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.

A Year of Significant Progress

We made significant progress in the period, implementing a stock optimisation programme, managing our cost base and controlling our cash flows, aligned with our strategy. The stock programme, which is now completed, reduced trade inventories in some of our major markets, affecting our volumes by around 9 billion stick equivalents. Results were also affected by market size declines. Strong price/mix and cost control initiatives mitigated some of these impacts.

Underlying revenue and volume results remove the impact of the stock programme and give a clearer picture of how well we performed. Total adjusted operating profit was stable at £3 billion. Underlying tobacco net revenue was up by 2 per cent. The proportion of net revenue from our Growth Brands increased, improving the quality of our revenue and strengthening our sustainability.

Results in Growth Markets benefited from non-recurring credits of around £40 million in respect of MSA costs following settlement of a number of historic issues in the USA. Returns Markets South results benefited from a one-off credit of £52 million due to the amendment of entitlements to free cigarettes for pensioners in Spain. These benefits helped offset the impact of the stock optimisation programme.

Group Results – Constant Currency Analysis

£ million unless otherwise indicated	Year ended 30 September 2013	Foreign Exchange	Constant currency growth	Year ended 30 September 2014	Change	Constant currency change[1]
Tobacco net revenue	7,007	(355)	(76)	6,576	-6%	-1%
Growth Markets net revenue	2,254	(152)	11	2,113	-6%	–
Returns Markets North net revenue	2,929	(142)	14	2,801	-4%	–
Returns Markets South net revenue	1,824	(61)	(101)	1,662	-9%	-6%
Tobacco adjusted operating profit	3,003	(153)	–	2,850	-5%	–
Growth Markets adjusted operating profit	668	(57)	(14)	597	-11%	-2%
Returns Markets North adjusted operating profit	1,543	(63)	31	1,511	-2%	+2%
Returns Markets South adjusted operating profit	792	(33)	(17)	742	-6%	-2%
Logistics distribution fees	850	(22)	20	848	–	+2%
Logistics adjusted operating profit	176	(4)	(6)	166	-6%	-3%
Adjusted operating profit	3,180	(157)	3	3,026	-5%	–
Adjusted net finance costs	(532)	13	3	(516)	+3%	+1%
Adjusted EPS	210.7p	(11.7)p	4.4p	203.4p	-3%	+2%

1 See Performance Measures table on page 1.

Group Earnings Performance

£ million unless otherwise indicated	Adjusted 2014	Adjusted 2013	Reported 2014	Reported 2013
Operating profit				
Tobacco	2,850	3,003	1,970	1,888
Logistics	166	176	84	69
Eliminations	10	1	10	1
Group operating profit	3,026	3,180	2,064	1,958
Net finance costs	(516)	(532)	(544)	(739)
Profit before taxation	2,510	2,648	1,520	1,219
Taxation	(530)	(572)	(69)	(290)
Profit for the year	1,980	2,076	1,451	929
Earnings per ordinary share (pence)	203.4	210.7	148.5	92.9

Reconciliation of Adjusted Performance Measures

£ million unless otherwise indicated	Operating profit		Net finance costs		Earnings per share (pence)	
	2014	2013	2014	2013	2014	2013
Reported	2,064	1,958	(544)	(739)[R]	148.5	96.2[R]
Acquisition costs	13	–	–	–	1.4	–
Amortisation of acquired intangibles	644	372	–	–	35.8	30.8
Impairment of acquired intangibles	–	580	–	–	–	48.6
Fair value (gains)/losses on derivative financial instruments	–	–	(12)	156	(2.5)	15.1
Post-employment benefits net financing costs	–	–	40	51[R]	2.8	3.7[R]
Restructuring costs	305	270	–	–	23.1	19.6
Tax losses	–	–	–	–	(5.3)	–
Items above attributable to non-controlling interests	–	–	–	–	(0.4)	–
Adjusted	3,026	3,180	(516)	(532)	203.4	210.7

R Restated on adoption of IAS 19 (Revised).

Logista delivered an encouraging performance in a challenging environment. Logistics distribution fees were up 2 per cent at £848 million and adjusted operating profit was £166 million compared with £176 million last year, largely due to one-off items.

Adjusted net finance costs were a little lower at £516 million (2013: £532 million), as average debt reduced and our cost of debt improved slightly. Reported net finance costs were £544 million (2013: £739 million), reflecting net fair value and exchange gains on financial instruments of £12 million (2013: losses of £156 million) and post-employment benefits net financing costs of £40 million (2013: £51 million).

After tax at an effective adjusted rate of 21.1 per cent (2013: 21.6 per cent), adjusted earnings per share grew by 2 per cent to 203.4 pence. The reported effective tax rate for 2014 was 4.6 per cent, unusually low primarily due to the remeasurement of certain deferred tax balances, in particular deferred tax on intangible assets and other items which are excluded from our adjusted measures.

Reported earnings per share were 148.5 pence (2013: 92.9 pence) reflecting non-cash amortisation of £644 million (2013: £372 million) which has increased following revisions to the estimated period of time over which we will amortise certain intangible assets, and restructuring costs of £305 million (2013: £270 million), mainly in respect of our continuing cost optimisation programme.

Our cost optimisation programme will deliver savings of £300 million per annum from September 2018. More than £60 million was realised in 2014 through a range of initiatives focused on reducing complexity in the business, driving operational efficiencies and securing further global procurement benefits.

Cash Flows and Financing

We increased cash conversion to 91 per cent, up from 86 per cent last year.

In July a partial IPO of Logista resulted in the sale of approximately 30 per cent of Logista for a consideration of £395 million net of fees (€518 million). Retaining a majority shareholder position ensures we continue to benefit from the strong cash flows that Logista generates.

The proceeds helped reduce our reported net debt by £1 billion. This significant reduction was also driven by foreign exchange rates and a focus on more effectively managing working capital, which further reinforces our drive to embed stronger capital discipline in the business. Eliminating accrued interest and the fair value of derivatives providing commercial cash flow hedges, our adjusted net debt was £8.1 billion (2013: £9.1 billion), also improved by almost £1 billion over the year.

The denomination of our closing adjusted net debt was split approximately 75 per cent euro, 14 per cent sterling and 11 per cent US dollar. As at 30 September 2014 we had committed financing facilities in place of around £17 billion (including acquisition facilities of around £4.4 billion available in relation to the proposed US asset purchase). Some 45 per cent was bank facilities, 2 per cent was commercial paper and 53 per cent was raised through capital markets.

Our all-in cost of debt was 4.9 per cent (2013: 5.1 per cent) and our interest cover was 5.9 times (2013: 6.0 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Share Buyback and Dividends

During the year, we spent £341 million acquiring 14.2 million shares under our buyback programme. We suspended the programme in July following the announcement of our intention to purchase certain assets in the USA.

The Board has proposed a final dividend of 89.3 pence per share, bringing the total dividend for the year to 128.1 pence per share, up 10 per cent and in line with our published dividend policy. If approved, the proposed final dividend will be paid on 17 February 2015, with an ex-dividend date of 15 January 2015.

With effect from our 2015 financial year, we will pay a quarterly dividend in order to give shareholders a more regular cash return. The first two quarterly dividends will be announced with our half year results in May 2015 and paid in June and September. The third and fourth quarter dividends will be announced with the full year results in November 2015 and paid in December and, subject to AGM approval, in March 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.

In relation to the proposed acquisition of certain brands and assets as a result of the acquisition of Lorillard by Reynolds American, we have entered into committed bank facilities of £7.7 billion, comprising term loan and revolving credit facilities.

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 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