



Mark Williamson Chairman

In 2014, my first year as Chairman, we created further value for our shareholders and continued to build the quality and sustainability of our business. Our strategic focus on maximising sales, cost and cash opportunities enabled us to achieve our targets and further transition the business to strengthen our future growth prospects.

Transition initiatives included improving supply through a stock optimisation programme. This reduced trade inventories in some major markets, affecting our volume, revenue and profit performance. The underlying results we have disclosed in this report remove the impact of the stock programme and give a clearer picture of how well we performed.

Our results were delivered against a backdrop of challenging conditions in some territories and I'd like to thank our employees around the world for the huge contribution they made throughout the year.

Enhancing Returns for Shareholders

Total adjusted operating profit was stable at £3 billion and underlying tobacco net revenue increased by 2 per cent. Adjusted earnings per share was up by 2 per cent on a constant currency basis to 203.4 pence and up by 7 per cent on an underlying basis. Reported earnings per share was 148.5 pence.

The Board is committed to shareholder returns and delivering consistently strong dividend growth. This year the Board is recommending a final dividend of 89.3 pence per share, which will be paid on 17 February 2015 to shareholders on the register on 16 January 2015. This brings the total dividend for 2014 to 128.1 pence, an increase of 10 per cent.

With effect from our 2015 financial year, we will pay dividends on a quarterly basis in order to give shareholders more regular cash returns.

Investing in the USA

In July we agreed to invest \$7.1 billion (£4.2 billion) to acquire a number of assets in the USA, one of our key Growth Markets and the most profitable tobacco market in the world, outside of China. These assets are being sold as a result of the acquisition of Lorillard by Reynolds American and include a portfolio of USA cigarette brands and blu, a leading e-cigarette brand in the USA. The cigarette brands are being acquired from Reynolds American without historic product liabilities. An indemnity against such liabilities will be provided by Reynolds American under the terms of the transaction.

The acquisition will be debt financed and is subject to regulatory and shareholder approval, which we expect to receive in the spring of 2015. This is a key strategic investment for the Group that will transform our USA operations, diversify our profit stream and create significant value for our shareholders.

Capital Discipline

In July we also completed a partial IPO of Logista on the Spanish Stock Market as part of our commitment to capital discipline, selling approximately 30 per cent of Logista for a consideration of £395 million net of fees (€518 million).

The proceeds helped reduce our adjusted net debt by £1 billion. This significant reduction was also driven by foreign exchange benefits and a focus on more effectively managing working capital, which further reinforces our drive to embed stronger capital discipline in the business.

Operating Responsibly

The responsible way we run our business is integral to our long-term sustainability. Our people take great pride in doing things the right way, living our values and respecting our Code of Conduct and I'm pleased to see that our efforts continue to be recognised externally.

We scored 94 per cent in the Business in the Community Corporate Responsibility Index and 74 per cent in the RobecoSAM assessment for the Dow Jones Sustainability Index.

More information about our achievements can be found in the Corporate Responsibility section of this report and on our website www.imperial-tobacco.com

Governance and the Board

I was delighted to succeed Iain Napier as Chairman in February. Iain served on the Board for 13 years, seven as Chairman, and I would like to thank him for the significant contribution he made to the business.

I'm committed to ensuring that Imperial Tobacco continues to be governed and managed with openness, honesty and transparency. Our Governance Report highlights the progress we've made against our key focus areas and sets out the Board's priorities for 2015.

There were a number of other Board changes in the year. Oliver Tant joined us from KPMG in October, prior to being appointed Chief Financial Officer in November, and Karen Witts, Group Finance Director of Kingfisher plc, was appointed Independent Non-Executive Director in February. Both have a wealth of skills and expertise and are proving to be very strong additions to the business.

In addition two long-standing Non-Executive Directors left the Board after completing nine years' service: Berge Setrakian stood down in February and Susan Murray stood down in September. I would like to thank them both for the considerable contributions they have made over the years.

Creating Sustainable Value

We have made good progress this year and are well placed to build on our performance in 2015.

The external environment will continue to pose challenges but we have consistently demonstrated our ability to grow our business in difficult conditions. We have the brands, the footprint and the people to succeed and I'm confident that we will add to our track record of value creation in the coming year and beyond.

A handwritten signature in black ink, appearing to read 'M Williamson', written over a horizontal line.

Mark Williamson
Chairman