Oliver Tant Chief Financial Officer

Effective cost and cash management supports our sales growth strategy. We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest to support growth. By focusing on cash generation and working capital we are embedding a stronger capital discipline in the business.

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.

Another Year of Significant Progress

The progress we continue to make in simplifying our brand portfolio is improving execution and consistency in our markets. Reducing complexity and streamlining brand management is also a key part of the success we are achieving in managing our cost base, optimising working capital and controlling our cash flow. Results were affected by market size declines and by difficult trading caused by the conflict in Iraq and Syria. Strong price/mix and cost control initiatives mitigated these impacts. We completed the acquisition of assets in the USA on 12 June 2015. The net benefit to the Group results was an additional volume of five billion stick equivalents and £242 million of net revenue that is reported within the USA division, now separately disclosed within our results.

Underlying revenue and volume results remove the impact of last year's stock optimisation programme and give a clearer picture of how well we performed. Underlying tobacco net revenue was up by 3 per cent, or 5 per cent excluding Iraq and Syria. Net revenue in Returns Markets increased by 1 per cent. Growth Markets net revenue was up by 4 per cent excluding Iraq and Syria, or down 3 per cent with these markets included. The proportion of Group net revenue from our Growth Brands increased, improving the quality of our revenue and strengthening our sustainability. Total adjusted operating profit increased 7 per cent to £3 billion.

Group Results – Constant Currency Analysis

£ million unless otherwise indicated	Year ended 30 September 2014[R]	Foreign Exchange	Constant currency growth	Year ended 30 September 2015	Change	Constant currency change[1]
Tobacco net revenue	6,421	(447)	277	6,251	-3%	+4%
Growth Markets net revenue	1,513	(128)	64	1,449	-4%	+4%
Returns Markets North net revenue	2,801	(230)	78	2,649	-5%	+3%
Returns Markets South net revenue	1,600	(137)	(17)	1,446	-10%	-1%
USA Division net revenue	507	48	152	707	+39%	+30%
Tobacco adjusted operating profit	2,805	(115)	205	2,895	+3%	+7%
Growth Markets adjusted operating profit	334	11	64	409	+22%	+19%
Returns Markets North adjusted operating profit	1,511	(96)	60	1,475	-2%	+4%
Returns Markets South adjusted operating profit	724	(58)	(30)	636	-12%	-4%
USA Division adjusted operating profit	236	28	111	375	+59%	+47%
Logistics distribution fees	838	(78)	(11)	749	-11%	-1%
Logistics adjusted operating profit	166	(16)	4	154	-7%	+2%
Adjusted operating profit	2,981	(131)	203	3,053	+2%	+7%
Adjusted net finance costs	(515)	36	12	(467)	+9%	+2%
Adjusted EPS	203.4p	(7.6p)	16.7p	212.5p	+4%	+8%

R Restated on adoption of IFRS 11.

1 See Performance Measures table on page 1.

Group Earnings Performance

£ million unless otherwise indicated	Adjusted 2015	Adjusted 2014[R]	Reported 2015	Reported 2014[R]
Operating profit				
Tobacco	**2,895**	2,805	**1,910**	1,925
Logistics	**154**	166	**74**	84
Eliminations	**4**	10	**4**	10
Group operating profit	**3,053**	2,981	**1,988**	2,019
Net finance costs	**(467)**	(515)	**(261)**	(543)
Share of profit of investments accounted for using the equity method	**29**	29	**29**	49
Profit before taxation	**2,615**	2,495	**1,756**	1,525
Taxation	**(541)**	(521)	**(33)**	(80)
Profit for the year	**2,074**	1,974	**1,723**	1,445
Earnings per ordinary share (pence)	**212.5**	203.4	**177.4**	148.5

R Restated on adoption of IFRS 11.

Reconciliation of Adjusted Performance Measures

£ million unless otherwise indicated	Operating profit 2015	Operating profit 2014[R]	Net finance costs 2015	Net finance costs 2014[R]	Earnings per share (pence) 2015	Earnings per share (pence) 2014[R]
Reported	**1,988**	2,019	**(261)**	(543)	**177.4**	148.5
Acquisition costs	**40**	13	**–**	–	**4.2**	1.4
Amortisation of acquired intangibles	**697**	644	**–**	–	**57.5**	35.8
Fair value (gains)/losses on derivative financial instruments	**–**	–	**(226)**	(12)	**(22.7)**	(2.5)
Post-employment benefits net financing costs	**–**	–	**20**	40	**1.5**	2.8
Restructuring costs	**328**	305	**–**	–	**24.9**	23.1
Tax on unrecognised losses	**–**	–	**–**	–	**(28.6)**	(5.3)
Items above attributable to non-controlling interests	**–**	–	**–**	–	**(1.7)**	(0.4)
Adjusted	**3,053**	2,981	**(467)**	(515)	**212.5**	203.4

R Restated on adoption of IFRS 11.

Logista again delivered an encouraging performance in a challenging environment with adjusted operating profit of £154 million compared with £166 million last year. This decline is driven primarily by foreign exchange movements; on a constant currency basis adjusted operating profit grew 2 per cent. The overall decline in distribution fees was mitigated by the performance of non-tobacco products, price increases and cost control measures.

Adjusted net finance costs were lower at £467 million (2014: £515 million), as our cost of debt reduced. Reported net finance costs were £261 million (2014: £543 million), reflecting net fair value and exchange gains on financial instruments of £226 million (2014: gains of £12 million) and post-employment benefits net financing costs of £20 million (2014: costs of £40 million).

After tax at an effective adjusted rate of 20.7 per cent (2014: 20.9 per cent), adjusted earnings per share grew by 4 per cent to 212.5 pence. The reported effective tax rate for 2015 was unusually low largely due to the recognition of previously unrecognised tax losses as a deferred tax asset, on the basis that taxable profits will arise in the relevant entities following the acquisition of assets in the USA.

Reported earnings per share were 177.4 pence (2014: 148.5 pence) reflecting non-cash amortisation of £697 million (2014: £644 million) and restructuring costs of £328 million (2014: £305 million), mainly in respect of our continuing cost optimisation programme and integration activities following the USA acquisition. The weakening of the euro and Russian rouble, partially offset by a stronger US dollar, negatively impacted reported and adjusted measures. On a constant currency basis, adjusted earnings per share grew 8%.

The restructuring charge for the year of £328 million (2014: £305 million) relates mainly to our cost optimisation programme announced in 2013 (£159 million) and integration costs relating to the businesses acquired in the year (£139 million). The balance of £30 million relates primarily to the closure of our UK vending operation and the restructuring of our Chinese operations. The total restructuring cash flow in the year ended 30 September 2015 was £256 million (2014: £120 million).

Our cost optimisation programme is expected to deliver savings of £300 million per annum from September 2018 and to have a cash implementation cost of in the region of £600 million. More than £85 million was realised in 2015 through a range of initiatives focused on reducing complexity in the business, driving operational efficiencies and securing further global procurement benefits. The cumulative savings to date are £179 million. In 2015, the cash cost of the programme was £169 million (2014: £81 million) bringing the cumulative net cash cost of the programme to £340 million.

Cash Flows and Financing

Our continued focus on capital discipline is driving working capital benefits with a further improvement in operating cash conversion to 97 per cent, up from 91 per cent last year. Cash conversion also benefited from a favourable working capital position from the USA acquisition.

Reported and adjusted net debt increased by £3.5 billion, which represents a £1.1 billion debt reduction before taking into account the £4.6 billion cost of the USA acquisition. £0.8 billion of the net debt reduction comes from continued focus on managing working capital, lower capital expenditure and a working capital benefit from the USA acquisition, partly offset by acquisition and integration costs. A £0.3 billion foreign exchange benefit also contributed to the net debt reduction.

The denomination of our closing adjusted net debt was split approximately 56 per cent euro and 44 per cent US dollar. As at 30 September 2015, the Group had committed financing in place of around £16.7 billion. Some 28 per cent was bank facilities, 3 per cent was commercial paper and 69 per cent was raised through capital markets reflecting refinancing activity during the financial year. This included issuance of $4.5 billion in the US debt capital markets in July 2015 to refinance a proportion of the syndicated acquisition bank facilities. Following refinancing activity and additional cancellation of the facilities, as a result of free cash flow generation during the 2015 financial year, the outstanding syndicated acquisition facilities now total $1.2 billion.

Our all-in cost of debt reduced 60 basis points to 4.3 per cent (2014: 4.9 per cent) as a result of our recent refinancing. Our interest cover was 6.3 times (2014: 5.9 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Taxation Policy

Our global tax contribution through both indirect and direct taxation exceeds £16 billion annually (excluding logistics).

Our policy is to ensure compliance with tobacco taxation and product supply legislation and to engage constructively with revenue authorities worldwide to help combat illicit trade. We also engage with revenue authorities and governments more widely on policy issues to voice opposition to aspects of regulation and excessively high tobacco taxation that are likely to increase illicit trade to the detriment of consumers, governments and the Group.

In the field of direct taxation, it is our policy to maintain a sustainably low effective tax rate in order to enhance shareholder value whilst having due regard to financial and reputational risk.

In pursuing this policy it is of paramount importance that our actions comply with all national and international laws on corporate and tobacco taxation and that there is full disclosure and transparency in our dealings with all revenue authorities.

The Board is kept informed of all material developments relating to our taxation position, with updates on tax matters regularly provided to the Audit Committee.

Dividends

We have delivered another year of 10 per cent growth in our dividend, demonstrating our commitment to growing shareholder returns.

The Group has paid two interim dividends of 21.4 pence per share each in June 2015 and September 2015, in line with the announced switch to quarterly dividend payments, giving shareholders a more regular cash return.

The Board has approved a further interim dividend of 49.1 pence per share and will propose a final dividend of 49.1 pence per share, bringing the total dividend for the year to 141.0 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.

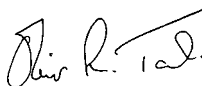
The third interim dividend will be paid on 31 December 2015, with an ex-dividend date of 19 November 2015. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2016, with an ex-dividend date of 4 February 2016.

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, the Board is of the opinion that the Group as a whole and Imperial Tobacco Group PLC have adequate resources to meet their operational needs for a period of at least 12 months from the date of this report and conclude that it is appropriate to prepare the financial statements on a going concern basis.



Oliver Tant
Chief Financial Officer