

<p><b>Dividend Per Share</b></p> <hr/> <p><b>+10.1%</b> <b>141.0p</b></p>	<p><b>Adjusted Earnings Per Share<sup>1,3</sup></b></p> <hr/> <p><b>+8.2%</b> <b>212.5p</b></p>
<p><b>Tobacco Net Revenue<sup>1,3</sup></b></p> <hr/> <p><b>+3%<sup>2</sup></b> <b>£6.3bn</b></p>	<p><b>Adjusted Operating Profit<sup>1</sup></b></p> <hr/> <p><b>+7%</b> <b>£3.1bn</b></p>
<p><b>Cash Conversion<sup>3</sup></b></p> <hr/> <p><b>+590bps</b> <b>97%</b></p>	<p><b>Growth Brand Volumes<sup>3</sup></b></p> <hr/> <p><b>+7%<sup>2</sup></b> <b>145bn</b></p>
<p><b>Adjusted Net Debt</b> (includes the £4.6 billion cost of the US acquisition)</p> <hr/> <p><b>+£3.5bn</b> <b>£11.6bn</b></p>	<p><b>Adjusted Net Debt Reduction</b> (excludes the £4.6 billion cost of the US acquisition)</p> <hr/> <p><b>-13%</b> <b>£1.1bn</b></p>

1 Changes in our adjusted results are presented on a constant currency basis.  
 2 Underlying change. See explanation in the Performance Measures table below.  
 3 KPIs used as bonus and LTIP performance criteria for Executive Directors.  
 See Remuneration Report on page 49 for more information.

**Performance Measures**

Measure	Explanation	Where used
Reported (GAAP)	Complies with International Financial Reporting Standards and the relevant legislation.	Throughout the report.
Adjusted (Non-GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next. These measures are defined in the Accounting Policies on page 77.	Throughout the report.
Constant currency basis	Removes the effect of exchange rate movements on the translation of the results of our overseas operations.	Throughout the report.
Underlying change	Removes the impact on our growth rates of our 2014 stock optimisation programme in order to reflect management's estimate of the underlying performance before the one-off fall in sales arising from the reduction in excess stock held in distribution channels.	Throughout the report but only for volumes and tobacco net revenue.

**STRATEGIC REPORT**

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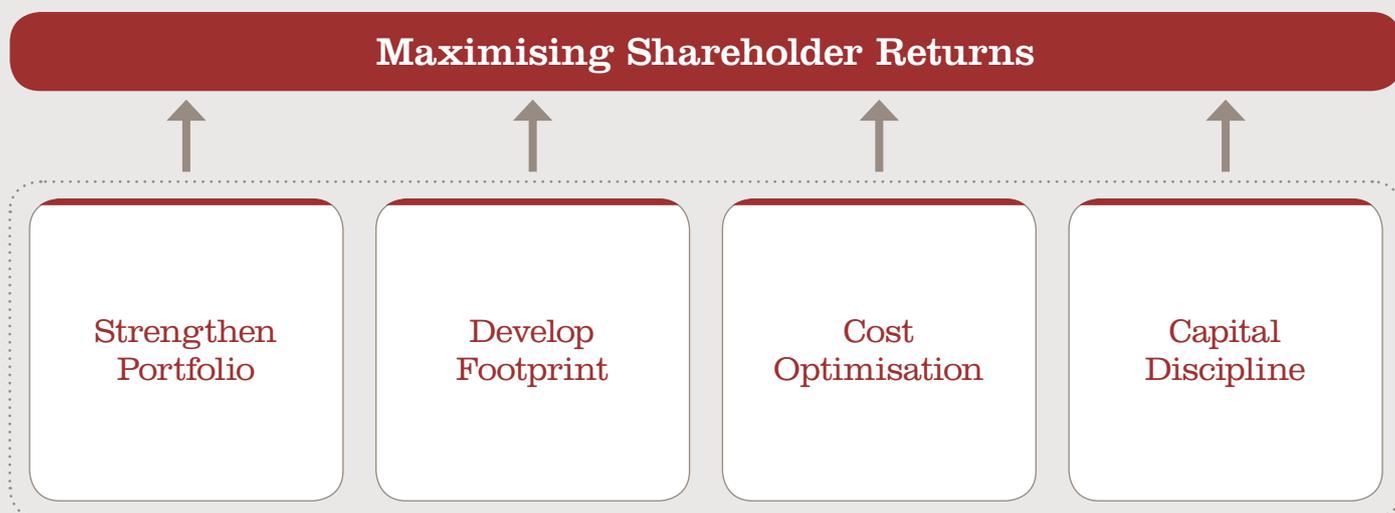
For a more interactive experience visit:  
[www.imperial-tobacco.com](http://www.imperial-tobacco.com)

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# Our Strategy and Business Model

## Strategy

Our strategy aims to maximise sales, cost and cash opportunities to deliver sustainable returns to shareholders. We are strengthening our portfolio by building the contribution of our Growth and Specialist Brands, supported by new launches from Fontem Ventures, and a strategic focus on share and profit performance is central to the development of our geographic footprint. Our cost optimisation programme is improving efficiencies and by embedding stronger capital discipline we are more effectively managing working capital and achieving high cash conversion.



## How we Support Growth

### Strong Governance

High standards of governance are critical to our sustainability.

[Find out more on page 31](#)

### Acting Responsibly

Operating responsibly is integral to the way we do business.

[Find out more on page 21](#)

### Managing Risk

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

[Find out more on page 25](#)

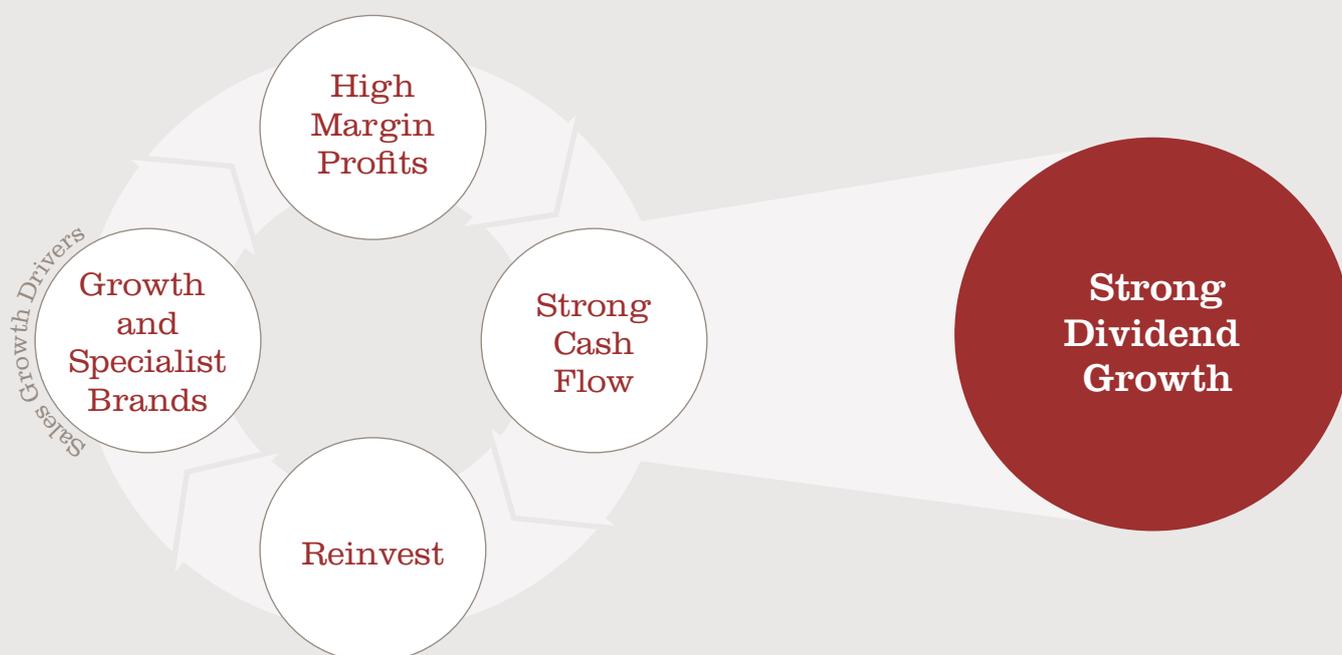
### Rewarding Success

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

[Find out more on page 49](#)

## Business Model

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



## Sales Growth Drivers

Portfolio management, innovation, customer engagement and pricing are the four sales growth drivers we have selected to drive the performance of our Growth and Specialist Brands.

Through portfolio management we focus on connecting our brands with consumers to enhance brand equity and build sales.

Our approach to innovation is to create a drumbeat of initiatives: small, frequent innovations that keep our brands relevant to consumers.

Excellence in customer engagement requires strong retailer partnerships. We work with retailers to support their business and maximise the availability and advocacy of our brands at the point of sale.

We evaluate pricing opportunities by brand, pack size and sales channel. We take excise structures into account when making pricing decisions and focus on maximising revenue growth while continuing to give consumers value for money.

# Our Brands

We're optimising our portfolio to focus on our Growth and Specialist Brands. These are the most important brands in our portfolio and generate more than half our tobacco net revenue.

## Growth Brands<sup>1</sup>

Our Growth Brands have broad consumer appeal and account for 50.9 per cent of our total volumes. We manage our Growth Brands to drive quality sustainable growth.



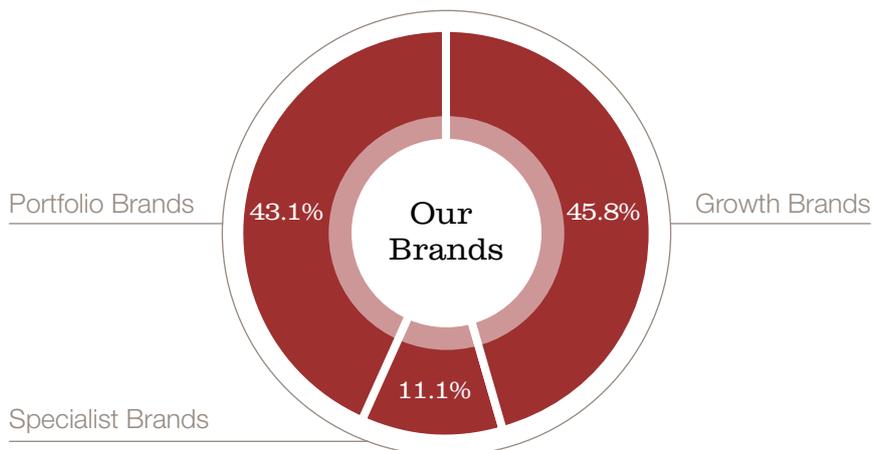
## Specialist Brands<sup>1</sup>

Our Specialist Brands are enjoyed by specific consumer groups and include cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. Specialist Brands have a track record of generating strong returns.



<sup>1</sup> As a result of the USA acquisition these brands have been reclassified, effective 1 October 2015. Details are on page 9.

## Tobacco net revenue by brand



# Our Markets

We manage our markets according to the strategic role they play, not by geographic location. Our markets prioritise either Growth or Returns, driving more effective resource allocation and greater collaboration.

## Growth Markets

In Growth Markets, which include selected markets in the EU, Eastern Europe, Asia and the Middle East, our priority is to drive long-term share and profit growth.



## USA Market

We manage the USA as a standalone Growth Market following an acquisition that has significantly enhanced our portfolio, market share and distribution coverage.

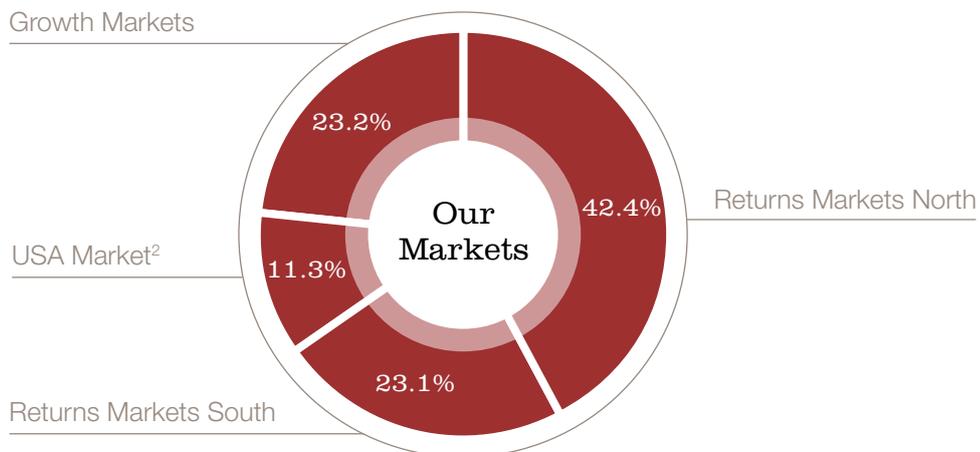


## Returns Markets

In Returns Markets, which include Australia and markets in the EU, Eastern Europe and Africa, we focus on sustainable profit performance, while actively managing our strong share positions.



## Tobacco net revenue by market



<sup>2</sup> Including a 3.9 per cent net contribution from ITG Brands since the completion of the acquisition on 12 June 2015.



**Mark Williamson** Chairman

We delivered another good performance in 2015, creating further sustainable value for our shareholders. This was achieved through the consistent execution of our strategy, which is focused on maximising sales, cost and cash opportunities.

Our performance highlights included gains from our Growth and Specialist Brands, strong results in a broad spread of markets and the completion of an acquisition that has transformed our presence in the USA, the world's most profitable tobacco market outside of China.

We also made excellent progress with our strategic transition initiatives, further optimising our portfolio and market footprint, implementing better ways of working and efficiently managing our cost base.

It is a credit to our people around the world that Imperial Tobacco continues to deliver such good results, often against a backdrop of difficult market conditions. My thanks to everyone for their contribution.

### **Growing Returns for Shareholders**

Our success continues to generate sustainable returns for our shareholders.

On a constant currency basis tobacco net revenue was up by 4 per cent, adjusted operating profit was up by 7 per cent and we grew adjusted earnings per share by 8 per cent.

The Board is pleased to be recommending a total dividend for the year of 141.0 pence per share, another strong increase of 10 per cent.

### **Investing in the USA**

In July 2014 we announced our intention to acquire a number of assets in the USA, one of our key Growth Markets. These assets were being sold as a result of the acquisition of Lorillard by Reynolds American and consisted of a portfolio of US cigarette brands, blu, a leading e-cigarette brand and Lorillard's infrastructure, including its cigarette factory and national sales force.

We successfully completed the transaction on 12 June 2015 for a consideration of \$7.1 billion (£4.6 billion) or \$5.6 billion (£3.6 billion) after adjusting for the present value of expected tax benefits of approximately \$1.5 billion.

The deal, which was financed from debt and our own cash resources, has significantly enhanced our operations in the USA providing national distribution for our brands and improving our cigarette market share from around 3 per cent to over 9 per cent.

The expanded business, ITG Brands, will significantly increase the diversity and sustainability of our cash flow and returns. The USA will become the largest contributor to Group revenues and as a result, we now disclose our USA performance as a separate reportable segment.

### **Capital Discipline**

Our continued focus on embedding stronger capital discipline in the business was reflected in further improvements in cash conversion and debt reduction.

Cash conversion increased to 97 per cent, up from 91 per cent last year.

Adjusted net debt increased to £11.6 billion, the result of adding £4.6 billion for the USA acquisition. We reduced adjusted net debt in the existing business by £1.1 billion, building on the excellent progress we made in 2014 and taking the total reduction over the last two years to £2.1 billion.

### **A Responsible Business**

We run our business responsibly and take pride in the positive contributions we make in countries across our international footprint. We respect the natural resources we use, provide employment for around 36,400 people and return over £16 billion a year to governments in taxes and duties.

Our corporate responsibility priorities are clearly set out in our responsibility framework and an update on the progress we're making in key areas can be found on pages 21 to 24 of this report and on our website: [www.imperial-tobacco.com](http://www.imperial-tobacco.com)

### **Governance and the Board**

Strong governance is integral to our long-term sustainability and the Board is committed to ensuring that Imperial Tobacco is governed and managed in an open, honest and transparent manner.

Our Governance Report provides an overview of our governance framework and the work of the Board and its Committees.

Following the completion of the USA acquisition we made a number of senior management changes to ensure that we have the right structure in place to lead the enlarged Group.

These changes included appointing Matthew Phillips, previously Corporate Affairs Director and a member of the Board for the past three years, as Chief Development Officer. In this new role, Matthew is responsible for corporate development and Fontem Ventures, including blu, and also retains his corporate and legal affairs responsibilities.

### **Building on our Success**

We made good progress in 2015 and will continue to focus on strengthening the business and improving the quality of our growth.

We have the strategy, the capabilities and the people to build on these results and deliver another year of value creation for our shareholders.

**Mark Williamson**  
Chairman

# Our Operating Environment

## Our Markets

Globally, there are around a billion adult smokers consuming 6 trillion cigarettes a year and the value of the world tobacco market is estimated at around £500 billion.

Our geographic footprint extends across many territories and we have classified our markets to prioritise either Growth or Returns.

Growth Markets have large profit and/or volume pools and include selected countries in the EU, Eastern Europe, Asia, the Middle East and the USA. We typically have shares below 15 per cent in these markets and focus on growing share and profit.

We tend to have larger shares in Returns Markets, which include Australia and markets in the EU, Eastern Europe and Africa. Here, we focus on generating sustainable profit, while actively managing our share.

The macro-economic environment has impacted consumer spending and cigarette volumes in some markets, and political instability in the Near East has further affected industry volumes. However, we have a long track record of developing our business in challenging conditions and see many opportunities for growth across our market footprint.

## Illicit Trade

Regrettably, some 500 billion illegal cigarettes are consumed every year, depriving governments of around £30 billion in legitimate taxes.

Smuggling and counterfeiting benefits no-one except the criminals involved, creating a market that is uncontrolled and unaccountable. As well as impacting government tax revenues, illicit trade means children can more easily obtain tobacco products, consumers are deprived of the quality and taste they associate with their favourite brands and the livelihoods of independent tobacco retailers are threatened.

We apply stringent controls to our global network of distributors and have a dedicated team of specialists who work with governments and law enforcement agencies around the world to tackle illicit trade. We also invest in systems and processes to improve the security of our products and share intelligence to help disrupt the supply of illegal cigarettes.

We welcome these partnership opportunities and through our engagement activities we encourage authorities to recognise both the scale of the illicit trade problem, as well as the adverse impact that excessive regulatory and taxation policies can have.

## Regulating Tobacco Products

Regulation of tobacco products continues to increase and is largely driven by the World Health Organization (WHO), through the Framework Convention on Tobacco Control, the FCTC), the USA's Food and Drug Administration (FDA) and the European Commission (through the European Union Tobacco Products Directive, the EUTPD).

The EUTPD has been revised to include legislation to standardise the appearance and taste of tobacco products. The revised Directive came into force in May 2014 and EU Member States have until May 2016 to transpose it into national law.

We support reasonable and proportionate regulation that is underpinned by sound evidence, including regulation that will reduce illicit trade and youth smoking. We also support appropriate ingredients disclosure and agree that all tobacco products should display written health warnings that are consistent with global public health messages.

We don't agree with regulation that bans smoking in public or private places. Other regulation that we oppose includes plain packaging, pictorial health warnings and bans on product display, vending and the use of descriptors.

We seek constructive dialogue with regulatory authorities and continue to vigorously oppose excessive regulation to protect our business and defend the rights of our consumers. We don't engage lightly in legal challenges but do so when we consider it is necessary, such as earlier this year when we filed a legal challenge to the UK Government's plain packaging legislation.

Extreme measures such as plain packaging are ineffective and fuel the growth of illicit trade. Since the introduction of plain packaging in Australia in December 2012 and subsequent high tax increases, long-term overall consumption trends have not been affected while both illicit trade and underage smoking have significantly increased.

## Regulating E-vapour Products

The global market for e-vapour products (EVPs) continues to expand and there is growing consensus that these products may be less risky than smoking tobacco.

E-cigarettes are the most common EVPs and we are developing our own portfolio of brands through our standalone subsidiary Fontem Ventures.

The e-vapour sector requires a clear regulatory framework to govern the way these products are made and sold, and we continue to engage with stakeholders to support the development of effective legislation.

In the USA, the FDA has proposed to extend its authority to include the regulation of EVPs.

We do not make or sell heated tobacco products. Unlike EVPs, these products contain tobacco and in our view should therefore be regulated and taxed as conventional tobacco products.