Alison Cooper Chief Executive

This was another successful year for Imperial, one in which we delivered a good underlying performance and made further progress with our strategic transition.

I am particularly pleased with the results from our Growth and Specialist Brands. Our consistent focus on developing these brands continues to improve the contribution they make to the quality of the business and they now account for more than half of our tobacco net revenue.

From a footprint perspective, we've strengthened our delivery in Returns Markets and maintained positive momentum in many Growth Markets, including in the USA where we significantly expanded our operations with a major acquisition.

This investment, which saw Imperial acquire brands and other assets sold as a result of Reynolds American's purchase of Lorillard, was a key highlight of the year.

Our strategic transition remains on track and continues to revolve around optimising our brand portfolio and market footprint, implementing new ways of working and effectively managing cost and cash.

These initiatives are strengthening the business, improving our quality of growth and enhancing our ability to generate sustainable shareholder returns.

The underlying results disclosed in this report are adjusted to remove the impact on our growth rates of our 2014 stock optimisation programme, which reduced the level of stock held by distributors, impacting volume, revenue and profit. Underlying results provide a clearer view of our 2015 performance against last year's.

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

Return on invested capital was 11 per cent and we delivered another strong dividend increase of 10 per cent.

Our detailed financial results are set out on pages 18-20.

Our Transition Agenda

The work we're doing to optimise our brand portfolio is at the core of our transition agenda.

Our portfolio consists of Growth, Specialist and Portfolio Brands. Growth and Specialist Brands are our most important brands and our priority is to build their equity and enhance the contribution they make to our success.

Portfolio Brands are a mix of local and regional offerings; some will keep adding to our volume and revenue momentum, while others are being delisted or migrated into stronger, higher quality Growth Brands.

Brand migrations are carefully planned and implemented gradually to ensure the highest possible number of consumers complete the journey from one brand to another.

We achieved consistently high consumer retention with the 21 brand migrations we completed in the year. A number of other migrations are currently underway and more will be progressed in 2016.

Managing fewer brands provides focus around the portfolio choices we make in markets and this is sharpening our focus on growth opportunities as we continue to develop our footprint.

Reducing complexity and streamlining the way we manage our brands and markets, combined with the changes we're making to our operating model, supports our cost and cash objectives.

The ongoing review of our operating model involves looking at how the business is run on a day-to-day basis and identifying areas where we can change systems, processes and structures to improve our performance.

For example, clusters of markets are starting to share support services such as HR, Finance and Corporate Affairs which is removing duplication and enabling more efficient resource allocation. Elsewhere, we are investing in new technologies to provide our sales teams with real time information about key customers.

Simplifying the way we work is also instilling a more cost-conscious culture in the business and provides opportunities for margin expansion.

Our focus on efficiently managing our cost base is balanced by our commitment to capital discipline and this drives the effective deployment of our cash, which we use to reinvest in the business, pay down debt and return to shareholders.

Our approach to building the capabilities and leadership skills of our employees is aligned with our strategic transition and we continue to invest in training and development to support their career progression.

The ability of our people to make things happen, often in challenging circumstances, has kept us on track throughout the year and I would like to thank them all for their hard work and commitment.

Our transition initiatives are creating a stronger, more agile organisation that's better equipped to respond to changing market and consumer dynamics.

Excellent Results from Growth Brands

Our Growth Brands are: Davidoff, Gauloises Blondes, JPS, West, Fine, News, USA Gold, Bastos, Lambert & Butler and Parker & Simpson.

These brands are clustered on five platforms, or 'brand chassis'. Brands that share the same chassis also share the same growth initiatives, including innovations and pack designs. This further reduces cost and complexity and enables greater consistency in the way we manage their performance.

Growth Brands continued to deliver excellent results and again outperformed the market, with underlying volumes up 7.1 per cent and underlying net revenue up 11.7 per cent. In contrast, market volumes in our geographic footprint declined by 3.5 per cent. Excluding Iraq and Syria, underlying Growth Brand volumes were up 13.9 per cent and net revenue was up by 14.9 per cent. We also grew the market share of Growth Brands by 110 basis points to 6.6 per cent.

Our total Group tobacco volumes for the year were 285.1 billion stick equivalents (2014: 294.4 billion), which includes five billion from ITG Brands in the USA since the acquisition was completed on 12 June 2015. On an underlying basis volumes declined by 5.6 per cent, over half of which was as a result of Iraq and Syria. Our total Group market share was broadly maintained at 13.3 per cent.

Growth Brands accounted for 50.9 per cent of total Group tobacco volumes (145.1 billion stick equivalents), an increase of 640 basis points, and 45.8 per cent of overall tobacco net revenue, an increase of 320 basis points.

Brand migrations supported these strong results, with Portfolio Brands successfully migrated into a range of Growth Brands including Parker & Simpson in Poland and Taiwan, JPS in Spain and the UK, West in Spain and News in France.

Investment also supported the performance of Growth Brands, including the roll out of new marketing campaigns for JPS, Davidoff and Gauloises Blondes.

Performance highlights included share and volume growth of JPS in Australia and the EU and Davidoff gains in Greece and Taiwan. Gauloises Blondes contributed to our success in Germany and continued to make progress in Algeria, although the impact of Iraq and Syria held back the brand's overall performance.

Momentum slowed for Bastos and Fine due to regulatory and pricing pressures but West grew share in Saudi Arabia and Japan, and USA Gold made further progress in key focus states.

We continued to focus on building the presence of Parker & Simpson in a number of markets and in the UK another good performance from Lambert & Butler Blue continued to strengthen the brand franchise.

Underlying Growth from Specialist Brands

Our Specialist Brands are: Style, Gitanes (cigarettes), Golden Virginia, Drum, Route 66 (fine cut tobacco), Cohiba, Montecristo, Romeo Y Julieta (premium cigars), Backwoods (cigars), Skruf (snus) and Rizla (papers).

These brands account for over 11 per cent of our tobacco net revenue. As a result of Iraq and Syria, underlying net revenue from Specialist Brands was down by 0.7 per cent; excluding this impact, underlying net revenue increased by 2.9 per cent.

Performance highlights included further share and volume growth from Skruf in Scandinavia and growth in premium cigars in parts of Latin America and Europe, Africa and the Middle East, China and the USA. Limited editions continued to support cigar growth, including exclusive offerings from Montecristo to celebrate the brand's 80th anniversary.

Contributions from Golden Virginia, Drum, Route 66 and Rizla reinforced our world leadership in fine cut tobacco and papers, and included strong growth in modern variants of Golden Virginia in the UK and Greece.

As a result of the USA acquisition our Growth and Specialist Brands have been reclassified, effective 1 October 2015.

Winston has been added to Growth Brands, replacing USA Gold, which becomes a Portfolio Brand, and Kool and blu have joined our Specialist Brands.

Momentum in Growth Markets

Conditions in the Near East masked a number of good results in Growth Markets, where our overall market share was 6.1 per cent.

Underlying net revenue declined by 2.5 per cent and adjusted operating profit increased by 19.0 per cent. Excluding Iraq and Syria, underlying net revenue was up 4.5 per cent and adjusted operating profit was up 27.0 per cent.

Our performance in Russia improved in the year, buoyed by stronger pricing in the second half and gains from Maxim in the growing value segment. Snus sales increased in Norway and Sweden and we improved our cigarette share in Saudi Arabia.

We continued to build our position in Japan and Egypt and made further progress in Italy and Kazakhstan. Results in Vietnam were undermined by further growth in illicit trade following regulatory changes.

Underlying Growth Brand volumes were down 16.0 per cent at 46.5 billion stick equivalents, with the majority of the decline due to lower volumes in Iraq, Syria and Vietnam.

Excellent Progress in the USA

We completed the acquisition of assets in the USA from Reynolds American on 12 June and the enlarged business, ITG Brands, has made excellent progress against its commercial and integration plans.

Our financial performance was enhanced by the contribution of ITG Brands. In total, ITG Brands and our existing USA operations generated tobacco net revenue of £707 million, an increase of 39.4 per cent, and adjusted operating profit of £375 million, an increase of 47.2 per cent. Since completion, the net contribution of the acquisition to the USA performance was volumes of five billion stick equivalents and tobacco net revenue of £242 million.

The newly acquired brands maintained share and our national sales team has introduced new retail programmes to support the development of our enhanced portfolio.

Integration continues to be effectively managed, with all elements of the plan moving ahead smoothly in line with our timetable. The transfer of manufacturing machinery between Lorillard's factory in Greensboro and Reynolds American's site at Tobaccoville as part of a reciprocal manufacturing agreement is also progressing well.

Our cigarette business is complemented by a strong cigar position. Challenges persisted in the mass market cigar segment as a result of competitor discounting, impacting revenue.

Our premium cigar portfolio performed well and we implemented a restructuring of our distribution business JR Cigars to further strengthen our position in the premium segment.

Positive Performance in Returns Markets

We made positive progress in Returns Markets, generating good results in Australia, Germany, Czech Republic, Portugal, Ukraine and Algeria. This mitigated the impact of weaker trading conditions in France, Spain and Morocco.

A dynamic new business

ITG Brands is our dynamic new business in the USA, combining our former Commonwealth-Altadis operations with assets we bought from Reynolds American, following its acquisition of Lorillard.

These assets are: the American cigarette brands Winston, Maverick, Kool and Salem, the e-cigarette brand blu, which is now part of Fontem Ventures, a cigarette factory and most of Lorillard's employees.

The transaction has transformed our presence in this key Growth Market. Excluding China, the USA is the most profitable tobacco market in the world and the second largest by volume, at around 260 billion stick equivalents a year.

ITG Brands, now the third largest tobacco company in the market, is headquartered in Greensboro, North Carolina and led by Chief Executive David Taylor, former Chief Financial Officer of Lorillard.

With great brands and great people, we're confident of establishing ITG Brands as a winning business with a long-term future. Performance has been in line with our plans and we're making excellent progress with integration.

We're investing to support growth, with funds primarily targeted at Winston, the sixth largest cigarette brand in the market. Further investment is being allocated to Maverick, Kool and USA Gold.

Cigarette brands

Winston	The iconic Winston brand is one of the best-selling cigarettes in the US.
MAVERICK	Maverick is a leading value brand with strong positions in a number of key states.
USA GOLD	USA Gold is a popular value brand in the discount sector.
KOOL	Kool is one of America's most famous menthol cigarette brands.
SALEM	Salem is another prominent brand in the menthol category.

Cigar brands

Dutch Masters	Dutch Masters is one of the most well-known natural wrapper cigars.
BACKWOODS	Backwoods is a cigar famed for its unique style, taste and aroma.

In the UK we continued to focus on stabilising the performance of our Growth Brands and further expanded our share in the growing sub-economy segment.

Net revenue per thousand stick equivalents increased 2.8 per cent on an underlying basis and adjusted operating profit was up by 1.3 per cent on a constant currency basis.

Growth Brands performed well, accounting for 50.9 per cent of net revenue, an increase of 770 basis points.

Our share across Returns Markets was similar to last year's, in line with our strategy for managing these markets.

Fontem Ventures

Following the USA acquisition Fontem Ventures has focused on integrating the blu team and consolidating its operations in the Netherlands and the USA.

Sales are currently focused on the USA, UK, Italy and France, four markets that between them account for around 80 per cent of the global e-vapour market.

The blu brand continues to gain traction in the UK and plans are being implemented to strengthen its position in the USA.

Fontem also continues to focus on developing and licensing a range of patented technologies.

Logista

Logista is one of the largest logistics businesses in Europe, making more than 35 million deliveries a year to 300,000 outlets across Spain, France, Italy, Portugal and Poland.

The business services tobacco and non-tobacco customers and has established a long track record of delivering sustainable value.

On a constant currency basis distribution fees were down 1 per cent to £749 million and adjusted operating profit increased by 2 per cent to £154 million.

Cost control measures and efficiency improvement programmes continued to mitigate the impact of tobacco volume declines in tobacco logistics. In non-tobacco logistics there was growth in the pharma and transport businesses.

The Logista team continues to focus on managing costs and generating new growth opportunities to drive the profitable development of the business.

Cost Optimisation

Our cost optimisation programme remains on track to save £300 million per annum from September 2018.

£85 million was realised in the year through a range of initiatives that are reducing complexity, driving operational efficiencies and securing further global procurement benefits.

Reducing complexity and implementing new ways of working through the ongoing refinement of our operating model enhances our ability to efficiently manage cost and provides opportunities to further develop our margins.

Capital Discipline

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

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

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

As a result of the USA acquisition adjusted net debt increased to £11.6 billion. We reduced adjusted net debt in the existing business by £1.1 billion, taking the total reduction over the last two years to £2.1 billion.

Dividend growth was again strong at 10 per cent and during the year we began quarterly dividend payments to provide shareholders with more regular cash returns.

Outlook

We delivered a good performance in 2015 and in the year ahead we will continue to focus on further strengthening the business and improving the quality of our growth.

Maintaining momentum behind our Growth and Specialist Brands and maximising opportunities for Fontem Ventures and blu are key priorities.

The diversity of our geographic footprint provides considerable opportunities for growth. We have large shares in Returns Markets and will concentrate on effectively managing these positions, while maximising profit delivery. In Growth Markets we expect a headwind from Iraq and Syria in the first half but see continued portfolio and pricing opportunities as we target share and profit growth.

Our expanded USA business has had an excellent first few months and we look forward to a full year's contribution from ITG Brands. The portfolio is performing in line with our plans and integration is progressing exceptionally well, providing a great platform to build on.

Cost optimisation and capital discipline underpin our growth strategy, enhancing our resilience, improving margins and releasing funds to invest in growth.

Looking to the year ahead, we expect first quarter volumes will continue to reflect the situation in Iraq and Syria as well as a strong comparator quarter for volumes last year, while first half revenue should benefit from stronger relative pricing. Overall, we are well placed to meet expectations for the coming year.

Challenges will persist in some markets but we have the assets and capabilities to further drive quality growth in this environment. We have the brands, the footprint and the people to make 2016 another successful year of value creation.

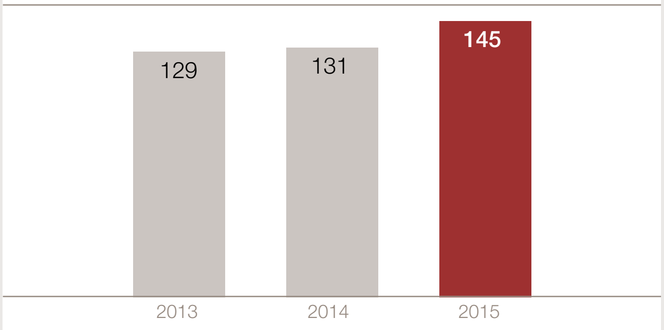
Alison Cooper
Chief Executive

How We Measure Our Performance

Key Performance Indicators

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

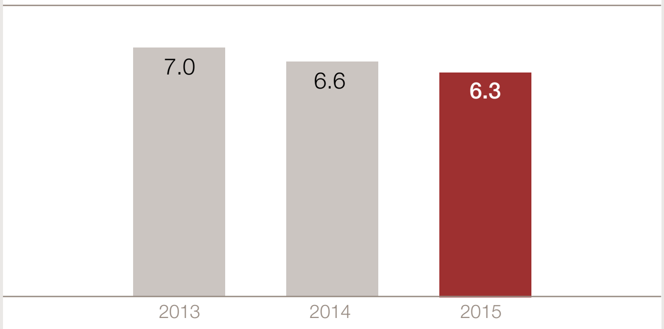
Growth Brand Volumes[1]
(bn)



Performance
Our Growth Brands outperformed market trends, with underlying volumes up 7 per cent compared with market declines of 4 per cent. Excluding Iraq and Syria, volumes were up 14%.

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

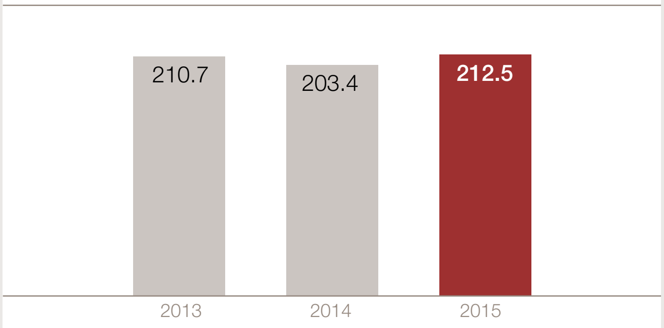
Tobacco Net Revenue[1]
(£bn)



Performance
Tobacco net revenue was impacted by foreign exchange movements and conditions in Iraq and Syria. Excluding these effects, tobacco net revenue was up by 5 per cent.

Definition
Tobacco net revenue comprises tobacco revenue less duty and similar items, excluding peripheral products.

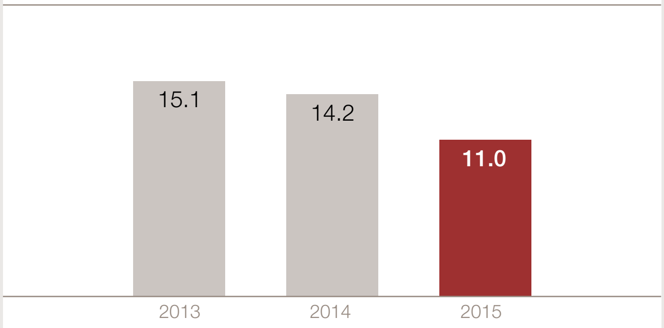
Adjusted Earnings Per Share[1]
(pence)



Performance
Reported adjusted earnings per share rose by 4 per cent. On a constant currency basis the increase was 8 per cent.

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

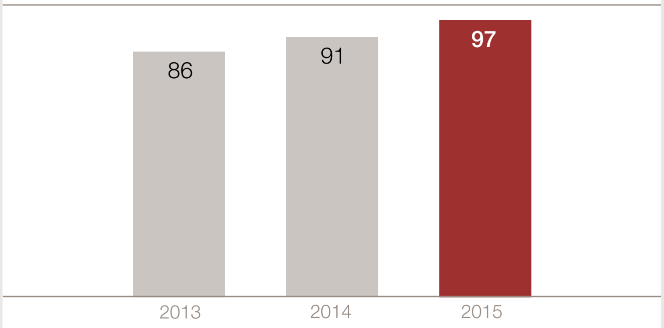
Return on Invested Capital
(%)



Performance
Return on Invested Capital (RoIC) declined due to the USA acquisition.

Definition
RoIC measures the effectiveness of capital allocation and is calculated by dividing adjusted net operating profit after tax by invested capital.

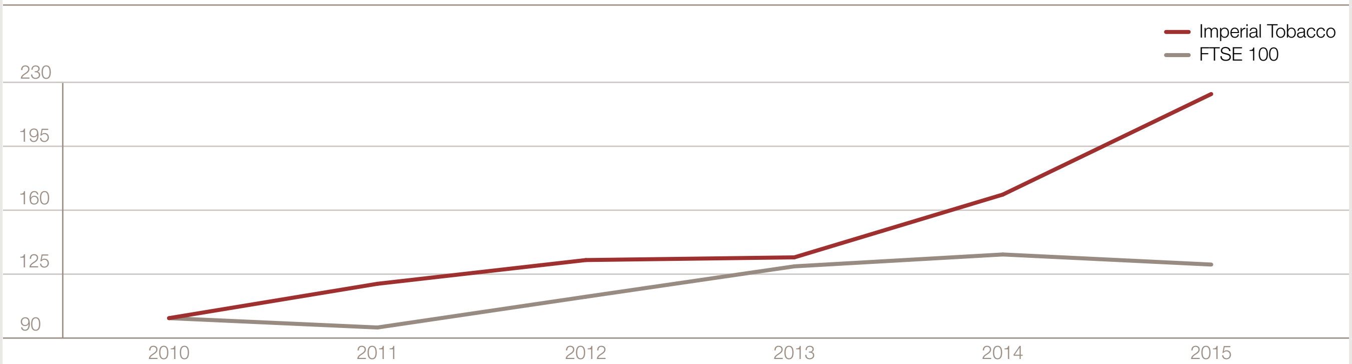
Cash Conversion Rate[1]
(%)



Performance
Our focus on cash generation and effective working capital management increased cash conversion to 97 per cent.

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

Total Shareholder Return[1]



Performance
In 2015 we outperformed the FTSE 100 Index by 95 per cent. With dividends reinvested, £100 invested in Imperial Tobacco five years ago would now be worth £224.60 compared with £129.80 if invested in the FTSE 100 Index.

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

1 KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 49 for more information.