected to materially impact the financial statements.

Hedge Accounting: Adoption of the IFRS 9 hedge accounting requirements is currently optional as organisations are allowed to continue to apply the IAS 39 requirements. IFRS 9 contains revised requirements on hedge accounting, which aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group is currently assessing whether to adopt the hedge accounting aspects of IFRS 9, or continue to apply the IAS 39 rules on hedge accounting.

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

The Group is assessing the impact of adopting IFRS 15. From the work undertaken to date, the Group expects to reclassify certain distribution, advertising and selling costs arising from payments to customers as discounts from revenue. This will reduce the overall level of revenue, but will have no net impact on gross profit. The adoption of the standard has not yet been fully quantified however is not expected to have any other material impact on the Group's net assets or results.

IFRS 16 'Leases' (not yet endorsed by the EU) is effective from 1 January 2019, with early adoption permitted. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs, subject to the exemptions on amount and duration. The Group is currently assessing the impact of the new standard. Our initial assessment of IFRS16 leases is that it will not have a material effect on the Group's net assets or results.

There are no other standards or interpretations that are expected to have a material effect on the Group's net assets or results.

2. Critical Accounting Estimates and Judgements

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

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in the financial statements for the year ended 30 September 2017, which will be available on our website www.imperialbrandsplc.com in due course.

3. Segment Information

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

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

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

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

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

Tobacco

£ million unless otherwise indicated	**2017**	2016
Revenue	**22,786**	20,890
Net revenue	**7,757**	7,167
Operating profit	**2,199**	2,126
Adjusted operating profit	**3,595**	3,360
Adjusted operating margin %	**46.3**	46.9

Logistics

£ million unless otherwise indicated	**2017**	2016
Revenue	**8,269**	7,505
Distribution fees	**914**	809
Operating profit	**94**	98
Adjusted operating profit	**181**	176
Adjusted operating margin %	**19.8**	21.8

Revenue

	2017		2016	
£ million	**Total revenue**	**External revenue**	Total Revenue	External revenue
Tobacco				
Growth Markets	**3,665**	**3,602**	3,137	3,085
USA	**3,125**	**3,125**	2,942	2,942
Returns Markets North	**13,533**	**13,503**	12,537	12,504
Returns Markets South	**2,463**	**1,748**	2,274	1,598
Total Tobacco	**22,786**	**21,978**	20,890	20,129
Logistics	**8,269**	**8,269**	7,505	7,505
Eliminations	**(808)**	**-**	(761)	-
Total Group	**30,247**	**30,247**	27,634	27,634

Tobacco net revenue

£ million	2017	2016
Growth Markets	1,768	1,568
USA	1,665	1,477
Returns Markets North	2,755	2,645
Returns Markets South	1,569	1,477
Total Tobacco	7,757	7,167

Tobacco net revenue excludes revenue from the sale of peripheral products of £62 million (2016: £190 million).

Adjusted operating profit and reconciliation to profit before tax

£ million	2017	2016
Tobacco		
Growth Markets	411	443
USA	1,013	823
Returns Markets North	1,485	1,439
Returns Markets South	686	655
Total Tobacco	3,595	3,360
Logistics	181	176
Eliminations	(15)	5
Adjusted operating profit	3,761	3,541
Amortisation of acquired intangibles - Tobacco	(1,005)	(927)
Amortisation of acquired intangibles - Logistics	(87)	(78)
Restructuring costs - Tobacco	(391)	(307)
Operating profit	2,278	2,229
Net finance costs	(450)	(1,350)
Share of profit of investments accounted for using the equity method	33	28
Profit before tax	1,861	907

4. Restructuring Costs and Provisions

Restructuring costs

£ million	2017	2016
Employment related	244	144
Asset impairments	79	51
Other charges	68	112
	391	307

Restructuring costs analysed by workstream:

£ million	2017	2016
Cost optimisation programme (1)	383	222
Acquisition integration costs	4	49
Other restructuring activities (1)	4	36
	391	307

(1) £34 million of costs classified as other restructuring activities in the 2016 have been restated to be included within the cost optimisation programme.

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

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

Cost optimisation programme costs of £383 million (2016: £222 million) comprise £278 million incurred in restructuring our product manufacturing activities including France, Morocco, Russia and the US and £105 million in respect of restructuring overheads mainly by implementing a standardised operating model.

Of the remaining £8 million (2016: £85 million), £4 million (2016: £49 million) of acquisition integration costs were in respect of the assets acquired from Lorrilard in 2015 and £4 million (2016: £36 million) of other restructuring activity was in respect of pre-2013 restructuring.

The cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million and generate savings of £300 million by 2018, and Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million by 2020. In 2017 the cash cost of Phase I of the programme was £42 million (2016: £123 million) and £132 million (£2016: nil) for Phase II, bringing the cumulative net cash cost of the programme to £610 million (Phase I £478 million, Phase II £132 million).

The total restructuring cash spend in the year was £201 million (2016: 268 million).

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

Provisions

	2017		
£ million	**Restructuring**	**Other**	**Total**
At 1 October 2016	**304**	**171**	**475**
Additional provisions charged to the consolidated income statement	**222**	**52**	**274**
Amounts used	**(119)**	**(22)**	**(141)**
Unused amounts reversed	**(31)**	**(59)**	**(90)**
Exchange movements	**4**	**3**	**7**
At 30 September 2017	**380**	**145**	**525**

Analysed as:

£ million	**2017**	2016
Current	**187**	188
Non-current	**338**	287
	525	475

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

£ million	**2017**	2016
Reported net finance costs	**450**	1,350
Fair value gains on derivative financial instruments	**744**	484
Fair value losses on derivative financial instruments	**(679)**	(825)
Exchange gains/(losses) on financing activities	**47**	(466)
Net fair value and exchange gains/(losses) on financial instruments	**112**	(807)
Interest income on net defined benefit assets	**107**	143
Interest cost on net defined benefit liabilities	**(132)**	(162)
Post-employment benefits net financing cost	**(25)**	(19)
Adjusted net finance costs	**537**	524
Comprising		
Interest on bank deposits	**(12)**	(7)
Interest on bank loans and other loans	**549**	531
Adjusted net finance costs	**537**	524

6. Tax and Reconciliation to Adjusted Tax Charge

Analysis of charge in the year

£ million	**2017**	2016
Current tax		
UK Corporation tax	**97**	33
Overseas tax	**367**	467
Total current tax	**464**	500
Deferred tax movement	**(50)**	(262)
Total tax charged to the consolidated income statement	**414**	238

Reconciliation from reported tax to adjusted tax

The table below shows the 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	**2017**	2016
Reported tax charge	**414**	238
Deferred tax on amortisation of acquired intangibles	**228**	261
Tax on net fair value and exchange movements on financial instruments	**(14)**	80
Tax on post-employment benefits net financing cost	**7**	7
Tax on restructuring costs	**121**	79
Tax on unrecognised losses	**(105)**	(56)
Adjusted tax charge	**651**	609

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 19.5 per cent (2016: 20.0 per cent) as follows:

£ million	**2017**	2016
Profit before tax	**1,861**	907
Tax at the UK Corporation tax rate	**363**	181
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(47)**	(90)
Movement in provision for uncertain tax positions	**22**	43
Remeasurement of deferred tax balances	**4**	(101)
Remeasurement of deferred tax balances arising from changes in tax rates	**(93)**	-
Deferred tax on unremitted earnings	**42**	-
Permanent differences	**120**	170
Adjustments in respect of prior years	**3**	35
Total tax charged to the consolidated income statement	**414**	238

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.5 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties. The movement between 2016 and 2017 is largely driven by changes in UK legislation enacted during 2017 which restrict the Group's ability to deduct interest in the UK.

Remeasurement of deferred tax balances of £101 million in 2016 mainly represented the recognition of deferred tax assets previously not recognised in relation to the Group's Spanish business, £89 million related to tax deductible amortisation and the balance of £12 million related to losses and other deferred tax assets. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

Remeasurement of deferred tax balances arising from changes in tax rates of £93 million (2016: nil) mainly represents the remeasurement of deferred tax liabilities on French assets following the enactment of a future tax rate reduction which will be effective for the Group with effect from 1 October 2019.

During the year the Group has provided for deferred tax on unremitted earnings of £42 million (2016: nil). The tax will arise on the distribution of profits through the group and on planned group simplification.

Permanent differences include £10 million in respect of non-deductible exchange losses (2016: £79 million), £29 million (2016: £31 million) in respect of non-deductible interest expense and £57 million (2016: nil) in respect of taxable disposal of assets intra group.

Movement on current tax account

£ million	**2017**	2016
At 1 October	**(239)**	(111)
Charged to the consolidated income statement	**(464)**	(500)
Credited/(charged) to equity	**3**	(6)
Cash paid	**570**	401
Exchange movements	**2**	(24)
Other movements	**5**	1
At 30 September	**(123)**	(239)

The cash tax paid in the year is £106 million higher (2016: £99 million lower) than the current tax charge. This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

Uncertain tax positions

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

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets. The Group is also monitoring developments in relation to EU State Aid investigations including the EU Commission's announcement on 26 October 2017 that it will be opening a State Aid investigation into the UK's Controlled Foreign Company regime. The Group does not currently consider any provision is required in relation to EU State Aid. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2017 the total value of these provisions, including foreign exchange movements, was £190 million (2016: £165 million). It is possible that amounts paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the French matter referred to below, the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact 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 £253 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra group transfer of the shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. Based on professional advice, an amount of £42 million (2016: £41 million) is included in the provision for uncertain tax positions.

7. Dividends

Distributions to ordinary equity holders

£ million	**2017**	2016	2015
Paid interim of 51.7 pence per share (2016: 101.1p, 2015: 91.9p)			
- Paid June 2015	**-**	-	204
- Paid September 2015	**-**	-	204
- Paid December 2015	**-**	-	468
- Paid June 2016	**-**	225	-
- Paid September 2016	**-**	225	-
- Paid December 2016	**-**	517	-
- Paid June 2017	**247**	-	-
- Paid September 2017	**247**	-	-
Interim dividend paid	**494**	967	876
Proposed interim of 59.51 pence per share (2016: nil, 2015: nil)			
- To be paid December 2017	**567**	-	-
Interim dividend proposed	**567**	-	-
Proposed final of 59.51 pence per share (2016: 54.1p, 2015: 49.1p)			
- Paid March 2016	**-**	-	468
- Paid March 2017	**-**	517	-
- To be paid March 2018	**567**	-	-
Final dividend	**567**	517	468
Total ordinary share dividends of 170.72 pence per share (2016: 155.2p, 2015: 141.0p)	**1,628**	1,484	1,344

The third interim dividend for the year ended 30 September 2017 of 59.51 pence per share amounts to a proposed dividend of £567 million, which will be paid in December 2017.

The proposed final dividend for the year ended 30 September 2017 of 59.51 pence per share amounts to a proposed dividend payment of £567 million in March 2018 based on the number of shares ranking for dividend at 30 September 2017, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2017 will be £1,628 million (2016: £1,484 million). The dividend paid during 2017 is £1,528 million (2016: £1,386 million).

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	**2017**	2016
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,409**	631
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**954.6**	954.0
Potentially dilutive share options	**2.3**	2.7
Shares for diluted earnings per share	**956.9**	956.7
Pence		
Basic earnings per share	**147.6**	66.1
Diluted earnings per share	**147.2**	66.0

Reconciliation from reported to adjusted earnings and earnings per share

	2017		2016	
£ million unless otherwise indicated	**Earnings per share (pence)**	**Earnings**	Earnings per share (pence)	Earnings
Reported basic	**147.6**	**1,409**	66.1	631
Amortisation of acquired intangibles	**90.5**	**864**	78.0	744
Net fair value and exchange movements on financial instruments	**(10.3)**	**(98)**	76.2	727
Post-employment benefits net financing cost	**1.9**	**18**	1.3	12
Restructuring costs	**28.3**	**270**	23.9	228
Tax on unrecognised losses	**11.0**	**105**	5.9	56
Adjustments attributable to non-controlling interests	**(2.0)**	**(19)**	(1.8)	(17)
Adjusted	**267.0**	**2,549**	249.6	2,381
Adjusted diluted	**266.4**	**2,549**	248.9	2,381

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 2016	**1,274**	**(1,544)**	**(12,394)**	**(655)**	**(13,319)**
Reallocation of current borrowings from non-current borrowings	**-**	**(2,324)**	**2,324**	**-**	**-**
Cash flow	**(601)**	**1,465**	**(134)**	**37**	**767**
Accretion of interest	**-**	**22**	**(6)**	**(3)**	**13**
Change in fair values	**-**	**-**	**-**	**56**	**56**
Exchange movements	**(49)**	**28**	**14**	**-**	**(7)**
As at 30 September 2017	**624**	**(2,353)**	**(10,196)**	**(565)**	**(12,490)**

Adjusted net debt

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

£ million	**2017**	2016
Reported net debt	**(12,490)**	(13,319)
Accrued interest	**208**	221
Fair value of derivatives providing commercial hedges	**135**	216
Adjusted net debt	**(12,147)**	(12,882)

10. Derivative Financial Instruments

£ million	2017 Assets	2017 Liabilities	2017 Net Fair Value	2016 Assets	2016 Liabilities	2016 Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**47**	**(33)**	**14**	32	(60)	(28)
Foreign exchange contracts	**12**	**(9)**	**3**	9	(11)	(2)
Cross-currency swaps	**1**	**-**	**1**	5	(121)	(116)
Total current derivatives	**60**	**(42)**	**18**	46	(192)	(146)
Collateral	**-**	**-**	**-**	-	74	74
	60	**(42)**	**18**	46	(118)	(72)
Non-current derivative financial instruments						
Interest rate swaps	**583**	**(734)**	**(151)**	1,063	(1,279)	(216)
Cross-currency swaps	**-**	**(507)**	**(507)**	-	(427)	(427)
Total non-current derivatives	**583**	**(1,241)**	**(658)**	1,063	(1,706)	(643)
Collateral	**-**	**75**	**75**	-	60	60
	583	**(1,166)**	**(583)**	1,063	(1,646)	(583)
Total carrying value of derivative financial instruments	**643**	**(1,208)**	**(565)**	1,109	(1,764)	(655)
Analysed as						
Interest rate swaps	**630**	**(767)**	**(137)**	1,095	(1,339)	(244)
Foreign exchange contracts	**12**	**(9)**	**3**	9	(11)	(2)
Cross-currency swaps	**1**	**(507)**	**(506)**	5	(548)	(543)
Collateral	**-**	**75**	**75**	-	134	134
Total carrying value of derivative financial instruments	**643**	**(1,208)**	**(565)**	1,109	(1,764)	(655)

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 2016.

11. Changes in Non-Controlling Interests

In September 2017 the Group reduced its holding in its Logistics business, Compañía de Distribución Integral Logista Holdings SA. This increased non-controlling interests by £111 million. Sales proceeds were €252 million. Net proceeds after fees and costs were £221 million. A net gain of £110 million was recognised in equity attributable to owners of the parent.

12. Post Balance Sheet Events

On 23 October 2017, the Group acquired 100% of the share capital of Nerudia Limited for a total cash consideration of £106.5 million including contingent consideration of up to £42.6 million. Nerudia Limited is a nicotine products and services group with a strong track-record of developing innovative e-vapour and nicotine products. The acquisition further strengthens our portfolio of intellectual property assets and our research and development capabilities.