

Realising our potential

In this report

Strategy

We explain our sales growth strategy in more detail and our areas of focus that will drive our future growth.



Risk

We explain how we manage and mitigate the risks facing our business.



Performance

We made gains in EU and Non-EU markets with an excellent performance in emerging markets.



Responsibility

Acting responsibly is simply part of how we do business.



Governance

Our embedded high standards of corporate governance and our strong management team support our sales growth strategy.



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Who we are and what we do

We are a leading international tobacco company with a strong track record of creating value for our shareholders by driving sustainable sales, optimising costs and effectively utilising the cash we generate.

What makes us different

We drive sales growth through our unique total tobacco portfolio with brands and products across the tobacco category.

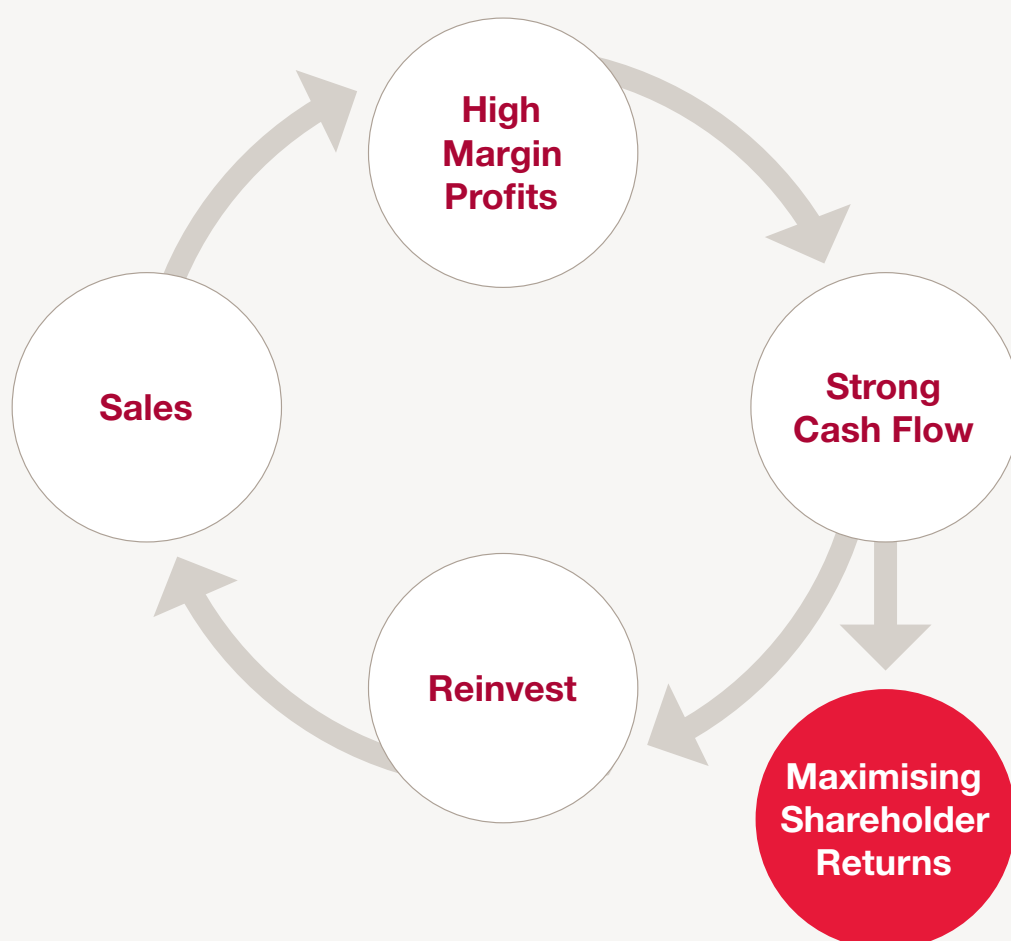


Through our total tobacco portfolio we provide consumers with the most comprehensive range of brands and products in the world including cigarettes, fine cut tobacco, cigars and snus.

The strength and breadth of our portfolio provides us with significant future sales growth opportunities. We are focused on realising this potential, by using our portfolio to reach more consumers in more markets on more consumption occasions.

How we create value for our shareholders

Our Business Model



How our Business Model works

Maximising shareholder returns is about growing our sales, maximising our cash flow and then successfully redeploying that cash.

Our strategy is to sustainably grow sales by focusing on our sales growth drivers and we support these through our focus on our consumers, execution excellence and building strong future foundations.

Sustainable sales growth combined with our ongoing efficient management of operations generate high operating margins.

These high margin profits combined with our management of working capital generate our substantial cash flows. We then reinvest our cash to grow sales or make acquisitions that meet our strategic criteria, or we return our cash to our shareholders to maximise their returns.

How we create value for our shareholders

Our Strategy



Our Strategy



Read more about our strategy on pages 11 – 15.

How we have performed

Highlights – adjusted basis ¹	2011	Change	Change at Constant Currency ³	2010
Stick equivalents ² KPI	343.4bn	-1.5%		348.5bn
Tobacco net revenue ⁴ KPI	£6,913m	+1.8%	+2.0%	£6,793m
Logistics distribution fees	£932m	-0.4%	-0.3%	£936m
Tobacco adjusted operating profit	£2,924m	+1.2%	+1.3%	£2,889m
Logistics adjusted operating profit	£183m	+4.0%	+4.0%	£176m
Total adjusted operating profit	£3,103m	+1.2%	+1.3%	£3,067m
Adjusted earnings per share KPI	188.0p	+5.1%	+5.4%	178.8p

Highlights – reported basis	2011	Change	2010
Revenue	£29,223m	+3.7%	£28,173m
Operating profit	£2,640m	+4.4%	£2,528m
Basic earnings per share	177.3p	+19.4%	148.5p
Dividend per share	95.1p	+12.8%	84.3p

- 1 Management believes that these non-GAAP measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Definitions are included in our accounting policies within the notes to the financial statements. Reconciliations between adjusted and reported measures are also included in the relevant notes.
- 2 Stick equivalents reflects our combined cigarette and fine cut tobacco volumes.
- 3 To aid understanding of our performance, change at constant currency removes the effects of exchange rate movements on the translation of the results of our overseas operations. References in this document to percentage growth and increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise.
- 4 The definition of net revenue has been changed to exclude revenue from the sale of peripheral and non-tobacco related products, with comparatives restated accordingly.

Key performance indicators



Read more about our KPIs on pages 11 – 13.

Highlights

Delivering Growth Through Total Tobacco Portfolio

- EU and Non-EU market gains with excellent performance in emerging markets
- Overall volumes of key strategic brands up 4 per cent
- Fine cut tobacco volumes up 4 per cent
- Non-EU luxury Cuban cigar volumes up 4 per cent
- Snus volumes up 30 per cent

Ongoing Cost Optimisation

- Tobacco operating margin above 42 per cent
- Ongoing efficiency focus; productivity up by 3 per cent

Maximising Cash Returns

- Dividend per share up 13 per cent to 95.1 pence, increasing our payout ratio to 50.6 per cent
- Strong cash conversion rate of 88 per cent
- £181 million share buyback completed in 2011

Chairman's Introduction



We made good progress this year driving growth through our total tobacco portfolio in many markets, while effectively managing our costs and cash flows, all of which are central to our success.

Our performance further demonstrates our growth potential although our overall results this year were held back by the exceptional circumstances in Spain and the impact of trade buying patterns in the UK.

We see considerable opportunities ahead and continue to focus on creating long-term sustainable value for our shareholders.

Results and Dividends¹

We grew our tobacco net revenues by 2.0 per cent and our total adjusted operating profits were up by 1.3 per cent at £3.1 billion. We delivered 5.4 per cent growth in adjusted earnings per share to 188.0 pence. Basic earnings per share were 177.3 pence (2010: 148.5 pence).

We have increased our dividend payout ratio to 50.6 per cent of adjusted earnings per share and the Board recommends a final dividend of 67.0 pence per share, bringing the total dividend for the year to 95.1 pence per share, up by 12.8 per cent. This will be paid on 17 February 2012 with an ex dividend date of 18 January 2012.

2011 Performance Overview and Achievements

Sustainable Sales Growth: We made gains in the EU and delivered an excellent performance in emerging markets outside the EU. Our key strategic brands *Davidoff*, *Gauloises Blondes*, *West* and *JPS* had another strong year with overall volumes up 4 per cent².

We also delivered excellent growth in fine cut tobacco and snus and grew volumes of both our mass market and premium cigars.

Cost Optimisation: Strong financial discipline is embedded across our business and we continue to focus on efficiencies and made productivity gains of 3 per cent. Tobacco operating margins were again over 42 per cent due to price increases and ongoing cost optimisation.

Cash Utilisation: We use our substantial cash flows to reward our shareholders and to reinvest in growing our sales. We delivered a strong dividend increase this year and we intend to continue steadily increasing dividends per share ahead of the growth in adjusted earnings per share.

At our half year results in May we announced a share buyback programme of £500 million on an annualised basis and spent £181 million acquiring 8.7 million shares during the balance of the financial year.

Corporate Governance and Corporate Responsibility

Good governance and the responsible way we manage our business are fundamental to our approach and underpin our long-term sustainability.

Our responsible approach is reflected in external benchmarks: both our performance in the Dow Jones Sustainability Index and by another Gold award rating from the UK's Business in the Community Corporate Responsibility Index.

We have again incorporated our corporate responsibility reporting into our annual report on pages 33 to 41 and are one of the few FTSE 100 companies to assure our responsibility performance to the AA1000 stakeholder engagement standard.

Board Changes

In October 2011, Malcolm Wyman was appointed as a Non-Executive Director and we announced that Pierre Jungels will retire as Senior Independent Non-Executive at the conclusion of our 2012 Annual General Meeting. In addition, Graham Blashill, Group Sales and Marketing Director, retired from the Board following our Annual General Meeting in February 2011.

I would like to welcome Malcolm to the Board and thank Pierre and Graham for their contribution to our success and wish them both well for the future.

¹ Percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

² Volume changes on a stick equivalent basis.

“We see considerable opportunities ahead and continue to focus on creating sustainable value for our shareholders.”

Iain Napier, Chairman

People

Our employees are central to our success and I would like to thank them for their dedication and hard work. Their consistent focus on delivering results gives me confidence that we will realise our growth potential.

In Conclusion

We are focused on delivering quality earnings growth and I believe we are well positioned to build on our achievements.

Our focus on sales, underpinned by our disciplined approach to cost and cash management will enable us to continue to create long-term sustainable value for our shareholders.



Iain Napier
Chairman

Strategy



Read more on our strategy on pages 11 – 15.

Corporate Responsibility



Read more on our Corporate Responsibility performance on pages 33 – 41.

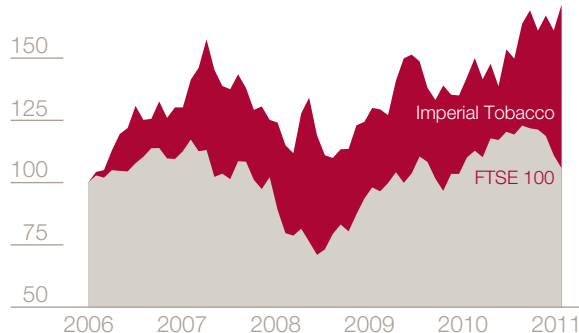
Governance



Read more on how we manage our business on pages 42 – 74.

KPI

Total Shareholder Return



In 2011, we outperformed the FTSE 100 by 25 per cent. With dividends reinvested, £100 invested in Imperial Tobacco five years ago would now be worth £172 compared to just £106 if invested in the FTSE 100 Index.

Chief Executive's Review

Overview

Strategy

Risk

Performance

Governance

Financials



“We are building on our sales momentum driving growth through our unique total tobacco portfolio.”

Alison Cooper, Chief Executive

Overview

Our strategy for delivering quality earnings growth and creating long-term value for our shareholders continues to deliver results.

We have achieved good sales growth across our geographic footprint, with particularly strong gains in emerging markets.

I am pleased with our sales performance and, as we've continued to build momentum, I have been focusing on how we can accelerate sales growth; how we can do things differently to fully realise the potential we have.

Key to achieving this is our focus on our four sales growth drivers: portfolio management, innovation, pricing and customer engagement, all of which we intend to excel at going forward.

Our work on our key enablers supports the delivery of our sales goals. Our priorities here are to continue developing consumer insights, aligning our operations behind our sales agenda and shaping our external environment.

2011 Results Highlights¹

I am pleased that we have again grown overall volumes of our key cigarette brands, fine cut tobacco, mass market and luxury Cuban cigars and snus.

Our stick equivalent volumes declined by 1.5 per cent, a good result given the exceptional circumstances in Spain and trade buying patterns in the UK. Adjusting these factors, our stick equivalent volumes were flat, whilst tobacco net revenues were up 4.5 per cent.

Key Strategic Brand Highlights²

Within our key strategic brands we grew volumes of *Davidoff* by 6 per cent with excellent gains in Russia, Ukraine, Taiwan and Saudi Arabia.

Gauloises Blondes volumes were up by 2 per cent reflecting a very strong performance in North Africa, notably Algeria and Morocco. However the overall brand performance was held back by sanction compliance in the Middle East.

West performed well in the emerging markets of Eastern Europe and Asia, but overall volumes were down 2 per cent impacted by market weakness in Poland and Turkey.

We delivered another very good performance with *JPS* increasing volumes by 12 per cent, with particular success in the UK, Australia, Portugal and New Zealand.

EU Highlights

We have leading positions in cigarettes and fine cut tobacco in many markets in the EU and have made good progress with our value portfolio across the region. Our value cigarette brands have grown share in the majority of EU markets and we also increased volumes of fine cut tobacco by 4 per cent.

In the UK and Germany, *JPS* benefited from value seeking consumers both in cigarettes and in fine cut tobacco. While Spain has been difficult, we have actively managed our portfolio to improve and protect our market leadership position. This has included launching a number of innovative cigarette line extensions and value offerings in fine cut tobacco and cigars. Elsewhere in the EU cigarette market shares were up in Austria, Czech Republic and Portugal.

We have had particular success in developing popular cigarette brands into fine cut tobacco brands and achieved exceptional growth from *Route 66*, with volumes up by 49 per cent. In addition, our fine cut tobacco shares have grown in Poland, Spain and Belgium.

Non-EU Highlights

Outside the EU we delivered an excellent performance in emerging markets where we are particularly focused on developing our strategic cigarette brands. We made very strong gains in fast-growing segments such as superslimes and kingsize superslimes.

¹ Percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

² Volume changes on stick equivalent basis.

Realising our potential

Reflecting our total tobacco approach we also made further good progress with luxury Cuban cigars and snus. We grew volumes of luxury Cuban cigars by 4 per cent in markets outside the EU with further success in Russia, Brazil and China. In Scandinavia, we have continued to build our snus volumes which were up by 30 per cent.

These portfolio successes have resulted in excellent profit increases. We grew our profits in Eastern Europe by 21 per cent, in Africa and the Middle East by 8 per cent and in Asia-Pacific by 27 per cent.

In the USA, the integration of our cigarette and mass market cigar sales forces is progressing well and we delivered good revenue growth in our premium cigar portfolio.

Senior Management Appointments

We made two appointments to our Operating Executive to further drive our sustainable sales growth agenda. Roberto Funari was appointed Group Marketing Director in November 2010, joining us from Reckitt Benckiser where he was Global Category Officer, and Arthur van Benthem, formerly Customer Management Director of the Metro Group, was appointed Group Sales Director in March 2011.

Our People

Our people make our strategy happen; they are passionate about what they do. Their response and support for our enhanced sales growth agenda gives me great confidence for the future.

Our recent global management engagement survey results were ahead of other similar FMCG companies and have given us a real insight into how we can be even better at what we do. The survey results have helped to develop a number of engagement initiatives.

We are further developing our people capabilities focusing on the values, behaviours, knowledge and skills to further realise our sales aspirations.

Outlook

These pleasing results highlight the growth momentum in the business and provide a strong platform for future success.

Our strategic focus on delivering quality earnings growth and the continued commitment of our people will enable us to realise our growth potential.

Our commitment to delivering sales excellence combined with our expertise in cost and cash management will enable us to continue maximising returns to our shareholders.



Alison Cooper
Chief Executive



For more information visit:
www.imperial-tobacco.com

World Tobacco Market Overview

The global tobacco market remains relatively stable, with around a third of the world's adult population choosing to smoke.

Cigarettes are by far the most popular tobacco product, with approximately six trillion consumed every year which is equivalent to 85 per cent of total tobacco volumes worldwide. The remaining 15 per cent is largely made up of fine cut tobacco, cigars and smokeless tobacco products.

The largest cigarette market in the world is China, accounting for around 40 per cent of global consumption. Outside of China, the largest cigarette markets are Russia and the USA.

In mature markets, such as those in the EU, overall cigarette consumption is declining. The general stability of the world markets is as a result of growth in emerging markets outside the EU, where consumption is increasing as adult populations continue to rise.

Regrettably illicit trade is a significant problem in many markets, often fuelled by excessive regulation and rising excise duties. We continue to step up our anti-illicit trade activities, partnering with governments and law enforcement agencies to disrupt the supply and sale of illegal tobacco.

The combination of our unique total tobacco portfolio and balanced geographic footprint provides a strong platform for growth in both EU and non-EU countries.

Total tobacco means we have strength in all major tobacco categories at key price points, which gives us more flexibility to respond to changing consumer dynamics and build sales in growth segments.

We see significant growth opportunities for our business in emerging markets, where we are particularly focused on further developing sales of our global strategic cigarette brands and world leading luxury cigars. In EU markets, our versatile portfolio remains well placed to continue capitalising on the growth in value cigarettes and fine cut tobacco, as consumers increasingly seek value brands and products in tough economic conditions.

And although consumers are demanding value they also expect quality and innovation, so delivering excellence in these areas is an integral part of our sales strategy. We are actively developing our innovation pipeline to drive growth, ensuring that all our portfolio innovations are based on consumer preferences.

A Strategy that Delivers



Measuring our strategy

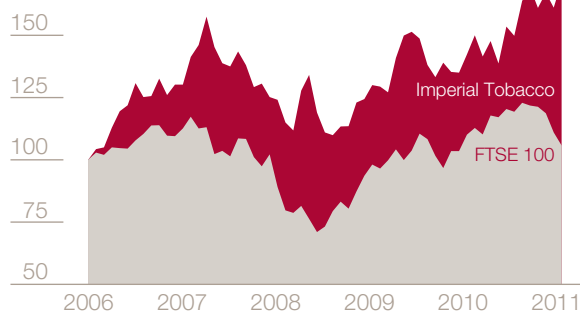
The elements of our strategy: sales growth, cost optimisation and cash utilisation are measured by a set of key performance indicators (KPIs). These are the principal measures we use to assess and review our performance and continuous improvement in line with our strategy. Certain of these are linked to executive remuneration. Our progress in 2011 and over a three year period is outlined on pages 11 to 13.

In addition to our KPIs, we review our corporate responsibility performance via our non-financial performance indicators. Our non-financial performance indicators are on page 41.

Percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

KPI

Total Shareholder Return



Performance

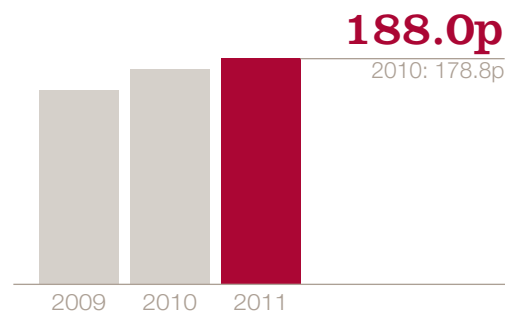
In 2011 we outperformed the FTSE 100 Index by 25 per cent. With dividends reinvested, £100 invested in Imperial Tobacco five years ago would now be worth £172, compared to just £106 if invested in the FTSE 100 Index.

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.

KPI

Adjusted Earnings per Share



Performance

We have grown adjusted earnings per share to 188.0 pence, up by 5.4 per cent, as a result of driving growth through our total tobacco portfolio, while effectively managing our costs and cash flows.

Definition

Adjusted earnings per share is 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.

Our strategy explained

Cost Optimisation

Sales Growth

Cash Utilisation

Sales Growth

Sales growth is at the heart of our strategy.

Our commitment to building sales, whilst efficiently managing cost and cash, creates value for our shareholders and strengthens our long-term sustainability.

The effective use of our assets, combined with our focus on key sales growth drivers and enablers, is critical to delivering sustainable sales growth.

Our balanced market footprint, total tobacco portfolio, strong brand equity and talented people are the key assets of our business. We have been successful in using these assets to enhance our sales performance and we are now focused on accelerating sales to fully realise our potential.

To achieve this we have prioritised four sales growth drivers that we want to excel at; these are portfolio management, innovation, customer engagement and pricing.

The sales growth drivers are supported by our focus on three key enablers: Consumer Centricity, Execution Excellence and Future Foundations.

You can find out more about our assets, sales growth drivers and enablers in this section of our report, which explains how they contribute to our strategy.

Cost Optimisation

We focus on managing our costs while investing to grow our business.

We continue to drive cost efficiencies through business simplification and productivity initiatives across the Group.

We have industry leading margins and our focus on improving our profitability has been a hallmark of Imperial Tobacco for many years.

Over the long term, we have grown our operating margins and continually focus on realising further margin growth opportunities.

Cash Utilisation

We use our substantial cash flows to maximise returns for our shareholders.

Our business is highly cash generative due to effective working capital controls, disciplined capital expenditure and management of tax and interest costs. Over the past five years our average cash conversion has been in line with our target range.

We manage our working capital to ensure that it is efficient for our business. Our capital expenditure and investments are focused on growing sales.

Our disciplined investments in new machinery and formats are supporting our sales growth and have improved quality as well as increasing our speed and flexibility to adapt and innovate.

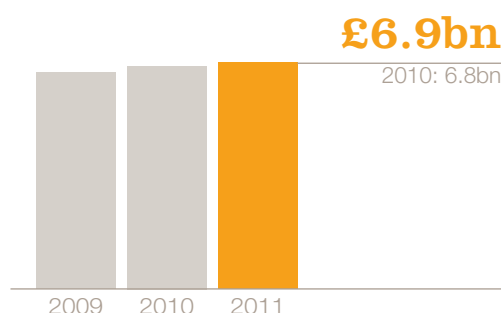
We will continue to make disciplined investments to support our sales agenda, including further acquisitions that satisfy our strategic criteria and create additional value for shareholders.

In recent years, we have also used our cash to significantly reduce our debt which funded several value creating acquisitions.

We grew our dividends per share by 13 per cent in 2011 and increased our dividend payout ratio to 50.6 per cent of adjusted earnings per share.

To further enhance our returns to shareholders we began a £500 million annualised share buyback programme in May 2011.

KPI

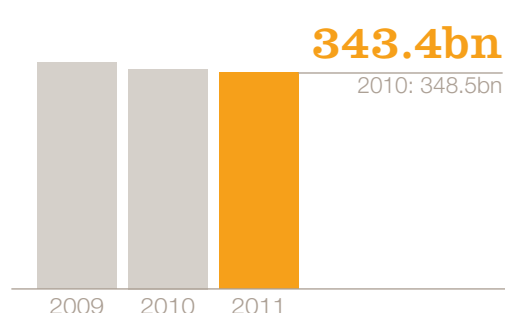
Tobacco Net Revenue**Performance**

Our tobacco net revenue was up by 2.0 per cent to £6.9 billion with good net revenue growth in Germany, Rest of EU and Rest of the World regions more than offsetting declines elsewhere.

Definition

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

KPI

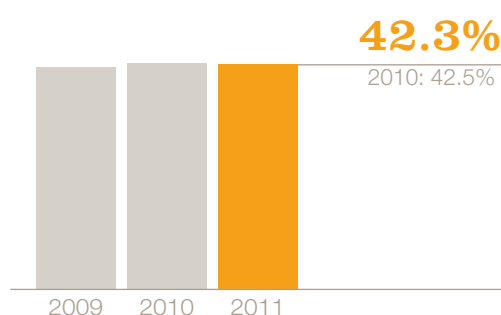
Stick Equivalent Volumes**Performance**

Our stick equivalent volumes declined by 1.5 per cent reflecting the difficult market in Spain and trade buying patterns in the UK. Adjusting for these factors, our stick equivalent volumes were flat.

Definition

Stick equivalent volumes reflect our combined cigarette and fine cut tobacco volumes.

KPI

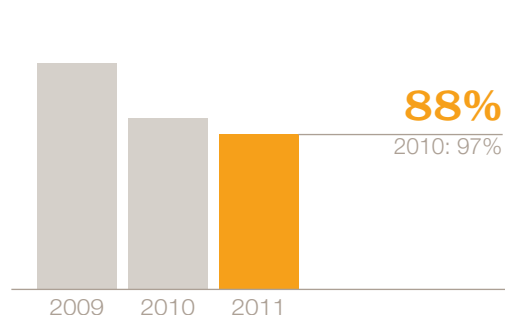
Tobacco Adjusted Operating Margin**Performance**

Our tobacco adjusted operating margin was down by 0.2 per cent, held back by the difficult market in Spain and trade buying patterns in the UK. Adjusting for these factors our tobacco adjusted operating margin was up by 0.5 per cent.

Definition

Tobacco adjusted operating margin is the tobacco adjusted operating profit divided by tobacco net revenue.

KPI

Cash Conversion Rate**Performance**

Our cash conversion was 88 per cent, a particularly strong result given our investment in the business to support sales.

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 and software as a percentage of adjusted operating profit.

Our strategy explained

Our Key Assets

Market Footprint

Total Tobacco

Brand Equity

People

Our Key Assets

We have great assets to deliver sales growth including a breadth of geographies, brands and products and an excellent team of people committed to delivering excellent results.

Market Footprint

Our diverse market footprint spans more than 160 countries worldwide. There are growth opportunities in all these markets, both in and outside the EU, and with our total tobacco approach we are very well placed to capitalise on these growth opportunities.

Total Tobacco

Total tobacco gives us a competitive advantage because we are able to offer consumers a broader range of brands and products. This is particularly important as consumer needs continue to change due to a number of factors, including regulation and the economic environment.

Our total tobacco portfolio is equally appealing to retailers because they know they can rely on us to provide them with what consumers want. This is good for their business and enables us to build strong relationships with retailers across our market footprint.

Brand Equity

Our portfolio includes some of the best known tobacco brands in the world, giving us strong brand equity. Complementing our global strategic cigarette brands *Davidoff*, *Gauloises Blondes* and *West* are important local and regional cigarette brands. We are the world leader in fine cut tobacco, papers and tubes, and have a growing snus business. In cigar we are proud to offer consumers some of the most prestigious brands available, including *Cohiba* and *Montecristo*.

People

Our people are highly skilled and committed to delivering excellent results. They are responsible for putting our sales growth strategy into action and have an outstanding track record of delivering results. We are building on these strengths by further developing the capabilities of our people to make sure they have the values, behaviours, knowledge and skills to achieve our sales aspirations.

Sales Growth Drivers

Portfolio Management

Innovation

Customer Engagement

Pricing

Sales Growth Drivers

We are focused on accelerating sales growth by excelling at four sales growth drivers – portfolio management, innovation, customer engagement and pricing. Applying our expertise in these areas through fewer, bigger and better initiatives is crucial to making the most of our assets and realising our growth potential.

Portfolio Management

Our total tobacco portfolio has a comprehensive range of brands and products with broad appeal to consumers. Through effective portfolio management we are able to build sales by meeting the needs of more consumers in more markets on more consumption occasions.

Innovation

Innovation is essential to achieving our sales ambitions. We are developing a bigger pipeline of scalable innovations based on consumer needs that will expand our portfolio and accelerate incremental growth.

Customer Engagement

Through customer engagement we focus on developing even stronger connections with our retail partners to support their business and to maximise the availability and endorsement of our portfolio at the point of sale.

Pricing

Pricing is a key component of revenue growth. We want to maximise these growth opportunities by developing an enhanced approach to the way we evaluate pricing by brand, by pack size and by sales channel. We also take into account excise structures when considering pricing.

Key Enablers		
Consumer Centric	Execution Excellence	Future Foundations

Key Enablers

Our four sales growth drivers are supported by three key enablers: Consumer Centricity, Execution Excellence and Future Foundations.

Consumer Centricity

Consumer Centricity is about ensuring our portfolio continually meets the preferences of our consumers.

To achieve this we are developing deep consumer insights to enhance our understanding of how consumers are evolving. We then translate this knowledge into portfolio and innovation strategies to drive sales.

Execution Excellence

Through Execution Excellence we focus on operation and supply alignment, ensuring that our manufacturing and supply chain activities effectively support our sales growth strategy.

Product quality and availability are key priorities, combined with a fast and flexible approach which enables us to respond rapidly to changing consumer dynamics.

Future Foundations

Building Future Foundations by proactively shaping our external environment is critical to achieving sustainable sales growth.

We run our business in a way that is financially, socially and environmentally responsible. This approach is integral to the success of our growth strategy and our stakeholder engagement activities.

We seek engagement with a wide variety of stakeholders to encourage balanced debate and an accountable, transparent policy making process.

We support regulation that is reasonable, proportionate and based on evidence and sound science and particularly encourage regulators to recognise the relationship between regulation, excise and illicit trade.

Rising excise duties combined with excessive regulation increases the illicit trade of tobacco products, which is a significant and growing problem for governments, consumers and the tobacco industry.

We are passionate about highlighting how these issues are inextricably linked and welcome every opportunity to discuss our views with stakeholders. Our engagement activities are supported by the determined efforts we make to combat the illicit tobacco trade, working closely with governments and law enforcement agencies worldwide to drive down these illegal sales.

Effective risk management

Effective Risk Management



Risk Management Overview

We must manage and mitigate the risks that we face in a business as large and diverse as Imperial Tobacco. In this section, we outline the principal risks specific to our business and how we manage and mitigate these risks. We also highlight the formal risk management process that the Board has in place.

Not all these factors are within our control and the list is not exhaustive. There may be other risks and uncertainties that are unknown to us and the list may change as something that seems immaterial now may have greater importance in the future.

We are subject to the same general risks as many other businesses; for example, changes in general economic conditions, including currency and interest rate fluctuations, changes in taxation legislation, the cost of our raw materials and the impact of competition, political stability in the countries in which we operate and source our raw materials and the impact of natural disasters.

Risk Management: How it works at Imperial Tobacco

To support the Operating Executive and the Audit Committee in managing the material risks facing our business we have a Risk Co-ordination Committee. This ensures a consistent top-down approach in how we identify, assess and prioritise material risks, as well as assessing our existing measures to manage and mitigate those risks. Our Group Risk Register is maintained by the Risk Co-ordination Committee.

This top down approach is complemented by a bottom up approach requiring each area of the business to formally review its principal areas of risk and uncertainty and to produce annual risk assessment summaries which are compared to the Group Risk Register. These ongoing risk assessment summaries identify major areas of risk, including specific local risks and how they are managed and mitigated by controls embedded in business processes.

Environmental, Community and Ethical Risks

As well as strategic, operational, financial and legal risks, our risk register covers a number of environmental, community and ethical risks. These are integrated into our decision-making and risk assessment processes.

Principal risks

Illicit Trade

Principal relevance to strategy: Potential impact on sales

Overview

It is estimated that the illicit trade in tobacco accounts for up to 12 per cent of the global tobacco market. It is a significant and growing problem for the legitimate tobacco industry and we encourage regulators to recognise the relationship between regulation, excise and illicit trade. In countries where economic conditions are difficult as a result of reduced disposable incomes, consumers look for cheaper products. Illicit trade can take the form of smuggled genuine tobacco products, counterfeit tobacco products and illicit whites (whereby third parties produce cigarettes paying minimal tax, for the primary purpose of smuggling).

Risk and potential impact	Mitigating activities
<p>Illicit trade may lead to erosion of demand for legitimate tobacco products and damage to our brand integrity, loss of potential earnings, and potentially impact on our reputation.</p> <p>Illegal trading in our products may result in the Group and/or our employees being subject to investigation or other proceedings by customs or other authorities which could ultimately result in penalties and fines being imposed on the Group.</p>	<p>We proactively engage on the issue of illicit trade with a wide range of stakeholders.</p> <p>We invest to counter the illicit trade in tobacco products and are working with governments, other legitimate tobacco companies and international organisations globally.</p> <p>In 2010, we entered into a 20-year co-operation agreement with the EU to collectively tackle the problem of illicit trade. We work alongside the European Commission's Anti-Fraud Office (OLAF) and the law enforcement agencies of EU Member States.</p> <p>We have signed Memoranda of Understanding (MoU) and industry agreements with customs authorities in 19 countries to tackle illicit trade, based on joint action and shared intelligence.</p> <p>We have strong internal business conduct and controls and apply stringent controls to our customers. These are set out in our Group policies and standards, Code of Conduct and product supply compliance processes and procedures. Our Code of Conduct is available on our website www.imperial-tobacco.com</p>

Excise Duty

Principal relevance to strategy: Potential impact on sales

Overview

Tobacco products are subject to excise duty which, in many of the markets in which we operate, represents a substantial percentage of the retail price. Taxes are generally increasing in many markets and the rate of increase varies country by country and by different tobacco product group.

Risk and potential impact	Mitigating activities
<p>Substantial increases in excise duty and any unfavourable change in the tax treatment of fine cut tobacco, if widely adopted, may have an adverse effect on the demand for our products and impact our future profit development.</p> <p>Increasing levels of excise duty are also likely to encourage consumers in affected markets to switch from higher priced cigarettes to lower-priced cigarettes and fine cut tobacco.</p> <p>Excise duty increases also encourage both legal and illegal cross-border trade from countries with lower levels of duty.</p>	<p>We conduct regular reviews of our product portfolio to ensure it is aligned to consumer preferences in the context of the excise duty structure in each market. We are particularly focused on continuing to develop portfolio strategies that will enable us to capitalise on value seeking consumers.</p> <p>We proactively engage with local tax and customs authorities where appropriate.</p>

Regulation

Principal relevance to strategy: Potential impact on sales and cost

Overview

The tobacco industry is subject to substantial and increasingly restrictive regulatory practices worldwide. In many of the countries in which we operate, there is a wide range of regulatory restrictions in place, including where tobacco products can be smoked and their development, content, manufacture, packaging and labelling, testing, data reporting, sale, distribution, display, marketing and advertising.

Risk and potential impact	Mitigating activities
<p>Imperial Tobacco, along with all other tobacco companies, is often excluded from engaging with regulators on the development of regulatory proposals.</p> <p>Any future changes to regulation of the tobacco industry could have an adverse effect on the demand for our products or increase the costs related to compliance and contribute to an increase in illicit trade.</p>	<p>We employ experienced senior Corporate Affairs specialists to manage regulatory risk and engage with regulators.</p> <p>We develop company positions and toolkits and provide training and guidance for our markets to comply with regulation.</p> <p>We monitor proposals for new measures globally and analyse them to identify their potential impact on the Group and its products.</p> <p>We consult with external experts where necessary to provide advice and guidance regarding any impact.</p> <p>We work towards consistent engagement on key issues and are active members of relevant industry bodies.</p> <p>We challenge unreasonable and disproportionate regulation.</p>

Market Place

Principal relevance to strategy: Potential impact on sales and cost

Overview

The continued growth of our business is underpinned by our position in our key markets, including in the UK and Germany and other EU markets. Given our significant position in certain markets, we may be subject to enhanced regulatory scrutiny in these countries.

Risk and potential impact	Mitigating activities
<p>Any material decline in the performance of our key markets may impact on our future profit development and have an adverse impact on the Group's revenue or profits.</p> <p>Our significant market position in certain countries could result in investigations and adverse regulatory action by relevant competition authorities, including the potential for monetary fines and negative publicity.</p>	<p>Our international footprint and total tobacco portfolio provides an increasingly balanced exposure to both EU and Non-EU markets.</p> <p>Our total tobacco portfolio includes international strength in cigarettes and world leadership in fine cut tobacco, cigars, rolling papers and tubes, which provides us with enhanced growth opportunities.</p> <p>The Group's policies and standards, including our Code of Conduct, mandate that all employees must comply with competition laws in the countries in which we operate.</p> <p>We provide training and guidance to relevant employees detailing the obligations and requirements of competition laws.</p> <p>We employ experienced internal and external lawyers specialising in competition laws to provide advice and guidance regarding interpretation and compliance with competition laws.</p> <p>Further details of a market specific regulatory action by a competition authority are outlined on page 58.</p>

Financing

Principal relevance to strategy: Potential impact on cost and cash

Overview

We have a significant level of committed debt which is financed primarily in the debt capital markets and in the bank loan markets. We expect to rely on these markets to refinance this debt when it matures and rely on the availability of committed funds from our bank counterparties to be available when required to be drawn.

Risk and potential impact	Mitigating activities
<p>We may be unable to refinance our debt, when it matures, in the debt capital markets and loan markets. In addition, the cost of refinancing the debt, when it matures, may be materially higher than the current cost.</p> <p>We may be subject to reduced availability of financing because our bank counterparties are unable to honour their commitments when required to deliver funds that they have committed to lend when requested.</p> <p>Although a material part of the Group's debt is currently at fixed levels of interest, the Group is still exposed to movements in interest rates which could result in higher cash outflows.</p> <p>If we are unable to refinance our debt or higher interest costs this could impact the Group's profitability, credit rating and ability to operate as a going concern.</p> <p>In addition, limited ability to borrow additional funds may also reduce the flexibility for, or reacting to, competitive and industry pressures, or opportunities.</p>	<p>We have a centralised treasury function, which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements.</p> <p>The Group Treasury Committee (GTC) sets a framework for the treasury function to operate within. The framework covers, amongst other things, financing, liquidity and counterparty risk.</p> <p>The GTC oversees the operation of Group Treasury in accordance with the terms of reference set out by the Board.</p> <p>The Board reviews and approves all major treasury decisions and receives regular reports from the Group Treasurer.</p> <p>Cash flows and financing requirements are regularly forecast and developments in debt capital and bank loan markets are monitored to ensure we are well placed to meet the future financing needs of the Group.</p>

Further details of the Group's treasury operations and the approach to managing its financing risks can be found in Note 16 to the Financial Statements on pages 99 to 113.

Legal Compliance

Principal relevance to strategy: Potential impact on cost

Overview

We may be exposed to liabilities and reputational risk by failing to comply with any of the laws that are applicable to the Group or incur costs and liabilities as a result of tobacco litigation claims.

Risk and potential impact	Mitigating activities
<p>Failure to comply with local and international laws may result in investigations. This may cause damage to our reputation and has the potential for financial and criminal penalties for both the Group and individuals.</p> <p>Tobacco-related litigation claims are pending against the Group in a number of countries. More claims may be brought in the future, including claims for personal injury and the recovery of medical costs allegedly incurred in treating smokers. If any claim were to be successful, it may result in a significant liability for damages and may lead to further claims against us. Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable.</p>	<p>The Group's policies and standards, including our Code of Conduct, mandate that all employees must comply with laws in the countries in which we operate.</p> <p>To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages. We employ internal and external lawyers specialising in the defence of product liability litigation to provide advice and guidance on defence strategies and to direct and manage litigation risk and monitor potential claims around the Group.</p> <p>Further details of market specific tobacco litigation claims against Group companies are outlined on pages 58 and 59.</p>

EU



Our position in EU markets provides us with opportunities to further develop our total tobacco portfolio and grow our profits.

Key Brands



Market Share Performance¹

%	Cigarettes	
	2011	2010
Belgium		
Czech Republic	14.5	13.9
France	22.6²	23.62
Germany	26.6	26.9
Greece	11.6	11.6
Hungary	12.3	12.9 ³
Italy	23.8	24.5
Netherlands	11.4	12.03
Poland	25.0	25.5
Spain	28.1²	29.02
United Kingdom	45.1	45.4

%	Fine Cut Tobacco	
	2011	2010
Belgium	12.7	11.5 ³
Czech Republic	64.8	50.9
France	19.7	20.5 ³
Germany	20.3	20.5 ³
Greece	29.4	33.1
Hungary	38.3	48.6 ³
Italy	54.6	62.4
Netherlands	46.2	48.4 ³
Poland	60.1	28.6
Spain	36.8	32.3
United Kingdom	51.0	54.5

1 Imperial Tobacco estimates.

2 Domestic blonde market share.

3 Restated due to a change of source or basis.

EU Performance

Volume

Billions	Stick equivalents		Cigarettes		Fine cut tobacco	
	2011	2010	2011	2010	2011	2010
UK	25.6	27.8	19.2	21.1	6.4	6.7
Germany	32.9	32.8	23.4	23.2	9.5	9.6
Spain	23.5	27.0	20.8	25.3	2.7	1.7
Rest of EU	77.5	78.4	57.8	59.6	19.7	18.8
Total	159.5	166.0	121.2	129.2	38.3	36.8

Net Revenue

£ million	2011	Foreign exchange 2011	Constant currency 2011	Change at constant currency %	2010
UK	869	–	869	-2.8	894
Germany	879	(1)	880	+3.5	850
Spain	497	–	497	-16.0	592
Rest of EU	1,592	(1)	1,593	+4.7	1,521
Total	3,837	(2)	3,839	-0.5	3,857

Adjusted Operating Profit

£ million	2011	Foreign exchange 2011	Constant currency 2011	Change at constant currency %	2010
UK	577	–	577	-6.0	614
Germany	461	–	461	+6.7	432
Spain	200	–	200	-25.4	268
Rest of EU	658	(1)	659	+3.3	638
Total	1,896	(1)	1,897	-2.8	1,952

EU Markets Overview

Our position in EU markets provides us with opportunities to further develop our total tobacco portfolio and grow our profits.

The key consumer trend across the EU is one of value as consumers have continued to economise and look for value brands and products. With the breadth and versatility of our portfolio, we are capitalising on this trend.

Our cigarette value brands have grown market share in the majority of markets in the EU and we have continued to build on the success of *JPS* across the region with volumes up by 8 per cent.

We have also grown our fine cut tobacco business, particularly our cigarette branded fine cut tobacco products, such as *Route 66* which grew volumes by 49 per cent.

We have continued to build on the momentum in our snus business in Scandinavia, increasing our volumes by 30 per cent and we have grown mass market cigar volumes by 8 per cent with notable success in Spain.

EU Markets Results¹

We delivered a good financial performance in Germany and in our Rest of EU region. In Spain, revenues and profits were down due to the difficult market and, in the UK, a change in trade buying patterns and the overall cigarette market decline impacted results.

UK net revenue was down by 3 per cent to £869 million and adjusted operating profit declined by 6 per cent to £577 million.

In Germany, our strong results reflect the positive performance of our value brands and our price increase in May, with net revenues up by 4 per cent to £879 million and adjusted operating profit up by 7 per cent to £461 million.

The cigarette market was down significantly in Spain and market profitability was impacted by competitor activity during the summer. As a result net revenues declined by 16 per cent to £497 million with adjusted operating profits down by 25 per cent to £200 million.

In our Rest of EU region, we grew net revenues by 5 per cent to £1,592 million, with profits benefiting from price increases in the majority of markets in the region, up by 3 per cent to £658 million.

UK

UK Overview: We estimate that UK stick equivalent volumes were down 2 per cent to 55.5 billion (2010: 56.5 billion). The cigarette market was down by 5 per cent, impacted by a number of significant tax increases in the last 18 months including the increase in VAT to 20 per cent in January this year. The fine cut tobacco market remained buoyant, up by 9 per cent.

UK Performance: In the UK, results were impacted by a change in trade buying patterns as a result of the timing of a price increase. In cigarette, we have again grown our share of the economy sector to 46 per cent with another positive performance from our value brands *JPS Silver* and *Windsor Blue*. Our overall cigarette share was 45.1 per cent. We are strengthening our portfolio with the national roll out of *GlideTec* packs for *Lambert and Butler*.

In fine cut tobacco, we launched *JPS* roll your own and make your own tobaccos in April, which had captured 3.5 per cent of the market by September. *Gold Leaf* and *Golden Virginia Yellow* have performed well although our overall fine cut tobacco market share was 51.0 per cent reflecting premium sector decline.

Germany

Germany Overview: In Germany, the cigarette market was up by 1 per cent and fine cut tobacco volumes were up 6 per cent, with make your own tobacco growth particularly strong. We estimate an overall market of 122.3 billion stick equivalents (2010: 119.4 billion).

Germany Performance: Our focus on the *JPS* brand franchise is continuing to support our very good performance in Germany.

In cigarettes, *JPS* grew to around 10 per cent of the market. Both *Gauloises Blondes* and *Davidoff* were stable, a good result given the consumer value trend in the market, although *West* was down. Our cigarette market share was 26.6 per cent. In fine cut tobacco we are market leaders and have delivered excellent results with *Route 66*. Our fine cut tobacco market share was 20.3 per cent.

¹ Percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

Spain

Spain Overview: Exceptional circumstances have made Spain a difficult market this year. The ban on smoking in public places that came into effect in January and excise duty increases have impacted consumers who were already feeling particularly cost conscious as a result of the tough economic conditions in Spain.

In addition, profitability has been impacted by competitor activity such that we reduced our prices to protect our market leadership position and the long-term sustainability of our Spanish business.

We estimate that the overall market was down to 69.2 billion cigarette equivalents (2010: 80.0 billion) with the cigarette market down by 15 per cent and growth in fine cut tobacco of 5 per cent.

Spain Performance: Our focus has remained on providing consumers with the value they are looking for and we have introduced a number of brand and product extensions. We have grown volumes within the consumer growth segments of queen size cigarettes, cigarette branded fine cut tobaccos and mini cigars.

In cigarette, our successful value line extensions *Fortuna Redline*, and soft packs of *JPS Red* and *Ducados Rubio* have supported the overall performance of their respective brands. In addition, *Nobel Style* is now the leading queen size brand in the market. However, our overall domestic blonde share was 28.1 per cent, impacted by the competitive market.

In fine cut tobacco, we are market leaders and have grown our share significantly up to 36.8 per cent. This is due to the success of *Ducados Rubio* which, since launch in June 2010, has grown to 16.3 per cent.

In mini cigars, we grew *Coburn* significantly, up at 19.3 per cent of the total cigar segment (2010: 11.7 per cent).

Rest of EU

Rest of EU Overview: We estimate that the overall regional volumes were down by 2 per cent to 404.8 billion stick equivalents with the cigarette market down 3 per cent and fine cut tobacco up 8 per cent.

Rest of EU Performance: Our total tobacco approach is delivering good results in the Rest of EU. We grew our cigarette market shares in a number of countries including in Austria, Czech Republic, Slovakia and Portugal. In France, *News* has performed well despite a significant number of competitor brand launches although our domestic blonde market share was down to 22.6 per cent.

In fine cut tobacco, we grew our regional volumes by 5 per cent and maintained our leading position in many markets in the region. We made market share gains in a number of our central European markets with *Paramount* and *Route 66*.

The consumer trend to smaller mass market cigars has continued and in France we have grown *Niñas* pocket cigars to 6.8 per cent (2010: 5.7 per cent) of the total cigar market.

In Scandinavia, we have increased volumes of our snus brands *Knox* and *Skruf* by 30 per cent and are well placed to drive continued growth in this popular tobacco category.

Spain in 2011

Exceptional circumstances have made Spain a difficult market this year.

The ban on smoking in public places that came into effect in January and excise duty increases have impacted consumers who were already feeling particularly cost conscious as a result of the tough economic conditions in Spain.

We've been alert to evolving consumer dynamics through our total tobacco approach. We've focused on providing consumers with the value brands and products they are looking for, enabling us to grow volumes within these growth segments.

Competitor pricing activity in the second half of the year significantly impacted the overall profitability of the Spanish market, as well as our revenues and profits.

In May and June market cigarette prices reduced as a result of various brands being repositioned. We increased our prices in July and September. All our products are now priced at, or above, the levels at the start of the year.

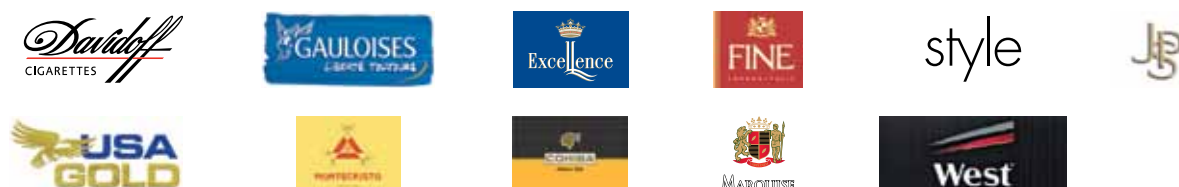
We will continue to drive growth across our portfolio and will always act to protect our market position and the long-term sustainability of our Spanish business.

Non-EU



We are delivering strong emerging market performances and see many opportunities to grow our business in this region.

Key Brands



Market Share Performance¹

	Cigarettes	
	2011	2010
%		
Australia	19.1	17.5
Morocco	83.1	83.1
Russia	8.8	9.2 ²
Saudi Arabia	9.4	10.3 ²
Taiwan	11.3	11.0
Turkey	3.3	3.9
Ukraine	22.2	20.9 ²
USA	3.9	3.9

	Fine Cut Tobacco	
	2011	2010
%		
Australia	59.9	59.5

¹ Imperial Tobacco estimates.

² Restated due to a change of source or basis.

Non-EU Performance

Volume

Billions	Stick equivalents		Cigarettes		Fine cut tobacco	
	2011	2010	2011	2010	2011	2010
Americas	12.9	12.2	12.3	11.9	0.6	0.3
Rest of the World	171.0	170.3	168.6	167.6	2.4	2.7
Total	183.9	182.5	180.9	179.5	3.0	3.0

Net Revenue

£ million	2011	Foreign exchange 2011	Constant currency 2011	Change at constant currency %	2010
Americas	731	(22)	753	+3.7	726
Rest of the World	2,345	9	2,336	+5.7	2,210
Total	3,076	(13)	3,089	+5.2	2,936

Adjusted Operating Profit

£ million	2011	Foreign exchange 2011	Constant currency 2011	Change at constant currency %	2010
Americas	234	(8)	242	-0.8	244
Rest of the World	794	5	789	+13.9	693
Total	1,028	(3)	1,031	+10.0	937

Non-EU Markets Overview

Our non-EU markets comprise the emerging markets of Eastern Europe, Africa and the Middle East and Asia and the more developed markets of the USA and Australasia. This is a developing region for us and we see many opportunities to grow our business.

As in all our markets, consumer insight enables us to put the right portfolio in place to further grow sales.

In a number of markets consumers are trading up to premium brands and products. We are focused on achieving further success with our international strategic cigarette brands *Davidoff*, *Gauloises Blondes* and *West*. Demand for our luxury Cuban cigars continues to grow in key emerging markets.

In the USA and in Australasia, consumers are economising and the key trend is for value brands and products.

Non-EU Markets Results¹

We delivered strong emerging market performances in Eastern Europe, Africa and the Middle East and in Asia-Pacific. In our Rest of the World region we grew net revenues by 6 per cent to £2,345 million and adjusted operating profits by 14 per cent to £794 million. We have improved our sales mix with profits up by 21 per cent in Eastern Europe, 8 per cent in Africa and the Middle East and 27 per cent in Asia-Pacific.

We grew our Americas net revenue by 4 per cent to £731 million. We increased prices across our USA portfolio although our adjusted operating profit was down by 1 per cent overall to £234 million, impacted by an unfavourable shift in sales mix and significant competitor discounting particularly in the second half of the year.

Rest of the World Performance

Africa and Middle East

In Africa and the Middle East, we grew volumes and our profits were up by 8 per cent. *Fine* performed well in Africa with good volume growth in Burkina Faso and Côte d'Ivoire.

We delivered excellent volume gains with *Gauloises Blondes* particularly in Algeria and also in Morocco, where the brand supported our overall share at 83.1 per cent.

We have grown volumes of *Davidoff* in the Middle East, notably in Saudi Arabia, and increased our market share in the United Arab Emirates.

Eastern Europe

In Eastern Europe, we have focused on our global international strategic brands and innovative formats. This approach is delivering excellent results with *Davidoff* and *West* growing strongly in the growing superslims and kingsize superslims segments.

Although cigarette volumes in Russia and Ukraine have declined, the rate of decline has continued to slow. More consumers are trading up, which combined with price increases has improved our overall sales mix.

In Russia, *Style* and *Maxim* grew share; our overall share was 8.8 per cent impacted by *Balkan Star* declines, as we continue to prioritise the profitability of the brand.

In Ukraine, we have further extended our market share to 22.2 per cent with *Davidoff* and *Style* and we have grown our share of innovative formats both in Ukraine and in other Eastern European markets including in Azerbaijan.

Asia-Pacific

We have delivered an excellent performance across the Asia-Pacific region and grew our profits significantly, up by 27 per cent.

In Taiwan, we grew *Davidoff* and *West* and our overall market share was up to 11.3 per cent. In Australia and New Zealand our success with *JPS* continued in both markets, with our cigarette market shares up to 19.1 per cent and 19.9 per cent respectively.

Elsewhere we grew cigarette market shares in Vietnam, Cambodia and Laos and continued to build sales of *Davidoff* in South Korea with our partners KT&G.

Habanos

Our luxury *Habanos* cigar portfolio has again delivered another good performance and we grew our volumes by 4 per cent in non-EU markets. We have continued to add to the momentum of our portfolio with new offerings including limited editions of our core brands *Cohiba* and *Montecristo* and delivered excellent growth in Russia, Brazil and China.

¹ Percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

Americas

USA Overview

We estimate the overall cigarette market was down 1 per cent to 295.6 billion cigarettes.

The cigarette market remains extremely competitive and we have focused on strengthening our business by integrating our cigarette and mass market cigar sales forces. In cigars the trend toward smaller sized mass market cigars and cigarillos continued.

USA Performance

In cigarettes we grew our market share of *Fortuna* and *Rave*, although *USA Gold* and *Sonoma* were under pressure with our overall cigarette market share stable at 3.9 per cent.

Across our premium handmade cigar business we delivered good growth, while in mass market cigars we have successfully launched new brand variants in the value segment. In natural wrapper cigars, our largest mass market cigar category, we delivered a positive performance with *Backwoods*.

EU and Non-EU Market Outlook

We will continue to focus on driving growth through our total tobacco portfolio across our international footprint.

Whilst there will undoubtedly be challenges in some markets, we are confident of being able to build on our growth momentum in EU and Non-EU markets.

We have been alert to changing consumer dynamics, enabling us to capitalise on both value seeking consumer trends in the EU, as well as the growing demand for our global brands and products in non-EU emerging markets. This effective portfolio management approach will enable us to build further sales as we continue to capitalise on meeting the demands of more consumers in more markets on more consumption occasions.

In the EU this requires a focus on key cigarette and fine cut tobacco brands such as *JPS* and *Route 66*. In the emerging markets outside the EU we will continue to drive growth through our global strategic cigarette brands *Davidoff*, *Gauloises Blondes* and *West*, whilst building on the sales success of our luxury cigars.

Consumer relevant innovation is key to driving growth and we will further develop our pipeline of scalable innovations based on consumer insights. *GlideTec* is an excellent example of this; national rollout with *Lambert & Butler* in the UK is ongoing and we are finalising plans to scale this exciting initiative with other brands across other markets. We are progressing a number of other innovations to add to our sales potential.

Delivering excellence in customer engagement is critical to the success of our portfolio initiatives, and we are developing even stronger connections with our retail partners to maximise the advocacy and availability of our brands and products.

Pricing will remain a key component of revenue growth going forward. In the EU we recently increased our prices in a number of our major markets, which will strengthen our financial performance. There are also significant pricing opportunities outside the EU which will further improve our results.

Logistics



Our logistics business is one of the largest of its kind in Europe, making around 40 million deliveries per year.

Our Performance¹

We delivered a robust performance against a backdrop of challenging economic conditions, which we have managed through our diligent focus on costs.

Distribution fees were broadly stable at £932 million (2010: £936 million) and we grew our adjusted operating profit by 4 per cent to £183 million (2010: £176 million) as a result of increased efficiencies.

In tobacco logistics, our business has been resilient. In Spain, the year has been difficult due to cigarette volume decreases and cigarette companies repositioning prices downwards during the summer months. We have been able to partially offset this impact with increases in our distribution fees, increased volumes of cigars and fine cut tobacco, and cost saving initiatives. In France and Italy tobacco market volumes were broadly stable, with our results benefiting from tobacco price increases and efficiency improvements.

In other logistics, we have improved our performance across all our businesses. This is due to our continued focus on maintaining our profitability while continuing to seek opportunities to further grow our operations. Our transport

business delivered strong results as a result of cost savings and integration with other business lines. In our pharma division, we have continued to grow our market share and we also increased our market share in our wholesale business.

Outlook

Our strategy is to further consolidate our leading positions and focus on our core profitable activities while widening our logistics services and increasing the channels and countries that we access.

We will seek to identify further opportunities to grow our logistics business while maintaining our cost discipline.

Logistics

£ million	2011	Foreign exchange 2011	Constant currency 2011	Change at constant currency %	2010
Distribution fees	932	(1)	933	-0.3	936
Adjusted operating profit	183	–	183	4.0	176

Overview

Our logistics business is one of the largest in Europe, making around 40 million deliveries per year in Spain, France, Italy, Portugal and Poland.

We offer services across the whole logistics value chain to our customers, including order reception, storage and stock management, order preparation, transport and distribution, invoicing and collection and customer services. Our business has two key aspects – tobacco logistics and non-tobacco logistics.

Tobacco Logistics

Tobacco logistics delivers products for domestic and international tobacco companies, including Imperial Tobacco, to tobacconists and other sales outlets in Spain, France, Italy, Portugal and Poland. The business is run on an operationally neutral basis, providing individual customer solutions.

Non-Tobacco Logistics

Non-Tobacco logistics provides specialised services for customers in a number of different sectors in Spain, Portugal, France and Italy which includes convenience, telecommunications, transportation, pharmaceutical, publishing, and lottery. Our integrated logistics services

can assure full traceability throughout the entire logistics value chain, from pick-up and transport of the product at customers' factories to post-sale service.

We are market leaders in the distribution of convenience products to petrol stations in Spain, Portugal and France. Convenience products are also distributed to other points of sale in these countries and in Italy, including to tobacconists, bakeries and grocery stores.

We have an e-transaction business with our own technological platform for e-recharge, installed in the main network of points of sale including in tobacconists, kiosks and convenience shops in Spain, Portugal and France. In this area, different products are offered including telephone cards and transport tickets.

We are present in the transportation segment, through courier and industrial parcel activities in Spain and Portugal. Our long distance transport network across Europe allows us to provide our customers with integrated solutions for their logistics needs covering all services, from their factories to the point of sale. In addition, our logistics business is the leading logistics provider in Spain and Portugal in a number of sectors, including pharmaceutical and publishing.

¹ Percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.



“Our financial results reflect the sales momentum we are building across EU and Non-EU markets.”

Robert Dyrbus, Finance Director

Revenue

£ million	2011	2010
Tobacco	21,277	20,210
Logistics	8,911	8,980
Eliminations	(965)	(1,017)
Group revenue	29,223	28,173
Tobacco net revenue	6,913	6,793
Logistics distribution fees	932	936

Group Earnings Performance

£ million	Adjusted		Reported	
	2011	2010	2011	2010
Operating profit				
Tobacco	2,924	2,889	2,577	2,490
Logistics	183	176	67	36
Eliminations	(4)	2	(4)	2
Group operating profit	3,103	3,067	2,640	2,528
Net finance costs	(562)	(600)	(487)	(410)
Profit before taxation	2,541	2,467	2,153	2,118
Taxation	(617)	(637)	(337)	(596)
Profit for the year	1,924	1,830	1,816	1,522
Earnings per ordinary share (pence)	188.0	178.8	177.3	148.5

The analysis of our financial results below focuses on our adjusted measures, which reflect the way in which we manage the business, and provides a useful comparison of business performance.

Percentage growth figures for our adjusted results are given on a constant currency basis, where exchange translation (but not transactional) effects are removed by applying 2010 exchange rates to the 2011 results.

Revenue Performance

Growth in net revenue reflects overall volume growth in our strategic cigarette brands, fine cut tobacco, cigars and snus, as well as price increases and higher volumes in our non-EU markets, notably Asia-Pacific.

We grew our tobacco net revenue by 2 per cent while our logistics distribution fees were broadly in line with last year.

Group Earnings Performance

Adjusted operating profit was up by 1 per cent with good growth in Germany, Rest of EU, Eastern Europe and Asia-Pacific offset by the exceptional circumstances in Spain and the impact of trade buying patterns in the UK.

Tobacco adjusted operating profit was up 1 per cent with Logistics adjusted operating profit up 4 per cent as a result of increased efficiencies.

Adjusted net finance costs were down by 7 per cent, reflecting further repayment of bank debt partially offset by an increase in the average cost of net debt.

After tax at an effective rate of 24.3 per cent (2010: 25.8 per cent), adjusted earnings per share grew by over 5 per cent to 188.0 pence.

Reported earnings per share were 177.3 pence (2010: 148.5 pence), additionally reflecting fair value and exchange movements on financial instruments, amortisation of acquired intangibles, restructuring costs, the release of certain tax provisions and other adjusting items as outlined below.

A good financial performance

Reconciliation of Adjusted Performance Measures

	Operating profit (£ million)		Net finance costs (£ million)		Earnings per share (pence)	
	2011	2010	2011	2010	2011	2010
Reported	2,640	2,528	(487)	(410)	177.3	148.5
Acquisition accounting adjustments	–	24	–	–	–	2.0
Amortisation of acquired intangibles	402	451	–	–	32.1	37.1
Net fair value and exchange gains on financial instruments providing commercial hedges	–	–	(85)	(210)	(6.1)	(14.9)
Post-employment benefits net financing cost	–	–	10	20	0.6	1.3
Restructuring costs	61	64	–	–	4.3	4.8
Tax provision release	–	–	–	–	(20.2)	–
Adjusted	3,103	3,067	(562)	(600)	188.0	178.8

Reconciliation of Adjusted Performance Measures

Amortisation of acquired intangibles fell to £402 million (2010: £451 million) as a number of these assets became fully written down.

Net fair value and exchange gains on financial instruments providing commercial hedges included in reported net finance costs were £85 million (2010: £210 million).

The net financing cost of post-employment benefits amounted to £10 million compared with £20 million in 2010.

Restructuring costs of £61 million (2010: £64 million) include impairments of surplus properties in Spain, amounts relating to restructuring within the Americas, and manufacturing rationalisation in Spain.

The release of tax provisions of £205 million due to the resolution of certain prior year tax matters has significantly reduced our reported tax charge.

Net Finance Costs

£ million	2011	2010
Net finance costs	487	410
Net fair value and exchange gains on financial instruments providing commercial hedges	85	210
Post-employment benefits net financing cost	(10)	(20)
Adjusted net finance costs	562	600

Adjusted net finance costs were down from £600 million to £562 million, a reduction of 7 per cent. Reported net finance costs were £487 million (2010: 410 million). Our all in cost of debt was higher at 5.7 per cent (2010: 5.5 per cent), primarily reflecting the change in our debt mix. Our interest cover was 5.5 times (2010: 5.1 times).

Cash Flows and Financing

Our reported net debt was £9.4 billion, down £0.6 billion from £10.0 billion at 30 September 2010.

Eliminating accrued interest, the fair value of derivatives providing commercial cash flow hedges and finance lease liabilities, our adjusted net debt was £8.8 billion, down by £0.5 billion since 30 September 2010. This is after returning £1,073 million (2010: £773 million) to our shareholders during the year, comprising £181 million of share buybacks and dividend payments of £892 million. Our cash conversion rate at 88 per cent was below our target as a result of increased investment in plant and equipment to improve efficiency and support new product formats in growth areas, and also the unwinding of the £100 million Italian Logistics benefit we had in 2010.

The denomination of our closing adjusted net debt was 48 per cent euro, 16 per cent US dollar and 36 per cent sterling. As at 30 September 2011, we had committed financing facilities in place of around £12 billion. Some 21 per cent was bank facilities with the balance raised through capital market bond issues. We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Share Buyback Programme and Dividends

At our half year results in May, we announced a share buyback programme of £500 million on an annualised basis and plans to gradually increase our dividend payout ratio by steadily growing dividends per share ahead of adjusted earnings per share from next year.

We have increased our dividend payout ratio to 50.6 per cent of adjusted earnings per share and the Board recommends a final dividend of 67.0 pence per share. This brings the total dividend to 95.1 pence per share, an increase of 12.8 per cent.

During the year we spent £182 million including transaction costs, acquiring 8.7 million shares which are held as treasury shares. The average price paid was £20.84. At 30 September 2011, we held 57.0 million shares representing 5.3 per cent of our issued share capital.

A sustainable and responsible business



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Reflecting our belief that operating in a responsible manner is simply part of how we do business, we have again incorporated our corporate responsibility performance into our annual report to provide stakeholders with a comprehensive overview of our achievements.

Why is our Responsibility Strategy so important to us?

We recognise that as a global tobacco company our products are viewed as controversial. We also recognise the importance of manufacturing, marketing and selling our products in a way that is financially, socially and environmentally responsible. This approach underpins our growth strategy; it is an integral part of how we operate.

The supply chain for tobacco products from crop seed to shop shelf is global, involving hundreds of thousands of people worldwide. Millions of people choose to enjoy tobacco products on a daily basis. Smokers and other tobacco users are informed of health risks associated with the products they enjoy by Governments, health bodies and lobbying groups.

Society has a choice whether demand for tobacco products should be met illegally by criminals selling counterfeit or smuggled goods, or by tax-paying, well-governed companies which are committed to operating responsibly and working in partnership with stakeholders. These stakeholders are many and include employees, consumers, retailers, suppliers, regulators, government representatives, investors and people living in the communities connected to our operations.

We strongly advocate that it is better for both consumers and society if the demand for tobacco products is met by responsible companies such as Imperial Tobacco. Operating in a responsible manner is simply part of how we conduct business, underpins our long-term value creation and supports a sustainable business model. Our responsibility strategy focuses on four areas: making and selling responsibly, enabling our people, respecting natural resources and partnering with and contributing to society.

More information on our CR Strategy and our objectives for 2012 is available on our website www.imperial-tobacco.com/cr

2011 Highlights

We delivered particularly strong performances in strengthening our anti-illicit trade activities, raising standards for ethical sourcing with leaf suppliers, exceeding our 10-year targets for waste to landfill and energy usage and lowering our accident rates. We progressed 96 per cent of our public CR commitments.

Business in the

Community

We were awarded another Gold Award in the Business in the Community CR Index.



We achieved 71 per cent in the SAM assessment for the Dow Jones Sustainability Index.

Making and Selling Responsibly

We make and sell tobacco products responsibly. We focus on the quality of our products to delight consumers, minimise waste, optimise production costs and meet the specifications determined by national product regulation.

Anti-illicit Trade

We want to ensure that the tobacco industry meets the global demand for tobacco products rather than the criminals who operate in the illicit market.

Our anti-illicit trade activities protect the legitimate duty paid tobacco market. By actively tackling this problem we seek to regain some of the lost volume in legitimate duty paid cigarettes, contributing to our sales growth ambitions and protecting government revenues, the legitimate businesses of tobacco retailers and our consumers.

There are three elements to illicit trade:

- Contraband – genuine product imported/exported illegally to avoid local excise duties
- Counterfeit – fake tobacco products manufactured to look like our trademark brands
- Illicit whites – low cost legally produced cigarettes sold illegally outside their intended market

In 2011 we have seen the downward trend in contraband seizures continue as a result of further enhancing our security controls, while counterfeit seizures remained broadly unchanged from 2010. There has been a noticeable rise in illicit whites entering mature markets in Western Europe such as the UK, Ireland, France and Germany from Eastern Europe, the Middle East and Asia.

We have built on the co-operation agreement we signed in 2010 with the European Commission and EU Member States to jointly combat illicit trade. This has involved co-ordinated anti-illicit trade activity and information sharing with customs authorities and industry partners across the EU and neighbouring states. This agreement includes payments by Imperial Tobacco of \$300 million over 20 years to fund anti-illicit trade initiatives.

We extended our Memoranda of Understanding (MoUs) and co-operation agreements with national governments to tackle illicit trade, with MoUs signed in the Netherlands and Ukraine in 2011 bringing the total to 19 (2010: 18 agreements). Similar agreements are being sought in other markets.

We are implementing Track and Trace technology across our portfolio to enable us to track products through the supply chain from manufacturing to first customer and also trace any product back to source if it is found to have entered the illegal channel. A phased implementation over the next five years will see the technology rolled out at 14 of our manufacturing sites and up to 80 warehouses supplying approximately 20 markets in the EU and beyond.

Tobacco Regulation

As a leading multi-national business it is important our voice is heard. We have a responsibility to represent our own and our stakeholder interests and to inform the regulatory debate.

Tobacco regulation is constantly evolving and there are now very few countries globally that do not have some form of tobacco regulation.

The key drivers of regulation continue to be the World Health Organization (WHO) – through the Framework Convention on Tobacco Control (FCTC), the European Commission – through the European Union Tobacco Products Directive (EUTPD) – and national governments.

The European Commission launched a public consultation on their proposals for amending the EUTPD in September 2010. There were more than 80,000 responses – making it one of the most responded to public consultations ever run by the Commission. An Impact Assessment is currently being drafted by the Commission, which is expected to be published during the summer of 2012.

PRICEWATERHOUSECOOPERS

Key data reported in the annual report and accounts for the year to 30 September 2011 has been independently assured under the limited assurance requirements ISAE3000 standard by PwC. They have also been engaged to look at our alignment with AA1000AS (2008) principles of inclusiveness, materiality and responsiveness. The selected data covered by this assurance is clearly highlighted within the annual report on page 41 and also the information included in the Corporate Responsibility section of the website www.imperial-tobacco.com where their moderate assurance statement can be found. Earlier data was assured by another provider.

We have continued to engage with regulators and government authorities in support of reasonable and practical regulation, so that regulators can draw on our own unique commercial and technical knowledge and expertise.

We attended the WHO's 4th Conference of the Parties to the FCTC in November 2010 despite being excluded from participating at their various debates. Both ahead of and following the conference, we engaged with governments to inform them about our views on the different FCTC work streams. All Parties to the Convention will meet again in South Korea at the end of 2012.

We contributed to the debate around regulation by making numerous submissions to consultations at a local level in countries including the UK, Australia, the USA and New Zealand.

We have focused our efforts on the situation in Australia where the government has progressed its plans for the plain packaging of tobacco products. During the year we ran a high profile campaign in Australia against the plain packaging of tobacco products which included TV, radio and newspaper advertising, petitions and a dedicated campaign website.

Tobacco and Health

As a manufacturer of tobacco products, we employ scientists who monitor and review developments in the area of smoking and health to ensure we fulfil our duties as a responsible manufacturer.

During 2011 we continued to monitor research in areas relevant to tobacco by reviewing scientific literature, consulting with experts on emerging developments and attending conferences on a range of related topics.

We consider requests to fund research into the mechanisms of diseases associated with tobacco products. We do not seek to influence the results or the publication of such research. Some scientific researchers refuse to accept tobacco companies' funding. This is a matter of regret as we believe the area continues to require the attention of independent, academic science.

Improving Product Quality

We focus on product quality to meet the preferences of our consumers. Our product quality rating system (PQRS) is applied to all our factories and has been implemented in our tobacco processing sites this year.

Consumer insight in several regions across the world has enabled us to further improve quality and to better define consumer-driven quality standards.

The ISO 9001 management system provides our framework for quality. A total of 35 of our 51 factories are ISO 9001 certified, with projects underway to implement the standard in 10 other sites in 2012.

Ingredients Reporting and Assessment

Consumers and governments want to know what is in our products. We therefore support transparency with our approach to ingredients reporting. We provide regular submissions to individual governments on the ingredients used in our tobacco products and made 48 submissions in the year.

Reporting has grown to more than just providing details of the ingredients we use and we now provide technical information about our products in a number of countries.

Consumers are able to access ingredient information for a number of our products via our website www.imperial-tobacco.com under 'About tobacco'. We plan to provide information on the ingredients used in a wider range of our products on our website in 2012.

We monitor alleged incidents of non-compliance with technical product regulations and voluntary codes and comply with government regulations on tobacco product ingredients. In countries where no regulations exist we conform to international standards.

Youth Smoking Prevention

We believe that the decision to enjoy tobacco products is a choice for adults and adults only.

Many markets continued to participate in youth access prevention activities including communication of minimum age at point of sale campaigns and specific examples are available on our website.

Marketing Standards

We take care not to make our products attractive to children. We have our International Standard for the Marketing of Tobacco Products (IMS) to ensure we market our products responsibly. All Regional Directors have confirmed compliance to our IMS in markets worldwide.

We continue to monitor a few alleged breaches of marketing related regulations, voluntary codes and agreements.

Making and Selling Responsibly: Anti-illicit trade activities in Burkina Faso

Imperial Tobacco's subsidiary in Burkina Faso, MABUCIG, has been working closely with the authorities in the West African nation to tackle the trade in illicit cigarettes.

More than 169,000 cartons of smuggled cigarettes have been seized and confiscated by the Government's anti-illicit trade body in recent months and then destroyed.

Anti-illicit trade actions such as this are important to protect legitimate trade, government revenues, tobacco retailers and consumers.

Making and Selling Responsibly: Digital Tax Verification

Digital Tax Verification (DTV) is a joint industry initiative which supports our overall strategy to tackle illicit trade by replacing paper tax stamps with government-authorised unique codes printed directly onto packs.

The 'tax paid' status is verified and enables all supply chain stakeholders to confirm the authenticity of genuine tobacco products.

Unlike paper stamps, which can be copied or stolen, the DTV system Codentify provides a more secure and cost effective system of verification.

Trials of Codentify are taking place in a number of markets in order to demonstrate its effectiveness.

Enabling our People

Our people make our strategy happen. Business success is achieved when employees are enabled to do their very best. We must enable our people by providing safe well-equipped working environments, clearly defining performance expectations and motivating them to do their best work by listening to their needs, rewarding them fairly, developing their talents and respecting people as individuals.

We continue to focus on employee engagement, personal development, motivation, fairness and productivity to encourage our employees to excel at what they do.

We completed our first engagement survey across our management team and were very encouraged by the 85 per cent response rate and an engagement score of 59 per cent, which was higher than the benchmark for other similar FMCG companies.

Results from the survey have shaped a number of performance improvement and development initiatives.

In March 2011, our European Employee Forum (EEF) and the Comité d'Entreprise Européen du Groupe Altadis (CEECA) were combined to form the Imperial Tobacco European Employee Works Council (ITEEWC). The first meeting of the ITEEWC will be held in December 2011, bringing together senior executives and employees to discuss transnational issues affecting employees in Europe and share information on the performance of the company.

We have chosen not to report employment practice data for this financial year, whilst improvements are being implemented and indicators validated. We aim to report our revised employment practice indicators in 2012 to cover performance management, equal opportunities, employee representation, grievances and disciplinary actions.

Diversity and Equality

Appointing the best people, regardless of gender, race, religion, age, sexual orientation or disability, is crucial. We appoint people purely on merit and seek to attract highly skilled people to deliver our sales growth strategy. We encourage a diverse workforce by ensuring non-discrimination and equality.

Workplace Health & Safety

We are committed to continuous improvements in our Occupational Health and Safety (OHS) risk controls. Our Chief Executive is responsible for OHS and chairs a steering group of senior managers to deliver improvements throughout the business.

Senior managers across the Group receive quarterly OHS update reports to highlight areas of concern and share best practice.

Our overall accident rate continues to improve in manufacturing and we want to improve further in the rest of our business. Our verified lost time accident frequency rate for 2010 was 1.29 compared to 1.57 in 2009. Provisional data for 2011 indicates that our occupational health and safety performance made further good progress.

Regrettably there was one fatality in the year when a haulage contractor delivering to our ADF Le Mans site in France was crushed between the rear of his vehicle and a loading bay. Detailed safety guidance was issued Group-wide.

We completed the global rollout of our 'Deal With It' behavioural safety training programme involving more than 10,000 employees and contractors on four continents. The interactive programme was one of the largest training programmes we have undertaken. In addition, we have put in place new near miss reporting and incident review processes to sustain the training programme and staged an international safety quiz for manufacturing employees.

Ten more production sites have achieved OHSAS 18001 certification of their management systems following independent external audits in this financial year.

This financial year we have continued to invest in manufacturing equipment at cigarette production sites in Africa as we aim to bring them up to the standards of our European factories. Our logistics operations and our cigar factories have been an area of OHS focus which will continue in 2012.

Social Assessment and Human Rights

Ensuring our people are treated fairly and with respect is important to us in terms of having a motivated workplace. We have completed our assessment programme focused on manufacturing sites in countries deemed medium to high risk in terms of human rights. The assessments were conducted as guided by the SA8000 international social accountability standard.

During 2011 we concluded a combination of site visits and desk-based reviews to ensure our operations are in line with international standards, covering employee welfare issues such as working hours, grievance management and employee representation. Our assessments confirmed that local employment practices are aligned with our Group policies.

Code of Conduct

Our Code of Conduct defines our expectations for standards of behaviour. It is important employees know the boundaries in which to make balanced commercial decisions and support our business integrity. The roll out of our enhanced code is ongoing with the text translated into 18 key languages.

During 2011 we continued face-to-face workshops covering the priority risk topics. These workshops have now been delivered to over 2,000 managers in face-to-face training and we have trained over 100 facilitators. We are developing an e-learning system which we will progress further in 2012.



Enabling our People: Imperial Tobacco Spain and Poland

Our Spanish and Polish operations have both been recognised in 2011 as being among the best companies to work for in each country.

The Top Employers awards were made by the Corporate Research Foundation (CRF) Institute, an independent organisation that champions best practice in business.

The CRF Institute identifies top performers in the areas of human resources, leadership and strategy and currently operates in 12 countries.

Companies were scored on a range of issues including employee benefits, training and development programmes, career initiatives, working conditions and corporate culture.



Enabling our People: Safety Pin Competition

A Group-wide competition to reinforce the importance of workplace health and safety in our factories was a huge success with our employees.

More than 700 employees from nine of our production sites in eight different countries took part in the 'Safety Pin' initiative with teams competing against one another in a test of their OHSE knowledge, understanding and practical skills.

Respecting Natural Resources

We are reliant on tobacco leaf as an agricultural product, wood for paper and packaging in our products and water to first grow and then process our tobacco. Respecting natural resources brings us opportunities to protect ourselves against the unpredictability of climate change and the associated increase in carbon regulation.

Climate Change

We remain committed to further reducing our carbon footprint. Our goal is to reduce energy usage by 20 per cent by 2020. Our climate change strategy is focused on reducing our impact through energy conservation, lower carbon technologies, renewable energy and carbon offsetting.

We are concentrating on energy efficiency improvements through independent energy audits and guaranteed savings contracts. Trials of this approach are underway at two sites – Logroño in Spain and Radom in Poland – before we extend Group wide.

We will invest in renewables when commercial opportunities arise. For example, this year we invested in a solar installation at our factory in Reidsville in the USA and a ground source heat pump system at our Joure factory in the Netherlands.

Further details of our climate change risks, opportunities and performance are available at www.imperial-tobacco.com.

Carbon Disclosure Project

Carbon management is a key element of our response to climate change. The Carbon Disclosure Project (CDP) helps inform and focus our approach. We have participated in the CDP since its inception. The organisation is used by most institutional investors and global companies as the leading database for companies to share details of climate change risks, opportunities and performance. In 2011, our CDP score improved from 63 to 71.

We are also founder members of the CDP Supply Chain initiative, engaging with strategic suppliers, to identify shared saving opportunities to reduce the impact of climate change. Participating companies share data on a common platform and also share best practice. We hosted a number of collaborative events to encourage others in our sector to also use this platform to share data and streamline supplier engagement on carbon management.

Further details are available from the Carbon Disclosure Project website.

Environmental Performance

Our manufacturing process uses energy and water and creates waste. Minimising our environmental impact and seeking sustainable solutions can bring us benefits in terms of cost-savings through efficiency, improving the quality and availability of our tobacco supply and simply getting more for less.

We made good progress in 2010 and exceeded our 10-year targets. We reduced energy use by 13 per cent, and made excellent progress with our waste to landfill down by 27 per cent. We also reduced our overall water consumption, which was down by 15 per cent. During 2011 we strengthened our approach to energy saving with, for example, the renewable energy investments in Reidsville and Joure. We are also pleased that progressing our environmental management systems is positively reducing water usage.

As part of our approach to sourcing tobacco leaf responsibly and ensuring its sustainable supply, we are investigating the environmental impact of tobacco growing and the initial results have been encouraging. This work is still in its early stages and we have been very pleased to receive the full co-operation of our major tobacco suppliers.

We have continued to extend ISO 14001 accreditation of environmental management standards across our manufacturing sites; 72 per cent of our manufacturing sites have now achieved certification. The latest to receive certification include facilities in Taiwan, Reidsville (USA) and Gabon.

In addition, we have conducted environmental audits across our cigar manufacturing business to identify opportunities to reduce our impact and have benchmarked our environmental standards against those used by comparable FMCG equivalents to ensure our reduction targets remain meaningful.

Looking ahead we have developed a new energy baseline for comparison as well as clearer units of measure and we will be able to publish those figures in 2012.

Respecting Natural Resources: Water Conservation

We are supporting an initiative in southern Brazil to encourage leaf growers to help conserve the region's water resource.

The Water Guardian Project was launched in May this year in the Rio Pardo basin – an important leaf sourcing area for Imperial Tobacco.

This five-year project, in conjunction with one of our key supply partners, will reward farmers in the area who cut down on their water usage.



Respecting Natural Resources: Reidsville Solar Power

The largest solar panel installation within the Group has been installed at our Reidsville factory in the USA.

The system uses around 800 silicon roof panels and generates enough energy at its peak for almost 1,700 100W light bulbs.

The system cost around \$800,000 to install – a quarter of which was funded by a federal government grant designed to encourage companies to use solar power.

The income derived from selling the renewable energy and the benefit of tax credits mean the project will pay for itself in just four years.

Partnering with and Contributing to Society

Our operation and value chain is extensive and involves many stakeholders globally. We seek to exert our influence in partnerships to improve standards to ensure that discussions that concern the tobacco industry are informed and balanced.

Our Supply Chain

Our main supplier engagement and assessment programmes are Social Responsibility in Tobacco Production (SRiTP) for tobacco suppliers and the Supplier Qualification Programme for the supply of non-tobacco materials.

We work with suppliers and business partners to tackle issues such as deforestation, environmental protection, child labour, sustainable development and poverty alleviation.

The majority of the tobacco we use is purchased through the leading international leaf supplying companies – only a small amount is purchased directly from growers. All of our tobacco suppliers participate in the SRiTP programme.

Evaluation of our supplier SRiTP self assessment for 2011 indicates an average score of 63 per cent which specifies a good level of risk management and an improvement since last year. We continue to work with lower scoring performers to drive improvements. Our approach is to work with suppliers to ensure compliance but if a supplier fails to meet our standards we will consider ending the business relationship.

We continued our support of the Eliminating Child Labour in Tobacco (ECLT) Foundation, of which we are a board member. The ECLT works with communities in tobacco producing regions to address the underlying causes of child labour. Given the importance of this partnership we increased our financial commitment during the year.

We continued to focus on the challenge of sustainable wood-supply for tobacco curing, which includes issues such as biodiversity and climate change. We have engaged with our suppliers on this issue, appointed new management resource and are targeting an improvement in performance with our suppliers in this area.

For non-tobacco materials, 100 per cent of our strategic suppliers have been part of our Supplier Qualification programme, which includes social and environmental criteria. Nineteen supplier audits were completed in 2011. Audit results and required actions are detailed for individual suppliers and assessed against our own standards as well as ISO 9001 for quality and ISO 14001 for environment.

Our relationships with suppliers support our anti-illicit trade initiatives and help them to comply with the high standards set out in our Code of Conduct.

Partnership Investment

We have revised our approach to community investment to better focus on supporting countries of need and those which are most important in terms of tobacco supply and our business presence.

We allocated around £3 million to partnership investment in 2011 as well as the management time involved to maximise the benefits from our involvement.

During the year our employees also gave their time during normal working hours to contribute to local community programmes in a number of countries.

More information and examples of what we do are available on our website.



Partnering with Society: Imperial Tobacco in Bristol

In August this year litter was collected from the streets by a team of around 60 Imperial Tobacco employees in Bristol.

The litter-picking exercise underlined Imperial Tobacco's ongoing support for the 'Love Where You Live' campaign operated by the UK charity Keep Britain Tidy.

The campaign, backed by a number of high-profile FMCG companies, highlights the litter problem as one we have a collective responsibility to address.



Partnering with Society: Reforestation Scheme in Poland

Volunteers from our Tarnowo factory supported a project to replant a woodland area damaged in floods last year.

A group of Imperial Tobacco employees planted the trees in the Kobylepole Forest near Poznań.

The 'Plant a Tree with Us' campaign was organised in partnership with the Babki Inspectorate of Forests as part of a wider regional reforestation scheme.

Our Polish employees also collaborated with the Inspectorate on a separate scheme to feed forest animals affected by adverse weather conditions.

Performance indicator ^{1,2}	Unit	FY 2008	FY 2009	FY 2010	FY 2011
Product stewardship:					
Number of countries for which cigarette ingredients are published on Imperial Tobacco corporate website ³	Number	36	36	34	34
Robust processes:					
Factories that have independent OHS audits (3-year rolling programme) includes OHSAS 18001 surveillance ⁴	% factories	77	90	100	100
Factories that have independent environmental audits (3-year rolling programme) includes ISO 14001 surveillance	% factories	74	81	86	90
Environment:⁵					
Factories with ISO 14001 at the time of reporting ⁶	% (ratio)	74 (23/31)	66 (37/56)	69 (35/51)	72 (36/50)
Environmental waste – tobacco factories only ⁷	Tonnes/MCE	0.108	0.123	0.130	
Environmental waste – manufacturing sites and main offices ⁷	Tonnes	50,023	54,966	57,455	
Environmental waste to landfill – tobacco factories only	Tonnes/MCE	0.018	0.020	0.020	
Environmental waste to landfill – manufacturing sites and main offices	Tonnes	8,663	8,843	8,608	
Energy consumption – tobacco factories only	KWh/MCE	2,039	1,938	1,962	
Energy consumption – manufacturing sites and main offices	GWh	862	855	856	
CO ₂ equivalent emissions from energy consumed – tobacco factories only ⁸	Tonnes/MCE	0.486	0.607	0.616	
CO ₂ equivalent emissions from energy consumed – manufacturing sites and main offices ⁸	Tonnes	254,965	265,978	267,095	
Supplier social responsibility:					
Social Responsibility in Tobacco Production (SRiTP) progress – total weighted mean ⁹	%		60	63	
Manufacturing's non-tobacco materials suppliers covered by Supplier Qualification Programme	%	N/R	100	100	100
Partnership investment:					
Community investment donations (spend) ¹⁰	£m	2.4	3.0	3.1	3.1
Employment practices:¹¹					
Sickness absence (days sickness/average number working days) incl. non-work-related and work-related absence ¹²	%	2.96	3.93	3.73	2.97
Occupational health and safety:¹³					
Lost time accident frequency rate ¹⁴	Per 200,000 hours	1.56	1.57	1.29	
Combating smuggling and counterfeit:					
Total number of memoranda of understanding and cooperation agreements on combating smuggling and counterfeit signed with governments	Number	15	16	18	19

- 1 We have reviewed our performance indicators to ensure we have measures appropriate for the enlarged Group. We aim to report data for the new set of indicators in our 2012 report.
- 2 Due to the increased scale and scope of our organisation following the Altadis acquisition in January 2008, care should be taken when comparing data with previous years.
- 3 Cigarette ingredients information for New Zealand and Moldova has been temporarily removed from our website, pending update of product descriptors.
- 4 Nine of the OHS audits were conducted by Group OHS Specialists.
- 5 Environmental data is reported 12 months in arrears to allow for data collection and verification. Efficiency measures relative to tobacco production are expressed as per million cigarette equivalents (MCE). FY 2010 data covers all our manufacturing sites except non-EU cigar factories (reporting for FY 2011), and excludes our logistics business. FY 2010 data has been assured by PricewaterhouseCoopers LLP under the limited assurance requirements of the ISAE3000 standard; please see Reporting Criteria document and Assurance Statement available on the website.
- 6 ISO 14001 data for 2008 excludes the Altadis factories. Data for 2011 excludes Bristol Cigar factory.
- 7 Increase in waste in 2010 was largely due to substantial construction waste as a result of restructuring.
- 8 We use the GHG Protocol and UK DEFRA guidelines to inform our reporting; elimination of the external reporting factors shows that CO₂ emissions from our energy use generally achieves a similar 10 year reduction to our energy use.
- 9 100% of tobacco suppliers participate in the SRiTP programme.
- 10 Community investment donations do not include value of employee time, in-kind contribution or management costs.
- 11 Employment indicators are under review therefore data is unavailable for FY 2011, except sickness absence data.
- 12 2011 sickness absence data covers the majority of employees, excluding Logistics.
- 13 OHS data is reported 12 months in arrears to allow for data collection and verification. 2010 data covers the majority of employees, excluding Logistics, JR Cigars and joint ventures.
- 14 Lost time accidents are work-related accidents resulting in absence from one or more scheduled workdays or shifts. FY 2010 data has been assured by PricewaterhouseCoopers LLP.

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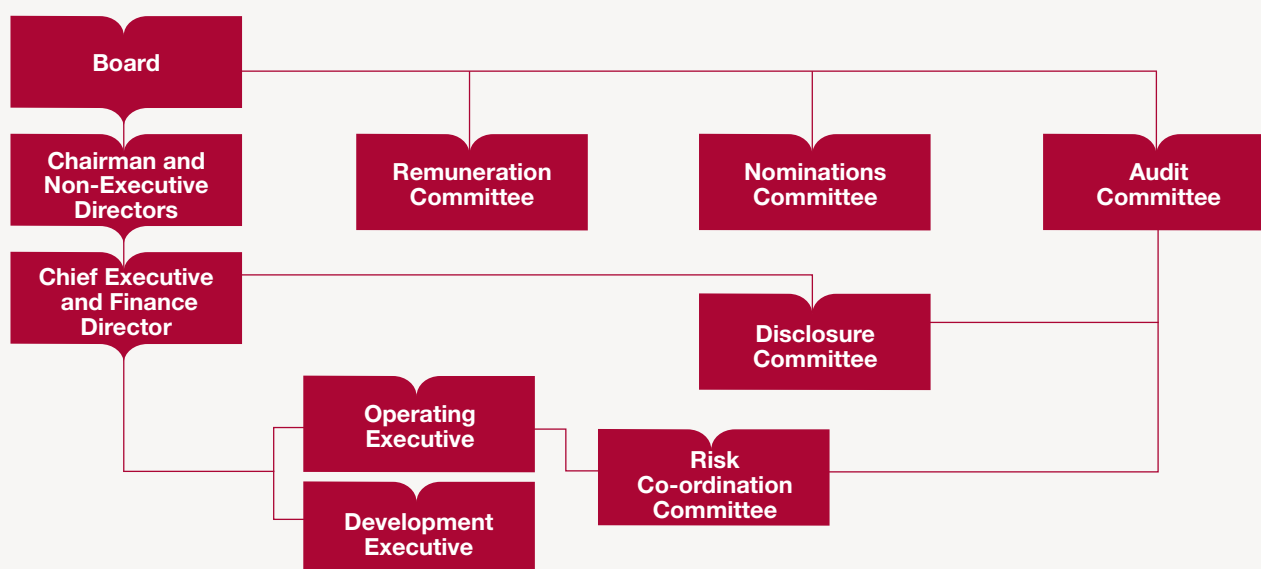


“Our sales growth strategy is supported by our embedded high standards of corporate governance and our strong management team.”

Iain Napier, Chairman



Management and Corporate Structure



We remain committed to high standards of corporate governance and we support and apply the principles of good governance advocated by the UK Corporate Governance Code (the Code). It is the Board's view that the Company has been fully compliant with the Code throughout the 2010/2011 financial year. The Code is available on the Financial Reporting Council's website www.frc.org.uk.

Good governance is, however, more than just complying with codes and guidelines. It is about ensuring we have the right management structures and processes in place to support our strategy and secure our long-term sustainability by:

- ensuring good governance is embraced throughout the organisation;
- maintaining controls which provide an environment that allows effective decision making whilst minimising unacceptable risk;
- keeping an appropriate balance between Executive and Non-Executive Directors with the skills to constructively challenge key decisions;
- aligning the interests of shareholders, other stakeholders and management; and
- being transparent with our shareholders and other stakeholders and providing the information they need to judge the performance of both the business and its management.

This report also includes the information required by Disclosure and Transparency Rule (DTR) 7.2 to be contained in the Company's corporate governance statement, with the exception of the information required by DTR 7.2.6, which is located on page 118.

Iain Napier
Chairman

Our Board of Directors

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1. Iain Napier, FCMA

Chairman

Appointment: Appointed Chairman, January 2007. Non-Executive Director from March 2000.

Committee membership: Chairman of Nominations Committee. **Skills and experience:** Iain was formerly main board Director of Bass PLC, Chief Executive of Bass Leisure and then of Bass Brewers and Bass International Brewers. He was then Vice President UK and Ireland for Interbrew SA until August 2001. He was Chief Executive of Taylor Woodrow International Housing and Development from 2001 to 2005. **External appointments:** Non-Executive Chairman of McBride PLC and John Menzies plc, and a Non-Executive Director of Molson Coors Brewing Company and William Grant & Sons Holdings Limited.

2. Alison Cooper, BSC, ACA

Chief Executive

Appointment: Appointed Chief Executive, May 2010. **Skills and experience:** Alison has held a number of senior roles in the Group including Director of Finance and Planning, Regional Director Western Europe, Corporate Development Director and Chief Operating Officer. Previously she was with PricewaterhouseCoopers where she had worked with Imperial Tobacco for several years in a number of areas, including acquisitions. **External appointments:** Non-Executive Director, Inchcape plc since July 2009.

3. Robert Dyrbus, BSC, FCA

Finance Director

Appointment: Appointed Finance Director on demerger in 1996. **Skills and experience:** Robert was Finance Director of Imperial Tobacco Limited from November 1989 and was one of the three-man Hanson team involved in the strategic reorganisation of the Group. Since then he has played an integral part in shaping the strategic direction of the Group. **External appointments:** No external Director appointments.

4. Pierre Jungels, CBE (HON), PHD, C ENG

Senior Independent Non-Executive Director

Appointment: Appointed Non-Executive Director, August 2002. Pierre will retire from the Board at the conclusion of the 2012 AGM and will not be seeking re-appointment. **Committee membership:** Nominations Committee, Audit Committee and Remuneration Committee. **Skills and experience:** Pierre has held numerous senior international positions within the oil industry with Shell International, Petrofina SA and British Gas PLC. He became CEO of Enterprise Oil in 1996, leading the business to substantial geographic and financial growth until retirement in November 2001. **External appointments:** Chairman of Oxford Catalyst Group PLC, Director of Baker Hughes Inc, Chairman of Rockhopper Exploration PLC and a Non-Executive Director of Woodside Petroleum Ltd.

5. Ken Burnett, MA, MBA, PHD, M Inst M

Non-Executive Director

Appointment: Appointed Non-Executive Director, April 2006. **Committee membership:** Nominations Committee. **Skills and experience:** Ken is an independent management consultant and a co-founder and Director of K-Energy, an alternative energy company. He was President, Asia-Pacific of Allied Domecq from 1996 until its acquisition by Pernod Ricard in 2005. Prior to joining Allied Domecq, he held senior management positions in the Asia Pacific region with Seagram, Interbrew and International Distillers & Vintners Ltd (now part of Diageo plc). **External appointments:** Director of K-Energy Pty Limited and Elemental Energy Technologies Limited.

6. Michael Herlihy, MA (Oxon), Solicitor

Non-Executive Director

Appointment: Appointed Non-Executive Director, July 2007. **Committee membership:** Chairman of the Remuneration Committee and Member of the Nominations Committee and the Audit Committee. **Skills and experience:** Michael was formerly General Counsel and Head of Mergers and Acquisitions for ICI PLC with overall responsibility for corporate acquisitions and divestments and has extensive experience of both private and public market transactions. **External appointments:** Serves on the Board of Compass Partners International LLP and is currently General Counsel of Smiths Group plc.

7. Susan Murray

Non-Executive Director

Appointment: Appointed Non-Executive Director, December 2004. **Committee membership:** Nominations Committee, Audit Committee and Remuneration Committee. **Skills and experience:** Susan was a board member at Littlewoods Limited from October 1998 until January 2004, latterly as Chief Executive of Littlewoods Stores Limited. Prior to this she was worldwide President and Chief Executive of The Pierre Smirnoff Company, a part of Diageo plc. Susan is also a former Non-Executive Director of SSL International plc, Aberdeen Asset Management PLC, Wm Morrison Supermarkets plc and a former council member of the Advertising Standards Authority. **External appointments:** Non-Executive Chairman of Farrow & Ball and Non-Executive Director of Pernod Ricard SA, Compass Group PLC and Enterprise Inns Plc. Susan is also a fellow of the Royal Society of Arts.

8. Berge Setrakian

Non-Executive Director

Appointment: Appointed Non-Executive Director, June 2008. **Committee membership:** Nominations Committee. **Skills and experience:** Berge is a senior partner in the law firm Dewey & LeBoeuf LLP and has extensive expertise in international transactions. He was a Non-Executive Director of Altadis, S.A. having been appointed in May 2004 and

was a Non-Executive Director of Investcom, a telecommunications company which was acquired in 2006 by MTN, a Johannesburg-based company. Berge is currently the Executive Chairman and CEO of AGBU, the largest philanthropic Armenian organisation in the world. He also serves as a Non-Executive Director on various not for profit organisations. **External appointments:** Non-Executive Director of Interaudi Bank of New York, Executive Chairman and CEO of AGBU, Non-Executive Director of The Morganti Group, Inc.

9. Mark Williamson, CA (SA)

Non-Executive Director

Appointment: Appointed Non-Executive Director, July 2007. **Committee membership:** Chairman of the Audit Committee and Member of the Nominations Committee and Remuneration Committee. **Skills and experience:** Mark has considerable international financial and general management experience. He joined International Power in 2000 as Group Financial Controller and was appointed to the board as Chief Financial Officer in 2003. Previously, he was Group Financial Controller and Group Chief Accountant at Simon Group, the engineering and bulk chemicals storage group. **External appointments:** Chief Financial Officer of International Power plc.

10. Malcolm Wyman, CA

Non-Executive Director

Appointment: Appointed Non-Executive Director, October 2011. **Committee membership:** Nominations Committee, Audit Committee and Remuneration Committee. **Skills and experience:** Malcolm was formerly Chief Financial Officer of SAB Miller plc. He joined the company in 1986 and the board as Corporate Finance Director in 1990. The company was listed on the London Stock Exchange in 1990 and he became Chief Financial Officer in 2001. His responsibilities included the group's finance operations, corporate finance and development, and group strategy. **External appointments:** Senior Independent Non-Executive Director of Nedbank Group Limited and a Non-Executive Director of Tsogo Sun Holdings Limited, both listed on the Johannesburg Stock Exchange.

11. Matthew Phillips, LLB

Group Corporate & Legal Affairs Director and Company Secretary

Appointment: Appointed Company Secretary, October 2004 and Group Corporate & Legal Affairs Director, October 2010. **Skills and experience:** Matthew joined Imperial Tobacco's legal department in 2000 and was closely involved in the acquisitions of Reemtsma and Altadis. Previously he worked for law firms Linklaters and Burges Salmon. He was appointed General Counsel in November 2007 and subsequently Group Corporate and Legal Affairs Director in October 2010.

Our commitment to maintaining high standards of corporate governance and business conduct remains fundamental to ensuring our long-term sustainability.

The Board and the Group's Key Committees

Board

At 30 September 2011 our Board was made up of nine people: our Chairman, Chief Executive, Finance Director and six independent Non-Executive Directors. The Board met six times during the year.

We believe that it is vital to our on-going development and long-term sustainability that our Directors have the right mix of backgrounds and experiences. The biographies of our Directors at 30 September 2011, on page 45, demonstrate such a mix including detailed knowledge of the tobacco industry, the wider fast-moving consumer goods (FMCG) sector and a wide range of international business and financial experience. Directors during the year to 30 September 2011 are shown on page 49.

On 3 October 2011, to further strengthen the Board, we appointed Malcolm Wyman as a Non-Executive Director. Mr Wyman, a chartered accountant, brings considerable international experience in driving growth in the FMCG industry.

Board Operations

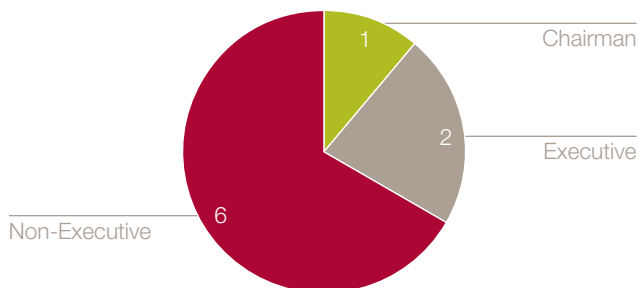
Our Board manages overall control of the Group's affairs. Key to this control is the schedule of matters which are reserved for consideration by our Board and on which any final decision must be made by the Board. These include approving our strategy, corporate plans, major corporate activities, financial statements, payment of dividends and the appointment or removal of Directors and the Company Secretary.

All Directors are equally accountable for the long-term interests of our shareholders and take account of the wider interests represented by our employees, customers and suppliers. All Board and Committee meetings during the year were held in an open atmosphere with chairmen encouraging robust and constructive challenge and debate.

The open atmosphere enabled our Non-Executive Directors to use their judgement, experience and independence to critically review and, where appropriate, challenge strategies proposed by management. This ensures the further development of our business, effective use of our resources and that we maintain our high standards of conduct. Where appropriate, papers presented to our Board include environmental, community, ethical and reputational issues, fully integrating them into our decision making and risk assessment processes. In 2011 the Board considered the retirement and appointment of Directors, our corporate and annual plans, our funding arrangements (specifically refinancing through Bond issues) and the outcome of the Board evaluation. In addition, as part of the strategy meeting senior managers from across the business presented on key strategic issues.

By reviewing the Group's results at each Board meeting we ensure Directors are kept informed of our progress. Between meetings, Directors are supplied with monthly performance reports, including detailed commentary and analysis. Directors were fully informed of all Committee matters by the Committee chairmen reporting on the proceedings of their Committee at the subsequent Board meeting, with copies of Committee minutes distributed to all Directors.

Balance of Executive and Non-Executive Directors



Our Non-Executive Directors play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee are considered below, together with a record of each Director's attendance.

To ensure Directors are kept up-to-date on developing issues and to enhance the overall effectiveness of the Board and its Committees, our Chairman and chairmen of the Committees communicate regularly with the Chief Executive and other members of the Operating Executive.

Chairman and Chief Executive

Our Chairman and Chief Executive have clearly defined and separate responsibilities whilst retaining a close working relationship. They meet regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making. They are responsible to our shareholders for the successful delivery of our strategy.

Through his effective leadership of the Board, our Chairman ensures all Directors are able to effectively contribute to discussions such that we fully benefit from their wide range of skills and experience. The Chairman, supported by our Senior Independent Director, is responsible for our effective communication with our shareholders and ensuring they can raise any concerns.

Our Chief Executive, supported by the Operating Executive and the Development Executive, is responsible for developing our strategy and presenting it to the Board, the successful implementation of the agreed strategy and the day-to-day operational leadership of the Group.

Non-Executive Directors

We see having a Board with the right skill set as vital to our on-going success. Our Non-Executive Directors bring a diverse range of business and financial expertise to the Board, which complements and supplements the expertise of the Executive Directors. This range of expertise and experience enables them to evaluate information provided and constructively challenge management's viewpoints and assumptions.

Following the annual Board evaluation, page 48, the Board concluded at its meeting in September 2011 that all our Non-Executive Directors continue to contribute effectively and constructively to Board debate, to demonstrate commitment to their role, to objectively challenge and robustly question management and at all times to have the best interests of our shareholders in mind.

We, therefore, confirm that, with the exception of our Chairman, who met the independence criteria of the Code on appointment, our Non-Executive Directors remain independent as defined in the Code.

Conflicts of Interest

To address the provisions of Section 175 of the Companies Act 2006 (the Act) relating to conflicts of interest, our Articles of Association allow the Board to authorise situations in which a Director has, or may have, a conflict of interest.

Directors are required to give notice of any potential situational and/or transactional conflicts which are considered at the following Board meeting and, if considered appropriate, situational conflicts are authorised. We do not allow any Director to participate in such considerations or to vote regarding their own conflicts.

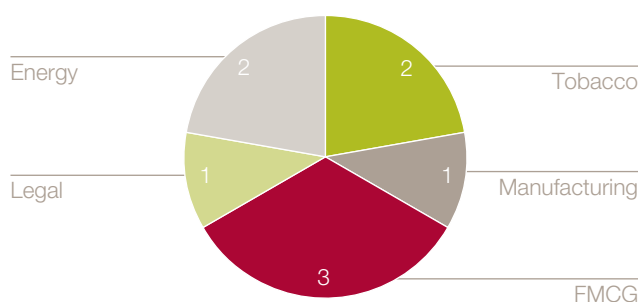
The Board has considered and authorised a number of situations all of which relate to the holding of external directorships and have been entered in our Conflicts Register. No actual conflicts have been identified. The Board considers that these procedures operate effectively.

As part of our annual review process, during the Board meeting in September 2011 we reviewed and reconsidered all situations entered in the Conflicts Register.

In order to underpin his independence we entered into an agreement with Mr B Setrakian on 25 June 2008 to minimise the risk of any conflict of interest between Dewey & LeBoeuf LLP, of which he is a partner, and the Company. This agreement remains in full force and effect and the Board confirms his compliance with its terms and, therefore, his continued independence.

Following the annual review the Board is satisfied there is no compromise to the independence of those Directors who have board appointments or relationships with companies outside the Group.

Director Industry Background/Experience



Information, Support and Professional Development

New Directors receive a detailed induction and briefing programme, tailored to their needs, which includes site visits and meetings with our advisers and key senior managers. These meetings include briefings on strategy, operational issues, corporate responsibility and corporate affairs issues, legal matters, product stewardship, environmental management, social impact, scientific and regulatory affairs and commercial risk management.

No training needs were identified this year, although on-going training is available to all Directors to meet their individual needs. We also provide regular briefings to Directors on relevant issues such as legislation and regulation changes and corporate governance developments.

Members of our Audit and Remuneration Committees received briefings from our Auditors and remuneration adviser respectively to ensure they remain up-to-date with current regulations and developments.

Our Directors can also seek independent professional advice, at our expense, if they think this is necessary for them to carry out their responsibilities. They also have access to the advice and support of our Group Corporate and Legal Affairs Director, who is also the Company Secretary, and, where appropriate, the services of other employees, for all governance and regulatory matters.

Performance Evaluation

In order to continue to obtain the maximum benefit from our annual Board performance evaluation, new external facilitators, who have no other connection with the Group, were appointed to provide varying skills and a new focus for the 2011 Board evaluation.

The facilitators obtained feedback from each Director through detailed questionnaires (individual and collective), interviews and attendance at a Board meeting. The feedback was collated into a report which was presented to the Board and used as the basis for one-to-one discussions between the Chairman and each Director.

Our Senior Independent Director met with the Non-Executive Directors and the Board, without the Chairman present, to consider the performance of the Chairman.

The results of these meetings and the evaluation formed the basis of a one-to-one meeting between our Senior Independent Director and Chairman.

The Chairman held meetings with the Non-Executive Directors to consider, amongst other things, the performance of the Executive Directors.

The main areas identified for review were the future size and structure of the Board, including the on-going succession plans for Directors approaching retirement, ensuring the continuing development and delivery of the Group's strategy together with the further alignment of the Group's remuneration policies to support this strategy.

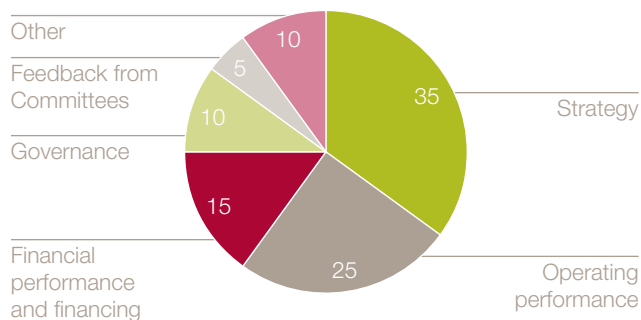
The evaluation did not identify any significant areas for concern nor any requirement to provide extra training for our Directors and, as such, the Board and its Committees are satisfied they are operating and performing effectively. The evaluation also confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees and that it remains appropriately constituted.

To address the issues identified in the 2010 Board evaluation, during the year the structure and succession plans of the Board were reviewed together with the skill sets required of any potential new non-executive directors.

Insurance

We have purchased and, throughout the year, maintained appropriate insurance cover in respect of Directors' and Officers' liabilities. The Company has also entered into qualifying third party indemnity arrangements for the benefit of all its Directors, in a form and scope which comply with the requirements of the Act. These indemnities were in force throughout the year and up to the date of this Report.

How the Board Spends its Time (%)



Structure of the Board and Board Committees

Board	Nominations Committee	Audit Committee	Remuneration Committee
Iain Napier (Chairman) Alison Cooper <i>(Chief Executive)</i> Graham Blashill <i>(to 15 February 2011)</i> Ken Burnett Robert Dyrbus Michael Herlihy Pierre Jungels <i>(Senior Independent Director)</i> Susan Murray Berge Setrakian Mark Williamson Matthew Phillips <i>(Secretary)</i>	Iain Napier (Chairman) Ken Burnett Michael Herlihy Pierre Jungels Susan Murray Berge Setrakian Mark Williamson Matthew Phillips <i>(Secretary)</i>	Mark Williamson (Chairman) Michael Herlihy Pierre Jungels Susan Murray Matthew Phillips <i>(Secretary)</i>	Michael Herlihy (Chairman) Pierre Jungels Susan Murray Mark Williamson Matthew Phillips <i>(Secretary to 7 September 2011)</i> Trevor Williams <i>(Secretary from 7 September 2011)</i>


Meetings of the Board, Board Committees and Shareholders

	Board	Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in Financial Year	6	2	4	4	1
Number of meetings attended in Financial Year					
Executive Directors					
Mrs A J Cooper	6/6	–	–	–	1/1
Mr G L Blashill ¹	2/2	–	–	–	1/1
Mr R Dyrbus	6/6	–	–	–	1/1
Non-Executive Directors					
Mr I J G Napier	6/6	2/2	–	–	1/1
Dr K M Burnett	6/6	2/2	–	–	1/1
Mr M H C Herlihy	6/6	2/2	4/4	4/4	1/1
Dr P H Jungels ²	5/6	2/2	4/4	4/4	1/1
Ms S E Murray	6/6	2/2	4/4	4/4	1/1
Mr B Setrakian	6/6	2/2	–	–	1/1
Mr M D Williamson	6/6	2/2	4/4	4/4	1/1

1 Mr G L Blashill retired from the Board on 2 February 2011.

2 Due to prior commitments, Dr P H Jungels was unable to attend one Board meeting which was called at short notice.

The maximum number of meetings for each individual Director is the number which they were eligible to attend.

 As part of the Group's policy of annual review, the terms of reference for the Nominations, Audit and Remuneration Committees were reviewed and, where necessary, updated during the year and are published on our website, www.imperial-tobacco.com. They are also available from the Company Secretary.

Operating Executive



Alison Cooper
Chief Executive and Chairman of the
Operating and Development Executives

Development Executive

Members

Alison Cooper (*Chairman*)

Graham Blashill
(to 15 February 2011)

Robert Dyrbus

Helen Clatworthy (*Group Supply
Chain Director*)

Fernando Dominguez (*Chief
Operating Officer Cigar Business*)

Roberto Funari (*Group Marketing
Director from 15 November 2010*)

Matthew Phillips (*Group Corporate
and Legal Affairs Director*)

Walter Prinz (*Group Manufacturing,
Research & Development Director*)

Kathryn Turner (*Group Human
Resources Director*)

Arthur van Benthem (*Group Sales
Director from 1 March 2011*)

Members

Alison Cooper (*Chairman*)

Mike Ashton (*Director of
Business Performance Planning
and Travel Retail*)

Graham Blashill
(to 15 February 2011)

Roberto Funari (*Group Marketing
Director from 15 November 2010*)

Matthew Phillips (*Group Corporate
and Legal Affairs Director*)

Claudio Righetti (*Director,
Strategy and Foresight*)

Conrad Tate (*Corporate
Development Director*)

Arthur van Benthem (*Group Sales
Director from 1 March 2011*)

Overview

The Operating Executive comprises the Executive Directors and key members of our senior management team, meets on a monthly basis and is responsible for assisting our Chief Executive in developing and implementing our strategy and the day-to-day management of the Group.

Achievements

During the year the Operating Executive met its responsibilities by assisting the Chief Executive in:

- reviewing and subsequently recommending to the Board changes to Group strategy;
- ensuring effective implementation of Group strategy;
- day-to-day operational management of the Group within the authorities delegated by the Board;
- monitoring the detailed operational performance of all aspects of the business;
- risk management and internal control within the framework set by the Board;
- ensuring the Group achieves its financial and non-financial targets;
- managing day-to-day cross functional issues; and
- ensuring the use of the Group's resources are optimised.

Overview

The Development Executive meets on a monthly basis and supports the Chief Executive with the management of key planning processes and development activities, including evaluating and co-ordinating business development and other development initiatives and managing the corporate planning process.

Achievements

During the year the Development Executive met its responsibilities by assisting the Chief Executive in:

- leading the process to define and develop the Group's strategy;
- providing specific focus on the planning and business development agendas and opportunities for the Group;
- evaluating regulatory developments; and
- managing the corporate planning process.

Nominations Committee



Iain Napier
Chairman

Members

Iain Napier (Chairman)	Berge Setrakian
Ken Burnett	Mark Williamson
Michael Herlihy	Matthew Phillips (Secretary)
Pierre Jungels	
Susan Murray	

Overview

The Nominations Committee comprises all our Non-Executive Directors, meets as required, and ensures we have the best people on our Board.

Achievements

During the year the Committee met its responsibilities by:

- evaluating the balance of skills, knowledge and experience of our Board;
- developing role specifications;
- formulating succession plans; and
- making recommendations to the Board with regard to the appointment of directors.

Appointing the best people to our Board, regardless of gender, race, religion, age or disability, is crucial. Board appointments are made purely on merit so that we have the right skill set to build on our long track record of success. We appoint individuals from diverse backgrounds to ensure the Board has a wide range of business and financial expertise.

Main Activities During the Year

Following a rigorous process, including the identification of the desired skills and experience, the instruction of an external consultant, consideration of candidates against the required skills and formal interviews, the Committee recommended the appointment of Mr Wyman as a Non-Executive Director.

The Committee also considered and recommended to the Board the acceptance of the retirements of Mr Blashill and Dr Jungels.

Board Changes

We continually review the composition and balance of our Board to ensure we have the right structure, skills and expertise in place for the effective management of our multinational business.

Mr Blashill retired as a Director on 2 February 2011 but remained an employee until 15 February 2011 to assist in the smooth handover of his sales and marketing responsibilities.

Mr Wyman was appointed as a Non-Executive Director with effect from 3 October 2011.

Dr Jungels, our Senior Independent Director, will be retiring from the Board at the conclusion of the 2012 Annual General Meeting (AGM) and will not be seeking re-election.

Re-election of Directors

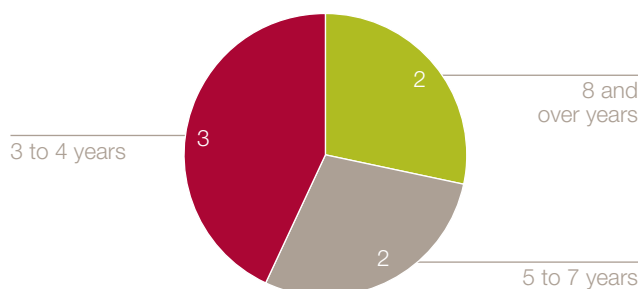
Following a rigorous selection process and recommendation by the Nominations Committee, all Directors are appointed by the Board and are subject to annual re-election by shareholders.

Before recommending such re-election the performance of each Director is considered as part of the annual evaluation of the Board. Following the 2011 evaluation the Board recommends the re-election of all Directors who are standing for re-election at our 2012 AGM.

We recognise that a number of shareholders have expressed concern that annual re-election of Directors could encourage them to take a short-term view. We are, however, confident that our remuneration policies encourage Directors to act in the best long-term interests of stakeholders, for example through bonus targets and claw back provisions, the long-term focus of our remuneration strategy and shareholding requirements.

The composition, skill set and balance of our Board, together with the length of service of each Director, is reviewed regularly to identify the skills required of future directors.

Tenure of Non-Executive Directors



“We are confident the Directors have the skills and expertise to successfully deliver our strategy.”

Iain Napier, Chairman

The Committee's terms of reference are published on our website, www.imperial-tobacco.com. They are also available from the Company Secretary.

Audit Committee



Mark Williamson
Chairman

Members

Mark Williamson, CA (SA)
(Chairman)

Michael Herlihy

Pierre Jungels

Susan Murray

Matthew Phillips (Secretary)

Overview

The Audit Committee oversees our financial reporting and internal controls and provides a formal reporting link with our Auditors.

Structure

The Audit Committee comprises four Independent Non-Executive Directors. Mr Williamson is a qualified accountant and, therefore, we met the requirements of the Code and the Committee's terms of reference that at least one of its members is a financial expert.

The Finance Director, the Group Financial Controller, the Head of Group Compliance, the Deputy Company Secretary and other financial managers are invited to attend each meeting of the Committee. The Head of Group Compliance meets formally with the Committee, without any Executive Director or other manager being present, at each meeting. Our Auditors also attend each meeting and have the opportunity to meet Committee members without any Executive Director or other manager present.

The performance of the Committee was evaluated as part of the Board performance evaluation process, the outcome of which was that it continues to operate effectively.

Responsibilities

The responsibilities of the Audit Committee include:

- approval of accounting policies;
- reviewing financial statements and announcements;
- overseeing the Group's internal control processes;
- appointment of Auditors and monitoring their performance and independence; and
- overseeing our public interest disclosure (whistleblowing) policy.

During the year and up to the date of approval of this Annual Report and Accounts, our Audit Committee achieved its responsibilities by working with a structured agenda of matters focused to coincide with key events of our financial reporting cycle, together with standing items that the Committee is required to consider at each meeting.

The Audit Committee met its responsibilities by:

- approving our accounting policies;
- monitoring and reviewing the integrity of our financial statements and any announcements or judgements they contain including our Half Yearly Report and Annual Report and Accounts and recommending that these be approved by our Board;
- receiving reports from, and questioning, members of Group Compliance, Group Finance and other functions. This provides the Committee with the information required to oversee our systems of internal control for financial reporting, internal control policies, corporate governance procedures, the system of risk management and to assess the review and mitigation of associated risks;
- reviewing the Auditors' presentation of their proposed audit plan, fee proposal and confirmation of their independence. This, together with management's assessment of the Auditors' effectiveness and independence, allows the Committee to establish the scope, effectiveness, independence and objectivity of our Auditors and, if appropriate, recommend their re-appointment to the Board;
- receiving and, after due consideration, approving Group Compliance's proposed work plan and compliance programme for the year. Reports from Group Compliance are then used to monitor the performance and effectiveness of controls operating throughout the business;
- overseeing our public interest disclosure (whistleblowing) policy by receiving reports of its distribution through our non-financial reporting system and receiving reports in respect of all disclosures made via the policy;
- consideration of management's report that there were no material related party matters; and
- consideration of the accounting treatment relating to on-going enquiries detailed on pages 58 and 59.

Accountability and Audit

Overview

Our Board members recognise their responsibilities to ensure that the statutory requirements to deliver balanced and understandable assessments of the Company's position are met and they are satisfied these responsibilities are achieved through our financial systems and internal control processes.

During the year these responsibilities were met by:

- using an appropriate system of accounting records operating in compliance with local and international financial and legal reporting requirements. The basis used to prepare our Group financial statements is the International Financial Reporting Standards (IFRS) as adopted by the European Union. Our parent company financial statements and our Directors' Remuneration Report are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Principles (GAAP);
- using IFRS to ensure we give a true and fair view of the state of affairs of the Group, including our profit or loss for the period;

Internal Control Framework



- deploying appropriate accounting policies within the framework of IFRS and ensuring these are consistently applied;
- making judgements and preparing estimates that are reasonable and prudent;
- operating within the guidelines of all the disclosure advice provided by UK and international statute;
- disclosing that the business is a going concern; and
- maintaining robust assurance processes and controls over our financial reporting procedures, including suitable Disclosure Committee, Audit Committee and Board reviews.

Internal Control

Several on-going activities, which satisfy the requirements of the Code, reassure our Board that a sound and robust system of internal control exists throughout our Group.

The Board recognises that we operate in an environment with some unavoidable risks (see pages 16 to 19) and ensures these risks are properly understood and suitably managed, either directly or by exercising oversight of the internal control framework detailed below. The analysis of risk and oversight of the resulting internal control measures taken to mitigate the effects of such risks are essential in enabling the Board to discharge its responsibilities to safeguard shareholders' investments, protect our assets and provide reliable financial information. Given the size and complexity of the Group such systems can provide only reasonable and not absolute assurance of meeting our internal control objectives, as they manage rather than eliminate risk. They can, therefore, only provide reasonable and not absolute assurance against material misstatement or loss.

Internal Control Framework

The Board acknowledges that it is responsible for the Group's systems of internal control and for reviewing their effectiveness. We operate a robust control environment, the key features of which are outlined in the above chart and detailed in the paragraphs below.

Terms of Reference

Clear terms of reference govern the operation of our Board. A key control within the terms of reference is ensuring that only the Board can approve certain significant items. Our Board has established appropriate Committees, which also operate

within clearly defined terms of reference, to oversee our control activities. These committees include an Audit Committee, a Disclosure Committee and a Risk Co-ordination Committee. Our Board and Committee processes, together with those embedded in the business, are fundamental to the effectiveness of our internal control measures and the delivery of the appropriate degree of control.

Organisational Structure

The Board regularly reviews the Group's organisational structure to ensure that clearly defined lines of responsibility with appropriate delegation of authority and segregation of duties exist, with personnel of the necessary calibre in place to fulfil their roles. The aim of such delegated authority is that decisions, significant because of either their value or impact on other parts of the Group, are taken at an appropriate level.

The Group's Treasury, Tax and Occupational Health, Safety and Environmental policies are also regularly reviewed by the Board. The Group's Treasury function operates within a well defined policy and framework designed to manage the Group's financing and liquidity arrangements and to manage its exposure to, amongst others, treasury risks and interest rate and foreign exchange risks. In addition, the Group operates well defined procedures for appraisal, approval, control and review of capital and strategic expenditure, including acquisitions.

Commercial Integrity

Our Commercial Integrity Department, together with the Group Company Secretariat, supports our framework of policies and procedures, with which all employees are expected to comply. Group Policies and Standards cover responsible operation of the Group in terms of commercial, employment, manufacturing and trading practices.

We thoroughly investigate all allegations of misconduct and irregularity and consider the implications for our control environment.

Code of Conduct and Policies

Our Code of Conduct sets out the standards of responsible behaviour that all our employees are expected to follow. The Code of Conduct has been rolled out to our senior management population in a series of face to face workshops. The roll-out continues to be progressed with further face to face workshops, prioritisation of risk topics, development of the supporting e-learning system and communication to the wider employee population.

The Code of Conduct is aligned with our long established and embedded policies that provide guidance for business integrity, responsible commercial practice, trust, respect and responsibility.

Risk Co-ordination Committee/Risk Assessment Summaries

Our Risk Co-ordination Committee (RCC) assists the Operating Executive and the Audit Committee in overseeing the management of material risk to the Group. The RCC comprises senior managers representing a cross section of the Group's functions.

During the course of the year the RCC has continued to develop our risk register by identifying, assessing and monitoring the key risks we face and how such risks are mitigated and managed.

This top-down approach is complemented by a bottom-up approach requiring individual markets, factories, regions and functions across the Group to produce annual risk assessment summaries which are compared to the Group risk register. These rolling risk assessment summaries identify major areas of business risk including any specific local risks and demonstrate how these are mitigated and managed by controls embedded in business processes.

Further detail on the risks we face and how we manage them can be found on pages 16 to 19.

Year End Certification

Our year end certification process requires each of our business entities to confirm compliance with our policies and fraud prevention processes, and that risk mitigation controls have operated effectively throughout the year. All our senior managers are also required to certify that there have been no related party transactions within their areas of control.

Internal Control Questionnaires

Each of our business entities is required to maintain a suite of internal control questionnaires (ICQs) based on templates produced by Group Compliance. Management within each business entity is required to continually update the ICQs detailing the internal control processes in operation within that entity.

These ICQs form the basis of periodic reviews by Group Compliance who ensure that appropriate controls are operating in practice and provide adequate protection for the business.

Group Finance

Our Group Finance Department sets financial policies and standards. It also manages our financial reporting processes to ensure the timely and accurate provision of information which enables our Board to discharge its responsibilities, including the production of our Half Yearly and Annual Accounts. It is supported by a network of finance managers throughout the Group who have the responsibility and accountability to provide information in keeping with our policies, procedures and internal best practices as documented in our Group Finance Manual.

Monitoring of our financial position is based on our strategic and operational plans (the Plans) which we use to identify specific targets and objectives.

Throughout the year we produce 'latest estimates' to predict the likely year end position. The latest estimates are compared with the Plans and enable us to monitor and check our performance and, where appropriate, challenge sections of the business if actual or anticipated performance varies from the Plans.

Disclosure Committee

The Disclosure Committee comprises senior management from across our business and meets, as required, in order to consider major financial disclosures.

During the year the Disclosure Committee reviewed all major financial disclosures including Trading Updates, Interim Management Statements, Half Yearly Report, Annual Report and Accounts and appropriate corporate financing documentation. To meet its responsibilities when reviewing these major financial disclosures, the Committee members made enquiries into all aspects of the business which, together with their own business knowledge, ensured disclosures were complete with no material issues omitted. The Committee reported on its reviews to our Senior Officers and, where appropriate, our Audit Committee.

The terms of reference of the Disclosure Committee were reviewed during the year to ensure they continued to be appropriate.

Group Compliance

Our Group Compliance Department monitors and measures the mitigation of risks across the Group in addition to performing its internal audit role. It follows best practice guidance including the Code.

Group Compliance undertakes a programme of reviews covering all our business entities on an annual, three or five yearly cycle dependent upon materiality and perceived risk. These include both targeted scheduled and ad hoc reviews based on our ICQs.

Each review results in a report to local management identifying any potential control weaknesses which the business entity is responsible for remediating. The most significant potential weaknesses are also elevated to the Operating Executive to monitor the remediation undertaken by management of the business entity. At each year end Group Compliance also conducts a review of risk assessments submitted by all markets, factories, regions and functions across the Group and obtains certificates of confirmation from local management teams that appropriate internal controls and processes have been operating within their businesses throughout the year.

To support the Audit Committee and the Board in assessing the effectiveness of internal controls, Group Compliance formally reports to the Audit Committee on the outcome of its on-going activities, including its programme of compliance reviews and any more general business reviews. This process ensures that the Audit Committee remains satisfied that the Group's exposure to major business risks is minimised and the levels of retained risk are acceptable.

The above processes, together with reports from Group Compliance, enable the Board, either directly or through the Audit Committee, to regularly review the effectiveness of the key procedures which have been established in order to provide appropriate internal controls.

The Board confirms that an on-going process for identifying, evaluating and managing the Group's significant risks has operated throughout the year and up to the date of the approval of this Annual Report and Accounts in accordance with the requirements of the Code and Turnbull guidance.

External Audit

Auditor Independence Policy

In order to ensure the independence and objectivity of our Auditors we maintain and regularly review our Auditor Independence Policy. This policy provides clear definitions of services that our Auditors can and cannot provide. Our Auditors may only provide non-audit services where those services do not conflict with their independence, for example tax compliance work. The policy also establishes a formal authorisation process, including the tendering for non-audit services expected to generate fees in excess of £250,000, and pre-approval by the Audit Committee for allowable non-audit work that they may perform. Our policy also establishes guidelines for the recruitment of employees or former employees of our Auditors and for the recruitment of our employees by the Auditors. Details of the audit and non-audit fees paid to the Auditors are shown on page 90.

To ensure compliance with this policy, during the year our Audit Committee carried out two reviews of the remuneration received by our Auditors for audit services, audit-related services and non-audit work. The outcome of these reviews was that performance of the relevant non-audit work by our Auditors was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work which principally related to tax advisory work. The Audit Committee confirms that we continue to receive an efficient, effective and independent audit service.

Statement of Auditors' Responsibilities

Our statutory Auditors are responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Tobacco Group PLC as presented by the Directors, on other elements of the Annual Report and Accounts as required by legislation or regulation and for reporting their opinion to members (page 76).

PricewaterhouseCoopers LLP (PwC) have been the Company's Auditors since its demerger in 1996. The Audit Committee, following a review during the year, remains satisfied with the effectiveness and independence of PwC. It has not, therefore, considered it necessary to require the audit to be put out to tender. In line with our Auditor Independence Policy, the Group Audit partner is required to rotate after a maximum of five years (seven years for subsidiary companies). There are no contractual or similar obligations restricting the Group's choice of auditors.

Auditors and Disclosure of Information to Auditors

Each of the Directors in office at the date of approval of this Annual Report and Accounts confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by the Company's Auditors in connection with preparing their report) of which the Company's Auditors are unaware; and
- each has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

A resolution to reappoint PwC as Auditors to the Company will be proposed at the AGM.

Relations with Shareholders

Dialogue with our shareholders is given the highest priority. We aim to provide balanced, clear and transparent communications which allow our shareholders to understand how we see our prospects and the market environments in which we operate.

Communication with Shareholders

The primary means of communication with the majority of our shareholders is via our Annual Report and Accounts, Half Yearly Report and website on which we publish Interim Management Statements and Trading Updates. These are supported by a combination of presentations, conference calls, one-to-one meetings and investor meetings in the UK, Europe and America. We have also attended numerous investor conferences, where we presented various aspects of the business to shareholders and potential shareholders.

Proactively Engaging with Shareholders

In July 2011 over 50 investors, potential investors and analysts attended an investor day held in the UK giving them the opportunity to meet members of the Board and senior management. Presentations were given by the Chief Executive, Finance Director, Group Corporate and Legal Affairs Director, Group Marketing Director and Group Sales Director. The theme of the day was 'Unlocking our Potential' with a particular focus on our four sales growth drivers and how they, coupled with our high margins, help drive sustainable shareholder returns.

During the year our Chairman, Senior Independent Director and the Remuneration Committee Chairman met with a number of key shareholders. Further, when requested, we met with shareholder representative bodies on significant issues of interest and with corporate governance representatives of investors.

Through an external consultancy we undertook our annual perception study of institutional investors' views of our business.

Together, the Chairman, Chief Executive, Finance Director and Director of Investor Communications ensured the Board was fully briefed on shareholders' views to ensure that any issues or concerns were fully understood and considered by the Board.

Annual General Meeting

To ensure our shareholders have time to consider our Annual Report and Accounts and Notice of the AGM and lodge their proxy votes, the documents are made available more than 20 working days prior to the meeting.

We offer all our shareholders the choice of submitting proxy votes either electronically or in paper format. We also offer them the facility to abstain.

At the AGM, our Chairman and Chief Executive give presentations on our performance and current business activities and all Directors make themselves available to meet shareholders after the conclusion of the formal business.

To ensure compliance with the Code, at all general meetings separate resolutions are proposed on each subject and all resolutions are put to a poll. At the AGM the number of proxy votes for, against and abstentions for each resolution are displayed. Votes received at the meeting are added to the proxy votes and the final results published through a Regulatory Information Service, on our website and via OTCQX.

At our 2011 AGM we received votes representing approximately 74 per cent of our issued share capital (excluding shares held in treasury).

Our next AGM will be held on Wednesday 1 February 2012. Full details are contained in the Notice of Meeting available on our website and, where applicable, posted with this Report.

Share Capital

Details of our share capital are shown in Note 20 to the Financial Statements (page 118). All shares other than those held in treasury are freely transferable and rank *pari passu* for voting and dividend rights.

At our AGM on 2 February 2011 shareholder authority for the buyback of up to 106,794,000 ordinary shares of 10 pence each was obtained.

As at 30 September 2011 we held 57,007,000 of our ordinary shares in treasury, which represent 5.3 per cent of issued share capital and have an aggregate nominal value of £5,700,700. We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve and they represent a deduction from equity shareholders' funds. Treasury shares do not carry any voting or dividend rights.

At 31 October 2011 we had been notified of the following interests in 3 per cent or more of our ordinary shares.

	Number of ordinary shares (millions)	Percentage of issued share capital
Invesco Limited	61	6.03 ¹
BlackRock Inc	53	5.25 ²
Morgan Stanley Investment Management Limited	42	4.17 ¹
Franklin Resources Inc	41	4.04 ²
Legal & General Investment Management Limited	41	3.99 ¹

¹ Direct holding.

² Indirect holding.

We have not received notification that any other person holds 3 per cent or more of our ordinary shares.

The share interests of the Directors, their families and any connected persons are shown on page 64. Other than disclosed on page 57, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

Information concerning employees and their remuneration is given in Note 4 to the Financial Statements (page 91) and in the Directors' Remuneration Report.

Financial Results and Dividends

We include a review of our operational and financial performance, current position and future developments in our Directors' Report: Strategy, Risks, Performance and Governance sections on pages 8 to 74.

The profit attributable to equity holders of the Company for the financial year was £1,796 million, as shown in our consolidated income statement on page 77. Note 1 to the Financial Statements gives an analysis of revenue and profit from operations (page 88).

An analysis of net assets is provided in the Consolidated Balance Sheet on page 79 and the related Notes to the Financial Statements.

The Directors have declared and proposed dividends as follows:

£ million	2011	2010
Ordinary Shares		
Interim paid, 28.1p per share (2010: 24.3p)	284	246
Proposed final, 67.0p per share (2010: 60.0p)	674	609
Total ordinary dividends, 95.1p (2010: 84.3p)	958	855

The final dividend, if approved, will be paid on 17 February 2012 to our shareholders on the Register of Members at the close of business on 20 January 2012. The associated ex dividend date will be 18 January 2012. We paid an interim dividend on 19 August 2011 to shareholders on the register at the close of business on 22 July 2011.

Relations with Other Stakeholders

Charitable and Political Donations

We continue to support the communities in which we operate by allocating £3 million (2010: £3 million) to partnership investment. From this figure, we have donated £0.2 million (2010: £0.2 million) to UK registered charities operating in the UK, £0.3 million (2010: £0.3 million) to UK registered charities operating abroad and £1.3 million (2010: £1.3 million) through the UK Charities Aid Foundation to charities based overseas.

No political donations were made to EU political parties, organisations or candidates (2010: Nil).

Creditor Payment Policy

Our current policy concerning the payment of the majority of our trade creditors is to follow the Prompt Payment Code sponsored by the Department for Business, Innovation and Skills (copies are available from the Prompt Payment Code website at www.promptpaymentcode.org.uk). For other suppliers, our policy is to:

- agree the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with our contractual and other legal obligations.

This policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Wherever possible, UK subsidiaries follow the same policy and international subsidiaries are encouraged to adopt similar policies by applying local best practices.

The amount of trade creditors outstanding as at 30 September 2011 was equivalent to 40 days (2010: 43 days) of trade purchases.

Employees

Our employees are key to our on-going success. Our employment policies aim to attract the very best people. By applying universally accepted standards for human rights we ensure they are treated with fairness, dignity and respect. This is reinforced through offering equal opportunities and giving fair consideration to applications for employment, career development and promotion, without having regard to an employee's gender, race, religion, age or disability.

These policies also cover the continuation of employment and appropriate training for employees who become disabled during their employment. Our policies ensure that candidates are chosen on merit which involves the consideration of women for all positions within the organisation.

To ensure employees can share in our success we offer competitive pay and benefit packages linked, wherever possible, to performance. Employees are encouraged to build a stake in the Company through ownership of the Company's shares, with a number of employee share plans offered during the year.

We encourage all areas of our business to keep employees informed of the financial and economic factors affecting our performance. More information on our employees is included on page 91.

Our annual talent review process is designed to identify the most capable successors for critical roles at all levels in our business. It is a bottom-up process initiated at a local level and rolled up through our regions and business units. This culminates in a final talent review meeting conducted by the Operating Executive. This is a practice that is embedded across the Group and seeks to provide a continuous talent pipeline.

Pension Fund

Our main pension fund, the Imperial Tobacco Pension Fund, is not controlled by the Board but by a trustee company, the board of which consists of five directors nominated by the Company, one director chosen by employees and two by current and deferred pensioners. This trustee company looks after the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose. Further details are contained in our Remuneration Report on pages 60 to 74.

Other Information

Significant Agreements That Take Effect, Alter or Terminate on Change of Control

The following agreements, summarised below, are those which we consider to be significant to the Group as a whole and which contain provisions giving the other party a specific right to terminate them if we are subject to a change of control following a takeover bid.

Some companies within the Group entered into a credit facilities agreement (the Agreement) on 16 December 2010 under which certain banks and financial institutions (the Lenders) made available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited committed and uncommitted credit facilities. The Agreement provides that, unless the Lenders otherwise agree, if any person or group of associated persons acquires the right to exercise more than 50 per cent of the votes at a general meeting of the Company, Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited must repay each loan utilised by them under the Agreement and the total commitments under the Agreement will be immediately cancelled.

Some companies within the Group entered into a letter of credit facility agreement (the Letter of Credit) dated 2 March 2011 under which the Lenders made available to Imperial Tobacco Limited a Letter of Credit. The Letter of Credit provides that, unless the Lenders agree, if any person or group of associated persons acquires the right to exercise more than 50 per cent of the votes at a general meeting of the Company, Imperial

Tobacco Limited must repay the Letter of Credit utilised by it under the Letter of Credit and the total commitments under the Letter of Credit will be immediately cancelled.

Imperial Tobacco Finance PLC (the Issuer) has issued bonds under the Euro Medium Term Notes Debt Issuance Programme (as noted below). The Company acted as guarantor. The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer of a tax call, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at its nominal value if: (a) any person, persons acting in concert or on behalf of any such person(s) becomes interested in: (i) more than 50 per cent of the issued or allotted ordinary share capital of the Company; or (ii) such number of shares in the capital of the Company carrying more than 50 per cent of the voting rights normally exercisable at a general meeting of the Company; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds issued in such manner are as follows:

- 15 September 2008 £600,000,000 8.125 per cent guaranteed notes due 2024;
- 15 September 2008 €750,000,000 7.25 per cent guaranteed notes due 2014;
- 17 February 2009 £1,000,000,000 9 per cent guaranteed notes due 2022;
- 17 February 2009 €1,500,000,000 8.375 per cent guaranteed notes due 2016;
- 24 June 2009 £500,000,000 7.75 per cent guaranteed notes due 2019;
- 24 June 2009 €1,250,000,000 5 per cent guaranteed notes due 2012;
- 5 July 2011 €850,000,000 4.5 per cent guaranteed notes due 2018; and
- 26 September 2011 £500,000,000 5.5 per cent guaranteed notes due 2026.

Research and Development

We support our sales growth strategy by our investment in research and development, which brings innovative improvements to the Group both in the products supplied to our consumers and in production and marketing techniques.

Disclosure and Transparency Rules

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report: Strategy, Risk, Performance and Governance sections on pages 8 to 74 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Business Review

A review of the Group's activities and future developments is included in the Directors' Report: Strategy, Risk, Performance and Governance sections. This review fulfils the requirements of the Business Review contained in section 417 of the Act, including the financial performance during the year on pages 30 to 32, key performance indicators on pages 11 to 13 and a description of the principal risks and uncertainties facing the Group on pages 16 to 19.

The purpose of the Annual Report and Accounts is to provide information to the shareholders of Imperial Tobacco Group PLC. The Company, its Directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report and Accounts contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company and the Group as a whole. By their nature, these statements involve uncertainties since future events and circumstances can cause actual results to differ materially from those anticipated and no reliance should be placed on them. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

The principal operating subsidiaries within the Group are shown on pages 129 and 130.

Going Concern

In order to satisfy themselves that we have adequate resources for the future, the Audit Committee and, subsequently, the Board reviewed the Group's committed funding and liquidity positions, its ability to generate cash from trading activities and its ability to raise external funding in the future. Our performance, as described in the Financial Review on pages 30 to 32, our future plans and the risks we face (as described in the Chief Executive's Review on pages 8 to 10) were also reviewed.

In performing their reviews, the Audit Committee and the Board have acknowledged the current level of uncertainty in the financial markets and have considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group.

Consequently, based on the reviews noted above the Audit Committee recommended to the Board that the Group as a whole and Imperial Tobacco Group PLC have adequate resources to meet their operational needs for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

Update on On-going Enquiries

German Investigations

Certain investigations were initiated by German authorities in January 2003 into alleged foreign trading and related violations by a number of people, including Reemtsma employees, during a period prior to its acquisition by Imperial Tobacco Group in May 2002. A Board Committee established in 2003 remains in place to monitor the progress of the investigations and the Group's responses on behalf of the Board.

Between 2005 and 2007, the investigations against all but five of the individuals were terminated, either for lack of evidence or on terms agreed by the individuals with the authorities.

Settlement was made at no cost to the Imperial Tobacco Group of any duty payable as a result of certain of the activities being investigated.

In September 2006, charges relating to smuggling were brought in connection with one of the investigations against 18 individuals, one of whom is a former Reemtsma employee. In October 2008, the German court agreed to open trial in relation to these charges and has made various procedural decisions, but no final hearing has yet been held.

In November 2006, in connection with a separate investigation, charges relating to violations of the German foreign trade act were brought against four other former Reemtsma employees. In March 2010, in accordance with an agreement with the authorities, the individuals pleaded guilty and financial penalties were ordered against them and Reemtsma. These were paid at no cost to the Imperial Tobacco Group.

Office of Fair Trading

As previously reported, in 2003 the UK Office of Fair Trading (OFT) informed Imperial Tobacco Group that it had commenced an investigation under the Competition Act 1998 into the operation of the UK tobacco supply chain.

On 24 April 2008, the OFT issued a Statement of Objections (SO) which set out the OFT's allegations against Imperial Tobacco Group, Gallaher, and a number of retailers. These alleged infringements relate to the period prior to 2004.

On 15 April 2010, the OFT reached a Decision. Although the OFT dropped a number of the allegations made in the SO, it found that Imperial Tobacco Group and Gallaher had separately engaged in unlawful practices with 10 tobacco retailers in breach of Chapter I of the Competition Act 1998. The OFT imposed total fines of £225m on the parties involved, including a fine of £112.3m on Imperial Tobacco Group.

Under the Competition Act 1998, parties have the right to appeal OFT Decisions to the Competition Appeal Tribunal (CAT), and ultimately, on a point of law to the Court of Appeal. The CAT has jurisdiction to conduct a full rehearing of the facts and has the power to uphold, vary or quash the Decision and the fine imposed.

Imperial Tobacco Group does not accept the findings in the OFT's Decision. Accordingly, Imperial Tobacco Group submitted an appeal to the CAT on 15 June 2010 against the OFT's findings of infringement and the level of the fine. Five retailers (Asda, the Co-operative Group, Morrisons (together with Safeway) and Shell) have also appealed against the Decision and the fines imposed on them by the OFT.

Although the CAT began hearing these appeals on 21 September 2011, it is unlikely that the CAT will deliver judgment on liability before the second quarter of 2012 at the earliest, while any subsequent appeal to the Court of Appeal that may be necessary is unlikely to be determined before the fourth quarter of 2012.

Update on Tobacco-Related Litigation

We are not facing any tobacco-related litigation in the UK. In the Republic of Ireland, the number of tobacco-related claims has fallen from 307 in 1997, to 11. Ten of these claims are subject to dismissal motions. The other claim is inactive. The dismissal motion in respect of one claimant was heard by the Dublin High Court in 2006. In April 2007, the court ruled that this claim should be dismissed. This Decision has been appealed and the dismissal motions in respect of the nine other active claims have been stayed pending the appeal. No date has been set for the appeal hearing but it is expected to be within the next six months.

Following our acquisition of Altadis in January 2008, we are currently facing a claim in Spain brought in the Administrative Court on behalf of the Regional Government of Andalusia for reimbursement of hospitalisation expenses allegedly incurred in treating smokers. The claim was served on Altadis in July 2009. In May 2010 preliminary objections were filed by Altadis and the other tobacco company defendants. These were rejected by the Court in May 2011 but the proceedings remain stayed until the co-defendants are provided with a full set of the documentation which was attached to the claim.

We are not facing any claims in France. Following our acquisition of Logista in May 2008, we are currently facing two claims in Italy. One is at an initial stage and the other has been dismissed but appealed.

A purported collective claim was filed against us (and other tobacco companies) by an individual in Bulgaria in March 2008 but we were never formally served with any court documents. Following a hearing on 18 November 2010, the Sofia City Court ruled that the conditions for bringing a collective action had not been satisfied by the Claimant and refused to allow the claim to proceed. That decision was affirmed by the Appellate Court and by the Supreme Court of Cassation.

In September 2009 an individual claim was brought against us (and others) in Turkey. We filed a statement of defence at a preliminary hearing on 3 November 2009. The Claimant failed to pay the necessary Court charges and on 29 November 2010 the Court ordered that the claim be deemed never to have been filed. The Claimant has not appealed this Decision and the time for any appeal has expired.

Following our acquisition of Commonwealth Brands in April 2007, we are currently facing one claim brought by an individual in the United States. A motion for summary judgment was filed by Commonwealth Brands in October 2005 and remains pending.

We understand that the Saudi Ministry of Health has issued legal proceedings against distributors for international tobacco companies to recover the alleged costs of providing medical care to individuals. No Imperial Tobacco Group company has been served with any court documents in relation to this claim. We understand that the Ministry of Health sought a six month stay of proceedings at a hearing on 11 December 2010 and has not applied for the case to be reopened following the expiry of that stay. The Ministry of Health may still apply to reopen the case but we are not aware that it intends to do so.

To date, no action has been successful or settled in favour of any claimant in any tobacco-related litigation against Imperial Tobacco or any of its subsidiaries. Imperial Tobacco has been advised by its lawyers that it has meritorious defences to the legal proceedings set out above. We will continue to vigorously contest all such litigation against us.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in

accordance with IFRSs as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom GAAP (United Kingdom Accounting Standards and Applicable Law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 45, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board



Matthew Phillips
1 November 2011

Imperial Tobacco Group PLC
Incorporated and domiciled in England and Wales No: 3236483

Remuneration Committee



Michael Herlihy
Chairman

Members

Michael Herlihy (Chairman from 2 February 2011)

Pierre Jungels (Chairman to 2 February 2011)

Susan Murray

Mark Williamson

Matthew Phillips (Secretary to 7 September 2011)

Trevor Williams (Secretary from 7 September 2011)

Overview

Within an increasingly demanding, competitive and international environment we want our employees to be fairly compensated and incentivised to deliver our strategy. We recognise that we need to achieve a balance between the interests of our shareholders and employees. As a result, Executive Director and senior management rewards are weighted towards long-term performance related elements.

For the financial year ending 30 September 2012 the overall structure of the Group's remuneration policy will remain unchanged. The Remuneration Committee is, however, undertaking a review of the overall remuneration philosophy of the Group.

We have prepared this Report in accordance with the Companies Act 2006 (the Act) and Statutory Instrument 2008/410 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations). It also meets the requirements of the Listing Rules and the Disclosure and Transparency Rules (the DTRs) of the UK Listing Authority. In this Report we describe how the principles of good governance relating to directors' remuneration, as set out in the UK Corporate Governance Code (the Code), are applied in practice. The Committee confirms that throughout the year it has complied with these governance rules and best practice provisions.

The Regulations require our Auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The Auditors' opinion is set out on page 76 and we have clearly marked the audited sections of the Report.

Responsibilities and Main Achievements in 2011

The Board recognises that it is ultimately accountable for executive remuneration but has delegated this responsibility to the Remuneration Committee. Clear written terms of reference, which can be found on our website www.imperial-tobacco.com, govern the way the Committee operates.

Our Committee's principal function is to determine the Company's Remuneration Policy, described in more detail below, together with the specific remuneration package for each Executive Director and our most senior executives, including their service contracts and pension arrangements.

The Committee is also responsible for making recommendations to the Board in respect of our Chairman's fees, setting targets for the performance related elements of remuneration packages, oversight of our overall policy for senior management remuneration and oversight of our employee share plans.

The Committee meets its responsibilities by:

- ensuring remuneration arrangements align with our values, support our evolving corporate strategy (with its focus on sales growth) and drive performance, as measured by our financial and non-financial key performance indicators (KPIs), see pages 11 to 13;
- maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate; and
- aligning senior executives' remuneration with the interests of shareholders by balancing financial and non-financial elements and ensuring that remuneration is fair whilst not being excessive.

Our Committee addressed the following main issues during the year:

- the succession of a new Committee chairman;
- consideration of our Remuneration Policy for Executive Directors;
- commencing the review of the Group's overall remuneration philosophy;
- the structure of the remuneration packages of a number of senior management appointments;
- the annual review of the Chairman's, Executive Directors' and our most senior executives' remuneration, including base pay;
- reviewing bonus targets and confirming the claw back provisions detailed in last year's Remuneration Report;
- following shareholder consultation, confirming increases in executive bonus levels and amendments to the share matching scheme (SMS) performance criterion which were disclosed in last year's Remuneration Report;
- overseeing our Remuneration Policy and employee share plans;
- conducting a tendering exercise for the role of the Committee's independent advisers;
- undertaking the annual review of the Committee's Terms of Reference; and
- the disclosures in this Report.

Membership and Advice

Our Remuneration Committee met four times during the year. All members are independent Non-Executive Directors, which we see as important in ensuring Executive Directors' and senior executives' remuneration is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed.

To reinforce this independence, a standing item at each Committee meeting allows the members to meet without the Company Chairman, any Executive Director or other manager being present.

Mr I J G Napier (Company Chairman), Mrs A J Cooper (Chief Executive) and Mr R Dyrbus (Finance Director) were consulted and invited to attend where appropriate. Mr M R Phillips (Group Corporate and Legal Affairs Director and Company Secretary) also attended as secretary to the Committee until the Committee's meeting on 7 September 2011 when Mr T M Williams (Deputy Company Secretary) succeeded him as secretary to the Committee.

Mrs K A Turner (Group Human Resources Director), the Group Compensation and Benefits Manager and the Deputy Company Secretary also attended and provided internal support and advice on market and regulatory developments in remuneration practice and our employee share plans. In addition, their attendance ensures that the Committee is kept fully abreast of pay policies throughout the Group, which it then takes into account when determining the remuneration of the Executive Directors.

No-one is allowed to participate in any matter directly concerning the details of their own remuneration or conditions of service.

Following a tendering process, Aon Hewitt Limited, with a new team, (operating through the brand New Bridge Street), was reappointed as the Committee's principal external adviser to review our remuneration principles and practices against corporate governance best practice and help us adhere to our Remuneration Policy. Aon Hewitt Limited is a signatory to the Code of Conduct for Remuneration Advisers. New Bridge Street also presented a review of developments in UK corporate governance to keep Committee members up-to-date with new developments and evolving best practice.

Aon Hewitt Limited assisted the Group in respect of the triennial valuation of its UK pension fund, assisted with our employee engagement survey and acts as insurance brokers to the Group. The Committee is, however, satisfied that the provision by Aon Hewitt Limited of those other services in no way compromises the position of New Bridge Street as the Committee's independent advisers.

Executive remuneration data provided by Towers Watson is used for benchmarking purposes to ensure the consistent application of our Remuneration Policy.

Solicitors Allen & Overy LLP and Ashurst LLP provide services to the Remuneration Committee as and when required. They both provide other legal services to the Group. Allen & Overy are also retained by the Company to provide legal advice on our employee share plans.

The Company retains Alithos Limited to undertake total shareholder return (TSR) calculations and provide advice on all TSR related matters. Alithos Limited provides no other services for the Group.

PricewaterhouseCoopers LLP (PwC), our Auditors, perform agreed upon procedures on earnings per share (EPS) calculations used in relation to our employee share plans' performance criteria.

Directors' Emoluments for the Year Ended 30 September 2011 (Audited)

£'000	2011	2010
Executive Directors		
Base salary	1,602	2,414
Benefits	47	75
Pension salary supplement	296	276
Bonus	913	2,769
LTIP annual vesting ¹	1,058	3,454
SMS annual vesting ²	701	1,183
	4,617	10,171
Non-Executive Directors		
Fees	883	1,061
Benefits	–	33
Consultancy fees	–	442
	883	1,536
Former Executive Directors		
Salary of former Executive Director	21	75
Bonus of former Executive Director	7	77
Consultancy fees to former Executive Directors	–	106
Subsidiary Board fees	10	43
Benefits	1	2
	39	303
Fees of former Non-Executive Directors		
Subsidiary Board fees	5	28
	5	28
Total remuneration	5,544	12,038
Operating Executive (excluding Executive Directors)		
Base salary	2,227	1,583
Benefits	196	141
Pension salary supplement	132	110
Bonus	911	1,079
LTIP annual vesting ¹	309	439
SMS annual vesting ²	548	360
	4,323	3,712

1 Value of LTIP shares vesting in the year based on the prevailing closing share price on the day of exercise.

2 Value of SMS shares vesting on maturity based on the prevailing closing share price on the day of vesting.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges was £11,449,359 (2010: £17,274,754). During the year the Sales & Marketing Director retired from the Board and separate Sales and Marketing Directors were appointed to the Operating Executive.

Key Management Compensation for the Year Ended 30 September 2011 (Audited)

£'000	2011	2010
Short-term employee benefits	6,807	9,595
Post employment benefits	952	636
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payment (in accordance with IAS 24)	6,741	4,043
	14,500	14,274

Emoluments by Individual Director (Audited)

£'000	Base salary	Fees	Subsidiary board fees	Bonus	Pension salary supplement ¹	Benefits in kind ²	Sub total 2011	Sub total 2010	LTIP ³	SMS ³	Total 2011	Total 2010	Base salary/ fees from 1/10/2011
Executive Directors													
Mrs A J Cooper, Chief Executive	800	–	–	530	71	16	1,417	1,459	263	225	1,905	1,923	860
Mr R Dyrbus, Finance Director	642	–	–	319	225	26	1,212	1,657	535	476	2,223	2,844	655
Mr G L Blashill ⁴ , Group Sales and Marketing Director	160	–	–	64	–	5	229	973	260	–	489	1,624	–
Mr G Davis ⁵	–	–	–	–	–	–	–	1,445	–	–	–	3,780	–
	1,602	–	–	913	296	47	2,858	5,534	1,058	701	4,617	10,171	1,515
Non-Executive Directors													
Mr I J G Napier, Chairman	–	433	–	–	–	–	433	433	–	–	433	433	450
Mr J-D Comolli ⁶	–	–	–	–	–	–	–	593	–	–	–	593	–
Dr K M Burnett	–	65	–	–	–	–	65	65	–	–	65	65	73
Mr M H C Herlihy ⁷	–	75	–	–	–	–	75	65	–	–	75	65	88
Dr P H Jungels ⁷	–	95	–	–	–	–	95	105	–	–	95	105	98
Mr C F Knott ⁸	–	–	–	–	–	–	–	60	–	–	–	60	–
Ms S E Murray	–	65	–	–	–	–	65	65	–	–	65	65	73
Mr B Setrakian	–	65	–	–	–	–	65	65	–	–	65	65	73
Mr M D Williamson ⁷	–	85	–	–	–	–	85	85	–	–	85	85	93
	–	883	–	–	–	–	883	1,536	–	–	883	1,563	948
Former Directors													
Mr G L Blashill ⁴	21	–	–	7	–	1	29	–	–	262	291	–	–
Mr D Cresswell ⁹	–	–	5	–	–	–	5	51	–	–	5	51	–
Mr G Davis ⁵	–	–	–	–	–	–	–	154	–	–	–	154	–
Mr S Huismans ¹⁰	–	–	5	–	–	–	5	28	–	–	5	28	–
Mr S T Painter ¹¹	–	–	5	–	–	–	5	98	–	–	5	98	–
	21	–	15	7	–	1	44	331	–	262	306	331	–

1 Further details are contained in the Executive Directors' pension section on pages 72 to 73.

2 Benefits in kind principally include the provision of a company car and health insurance.

3 LTIP and SMS represent the value of SMS awards vesting and LTIP options exercised in the year.

4 Mr G L Blashill retired from the Board on 2 February 2011. He remained an employee until 15 February 2011.

5 Mr G Davis retired from the Board on 12 May 2010. He remained an employee until 4 June 2010.

6 Mr J-D Comolli resigned from the Board with effect from 14 September 2010.

7 Includes payment in respect of Senior Independent Director fee of £25,000 per annum and chairmanship of Board Committees at an annual rate of £15,000 in respect of the Remuneration Committee and £20,000 in respect of the Audit Committee.

8 Mr C F Knott resigned from the Board on 17 July 2010.

9 Mr D Cresswell retired from the Board on 31 December 2007. He received fees in connection with his Non-Executive Director appointments to Supervisory Boards within the Reemtsma Group until 7 December 2010.

10 Mr S Huismans retired from the Board on 31 January 2006. He received fees in connection with his Non-Executive Director appointments to Supervisory Boards within the Reemtsma Group until 7 December 2010.

11 Mr S T Painter retired from the Board on 31 May 2000. He received fees on a consultancy basis and in connection with his Non-Executive Director appointments to Supervisory Boards within the Reemtsma Group until 3 December 2009 and Subsidiary Boards within the Altadis Group until 27 September 2011.

No sums were paid to any Director by way of taxable expenses allowances and no Directors waived their fees.

Directors' Interests in Ordinary Shares (Beneficial, Family and any Connected Persons Interests) (Audited)

	Ordinary Shares			ShareSave Options		Contingent Rights to Ordinary Shares (LTIP and SMS Shares)		Total Interests		
	1/10/10	30/09/11 ¹	1/11/11 ¹	1/10/10	30/09/11 ¹	1/10/10	30/09/11 ¹	1/10/10	30/09/11 ¹	1/11/11 ¹
Executive Directors										
Mrs A J Cooper	114,336	130,187	130,187	729	729	131,057	209,933	246,122	340,849	340,849
Mr R Dyrbus	398,365	399,462	399,462	669	669	224,196	259,324	643,230	659,455	659,455
Mr G L Blashill ²	154,790	163,660	163,660	729	729	125,446	128,723	280,965	293,112	293,112
Non-Executive Directors										
Mr I J G Napier	14,747	16,807	16,807	–	–	–	–	14,747	16,807	16,807
Dr K M Burnett	1,583	1,876	1,876	–	–	–	–	1,583	1,876	1,876
Mr M H C Herlihy	3,015	3,442	3,442	–	–	–	–	3,015	3,442	3,442
Dr P H Jungels	5,661	6,012	6,012	–	–	–	–	5,661	6,012	6,012
Ms S E Murray	2,465	2,758	2,758	–	–	–	–	2,465	2,758	2,758
Mr B Setrakian	725	1,018	1,018	–	–	–	–	725	1,018	1,018
Mr M D Williamson	2,597	2,890	2,890	–	–	–	–	2,597	2,890	2,890

¹ Or date of resignation or retirement if earlier.

² Mr G L Blashill retired from the Board on 2 February 2011.

There have been no changes in these interests since 30 September 2011.

Remuneration Policy and Practice

Our Remuneration Policy is designed to attract, retain and motivate a high quality pool of talented employees at all levels who are incentivised to deliver our corporate strategy through clear links between reward and performance without encouraging them to take undue risks.

We operate in a highly competitive international environment and continue to assign employees internationally to achieve the optimum balance of experience within the Group and to facilitate employee development.

We align the interests of shareholders and employees at all levels by, wherever possible, giving our employees the annual opportunity to build a shareholding in the Company through our employee share plans, with over 30 per cent of eligible employees participating in one or more plans.

Executive Policy and Practice

We consider it critical to align the remuneration package for Executive Directors and our most senior executives with the Group's strategy and risk appetite. We, therefore, believe our Executive Directors' remuneration should be competitive but not excessive and, to incentivise them to maximise individual, functional and corporate performance, that they should be able to earn more from their performance related pay than from their fixed pay. We aim to position our fixed elements of remuneration around the median paid by our comparator group of companies, which currently remains the FTSE 50 with secondary reference to the FTSE 30 both excluding companies in the financial and pharmaceutical sectors but which will be reviewed as part of the Committee's consideration of overall remuneration philosophy.

By linking a significant proportion of our performance related remuneration elements to the value of our shares, we provide our Executive Directors with the opportunity to earn upper quartile total compensation if they produce enhanced earnings and above market returns for our shareholders. Our policy also supports our strategy by linking the major elements of remuneration to performance criteria aligned with our KPIs. The policy, however, includes both short-term and long-term incentives, the main elements being base salary, annual bonus, long term incentive plan (LTIP), SMS and pension benefits.

To ensure our Remuneration Policy is firmly linked to our strategy and risk management, Executive Directors, together with other senior executives, are required to build a significant stake in the Company in accordance with our share retention guidelines. This link is further supported through the setting of bonus and employee share plan targets that reflect key business imperatives, for example volume growth, cash conversion and growth in EPS and TSR all of which are key performance indicators used to measure strategy as discussed on page 11.

Executive Directors are remunerated in respect of their executive appointments under the terms of their service agreements and receive no additional fees for serving as Directors.

Directors' Service Arrangements

Executive Directors' Service Agreements

The Company's policy is that Executive Directors' service agreements are terminable on no more than one year's notice and there is no entitlement to the payment of a predetermined amount on termination of employment in any circumstances. The service agreement for Mr R Dyrbus was, however, entered into at the time of the demerger of the Company from the Hanson Group and the provisions dealing with compensation on termination following a change of control in his service agreement reflect those arrangements.

There are no liquidated damages provisions for compensation on termination within Executive Directors' service agreements, except for those set out in the table below. The Executive Directors' service agreements do contain provisions for payment in lieu of notice but these are at the Company's sole discretion. We are unequivocally against rewards for failure. Apart from the limited respects referred to above, the circumstances of the termination and an individual's duty and opportunity to mitigate loss are taken into account in every case. Our policy is to stop or reduce compensatory payments to former Directors to the extent that they receive remuneration from other employment during the compensation period and that any such payments would be paid monthly in arrears.

Under the Rules of our LTIP and SMS, outstanding awards vest if a participant leaves for specified reasons, including death, retirement, redundancy, the business or company in which the participant is employed ceasing to be part of the Group or on a change of control. In these circumstances a participant's awards vest on a time pro rata basis subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. If, however, the termination of employment is not for one of the specified reasons a participant's full awards lapse.

Executive Directors' Service Agreements

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Mrs A J Cooper	1 July 2007	Terminable on 52 weeks' notice	No provisions
Mr R Dyrbus	21 August 1996	Terminable on 52 weeks' notice	Payment of a liquidated sum calculated by reference to benefits receivable during the notice period
Mr G L Blashill ¹	28 October 2005	Terminable on 52 weeks' notice	No provisions

¹ Mr G L Blashill retired from the Board on 2 February 2011.

Policy in Respect of Remuneration from External Board Appointments

We recognise that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship. Each serving Executive Director is restricted to one external non-executive directorship and may not serve as the chairman of a FTSE 100 company.

Mrs A J Cooper is a Non-Executive Director of Inchcape PLC and is permitted to retain the £44,167 fees received from this position in the financial year.

Remuneration Policy for Non-Executive Directors

Within the £2.0 million limit set out in our Articles of Association, the Board determines the remuneration policy and level of fees for our Non-Executive Directors and, after recommendation by the Remuneration Committee, our Chairman. In addition to base fees, additional fees are paid to the Chairmen of our Audit and Remuneration Committees and our Senior Independent Director. After taking account of market practice, with reference to our comparator group together with the need to attract and retain high calibre individuals, these fees are reviewed, but not necessarily increased, on an annual basis.

With the exception of reimbursement of expenses incurred in connection with their directorship of the Company, Non-Executive Directors receive no other material pay or benefits. They are not eligible for bonuses, retirement benefits or to participate in the Group's employee share plans.

To align Non-Executive Directors' interests with those of our shareholders, a proportion of their fees is applied to the purchase of shares in the Company, but not at a level that we believe could compromise their judgement or independence. These shares are held by a nominee during the term of their directorship.

Non-Executive Directors' Letters of Appointment

The Chairman and Non-Executive Directors do not have service agreements with the Company but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at our registered office during normal business hours and both prior to and at the AGM.

In line with our annual review policy the Chairman's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 1 February 2011. Under the terms of our Articles of Association, Directors are subject to annual re-election by shareholders. There are no provisions regarding notice periods in their letters of appointment which state that the Chairman and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination.

Remuneration Practices

The main elements of the Executive Directors' remuneration arrangements (other than benefits in kind) are summarised in the table below and are explained in more detail in the subsequent paragraphs.

Executive Directors' 2010/2011 Remuneration Policy

Element	Objective	Award Level	Performance Criteria	Performance Period
Base salary	Attract and retain high performing individuals reflecting market value of role and executive's skills and experience.	Median of FTSE 50 with secondary reference to the FTSE 30, both excluding companies in the financial and pharmaceutical sectors.	N/A	N/A
Annual bonus	Incentivise delivery of Group objectives and enhance performance.	Maximum percentage of base salary. Cash element: Chief Executive and Finance Director first 100%. Non-matchable deferred shares element: Chief Executive up to an additional 100% of base salary, Finance Director up to an additional 50% of base salary.	Financial Targets (75% of maximum bonus). Strategic Targets (25% of maximum bonus).	1 year 3 year retention period
Share Matching Scheme	Incentivise growth in EPS and align with interests of shareholders.	May elect to invest some or all of gross cash element of the annual bonus in shares. These can be matched on a 1:1 basis.	EPS growth.	3 years
Long Term Incentive Plan	Incentivise long-term delivery of EPS and TSR and align with interests of shareholders.	Percentage of base salary: Chief Executive 200%, Finance Director 150%.	3 elements: – 50% EPS growth – 25% TSR vs FTSE 100 – 25% TSR vs comparator group.	3 years

Base Salary

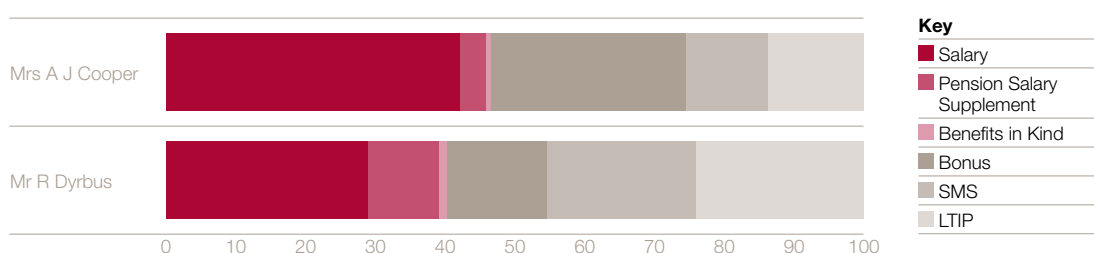
Base salaries are reviewed in September of each year following detailed consideration of a number of factors including individual responsibilities, performance and the market rate for the position. Our policy is to set base pay within a range around the market median of the comparator group after consideration of market data provided by Towers Watson. Consideration is given to the effect an amendment to an individual's base salary would have on their total remuneration package. Base salary is the only element of the package used to determine pensionable earnings. This year's review was conducted in the context of the need to apply appropriate restraint in pay levels whilst also being cognisant of what is a highly competitive international market for executive talent. As a result of the review, it was decided that the Chief Executive's base salary should be increased by 7.5 per cent in line with the Committee's previously stated policy of bringing her fixed pay into line with the market median over time.

At its meeting in September 2011 the Committee increased the Chief Executive's base salary to £860,000 (from £800,000) and the Finance Director's base salary to £654,500 (from £641,690, which was not increased at the previous review) taking account of the Company's size, corporate performance, international profile, employee remuneration more generally and the critical importance of their roles in driving future performance.

We believe there should be a cohesive remuneration structure across the Group. Our approach for all employees, including executives, is, therefore, to set remuneration that takes account of: market practice; economic conditions; the performance of the Group, of teams and the individual; collective agreements that may apply; and any legal or regulatory requirements. In setting the remuneration policy and levels for executives, the Committee considers the remuneration arrangements and employment conditions of the wider employee population within the Group.

The percentage increases for executives' base salaries effective both 1 October 2010 and 1 October 2011 were generally lower than the average for other employees of the Group located in the same region.

Percentage of total actual remuneration for the financial year to 30 September 2011



Annual Bonus

Our shareholders and other stakeholders place significant weight on our annual performance. We, therefore, think it is appropriate to have a major element of Executive Directors' remuneration targeted at incentivising delivery of the Group's annual objectives and enhancing performance against key financial and non-financial targets in support of our KPIs as set out on pages 11 to 13.

For the financial year ended 30 September 2011 the potential maximum bonus was 200 per cent of base salary for the Chief Executive, 150 per cent for the Finance Director and 120 per cent for the Group Sales and Marketing Director (pro rata to date of retirement).

In support of our KPIs as used to measure strategy, detailed on pages 11 to 13, up to 75 per cent of the maximum annual bonus can be earned for achieving financial targets including growth in adjusted EPS and net revenue growth (which is subject to market share underpins). The remaining 25 per cent can be earned for performance against stretching, quantifiable strategic and non-financial targets, subject to achievement of a minimum threshold in respect of the financial targets. During the year we delivered adjusted EPS of 188.0 pence. When combined with net revenue growth this resulted in 27.5 per cent of the financial element vesting.

The strategic and non-financial targets support our growth strategy by driving performance against our key growth drivers, including cash conversion, volume targets incentivising sales growth in support of our cigarette volumes and our stick equivalent KPIs, as detailed on page 13, and targets relating to our key risks including anti-illicit trade activities supporting our focus on future foundations. We consider the strategic and non-financial targets to be commercially confidential, however, they were met in part, with 50.0 per cent of this element vesting.

Any annual bonus earned up to 100 per cent of base salary in respect of the Chief Executive and Finance Director is paid in cash and is eligible for investment in our SMS (SMS Eligible Bonus). Any bonus payable in excess of this level is used to purchase the Company's shares which the Director is required to retain for a minimum of three years. These shares are not eligible for investment in the SMS.

It is intended that the Executive Directors' annual bonus for the year ending 30 September 2012 will be structured in broadly the same manner as outlined above although the operation of the annual bonus thereafter will be considered as part of the Committee's review of the Company's remuneration philosophy.

Annual bonuses for Executive Directors and certain key executives are subject to claw back, during the three years following the end of the financial year in which they are earned, in the event of gross misconduct by the employee or misstatement of results where this had the effect of increasing the level of bonus that would otherwise have been paid.

No element of the bonus is guaranteed.

Share Interests and Incentives

Whilst placing significant weight on our annual performance, our overall remuneration package aligns the long-term interests of our shareholders and other stakeholders with those of management by incentivising the growth in the value of the business over the long-term. To support this alignment, we have adopted a set of share ownership guidelines as we believe Executive Directors and other senior managers should be encouraged to hold a substantial portion of their personal wealth in our shares.

Over a period of five years from appointment Executive Directors are required to build a holding in the Group's shares to a minimum value broadly equivalent to three times base salary for our Chief Executive and Finance Director. Other senior management are expected to invest at a level equivalent to between once and twice base salary, dependent upon grade. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for LTIP awards. All Executive Directors currently exceed their required shareholding.

We also support this alignment by linking a significant portion of Executive Directors' and senior management's remuneration to shares. The value of their overall remuneration is, therefore, heavily dependent on the performance of our share price.

Our long-term incentives consist of two employee share plans: the SMS and the LTIP.

Share Matching Scheme

The purpose of the SMS is to encourage the Group's senior managers, including Executive Directors, to hold shares in the Company. Under the SMS, at the discretion of the Committee, senior managers are invited to invest any proportion of their SMS Eligible Bonus in our shares. If those shares are held in an employee nominee facility for three years and the participant remains an employee within the Group, they will be matched on a one-for-one basis. To further incentivise our Executive Directors and our most senior managers we apply a performance criterion, as shown below, measurement of which is based on the same protocol as that applying to the LTIP and there is no opportunity to re-test. Employees can exercise their vote in respect of shares held in the employee nominee facility by giving written instructions to the nominee.

Share Matching Scheme Vesting Scale

EPS Growth

Below RPI plus 3 per cent per annum	Zero
At RPI plus 3 per cent per annum	50%
At RPI plus 6 per cent or more per annum	100% ¹

¹ Sliding scale applies for performance between RPI plus 3 per cent and RPI plus 6 per cent.

Under the rules of the SMS, should Imperial Tobacco Group PLC be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criterion.

Executive Directors' Contingent Rights to Shares under the Share Matching Scheme (Audited)

	Balance at 1/10/2010	Contingent rights arising	Prevailing share price at date of grant £	Vested during year	Market price at date of vesting 15/2/2011 £	Amount realised on vesting £'000	Balance at 30/9/2011 ¹	Actual/expected vesting date
Mrs A J Cooper	11,366	–	21.18 ²	(11,366)	19.79	225	–	February 2011
	17,895	–	17.80 ³	–	–	–	17,895	February 2012
	20,644	–	20.57 ⁴	–	–	–	20,644	February 2013
	–	31,606	19.79 ⁵	–	–	–	31,606	February 2014
	49,905	31,606	–	(11,366)	–	225	70,145	
Mr R Dyrbus	24,030	–	21.18 ²	(24,030)	19.79	476	–	February 2011
	32,303	–	17.80 ³	–	–	–	32,303	February 2012
	32,255	–	20.57 ⁴	–	–	–	32,255	February 2013
	–	32,424	19.79 ⁵	–	–	–	32,424	February 2014
	88,588	32,424	–	(24,030)	–	476	96,982	
Mr G L Blashill ⁶	13,262	–	21.18 ²	–	–	–	13,262	February 2011
	17,684	–	17.80 ³	–	–	–	17,684	February 2012
	18,735	–	20.57 ⁴	–	–	–	18,735	February 2013
	49,681	–	–	–	–	–	49,681	

¹ Or date of retirement as a Director if earlier.

² Award granted 15 February 2008. Share price on date of grant adjusted from £23.97 following June 2008 rights issue.

³ Award granted 15 February 2009.

⁴ Award granted 15 February 2010.

⁵ Award granted 15 February 2011.

⁶ Mr G L Blashill retired from the Board on 2 February 2011 and was not eligible to participate in the 15 February 2011 award.

There have been no changes in any Executive Directors' contingent rights since 30 September 2011.

During February 2011 the SMS relating to annual bonuses earned in the financial year to 30 September 2007 matured. The performance criterion was met in full. In respect of annual bonuses earned in the financial year to 30 September 2010 our Executive Directors elected to invest the equivalent of their entire SMS Eligible Bonus in the form of our shares under the scheme. These matched shares are shown within contingent rights arising above. It is anticipated that in February 2012 the Executive Directors will again invest the equivalent of their entire SMS Eligible Bonus in the scheme.

The performance criterion, award policy and vesting schedules were reviewed by the Committee during the year. The Committee confirmed they remain appropriate and that, therefore, it is intended that the same performance criterion will determine vesting of SMS awards made in the financial year ending 30 September 2012. However, the operation of the SMS thereafter will be considered again as part of the Committee's review of the Company's remuneration philosophy.

In respect of the February 2009 award, based on EPS to the end of the financial year the award will vest in full. For illustrative purposes only, the share price on 31 October 2011, being the latest practicable date prior to publication, was £22.74 valuing the February 2009 award as follows:

	Award vesting No. of shares	Award vesting Illustrative value £'000
Mrs A J Cooper	17,895	407
Mr R Dyrbus	32,303	735

Interim measurement calculations prepared as at 30 September 2011 indicate that, in the event that only this level of performance were maintained over the relevant performance periods, both the February 2010 and February 2011 awards would lapse.

Long Term Incentive Plan

The LTIP is a conditional award of shares to Executive Directors and other senior management. Some, all, or none of these shares vest three years after grant dependent upon performance over the period. All grants are at the discretion of the Remuneration Committee and no employee has a right to receive an award. Awards are equivalent to 200 per cent of base salary for the Chief Executive and 150 per cent for the Finance Director, with awards at lower levels for other senior managers.

Current Structure

The performance criteria for all awards is split into three elements which operate independently and can vest regardless of the performance in respect of the other elements.

The three elements are:

First Element

The performance criterion for 50 per cent of the award is based on average growth in adjusted EPS based on an agreed protocol, after adjusting for inflation over the period of the award (Real Annual EPS Growth). At the Committee's request, our Auditors perform agreed upon procedures on the calculations. If Real Annual EPS Growth equals 3 per cent, 12.5 per cent of this element vests. This element vests in full if Real Annual EPS Growth equals or exceeds 10 per cent. Between these two points this element vests on a straight-line basis.

Second Element

A further 25 per cent of the award has a performance criterion based on a sliding scale depending on TSR relative to the FTSE 100 Index. No vesting of this element occurs unless the Company's TSR ranks it in the top 50 per cent of the companies in this index. At this performance threshold 30 per cent of this element vests. This element vests in full if the TSR ranks the Company in the top 25 per cent of this index. Between these thresholds this element vests on a straight-line basis.

Third Element

The final 25 per cent of the award has a performance criterion based on a sliding scale depending on TSR relative to a bespoke comparator group comprising 12 tobacco and alcohol companies. No vesting of this element occurs unless the Company's TSR exceeds that of the bottom six companies in the comparator group. At this performance threshold, 30 per cent of this element vests. This element vests in full if the TSR ranks the Company in the top three. Between these thresholds this element vests on a straight-line basis. The comparator group for the November 2010 award was:

AB InBev	Altria Group Inc.	British American Tobacco PLC	Carlsberg A/S
Diageo PLC	Heineken N.V.	Imperial Tobacco Group PLC	Japan Tobacco Inc.
Philip Morris International Inc.	Pernod Ricard S.A.	Reynolds American Inc.	SABMiller PLC

To ensure our Executive Directors and senior managers are incentivised to drive our underlying performance and to ensure that corporate actions or fluctuations in exchange rates do not unduly affect comparative underlying performance, the Committee has agreed the following protocols:

- if a company in the comparator group is delisted during the performance period it will be replaced from the start of the performance period, in an agreed order, by Lorillard Inc or Molson Coors Brewing Company;
- if a company in the comparator group undertakes a rights issue during the performance period a cash neutral approach of selling a portion of rights to take up the balance of the rights (commonly known as 'tail swallowing') will be applied; and
- to remove the undue influence of exchange rate fluctuations, TSR calculations are measured in the currency in which each company is listed.

The TSR calculations, performed independently by Alithos Limited, use the share prices of each comparator group company, averaged over a period of three months, to determine the initial and closing prices. Dividend payments are recognised on the date shares are declared ex dividend. The Committee considers this method gives a fairer and less volatile result as improved performance has to be sustained for several weeks before it effectively impacts on the TSR calculations.

During the year the Committee reviewed the performance criteria, award policy, comparator group and vesting schedules for LTIP awards and decided that the three elements remain relevant measures that drive and measure sustainable improvement in shareholder value and support our long-term KPIs, discussed on pages 11 to 13. It is, therefore, intended that the same performance criteria (and the same comparator group of companies for the third element) will determine vesting of LTIP awards to be made in the year ending 30 September 2012. The operation of the LTIP will, however, be considered again as part of the Committee's review of the Company's remuneration philosophy.

Vesting of Awards

On vesting, a participant's option to acquire the relevant number of shares may be exercised at any time up to the seventh anniversary of the date the award vested. The vesting process in a number of jurisdictions outside the UK is, however, amended to comply with local securities and tax legislation.

The performance period is set prior to the granting of each annual award and there is no opportunity to re-test if any of the performance criteria are not achieved.

Under the rules of the LTIP, should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.

The Committee has absolute discretion to vary, but not increase, the extent to which any awards vest. This ensures awards only vest, and vest at an appropriate level, if there has been an improvement in the underlying financial performance of the Company, including the maintenance of long-term return on capital employed.

LTIP Award Summary

Award as Percentage of Base Salary

Performance Criteria

200 for Chief Executive

50 per cent on EPS

150 for Finance Director

25 per cent on TSR against FTSE 100

25 per cent on TSR against comparator group

Executive Directors' Conditional Share Awards under the Long Term Incentive Plan (Audited)

	Balance at 1/10/2010	Granted during year	Date of grant	Market price at date of grant £	Vested during year (2/11/2010)	Market price at date of vesting £	Market price at date of exercise £	Lapsed during year	Amount realised on exercise £'000	Balance at 30/9/2011 ¹	Performance period
Mrs A J Cooper	19,988	–	31/10/07	24.47	(13,719)	19.97	19.20	(6,269)	263	–	2007-2010 ²
	31,972	–	26/11/08	14.70	–	–	–	–	–	31,972	2008-2011 ³
	29,192	–	11/11/09	18.70	–	–	–	–	–	29,192	2009-2012 ⁴
	–	78,624	03/11/10	20.35	–	–	–	–	–	78,624	2010-2013 ⁵
	81,152	78,624	–	–	(13,719)	–	–	(6,269)	263	139,788	
Mr R Dyrbus	40,565	–	31/10/07	24.47	(27,843)	19.97	19.20	(12,722)	535	–	2007-2010 ²
	63,571	–	26/11/08	14.70	–	–	–	–	–	63,571	2008-2011 ³
	51,472	–	11/11/09	18.70	–	–	–	–	–	51,472	2009-2012 ⁴
	–	47,299	03/11/10	20.35	–	–	–	–	–	47,299	2010-2013 ⁵
	155,608	47,299	–	–	(27,843)	–	–	(12,722)	535	162,342	
Mr G L Blashill	19,752	–	31/10/07	24.47	(13,558)	19.97	19.20	(6,194)	260	–	2007-2010 ²
	30,952	–	26/11/08	14.70	–	–	–	–	–	30,952	2008-2011 ³
	25,061	–	11/11/09	18.70	–	–	–	–	–	25,061	2009-2012 ⁴
	–	23,029	03/11/10	20.35	–	–	–	–	–	23,029	2010-2013 ⁵
	75,765	23,029	–	–	(13,558)	–	–	(6,194)	260	79,042	

1 Or date of retirement as a Director if earlier.

2 Exercisable, upon the payment of the option exercise price of 1 penny, between 1 November 2010 and 31 October 2017.

3 Exercisable, upon the payment of the option exercise price of 1 penny, between 26 November 2011 and 25 November 2018.

4 Exercisable, upon the payment of the option exercise price of 1 penny, between 11 November 2012 and 10 November 2019.

5 Exercisable, upon the payment of the option exercise price of 1 penny, between 3 November 2013 and 2 November 2020.

There have been no changes in any Executive Directors' awards since 30 September 2011.

During the year, the October 2007 – October 2010 award vested partially on 2 November 2010 (being the first day the Company came out of a close period). Based on EPS and TSR performance to the end of the financial year the first element vested in full, approximately 74.5 per cent of the second element vested and none of the third element vested. The remaining shares under award lapsed.

In respect of the November 2008 – November 2011 award, based on EPS and TSR performance to the end of the financial year approximately 80.4 per cent of the first element will vest on 26 November 2011, approximately 62.1 per cent of the second element will vest and the third element will lapse. For illustrative purposes only, the share price on 31 October 2011, being the latest practicable date prior to publication, was £22.74, valuing the awards as follows:

	Award lapsing No. of shares	Award vesting No. of shares over which option granted	Award vesting Illustrative value £'000
Mrs A J Cooper	14,161	17,811	405
Mr R Dyrbus	28,156	35,415	805

The value of any options exercised could vary significantly from that shown due to share price movements.

Interim measurement calculations prepared as at 30 September 2011 indicate that, in the event that only this level of performance were maintained over the relevant performance periods, the first element of the November 2009 – November 2012 award would lapse, approximately 30 per cent of the second element would vest and the third element would lapse. In respect of the November 2010 – November 2013 award, the first element would lapse, 100 per cent of the second and 30 per cent of the third element would vest.

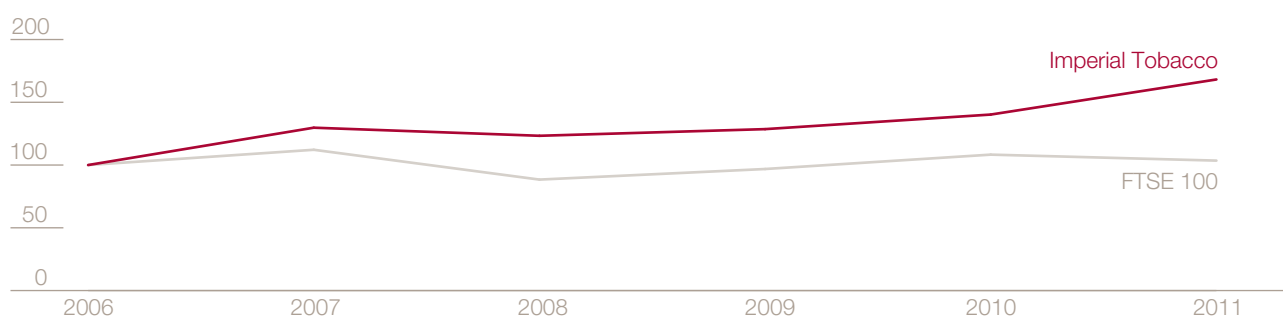
The illustrative values based on the above share price and performance criteria are as follows:

	No. of shares	November 2012 Illustrative value £'000	No. of shares	November 2013 Illustrative value £'000
Mrs A J Cooper	2,189	50	25,552	581
Mr R Dyrbus	3,860	88	15,371	350

Review of Past Performance

The chart below shows the value of £100 invested in the Company on 1 October 2006 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year ends to 30 September 2011. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance and reflects one of our LTIP performance criteria.

Total Return Indices – Imperial Tobacco and FTSE 100



Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our shareholders. Annually we offer as many employees as practicable, together with our Executive Directors, the opportunity to join the Sharesave Plan. Options over ordinary shares are offered at a discount of up to 20 per cent to the closing mid-market price of our ordinary shares on the London Stock Exchange on the day prior to invitation. The Plan allows participants to save up to £250 per month over a period of three years, and in the UK only three or five years, and then exercise their option over ordinary shares. In common with most plans of this type, no performance conditions are applied.

Executive Directors' Share Options under the Sharesave Plan (Audited)

	Balance at 1/10/2010	Granted during the year	Lapsed during the year	Exercised during the year	Market price at date of exercise £	Balance at 30/09/2011 ¹	Exercise price £	Range of exercisable dates of options held at 30/9/2011 ²	Gains on exercise ³	
									During the year £'000	2010 £'000
Mrs A J Cooper	729	–	–	–	–	729	12.54	01/08/12 – 31/01/13	–	–
	729	–	–	–	–	729			–	–
Mr R Dyrbus	437	–	–	–	–	437	12.54	01/08/12 – 31/01/13	–	–
	232	–	–	–	–	232	15.63	01/08/13 – 31/01/14	–	–
	669	–	–	–	–	669			–	–
Mr G L Blashill	729	–	–	–	–	729	12.54	01/08/12 – 31/01/13	–	–
	729	–	–	–	–	729			–	–

¹ Or date of retirement as a Director if earlier.

² Any option not exercised by the end of the range of exercisable dates will expire.

³ Gains made on exercise are calculated as the difference between the option price and the market price on the date of exercise. Aggregate gains during the year were nil (2010: £776).

There have been no changes in any Executive Directors' share options since 30 September 2011.

Our middle market share price at the close of business on 30 September 2011, being the last trading day of the financial year, was £21.74 and the range of the middle market price during the year was £17.84 to £22.31.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

Award Dates

Our policy is to grant awards under all our employee share plans on predetermined dates based on an annual cycle.

Executive Directors' Pensions

Since 6 April 2006 ('A' day) the Group's UK pension policy, which applies to all current Executive Directors, provides the option to maintain membership of or, in respect of new employees, join the UK Imperial Tobacco Pension Fund (the Fund) or receive a salary supplement in lieu of membership of the Fund.

The Executive Directors are all members of the Fund, the principal defined benefit scheme operated by the Group. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. The Fund allows members to achieve the maximum pension of two-thirds of their salary at normal retirement age, usually after 32 years' service. Pension commutation to enable participants to receive a lump sum on retirement is permitted.

For death before retirement, a capital sum equal to four times salary is payable together with a spouse's pension of two-thirds of the member's expected pension at retirement. For death in retirement, a spouse's pension of two-thirds of the member's pre-commutation pension is payable. Dependent children will also receive allowances.

Pensions in payment increase annually by the lesser of 10 per cent and the increase in the Retail Prices Index, together with an option under the rules to surrender part of a pension in order for the annual increase to be in line with the increase in the Retail Prices Index to a maximum of 15 per cent.

New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis. Members who joined the Fund prior to 1 October 2010 continue to accrue pension benefits in the Fund on a defined benefit basis, as set out above. All Executive Directors accrue pension benefits on the defined benefit basis.

From 6 April 2006 a new tax regime was introduced by HM Revenue & Customs (HMRC) which abolished most of the detailed limits previously imposed on pension schemes and replaced them with a simplified approach. Each member now has a Lifetime Allowance (LTA) of £1.80 million for retirements in the tax year 2011/2012 and a tax, called the lifetime allowance charge, is levied at retirement if the value of their pension benefit from all sources exceeds this amount. For any member whose total benefit value on 6 April 2006 exceeded the LTA, transitional arrangements allowed them to register the higher value so that they would not be subject to a large retrospective LTA charge. To qualify for this enhanced protection the member was required to opt out of Fund membership in respect of future service accrual in order to retain a final salary linked pension entitlement in respect of past service.

All Executive Directors earn benefits on the standard scale with a normal retirement age of 60. Mr R Dyrbus has opted out of Fund membership in respect of future service accrual as a result of registering for enhanced protection with HMRC. The detailed HMRC rules governing enhanced protection mean that it may not be permissible, in some rare circumstances, for the full final salary linked pension based on service up to 6 April 2006 to be paid from the Fund. In this event an additional pension will be paid by the Company through an unfunded unapproved retirement benefit scheme (UURBS) so that the full accrued benefit may be provided.

Mr R Dyrbus is in receipt of a salary supplement of 35 per cent of salary, which is in lieu of future pensionable service accrual and arises because his accrued pension on 6 April 2006 was well below the maximum pension of two-thirds of salary. Mrs A J Cooper is also in receipt of a salary supplement. Prior to 6 April 2006 her pension benefits were limited by the effect of HMRC's earnings cap. Although this cap was removed as from 6 April 2006, the Fund did not disapply it in respect of past pensionable service but maintained its own earnings cap going forward. For service from 6 April 2006 onwards and for pensionable salary in excess of the Fund's earnings cap, the standard Fund benefit is a pension at the lower accrual rate of 1/60ths with a 50 per cent spouse's pension and member contributions of 5 per cent of this top slice of salary are payable. As an alternative to extra pension accrual on this top slice of salary through the UURBS, Mrs Cooper receives a salary supplement of 12 per cent of this amount.

In each case these salary supplements have been calculated by independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable.

The following table provides the information required by both the Listing Rules and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations) and gives details for each Executive Director of:

- the annual accrued pension payable on retirement calculated as if he/she had left service at the year end (any potential UURBS entitlement is included);
- the increase in accrued pension during the year, excluding any increases for inflation in respect of the disclosure required under the Listing Rules; and
- the transfer value of the increase in accrued pension calculated in accordance with the latest Regulations.

None of the Executive Directors has made additional voluntary contributions.

Executive Directors' Pension Disclosures (Audited)

Disclosures required under the Regulations										Listing Rules	
			Accrued pension £'000			Transfer value of accrued pension £'000 ¹				£'000	
	Age at 30/09/2011 Years	Pensionable service at 30/09/2011 Years	At 1/10/2010	Increase during the year	At 30/09/2011	At 1/10/2010	Increase/ (decrease) during the year net of Director's contributions	Director's contribution	At 30/09/2011	Increase in accrued pension (net of inflation) during the year	Transfer value of increase (net of inflation)
Mrs A J Cooper	45	12	82	27	109	822	263	29	1,114	23	235
Mr R Dyrbus	58	29	324	–	324	5,445	119	–	5,564	–	–
Former Director											
Mr G L Blashill ²	64	42	312	–	312	6,244	238	–	6,482	–	–

- 1 The transfer values disclosed above have been calculated using the amended transfer value basis introduced in July 2011 following a review. The changes in the transfer values include the net effect of changing market conditions over the course of the year and the revised basis.
- 2 Mr G L Blashill retired and drew his full pension, as is permitted under the Fund rules, on 15 February 2011. Mr Blashill ceased to be a Director of the Company on 2 February 2011. The transfer value figure in the table above incorporates allowance for the benefit paid out in order to provide a consistent comparison with previous figures. The accrued pension figures represent the benefits accrued, assuming that Mr Blashill first started to draw pension from the relevant date. The figures shown are consistent with those disclosed at 30 September 2010 and the transfer values are calculated at 15 February 2011 allowing for market conditions at 30 September 2010.

Other information

Employee Benefit Trusts

Our policy is to satisfy options and awards under our employee share plans from either market purchased ordinary shares or ordinary shares held in treasury distributed through our employee benefit trusts: The Imperial Tobacco Group Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2011, we held 57,007,000 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

	Balance at 1/10/2010	Acquired during year	Distributed during year	Balance at 30/09/2011	Ordinary shares under Award at 30/09/2011	Surplus/ (Shortfall)
Executive Trust	746,102	434,492	200,950	979,644	913,356	66,288
2001 Trust	3,013,467	1,797,966	976,774	3,834,659	4,913,631	(1,078,972)

Share Plan Flow Rates

The Trust Deeds of the Employee Benefit Trusts and the rules of each of our employee share plans contain provisions limiting options and awards to 5 per cent of issued share capital in five years and 10 per cent in ten years for all employee share plans, with an additional restriction to 5 per cent in ten years for executive share plans. Currently an aggregate total of 0.54 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under the Group's executive and all employee share plans.

Since demerger in 1996, the cumulative number of shares under option and award granted pursuant to all of the Company's employee share plans totals 3.0 per cent of its issued share capital. Following initial grants on demerger, subsequent annual grants have averaged 0.3 per cent of issued share capital (including shares held in treasury).

Summary of Options and Awards Granted

Limit on awards	Cumulative Options and Awards granted as a percentage of issued share capital (including those held in treasury)	Options and Awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	2.0	0.2
5% in 5 years	1.0	0.2
5% in 10 years (executive plans)	1.0	0.1

Remuneration Arrangements for Former Executive Directors

Mr G L Blashill

In order to assist in the orderly handover of his duties, following his retirement from the Board on 2 February 2011 Mr Blashill remained an employee until his retirement on 15 February 2011. During this period he continued to receive his full remuneration. Upon his retirement and the partial satisfaction of the performance criteria, Mr Blashill's LTIP and SMS awards vested in part on a pro-rata basis. The balance of his awards lapsed.

Mr D Cresswell

Following his retirement from the Board in December 2007, Mr Cresswell remains a member of the Board of Imperial Vina Danang Company Limited and was a member of the Supervisory Boards within the Reemtsma Group until 7 December 2010.

Mr M A Häussler

Mr Häussler is currently in receipt of a retirement pension that has been reduced because it was taken before he reached his normal retirement age. His service agreement with the Group provided that he would receive similar overall pension benefits to those that he would have received had he remained in the Reemtsma Cigarettenfabriken GmbH pension arrangement. This was a pension for life equivalent to 42 per cent of his fixed annual salary at age 63. For death in retirement, a spouse's pension for life of 60 per cent of that amount would be payable. The pension is made up of two parts: one part payable from the unfunded pension arrangement of Reemtsma Cigarettenfabriken GmbH, the other part payable from the separately funded Imperial Tobacco Pension Fund. The pensions payable under the Reemtsma arrangement and from the Imperial Tobacco Pension Fund may be increased annually in accordance with the Rules of those arrangements, or as required by law.

Mr S Huismans

Following his retirement from the Board in January 2006, Mr Huismans remained a member of Supervisory Boards within the Reemtsma Group until 7 December 2010. Mr Huismans received additional remuneration for fulfilling such non-executive roles.

Mr S T Painter

Following his retirement in May 2000, Mr Painter entered into a consultancy agreement with Imperial Tobacco Limited, the Group's principal operating company.

The agreement, as amended in October 2001 and May 2004, ran until March 2007. Under the terms of the agreement he provided consultancy services as required and received fees at a day rate of £1,000 with a minimum fee based on 100 days' service for each 12 month period ending on 30 June 2006, and 67 days for the period 1 July 2006 to 6 March 2007. Mr Painter continued to provide consultancy services as required until July 2010 and received fees at a day rate of £1,000. He was entitled to reimbursement for the use of his car.

Mr Painter was also a member of Supervisory Boards within the Reemtsma Group until December 2009 and, between January and October 2008, the Altadis Group, for which he received additional remuneration for fulfilling such non-executive roles. He, however, remained a Director of Altadis Maroc until September 2011.

For the Board



M H C Herlihy

Chairman of the Remuneration Committee

1 November 2011

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Independent Auditors' Report to the Members of Imperial Tobacco Group PLC

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Financials

We have audited the Group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Accounting Policies and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement in the Corporate Governance Report, in relation to going concern; and
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other Matter

We have reported separately on the parent company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.



David Charles (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

1 November 2011

Consolidated Income Statement

for the year ended 30 September 2011

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£ million unless otherwise indicated	Notes	Year ended 30 September 2011	Year ended 30 September 2010
Revenue	1	29,223	28,173
Duty and similar items		(14,037)	(13,155)
Other cost of sales		(9,736)	(9,563)
Cost of sales		(23,773)	(22,718)
Gross profit		5,450	5,455
Distribution, advertising and selling costs		(2,006)	(2,001)
Administrative and other expenses		(804)	(926)
Operating profit	1	2,640	2,528
Investment income	5	785	844
Finance costs	5	(1,272)	(1,254)
Net finance costs	5	(487)	(410)
Profit before taxation	2	2,153	2,118
Taxation	6	(337)	(596)
Profit for the year		1,816	1,522
Attributable to:			
Owners of the parent		1,796	1,505
Non-controlling interests		20	17
Earnings per ordinary share (pence)			
– Basic	8	177.3	148.5
– Diluted	8	176.8	148.0

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Consolidated Statement of Comprehensive Income

for the year ended 30 September 2011

£ million	Notes	Year ended 30 September 2011	Year ended 30 September 2010
Profit for the year		1,816	1,522
Other comprehensive income			
Exchange movements		(127)	(174)
Tax effect of exchange movements	17	–	(9)
Net actuarial gains/(losses) on retirement benefits	18	41	(111)
Deferred tax relating to net actuarial (gains)/losses on retirement benefits	17	(21)	19
Other comprehensive income for the year, net of tax		(107)	(275)
Total comprehensive income for the year		1,709	1,247
Attributable to:			
Owners of the parent		1,692	1,229
Non-controlling interests		17	18
Total comprehensive income for the year		1,709	1,247

Reconciliation from operating profit to adjusted operating profit

£ million	Notes	Year ended 30 September 2011	Year ended 30 September 2010
Operating profit		2,640	2,528
Acquisition accounting adjustments	28	–	24
Amortisation of acquired intangibles	9	402	451
Restructuring costs	3	61	64
Adjusted operating profit		3,103	3,067

Reconciliation from net finance costs to adjusted net finance costs

£ million	Notes	Year ended 30 September 2011	Year ended 30 September 2010
Net finance costs		(487)	(410)
Net fair value and exchange gains on financial instruments providing commercial hedges	5	(85)	(210)
Post-employment benefits net financing cost	5	10	20
Adjusted net finance costs		(562)	(600)

Consolidated Balance Sheet

at 30 September 2011

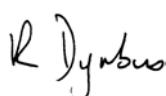
79

£ million	Notes	30 September 2011	30 September 2010
Non-current assets			
Intangible assets	9	20,487	20,941
Property, plant and equipment	10	2,038	1,971
Investments in associates		18	18
Retirement benefit assets	18	5	25
Trade and other receivables	13	100	97
Derivative financial instruments	16	429	327
Deferred tax assets	17	102	150
		23,179	23,529
Current assets			
Inventories	12	3,055	3,019
Trade and other receivables	13	2,897	3,000
Current tax assets	6	42	51
Cash and cash equivalents	14	1,171	773
Derivative financial instruments	16	223	243
		7,388	7,086
Total assets		30,567	30,615
Current liabilities			
Borrowings	16	(2,104)	(329)
Derivative financial instruments	16	(301)	(262)
Trade and other payables	15	(7,617)	(7,710)
Finance lease liabilities	26	(1)	(1)
Current tax liabilities	6	(434)	(653)
Provisions	19	(163)	(187)
		(10,620)	(9,142)
Non-current liabilities			
Borrowings	16	(8,076)	(10,003)
Derivative financial instruments	16	(760)	(748)
Trade and other payables	15	(19)	(21)
Finance lease liabilities	26	(22)	(24)
Deferred tax liabilities	17	(2,056)	(2,074)
Retirement benefit liabilities	18	(759)	(867)
Provisions	19	(545)	(647)
		(12,237)	(14,384)
Total liabilities		(22,857)	(23,526)
Net assets		7,710	7,089
Equity			
Share capital	20	107	107
Share premium		5,833	5,833
Retained earnings		956	206
Exchange translation reserve		759	883
Equity attributable to owners of the parent		7,655	7,029
Non-controlling interests		55	60
Total equity		7,710	7,089

The financial statements on pages 77 to 123 were approved by the Board of Directors on 1 November 2011 and signed on its behalf by:



Iain Napier
Chairman



Robert Dyrbus
Director

Consolidated Statement of Changes in Equity

for the year ended 30 September 2011

Overview

Strategy

Risk

Performance

Governance

Financials

£ million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2010	107	5,833	206	883	7,029	60	7,089
Profit	–	–	1,796	–	1,796	20	1,816
Exchange movements	–	–	–	(124)	(124)	(3)	(127)
Net actuarial gains on retirement benefits	–	–	41	–	41	–	41
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(21)	–	(21)	–	(21)
Other comprehensive income	–	–	20	(124)	(104)	(3)	(107)
Total comprehensive income	–	–	1,816	(124)	1,692	17	1,709
Transactions with owners							
Purchase of shares by Employee Share Ownership Trusts	–	–	(22)	–	(22)	–	(22)
Cash from employees on maturity/exercise of share schemes	–	–	4	–	4	–	4
Costs of employees' services compensated by share schemes	–	–	26	–	26	–	26
Increase in own shares held as treasury shares	–	–	(182)	–	(182)	–	(182)
Dividends paid	–	–	(892)	–	(892)	(22)	(914)
At 30 September 2011	107	5,833	956	759	7,655	55	7,710
At 1 October 2009	107	5,833	(469)	1,067	6,538	57	6,595
Profit	–	–	1,505	–	1,505	17	1,522
Exchange movements	–	–	–	(175)	(175)	1	(174)
Deferred tax effect of exchange movements	–	–	–	(9)	(9)	–	(9)
Net actuarial losses on retirement benefits	–	–	(111)	–	(111)	–	(111)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	19	–	19	–	19
Other comprehensive income	–	–	(92)	(184)	(276)	1	(275)
Total comprehensive income	–	–	1,413	(184)	1,229	18	1,247
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	5	–	5	–	5
Costs of employees' services compensated by share schemes	–	–	28	–	28	–	28
Current tax on share-based payments	–	–	2	–	2	–	2
Deferred tax on share-based payments	–	–	(1)	–	(1)	–	(1)
Other deferred tax movements	–	–	2	–	2	–	2
Changes in non-controlling interests in shareholdings	–	–	(1)	–	(1)	(3)	(4)
Dividends paid	–	–	(773)	–	(773)	(12)	(785)
At 30 September 2010	107	5,833	206	883	7,029	60	7,089

Consolidated Cash Flow Statement

for the year ended 30 September 2011

£ million	Notes	Year ended 30 September 2011	Year ended 30 September 2010
Cash flows from operating activities	25	2,556	2,859
Cash flows from investing activities			
Interest received		18	29
Purchase of property, plant and equipment		(341)	(269)
Proceeds from sale of property, plant and equipment		21	26
Purchase of intangible assets – software		(22)	(14)
Purchase of businesses – net of cash acquired		–	24
Proceeds from sale of businesses – net of cash disposed		–	5
Net cash used in investing activities		(324)	(199)
Cash flows from financing activities			
Interest paid		(570)	(609)
Cash from employees on maturity/exercise of share schemes		4	5
Purchase of shares by Employee Share Ownership Trusts		(22)	–
Settlement of exchange rate derivative financial instruments		(44)	(299)
Increase in borrowings		1,785	1,542
Repayment of borrowings		(1,837)	(2,790)
(Increase)/reduction in collateralisation deposits		(34)	70
Repayment of obligations under finance leases		(2)	(2)
Purchase of treasury shares		(182)	–
Dividends paid to non-controlling interests		(22)	(12)
Dividends paid to owners of the parent		(892)	(773)
Net cash used in financing activities		(1,816)	(2,868)
Net increase/(decrease) in cash and cash equivalents		416	(208)
Cash and cash equivalents at start of year		773	1,036
Effect of foreign exchange rates on cash and cash equivalents		(18)	(55)
Cash and cash equivalents at end of year		1,171	773

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, retirement benefit schemes and share schemes.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in the Critical Accounting Estimates and Judgements note on page 87. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions. This could affect future financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

A summary of the more important Group accounting policies is set out below.

Basis of Consolidation

The consolidated financial statements comprise the results of Imperial Tobacco Group PLC (the Company) and its subsidiary undertakings.

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. A list of the principal undertakings is included on pages 129 to 130.

Joint Ventures

Joint ventures are those businesses which the Group and third parties jointly control. The financial statements of joint ventures are consolidated using the proportionate method, with the Group's share of assets and liabilities recognised in the balance sheet classified according to their nature. In the same way, the Group's share of income and expenses is presented in the consolidated income statement in accordance with their function.

Foreign Currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when treated as qualifying net investment hedges.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intragroup loans. Gains or losses on these hedges are transferred to other comprehensive income and offset any gains or losses on translation of the net assets.

Revenue Recognition

For the Tobacco business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group company has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Sales of services, which include fees for distributing certain third party products, are recognised in the accounting period in which the services are rendered.

For the Logistics business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. The Logistics business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Duty and Similar Items

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in the income statement as an expense. Where duty is a sales tax, duty is excluded from revenue. Payments due in the United States under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns where the applicable tax regulation is subject to interpretation and establishes provisions on the basis of amounts expected to be paid to the tax authorities only where it is considered more likely than not that an amount will be paid or received. This test is applied to each individual uncertain position which is then measured on the single most likely outcome.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Tax is recognised in the income statement, except where it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity.

Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid.

Intangible Assets – Goodwill

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and cannot be subsequently reversed. For the purpose of impairment testing goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible Assets – Other

Other intangible assets are initially recognised in the balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

These assets consist mainly of acquired trademarks, concessions and rights, acquired customer relationships and computer software. The *Davidoff* cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. Other trademarks, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Trademarks	20 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 5 years	straight line

Property, Plant and Equipment

Property, plant and equipment are shown in the balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write off the initial cost of each asset to its residual value over its estimated useful life as follows:

Buildings	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/ reducing balance
Fixtures and motor vehicles	2 – 14 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

Financial Instruments and Hedging

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables (including cash and cash equivalents). Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial assets and liabilities are included in the balance sheet at fair value, which includes accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IAS 39) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are net settled and are therefore netted off the carrying value of those derivatives on the balance sheet.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leaf tobacco inventory which has an operating cycle that exceeds twelve months is classified as a current asset, consistent with recognised industry practice.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Retirement Benefit Schemes

For defined benefit schemes, the amount recognised in the balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise.

A credit representing the expected return on plan assets of the retirement benefit schemes during the year is included within net finance costs. This is based on the market value of the assets of the schemes at the start of the financial year. A charge is also made within net finance costs for the expected increase in the present value of the liabilities of the retirement benefit schemes during the year arising from the schemes being one year closer to payment.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

Share-Based Payments

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

Treasury Shares

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the parent.

Use of Adjusted Measures

Management believes that non-GAAP or adjusted measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, acquisition accounting adjustments, amortisation of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value gains and losses on derivative financial

instruments in respect of commercially effective hedges, exchange gains and losses on borrowings in respect of commercially effective hedges, and related taxation effects and significant one-off tax provision charges or credits arising from the resolution of prior year tax matters. Reconciliations between adjusted and reported operating profit are included within note 1 to the financial statements, adjusted and reported net finance costs in note 5, adjusted and reported taxation in note 6, and adjusted and reported earnings per share in note 8. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted results are those which are one-off in nature or which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

The principal adjustments made to reported profits are as follows:

Acquisition Accounting Adjustments

Acquisition accounting adjustments eliminate costs charged to the income statement as a consequence of investigations into alleged foreign trading violations in the period prior to our acquisition of Reemtsma in 2002 and which have been recovered from the sellers. For business combinations which took place prior to 1 September 2009, IFRS 3 requires that adjustments to the cost of an acquisition are taken to goodwill, whereas changes in measurement of assets and liabilities after the provisional fair value period are taken to the income statement. These items have been excluded from our adjusted earnings measures since the costs did not relate to the trading performance of the Group and the amounts have been recovered from the sellers.

Amortisation of Acquired Intangibles

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. We exclude from our adjusted measures the amortisation of acquired intangibles, other than software, and the deferred tax associated with amortisation of acquired intangibles and tax deductible goodwill. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group. Impairment of goodwill is also excluded from our adjusted measures.

Fair Value Gains and Losses on Derivative Financial Instruments and Exchange Gains and Losses on Borrowings

IAS 39 requires that all derivative financial instruments are recognised in the balance sheet at fair value, with changes in the fair value being recognised in the income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IAS 39, in order to minimise income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings providing commercial hedges from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as they will reverse over time or are matched in future periods by interest charges. Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the commercially hedged item are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

Restructuring Costs

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These costs include the impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

Post-Employment Benefits Net Financing Cost

The expected return on plan assets and the interest on retirement benefit liabilities, together with the unwind of discount on redundancy and social plans costs included in restructuring provisions, are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

Tax Provisions

Significant one-off tax charges or credits arising from the resolution of prior year tax matters are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

Other Non-GAAP Measures Used by Management

Net Revenue

Under our normal continuous review process to ensure our reporting remains relevant and useful we have revised the definition of our Tobacco non-GAAP revenue measure to exclude revenue from products which are not part of our core business of manufacturing and selling tobacco and tobacco-related products. Under the revised definition with effect from 1 October 2010 net revenue comprises the Tobacco business revenue less associated duty and similar items less revenue from the sale of peripheral and non-tobacco-related products. Comparatives have been restated in line with the revised definition. Management considers this an important measure in assessing the profitability of Tobacco operations.

Distribution Fees

Distribution fees comprises the Logistics segment revenue less the cost of distributed products. Management considers this an important measure in assessing the profitability of Logistics operations.

Adjusted Net Debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and finance lease liabilities.

New Accounting Standards and Interpretations

New standards or interpretations which came into effect for the current reporting period did not have a material impact on the net assets or results of the Group.

IFRS 11 Joint Arrangements and IAS 19 (Revised) Employee Benefits will become effective for the Group in its 2014 accounts. IFRS 11 will require the Group to equity account for its joint ventures which are currently proportionately consolidated, but it is not expected to have a material effect on the results or net assets of the Group. Under IAS 19 (Revised) the interest charge on retirement benefit liabilities and the expected return on pension plan assets will be replaced by a net interest income or expense on net defined benefit assets or liabilities based on high-quality corporate bond rates. We are still assessing the potential impact, but this is likely to increase our reported net finance costs. While the volatility of reported net finance costs is expected to increase, adjusted net finance costs will be unaffected. We do not expect the effect on the net assets of the Group to be material. Other standards and interpretations issued, but not yet effective, are not expected to have a material effect on the Group's net assets or results.

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed below.

Legal Proceedings and Disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with an adverse impact upon the Group's operating profit, financial position and liquidity.

A summary of significant legal cases in which the Group is currently involved is disclosed in Note 24 Legal Proceedings.

Property, Plant and Equipment and Intangible Assets

Intangible assets (other than goodwill, the *Davidoff* cigarette trademark and certain premium cigar trademarks) and property, plant and equipment are amortised or depreciated over their useful lives which are based on management's estimates of the period over which the assets will generate revenue, and are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of property, plant and equipment and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, goodwill arising on acquisitions and indefinite lived assets are subject to impairment review. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered important that could trigger an impairment review of property, plant and equipment and/or intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to property, plant and equipment and intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements.

See notes 9 and 10 to these financial statements.

Retirement Benefits

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 18. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements.

We estimate that a 0.5 per cent increase/(decrease) in the discount rate would increase/(decrease) the IAS 19 pension expense by approximately £1.5 million. We estimate that a 0.5 per cent decrease/(increase) in the expected return on plan assets would increase/(decrease) the IAS 19 pension expense by approximately £14 million.

Income Taxes

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

1 Segment Information

Imperial Tobacco comprises two distinct businesses – Tobacco and Logistics. In addition to regularly reviewing results and plans for the Tobacco and Logistics businesses, the Operating Executive (which superseded the Chief Executive's Committee on 1 October 2010 as the chief operating decision maker for the purposes of IFRS 8) regularly reviewed during the year the performance and plans of the Tobacco business analysed on a geographic basis, reflecting the importance of certain individual markets and geographic groupings. The segments presented below are therefore the Group's six Tobacco regions and the Logistics business.

The information provided to the Operating Executive is used as the basis of the segment revenue and profit disclosures provided below, with the geographic analysis of Tobacco based on the location of customers, and central Group costs allocated consistently based on management's assessment of the level of support provided. The main measure of profit used by the Operating Executive to assess performance is adjusted operating profit. Segment balance sheet information is not provided to the Operating Executive.

The Tobacco business comprises the manufacture, marketing and sale of tobacco and tobacco-related products, including sales to (but not by) the Logistics business. The Logistics business comprises the distribution of tobacco products for tobacco product manufacturers, including Imperial Tobacco, as well as a wide range of non-tobacco products and services.

The Logistics business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco and Logistics businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

For the purposes of the analysis below, Rest of European Union comprises the EU member states plus Norway, Iceland, Liechtenstein and Switzerland. The Cuban joint ventures are included in the Rest of the World. All of the Logistics business is located in the European Union.

Tobacco

£ million unless otherwise indicated

	2011	2010
Revenue	21,277	20,210
Net revenue	6,913	6,793
Operating profit	2,577	2,490
Adjusted operating profit	2,924	2,889
Adjusted operating margin	42.3%	42.5%

Logistics

£ million unless otherwise indicated

	2011	2010
Revenue	8,911	8,980
Distribution fees	932	936
Operating profit	67	36
Adjusted operating profit	183	176
Adjusted distribution margin	19.6%	18.8%

Revenue

£ million	2011		2010	
	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
UK	5,030	5,030	5,105	5,105
Germany	4,147	4,147	3,755	3,755
Spain	497	56	594	79
Rest of European Union	5,469	4,945	5,275	4,773
Americas	1,408	1,408	1,373	1,373
Rest of the World	4,726	4,726	4,108	4,108
Total Tobacco	21,277	20,312	20,210	19,193
Logistics	8,911	8,911	8,980	8,980
Eliminations	(965)	–	(1,017)	–
Total Group	29,223	29,223	28,173	28,173

Tobacco net revenue

£ million	2011	2010
UK	869	894
Germany	879	850
Spain	497	592
Rest of European Union	1,592	1,521
Americas	731	726
Rest of the World	2,345	2,210
Total Tobacco	6,913	6,793

Following a change in definition as described in the Accounting Policies, Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £326 million (2010: £262 million), with prior period data restated accordingly.

Adjusted operating profit and reconciliation to profit before tax

£ million	2011	2010
Tobacco		
UK	577	614
Germany	461	432
Spain	200	268
Rest of European Union	658	638
Americas	234	244
Rest of the World	794	693
Total Tobacco	2,924	2,889
Logistics	183	176
Eliminations	(4)	2
Adjusted operating profit	3,103	3,067
Acquisition accounting adjustments – Tobacco	–	(24)
Amortisation of acquired intangibles – Tobacco	(299)	(315)
Amortisation of acquired intangibles – Logistics	(103)	(136)
Restructuring costs – Tobacco	(48)	(60)
Restructuring costs – Logistics	(13)	(4)
Operating profit	2,640	2,528
Net finance costs	(487)	(410)
Profit before tax	2,153	2,118

Other segment information

£ million	2011		2010	
	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
UK	27	26	18	31
Germany	48	20	119	22
Spain	16	10	12	9
Rest of European Union	106	35	51	30
Americas	15	6	7	3
Rest of the World	109	37	36	41
Total Tobacco	321	134	243	136
Logistics	20	35	26	34
Total Group	341	169	269	170

1 Segment Information *continued***Additional geographic analysis**

External revenue and non-current assets are presented for the UK and for individually significant countries.

£ million	2011		2010	
	External revenue	Non-current assets	External revenue	Non-current assets
UK	5,030	162	5,105	170
Germany	4,147	3,325	3,755	3,317
Spain	1,972	4,316	2,254	4,471
France	3,992	3,479	3,907	3,593
Rest of European Union	7,948	2,791	7,671	2,822
Americas	1,408	3,074	1,373	3,104
Rest of the World	4,726	5,396	4,108	5,453
Total Group	29,223	22,543	28,173	22,930

Non-current assets comprise intangible assets, property, plant and equipment, and investments in associates.

2 Profit Before Taxation

Profit before taxation is stated after charging/(crediting):

£ million	2011	2010
Raw materials and consumables used	1,740	1,380
Operating lease charges	65	57
Net foreign exchange gains	(66)	(10)
Write down of inventories	28	62
Profit on disposal of property, plant and equipment	(1)	(3)
Impairment of trade receivables	(1)	3

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2011	2010
Audit fees in respect of the audit of the accounts of the Company	0.4	0.9
Audit fees in respect of the audit of the accounts of associates of the Company	4.0	3.9
Fees for other services supplied pursuant to legislation	0.2	0.1
	4.6	4.9
Advisory services relating to taxation	0.9	0.6
Compliance services relating to taxation	0.2	0.4
Other services	0.3	0.1
	6.0	6.0

It is the responsibility of the Board of Trustees of the Imperial Tobacco Pension Fund to appoint the auditors to the scheme. The Board of Trustees acts independently of Group's management. The fees paid to PricewaterhouseCoopers LLP in respect of the audit of the Imperial Tobacco Pension Fund were £34,000 (2010: £31,000).

3 Restructuring Costs

£ million	2011	2010
Employment related (mainly termination)	12	1
Asset impairments	27	45
Other operating charges	22	18
	61	64

Restructuring costs in 2011 include impairments of surplus properties in Spain to reflect current property market conditions, amounts relating to integration of our American businesses, manufacturing rationalisation in Spain, and the streamlining of parts of our Logistics operations.

The net charge of £61 million in 2011 includes £30 million of unused restructuring provisions reversed during the period, £30 million booked as additional restructuring provisions and £27 million booked as an impairment of property, plant and equipment. The remaining charge of £34 million was booked directly to the income statement as these costs did not meet the provisioning requirements of IAS 37.

Restructuring costs in 2010 included charges for previously announced restructuring activity and further rationalisation and reorganisation of our manufacturing base, including the closure of our tubes factory in Woodstock, Canada and our cigarette factory in Tetouan, Morocco. Asset impairments in 2010 related mainly to reductions in the carrying value of surplus property acquired through the Altadis acquisition to reflect current property market conditions.

The net charge of £64 million in 2010 included £39 million of unused restructuring provisions reversed during the period, £38 million booked as additional restructuring provisions and £45 million booked as an impairment of property, plant and equipment. The remaining charge of £20 million was booked directly to the income statement as these costs did not meet the provisioning requirements of IAS 37.

Restructuring costs are included within administrative and other expenses in the consolidated income statement.

4 Directors and Employees

Employment costs

£ million	2011	2010
Wages and salaries	911	945
Social security costs	202	199
Pension costs (note 18)	67	63
Share-based payments (note 21)	26	28
	1,206	1,235

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report on pages 60 to 74. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2011		2010	
	At 30 September	Average	At 30 September	Average
Tobacco	31,600	31,200	31,500	30,900
Logistics	6,600	6,700	6,800	6,900
	38,200	37,900	38,300	37,800

Number of people employed by the Group by location during the year

	2011		2010	
	At 30 September	Average	At 30 September	Average
European Union	17,300	17,100	17,200	17,300
Americas	9,100	9,100	9,500	8,900
Rest of the World	11,800	11,700	11,600	11,600
	38,200	37,900	38,300	37,800

5 Net Finance Costs

£ million	2011	2010
Interest on bank deposits	(18)	(19)
Expected return on retirement benefit assets	(178)	(181)
Fair value gains on derivative financial instruments providing commercial hedges	(445)	(569)
Exchange gains on underlying borrowings	(144)	(75)
Investment income	(785)	(844)
Interest on bank and other loans	580	619
Interest on retirement benefit liabilities	180	186
Unwind of discount on redundancy and social plans	8	15
Fair value losses on derivative financial instruments providing commercial hedges	428	359
Fair value losses on derivative financial instruments hedging underlying borrowings	76	75
Finance costs	1,272	1,254
Net finance costs	487	410

5 Net Finance Costs *continued***Reconciliation from reported net finance costs to adjusted net finance costs**

£ million	2011	2010
Reported net finance costs	487	410
Fair value gains on derivative financial instruments providing commercial hedges	445	569
Fair value losses on derivative financial instruments providing commercial hedges	(428)	(359)
Exchange gains on underlying borrowings	144	75
Fair value losses on derivative financial instruments hedging underlying borrowings	(76)	(75)
Net fair value and exchange gains on financial instruments providing commercial hedges	85	210
Expected return on retirement benefit assets	178	181
Interest on retirement benefit liabilities	(180)	(186)
Unwind of discount on redundancy and social plans	(8)	(15)
Post-employment benefit net financing cost	(10)	(20)
Adjusted net finance costs	562	600

6 Taxation**Analysis of charge in the year**

£ million	2011	2010
Current tax		
UK corporation tax at 27% (2010: 28%) being the rate for the year	(29)	(37)
Overseas taxation	350	534
Total current tax	321	497
Deferred tax		
Origination and reversal of temporary differences	16	99
Total tax charged to the income statement	337	596

During the year ended 30 September 2011 certain outstanding matters were resolved with tax authorities. The reported tax charge for the period includes a release of £205 million of tax provisions following resolution of these matters. This release is excluded from the adjusted tax charge to aid comparability and understanding of the Group's performance.

Reconciliation from reported taxation to adjusted taxation

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 8.

£ million	2011	2010
Reported taxation	337	596
Tax on acquisition accounting adjustments	–	4
Deferred tax on amortisation of acquired intangibles	77	74
Tax on net fair value and exchange gains on financial instruments providing commercial hedges	(23)	(59)
Tax on post-employment benefits net financing cost	4	7
Tax on restructuring costs	17	15
Tax provisions released	205	–
Adjusted tax charge	617	637

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK corporation tax rate for the year of 27 per cent (2010: 28 per cent) as follows:

£ million	2011	2010
Profit before tax	2,153	2,118
Tax at the UK corporation tax rate of 27% (2010: 28%)	581	593
Tax effects of:		
Differences in effective tax rates on overseas earnings	(58)	(20)
Unrecognised deferred tax assets	–	(3)
Permanent differences	16	39
Tax provisions released	(205)	–
Adjustments in respect of prior periods	3	(13)
Total tax charged to the income statement	337	596

Movement on current tax account

£ million	2011	2010
At 1 October	(602)	(499)
Charged to the income statement	(321)	(497)
Credited to equity	–	2
Cash paid	529	365
Exchange movements	1	10
Other movements	1	17
At 30 September	(392)	(602)

7 Dividends

Dividend per share in respect of financial year

Pence	2011	2010	2009
Interim	28.1	24.3	21.0
Final	67.0	60.0	52.0
Total	95.1	84.3	73.0

Interim dividends are paid and recognised in the second half of the year, and final dividends in respect of a year are paid and recognised in the following financial period.

Amounts recognised as distributions to ordinary equity holders in the year

£ million	2011	2010
Final dividend paid in the period in respect of previous financial year	608	527
Interim dividend	284	246
	892	773

The proposed final dividend for the year ended 30 September 2011 of 67.0p per share amounts to a proposed final dividend payment of £674 million based on the number of shares ranking for dividend at 30 September 2011, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2011 will be £958 million (2010: £854 million).

8 Earnings Per Share

Basic earnings per share is based on the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the year excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2011	2010
Earnings: basic and diluted	1,796	1,505
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	1,013.0	1,013.8
Potentially dilutive share options	3.0	3.1
Shares for diluted earnings per share	1,016.0	1,016.9
Pence		
Basic earnings per share	177.3	148.5
Diluted earnings per share	176.8	148.0

8 Earnings Per Share *continued***Reconciliation from reported to adjusted earnings and earnings per share**

	2011		2010	
	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
£ million unless otherwise indicated				
Reported basic	177.3	1,796	148.5	1,505
Acquisition accounting adjustments	–	–	2.0	20
Amortisation of acquired intangibles	32.1	325	37.1	377
Net fair value and exchange gains on financial instruments providing commercial hedges	(6.1)	(62)	(14.9)	(151)
Post-employment benefits net financing cost	0.6	6	1.3	13
Restructuring costs	4.3	44	4.8	49
Tax provisions released	(20.2)	(205)	–	–
Adjusted	188.0	1,904	178.8	1,813
Adjusted diluted	187.4	1,904	178.3	1,813

9 Intangible Assets**2011**

£ million	Goodwill	Trademarks	Supply agreements	Software	Total
Cost					
At 1 October 2010	13,076	7,501	1,673	113	22,363
Additions	–	–	–	22	22
Disposals/retirements	–	–	(209)	(5)	(214)
Reclassifications	–	–	–	13	13
Exchange movements	(41)	(16)	(8)	(1)	(66)
At 30 September 2011	13,035	7,485	1,456	142	22,118
Amortisation and impairment					
At 1 October 2010	21	884	453	64	1,422
Amortisation charge for the year	–	280	122	18	420
Disposals/retirements	–	–	(209)	(3)	(212)
Reclassifications	–	–	–	5	5
Exchange movements	–	1	(3)	(2)	(4)
At 30 September 2011	21	1,165	363	82	1,631
Net book value					
At 30 September 2011	13,014	6,320	1,093	60	20,487

2010

£ million	Goodwill	Trademarks	Supply agreements	Software	Total
Cost					
At 1 October 2009	13,696	7,782	1,759	102	23,339
Acquisition accounting adjustment	(41)	–	–	–	(41)
Additions	–	–	–	14	14
Disposals	–	–	–	(2)	(2)
Exchange movements	(579)	(281)	(86)	(1)	(947)
At 30 September 2010	13,076	7,501	1,673	113	22,363
Amortisation and impairment					
At 1 October 2009	21	612	299	50	982
Amortisation charge for the year	–	281	170	17	468
Disposals	–	–	–	(1)	(1)
Exchange movements	–	(9)	(16)	(2)	(27)
At 30 September 2010	21	884	453	64	1,422
Net book value					
At 30 September 2010	13,055	6,617	1,220	49	20,941

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Supply agreements includes Logistics customer relationships and exclusive supply arrangements in Cuba. The exclusive supply arrangement in Morocco became fully amortised during the year ending 30 September 2011. All were acquired under the purchase of Altadis.

The £41 million reduction in goodwill in 2010 reflects an adjustment in respect of the Reemtsma acquisition and is more fully described in note 28.

Amortisation and impairment in respect of acquired intangible assets are treated as reconciling items between reported operating profit and adjusted operating profit. The adjustment comprises the amortisation and impairment charges in respect of goodwill, trademarks and supply agreements.

Goodwill and intangible asset impairment review

Goodwill and intangible assets with indefinite lives are allocated to the Group's cash-generating units (CGUs). For the Tobacco business these are based on the geographic areas in which the Group operates. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

£ million	2011		2010	
	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Spain	1,511	–	1,520	–
Other European Union	4,814	126	4,836	127
Americas	1,842	106	1,828	105
Rest of the World	2,868	340	2,885	341
Cuban cigar joint ventures	291	252	289	250
Tobacco	11,326	824	11,358	823
Logistics	1,688	–	1,697	–
	13,014	824	13,055	823

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (mainly Other European Union and Rest of the World), Commonwealth Brands in 2007 (Americas) and Altadis in 2008 (all CGUs).

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a cash-generating unit is based on value-in-use calculations which use cash flow projections derived from three year financial plans which are approved by the Board annually. The plans are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line, and reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix. The estimates and assumptions are based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

The compound annual growth rates implicit in these value-in-use calculations are shown below. Cash flows beyond the plan period are extrapolated using estimated long-term growth rates of between 2.7 per cent and 3.0 per cent per annum. Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Pre-tax discount rates ranged from 8.7 per cent to 11.3 per cent.

Growth rates used

	Initial growth rate	Long-term rate
Spain	10.9%	2.7%
Other European Union	4.2%	3.0%
Americas	10.4%	3.0%
Rest of the World	11.8%	3.0%
Cuban cigar joint ventures	7.6%	3.0%
Logistics	4.3%	3.0%

The initial growth rate is the weighted average compound annual growth rate based on the first three years' cash flows used in the value-in-use calculations as described above and using 2011 as the base year.

For Other European Union, Rest of the World and Cuban cigar joint ventures these initial growth rates are broadly consistent with the actual constant currency growth rates since 2009 (i.e. after, and excluding the effects of, the acquisition of Altadis).

The initial growth rate for Spain, at 10.9 per cent, is in part a reflection of 2011, the base year from which growth rates are calculated, having been adversely impacted by three specific factors. Firstly, changes to excise duty in January 2010 and December 2010 led to increases in retail prices for consumers. Secondly, the January 2011 extension of the ban on smoking in public places, particularly in combination with the increased retail prices following duty increases, contributed to a reduction in market volumes. Thirdly, competitor pricing activity in the spring and summer months of 2011 significantly reduced margins during that period, although pricing in Spain is now back to the levels before the competitor activity took place.

9 Intangible Assets *continued*

Our experience in other markets is that the introduction or extension of smoking bans has a one-off adverse effect on volumes, but that this is shortly followed by longer term trends returning to normal patterns. In addition, market activity in Spain in the latter part of 2011 has provided evidence of amelioration of the unusual recent conditions. Consequently, management believes that, with the one-off effects of the smoking ban having passed, and with a more stable pricing environment having now emerged and expected to continue, there are reasonable prospects for growth in the Spanish market over the next three years and beyond.

The initial growth rate for the Americas, at 10.4 per cent, reflects the anticipated benefits of the re-organisation of our Americas business to combine our cigarette and mass market cigar sales forces, aligned with a single unified support structure, together with a number of other related initiatives.

The initial growth rate for our Logistics unit reflects the realisation of future benefits from our ongoing programme to reduce costs and to develop profitable lines of business.

Long-term growth rates are the weighted average compound annual growth rates used to extrapolate cash flows beyond the initial three years. They are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry. The long-term growth rate for Spain has been reduced from 3.0 per cent to 2.7 per cent in light of current uncertainty over prospects for the Spanish economy.

Sensitivity of impairment tests to changes in assumptions

The impairment test for Spain indicated headroom of £30 million, and that an impairment would result in the event of either an increase in the discount rate of 10 basis points from 10.6 per cent, or a reduction of 30 basis points in the initial growth rate, or a 10 basis point reduction in the long-term growth rate, or a 1 per cent reduction in the value of overall cash flows.

The impairment test for Americas indicated headroom of £410 million, and that an impairment would result in the event of either an increase in the discount rate of 110 basis points from 11.3 per cent or a 130 basis point reduction in the long-term growth rate.

In addition to the initial growth rates shown above applied to cash flows arising in existing markets, the valuation of the Cuban cigar joint ventures includes assumptions about the timing and extent of cash flows from entry to new markets. The impairment test for the Cuban cigar joint ventures indicated headroom of £160 million, and that an increase of 160 basis points in the discount rate from 10.0 per cent would result in an impairment.

We do not consider any other reasonable movement in assumptions relating to Spain, the Americas and Cuban cigar joint ventures would result in an impairment. For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

No impairment charges have been recognised in the year in respect of goodwill and intangible assets.

10 Property, Plant and Equipment

2011

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2010	1,113	1,492	410	3,015
Additions	8	270	63	341
Disposals	(5)	(36)	(17)	(58)
Reclassifications	16	(110)	(13)	(107)
Exchange movements	(7)	(40)	(6)	(53)
At 30 September 2011	1,125	1,576	437	3,138
Depreciation and impairment				
At 1 October 2010	118	720	206	1,044
Depreciation charge for the year	16	91	44	151
Impairment	27	–	–	27
Disposals	(1)	(21)	(16)	(38)
Reclassifications	3	(64)	(1)	(62)
Exchange movements	(2)	(17)	(3)	(22)
At 30 September 2011	161	709	230	1,100
Net book value				
At 30 September 2011	964	867	207	2,038

The net book value above includes property of £25 million (2010: £37 million) held under a finance lease.

Certain spares and consumables of individually low value have been reclassified from plant and equipment to other inventory as this better reflects their nature and pattern of use. The net book value of these items was £31 million. Also during the year a number of other items were reclassified including £8 million, at net book value, of software from fixtures and motor vehicles to intangible assets.

2010

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2009	1,147	1,375	379	2,901
Additions	14	197	58	269
Disposals	(9)	(46)	(18)	(73)
Reclassifications	13	(17)	4	–
Exchange movements	(52)	(17)	(13)	(82)
At 30 September 2010	1,113	1,492	410	3,015
Depreciation and impairment				
At 1 October 2009	65	647	179	891
Depreciation charge for the year	14	99	40	153
Impairment	43	2	–	45
Disposals	(1)	(15)	(15)	(31)
Reclassifications	–	(7)	7	–
Exchange movements	(3)	(6)	(5)	(14)
At 30 September 2010	118	720	206	1,044
Net book value				
At 30 September 2010	995	772	204	1,971

The impairment charges in 2011 and 2010 relate mainly to reductions in the carrying value of surplus property acquired through the Altadis acquisition to reflect current property market conditions, which have been treated as restructuring costs.

11 Joint Ventures

The principal joint ventures are Corporación Habanos, S.A. Cuba and Altabana S.L., Spain. Summarised financial information for the Group's share of joint ventures, which are accounted for under the proportional consolidation method, is shown below:

2011

£ million	Corporación Habanos	Altabana	Others	Total
Revenue	35	96	10	141
Profit after taxation	10	13	1	24
Non-current assets	196	11	6	213
Current assets	48	59	12	119
Total assets	244	70	18	332
Current liabilities	(45)	(22)	(3)	(70)
Non-current liabilities	(5)	(1)	–	(6)
Total liabilities	(50)	(23)	(3)	(76)
Net assets	194	47	15	256

2010

£ million	Corporación Habanos	Altabana	Others	Total
Revenue	39	81	10	130
Profit after taxation	5	7	2	14
Non-current assets	201	11	7	219
Current assets	42	60	10	112
Total assets	243	71	17	331
Current liabilities	(26)	(21)	(2)	(49)
Non-current liabilities	(33)	(2)	–	(35)
Total liabilities	(59)	(23)	(2)	(84)
Net assets	184	48	15	247

11 Joint Ventures *continued***Transactions and balances with joint ventures**

£ million	2011	2010
Sales to	53	48
Purchases from	77	80
Accounts receivable from	8	9
Current loans to	6	12
Accounts payable to	(10)	(9)

12 Inventories

£ million	2011	2010
Raw materials	928	961
Work in progress	63	57
Finished inventories	1,887	1,824
Other inventories	177	177
	3,055	3,019

Other inventories mainly comprise duty-paid tax stamps.

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £120 million (2010: £140 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

During the year £31 million of spare parts were reclassified from plant and equipment to other inventories as this better reflects their nature and pattern of use.

13 Trade and Other Receivables

£ million	2011		2010	
	Current	Non-current	Current	Non-current
Trade receivables	2,790	–	2,810	–
Less: provision for impairment of receivables	(55)	–	(55)	–
Net trade receivables	2,735	–	2,755	–
Other receivables	76	81	145	83
Prepayments and accrued income	86	19	100	14
	2,897	100	3,000	97

Trade receivables may be analysed as follows:

£ million	2011		2010	
	Current	Non-current	Current	Non-current
Within credit terms	2,664	–	2,663	–
Past due by less than 3 months	56	–	44	–
Past due by more than 3 months	15	–	48	–
Amounts that are impaired	55	–	55	–
	2,790	–	2,810	–

14 Cash and Cash Equivalents

£ million	2011	2010
Cash at bank and in hand	1,153	741
Short-term deposits and other liquid assets	18	32
	1,171	773

£233 million (2010: £231 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

15 Trade and Other Payables

£ million	2011		2010	
	Current	Non-current	Current	Non-current
Trade payables	1,169	–	1,248	–
Other taxes, duties and social security contributions	6,015	–	6,003	–
Other payables	126	–	145	–
Accruals and deferred income	307	19	314	21
	7,617	19	7,710	21

16 Borrowings and Derivative Financial Instruments

(i) Management of financial risk

The Group operates a centralised treasury function, Group Treasury, which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. It does not operate as a profit centre, nor does it enter into speculative transactions. The Group Treasury Committee (GTC) oversees the operation of Group Treasury in accordance with terms of reference set out by the Board. The Board reviews and approves all major treasury decisions. The GTC currently comprises the Finance Director; Director of Finance Group Sales and Group Marketing; Director of Investor Communications; Cigar Business Unit Finance Director; Group Financial Controller; Senior Group Management Accountant Manufacturing; Group Treasurer and Interim Deputy Group Treasurer. The GTC agrees a framework which sets out the current expectations and boundaries to assist in the effective oversight of Group Treasury activities, covering all key areas within Group Treasury. The Group Treasurer reports on a regular basis to the Board, including the provision of a monthly treasury report which is also provided to the GTC.

Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions denominated in foreign currencies, foreign currency cash deposits, borrowings and non-sterling derivatives.

In 2011, 83 per cent of revenue (2010: 82 per cent) and 81 per cent of adjusted profit from operations (2010: 80 per cent) was in markets outside the UK. Certain sales in these markets are invoiced in currencies other than the functional currency of the selling company.

Material costs denominated in currencies other than the functional currencies of subsidiaries include the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. After taking into account other US dollar inflows the Group currently does not consider this foreign exchange cash flow risk to be material enough to hedge.

The Group has a policy of managing its balance sheet translation risk by funding acquisitions and the underlying business assets with borrowings (post cross currency swaps) in the currency of the underlying net assets. This also results in foreign currency profits from operations being partially offset by foreign currency interest costs thereby minimising the translation exposure on foreign currency profits after tax.

The Group issues debt in the market or markets that are most appropriate at the time of raising new finance and has a policy of using derivative financial instruments, such as cross currency swaps and foreign exchange swaps where necessary, to change the debt into the desired currency. At 30 September 2011, approximately 36 per cent (2010: 27 per cent) of adjusted net debt was denominated in sterling, 48 per cent in euro (2010: 50 per cent) and 16 per cent in US dollars (2010: 23 per cent).

The Group's sterling dividend to shareholders is partly sourced from foreign subsidiary earnings. In order to manage the foreign exchange cash flow risk, and to provide greater certainty as to the amount of sterling available to pay expected future dividends, the Group has entered into transactional cross currency swaps maturing between now and 2015 that will convert expected euro dividends from subsidiaries into sterling.

16 Borrowings and Derivative Financial Instruments *continued***Cash flow and fair value interest rate risk**

The Group's interest rate risk arises from borrowings net of cash and cash equivalents. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and finance lease liabilities. The Group's financial results are currently principally exposed to gains or losses arising from fluctuations in sterling, euro and US dollar interest rates.

In order to manage the interest rate risk on its borrowings, the Group separates its borrowing activities from its interest rate risk management decisions by issuing debt in the market or markets that are most appropriate at the time of raising new finance and uses derivative financial instruments, such as cross currency swaps and interest rate swaps where necessary, to change the debt into floating interest rates shortly after issue. The Group then transacts interest rate swaps at other times for different notional amounts and for different maturities to manage the Group's exposure to interest rate risk. At 30 September 2011, 24 per cent (2010: 29 per cent) of adjusted net debt was at a floating rate of interest, 76 per cent (2010: 70 per cent) at a fixed rate of interest and none (2010: 1 per cent) floating within a set range.

The Group manages its interest rate exposure on a regular basis and reports the position monthly to the Board and GTC. This report shows the profit or loss impact of a defined interest rate shift for each of the major currencies of borrowings and the forecast percentage of debt fixed for at least the next ten years.

The Group has no material interest rate repricing risk since the interest rates of derivative financial instruments reset quarterly, resulting in the interest being paid or received approximating current market rates.

Sensitivity analysis

IFRS 7 requires a sensitivity analysis that illustrates the estimated impact on the income statement and other comprehensive income due to hypothetical changes in foreign exchange rates and interest rates in relation to all of the Group's financial instruments.

The Group has considered movements in interest rates and sterling foreign exchange rates over the last three years and has concluded that the rates shown in the table below represent reasonably possible changes. The impacts on income and other comprehensive income of these changes are shown in the table below. The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the net investment hedge designations in place at 30 September 2011. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing interest or exchange rates. All financial assets and liabilities held in the functional currency of subsidiary companies are excluded from the analysis. The analysis also excludes instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument.

£ million	30 September 2011		30 September 2010	
	Income (loss)/gain	Other comprehensive income (loss)/gain	Income (loss)/gain	Other comprehensive income (loss)/gain
100 basis point increase/50 basis point decrease in GBP interest rates	(17)/9	–	(14)/7	–
100 basis point increase/decrease in euro interest rates	(4)/4	–	(9)/9	–
100 basis point increase/25 basis point decrease in US dollar interest rates	(2)/1	–	(7)/2	–
10% appreciation/depreciation of the euro	(230)/188	(1,551)/1,269	(82)/67	(1,054)/863
10% appreciation/depreciation of the US dollar	(129)/105	(7)/6	(5)/4	(194)/159

The impact in the income statement due to changes in interest rates reflects the effect on net finance costs in respect of the Group's floating rate debt at 30 September 2011.

The impact in the income statement from foreign exchange rate movements primarily relates to financial instruments that commercially hedge net investments, but are not accounted for as hedges under IAS 39 (although they are commercially effective). This value is expected to be fully offset by the retranslation of the commercially hedged foreign currency net assets leaving a net impact on shareholders' funds of zero. Any gain or loss which arises is excluded from our adjusted performance measures.

The other comprehensive income impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value will be more than fully offset by the retranslation of the hedged foreign currency net assets.

Credit risk

The Group is exposed to credit risk arising from its trade receivables due from customers, as well as from cash and cash deposits and the mark-to-market of derivative financial instruments transacted with financial institutions. The Group considers its maximum credit risk to be £4,613 million at 30 September 2011 (2010: £4,153 million).

The Group has some significant concentrations of customer credit risk. However, the Group has implemented policies to ensure that sales of products are made to customers with an appropriate credit history and obtains guarantees or other means of credit support to reduce the risk where this is considered to be necessary. Analysis of trade and other receivables is provided in note 13.

The Group has a policy of having no concentrations of credit risk from financial institutions that are in excess of limits agreed by the Board. The Group has placed cash deposits and entered into derivative financial instruments with a diversified group of financial institutions with suitable credit ratings in order to manage its credit risk to any one financial institution.

The table below summarises the Group's major financial institution counterparties by credit rating and balances at 30 September 2011:

Counterparty	30 September 2011		30 September 2010	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Financial institution A	A+	223	A+	137
Financial institution B	AA	131	AA	80
Financial institution C	AA	127	AA	49
Financial institution D	AA	112	AA	23
Financial institution E	A	98	A	16
Financial institution F	A-	95	A-	–
Financial institution G	A	90	A	58

Management do not expect these counterparties to default on their current obligations.

Liquidity risk

The Group is exposed to liquidity risk, which represents having insufficient funds to meet the financing needs of the Group.

To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are designed to ensure that the Group has sufficient available funds for the forecast requirements of the Group over the short to medium term. At 30 September 2011 the Group had £2,498 million (2010: £1,798 million) of undrawn committed facilities, maturing in December 2015.

As well as forecasting and monitoring the Group's core liquidity needs, the Group Treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, loans from central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies. Funds over and above those required for short-term working capital purposes by subsidiary companies are remitted to Group Treasury where practical and possible.

The table below summarises the Group's financial liabilities by maturity based on their contractual cash flows. The contractual cash flows disclosed in the table include interest to be paid, are undiscounted and have been calculated using spot rates at the relevant balance sheet date. The balance sheet amounts disclosed in the table for derivative financial liabilities include collateral of £278 million (2010: £243 million) which has been transferred to counterparties in respect of certain derivatives with a negative fair value. The future cash inflows arising from collateral transferred have not been allocated to time periods since there is no reasonable basis upon which to do so.

16 Borrowings and Derivative Financial Instruments *continued***At 30 September 2011**

		Contractual cash flows				
£ million	Balance sheet amount	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities						
Bank loans	170	170	170	–	–	–
Capital market issuance	10,010	13,355	2,520	511	5,011	5,313
Trade payables	1,169	1,169	1,169	–	–	–
Finance lease liabilities	23	25	3	22	–	–
Total non-derivative financial liabilities	11,372	14,719	3,862	533	5,011	5,313
Derivative financial liabilities						
Net settled derivatives	652	851	173	152	356	170
Gross settled derivatives	409					
– receipts		(8,531)	(3,046)	(1,233)	(2,003)	(2,249)
– payments		9,107	3,241	1,298	2,093	2,475
Total derivative financial liabilities	1,061	1,427	368	217	446	396

At 30 September 2010

		Contractual cash flows				
£ million	Balance sheet amount	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities						
Bank loans	2,061	2,087	1,549	538	–	–
Capital market issuance	8,271	11,513	530	1,942	3,304	5,737
Trade payables	1,248	1,248	1,248	–	–	–
Finance lease liabilities	25	28	3	3	22	–
Total non-derivative financial liabilities	11,605	14,876	3,330	2,483	3,326	5,737
Derivative financial liabilities						
Net settled derivatives	616	1,150	226	225	413	286
Gross settled derivatives	394					
– receipts		(6,993)	(1,975)	(1,553)	(2,765)	(700)
– payments		7,449	1,881	1,739	2,969	860
Total derivative financial liabilities	1,010	1,606	132	411	617	446

Price risk

The Group is not exposed to equity securities price risk or financial instrument price risk other than its pension assets disclosed in note 18. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held.

Capital risk management

The Group manages the capital structure in an efficient manner in order to minimise the cost of capital whilst ensuring that we have access to ongoing sources of finance such as the debt capital markets. The Group defines capital as adjusted net debt (see note 26) and equity attributable to equity holders of the Company (see Consolidated Statement of Changes in Equity). The only externally imposed capital requirements for the Group are interest cover and gearing covenants under the terms of the Senior Bank Facility, with which we have fully complied during both the current period and the prior period.

The Group manages the capital structure to maintain an investment grade credit rating and has taken and will continue to take the appropriate measures to maintain this, including consideration of the efficient return of capital to shareholders through an appropriate mix of share buy backs and dividends.

Fair value estimation

The fair values of financial assets and liabilities with maturities less than one year, other than derivatives, are considered to be approximate to their book values. In accordance with the IFRS 7 classification hierarchy all derivative financial instruments are classified as Level 2. This means that they are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates.

(ii) Borrowings

The Group's borrowings at amortised cost at the balance sheet date are as follows:

£ million	2011	2010
Current borrowings		
Bank loans and overdrafts	136	329
Capital market issuance:		
European commercial paper	521	–
£350m 6.875% notes due June 2012	357	–
€1,250m 5.0% notes due June 2012	1,090	–
Total current borrowings	2,104	329
Non-current borrowings		
Bank loans	34	1,732
Capital market issuance:		
£350m 6.875% notes due June 2012	–	357
€1,250m 5.0% notes due June 2012	–	1,096
€500m 5.125% notes due October 2013	450	453
€1,200m 4.375% notes due November 2013	1,070	1,076
€750m 7.25% notes due September 2014	647	650
€500m 4.0% notes due December 2015	414	409
€1,500m 8.375% notes due February 2016	1,356	1,363
£450m 5.5% notes due November 2016	470	470
€850m 4.5% notes due July 2018	738	–
£200m 6.25% notes due December 2018	210	210
£500m 7.75% notes due June 2019	509	509
£1,000m 9.0% notes due February 2022	1,053	1,053
£600m 8.125% notes due March 2024	625	625
£500m 5.5% notes due September 2026	500	–
Total non-current borrowings	8,076	10,003
Total borrowings	10,180	10,332

Current borrowings and non-current borrowings at 30 September 2011 include interest payable of £19 million (2010: £1 million) and £278 million (2010: £291 million) respectively.

Certain borrowings drawn under revolving credit facilities have been classified as non-current borrowings, in accordance with the ultimate maturity date of those facilities, whereas contractual cash flows will be required within 12 months of the balance sheet date and may then be redrawn.

The Group has not defaulted on any loans during the year (2010: no defaults).

16 Borrowings and Derivative Financial Instruments *continued***(iii) Currency analysis and effective interest rates of financial assets and financial liabilities**

The currency denomination, maturities (defined as the remaining period at the balance sheet date to the contractual maturity date) and weighted average interest rates of the Group's financial assets and liabilities (excluding derivatives) at 30 September 2011 are as follows:

	Maturity								Total £ million	Weighted average %
	Less than 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years			
	£ million	%	£ million	%	£ million	%	£ million	%		
Assets/(liabilities) (before the impact of cross currency swaps and interest rate swaps)										
Cash and cash equivalents										
Sterling	1	0.3	–	–	–	–	–	–	1	0.3
Euro	756	1.0	–	–	–	–	–	–	756	1.0
US dollars	22	0.1	–	–	–	–	–	–	22	0.1
Other	392	3.3	–	–	–	–	–	–	392	3.3
Total cash and cash equivalents	1,171		–		–		–		1,171	
Weighted average receivable interest rate		1.8								1.8
Trade receivables										
Sterling	571	–	–	–	–	–	–	–	571	–
Euro	1,871	–	–	–	–	–	–	–	1,871	–
US dollars	58	–	–	–	–	–	–	–	58	–
Other	290	–	–	–	–	–	–	–	290	–
Total trade receivables	2,790		–		–		–		2,790	
Trade payables										
Sterling	(56)	–	–	–	–	–	–	–	(56)	–
Euro	(925)	–	–	–	–	–	–	–	(925)	–
US dollars	(50)	–	–	–	–	–	–	–	(50)	–
Other	(138)	–	–	–	–	–	–	–	(138)	–
Total trade payables	(1,169)		–		–		–		(1,169)	
Borrowings – by currency										
Sterling	(382)	6.4	–	–	–	–	(3,367)	7.4	(3,749)	7.3
Euro	(1,616)	3.4	–	–	(3,971)	6.0	(738)	4.4	(6,325)	5.2
US dollars	(106)	1.2	–	–	–	–	–	–	(106)	1.2
Total borrowings	(2,104)		–		(3,971)		(4,105)		(10,180)	
Borrowings – by class of instrument										
Bank borrowings	(136)	1.2	–	–	(34)	2.6	–	–	(170)	1.5
Capital market issuance	(1,968)	4.1	–	–	(3,937)	6.1	(4,105)	6.9	(10,010)	6.0
Total borrowings	(2,104)		–		(3,971)		(4,105)		(10,180)	
Weighted average payable interest rate		3.9		–		6.0		6.9		5.9

The effective interest rates shown in the table above have been calculated excluding the accrued interest balances.

The bank borrowings are floating rate liabilities. The majority bear interest at rates set in advance by reference to LIBOR in the case of sterling and US dollars and to EURIBOR in the case of euro borrowings. The capital market issuances in place at 30 September 2011 bear interest (pre interest rate swaps) at a fixed rate throughout their lives.

The impact of interest rate swaps and cross currency swaps to manage the resultant interest rate risk arising is shown in section (iv) below.

The currency denomination, maturities (defined as the remaining period at the balance sheet date to the contractual maturity date) and weighted average interest rates of the Group's financial assets and liabilities (excluding derivatives) at 30 September 2010 are as follows:

	Maturity								Total £ million	Weighted average %
	Less than 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years			
	£ million	%	£ million	%	£ million	%	£ million	%		
Assets/(liabilities) (before the impact of cross currency swaps and interest rate swaps)										
Cash and cash equivalents										
Sterling	7	0.3	–	–	–	–	–	–	7	0.3
Euro	255	0.1	–	–	–	–	–	–	255	0.1
US dollars	17	0.1	–	–	–	–	–	–	17	0.1
Other	494	3.3	–	–	–	–	–	–	494	3.3
Total cash and cash equivalents	773		–		–		–		773	
Weighted average receivable interest rate		2.2		–		–		–		2.2
Trade receivables										
Sterling	514	–	–	–	–	–	–	–	514	–
Euro	1,964	–	–	–	–	–	–	–	1,964	–
US dollars	104	–	–	–	–	–	–	–	104	–
Other	228	–	–	–	–	–	–	–	228	–
Total trade receivables	2,810		–		–		–		2,810	
Trade payables										
Sterling	(40)	–	–	–	–	–	–	–	(40)	–
Euro	(990)	–	–	–	–	–	–	–	(990)	–
US dollars	(124)	–	–	–	–	–	–	–	(124)	–
Other	(94)	–	–	–	–	–	–	–	(94)	–
Total trade payables	(1,248)		–		–		–		(1,248)	
Borrowings – by currency										
Sterling	(278)	1.4	–	–	(357)	6.8	(2,868)	7.8	(3,503)	7.2
Euro	(29)	2.9	(700)	1.5	(3,274)	4.5	(1,772)	7.0	(5,775)	4.9
US dollars	(21)	1.9	(1,032)	1.0	–	–	–	–	(1,053)	1.0
Other	(1)	3.7	–	–	–	–	–	–	(1)	3.7
Total borrowings	(329)		(1,732)		(3,631)		(4,640)		(10,332)	
Borrowings – by class of instrument										
Bank borrowings	(329)	1.6	(1,732)	1.2	–	–	–	–	(2,061)	1.3
Capital market issuance	–	–	–	–	(3,631)	4.7	(4,640)	7.5	(8,271)	6.3
Total borrowings	(329)		(1,732)		(3,631)		(4,640)		(10,332)	
Weighted average payable interest rate		1.6		1.2		4.7		7.5		5.3

The effective interest rates shown in the table above have been calculated excluding the accrued interest balances.

The bank borrowings are floating rate liabilities. The majority bear interest at rates set in advance by reference to LIBOR in the case of sterling and US dollars and to EURIBOR in the case of euro borrowings. The capital market issuances in place at 30 September 2010 bear interest (pre interest rate swaps) at a fixed rate throughout their life.

The impact of interest rate swaps and cross currency swaps to manage the resultant interest rate risk arising is shown in section (iv) below.

16 Borrowings and Derivative Financial Instruments *continued***(iv) Derivative financial instruments**

IAS 39 requires that all derivative financial instruments are recognised in the balance sheet at fair value, with changes in the fair value being recognised in the income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge. The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IAS 39, in order to minimise income statement volatility. See section (vi) below for details. The information contained in sections (ii) and (iii) above shows the underlying borrowing position before the effect of interest rate swaps and cross currency swaps.

The Group separates its borrowing activities from its interest rate risk management decisions by issuing debt in the market or markets that are most appropriate at the time of raising new finance and using derivative financial instruments, such as cross currency swaps and interest rate swaps, to change the debt into the desired currency and into floating interest rates shortly after issue.

The following tables set out the Group's borrowings and derivative financial instruments at 30 September 2011, and demonstrate the Group's use of derivative financial instruments to manage the Group's foreign currency exchange rate and interest rate exposures. The tables present the nominal value of such instruments used to calculate the contractual payments under such contracts, analysed by maturity date, together with the related weighted average interest rate where relevant.

Seven of the interest rate swaps have embedded options and assumptions have been made based on market information and from counterparties' expectations at 30 September 2011 to determine whether, and if so when, such options are likely to be exercised in order to determine the probable maturity date. Details of these options and the expected maturity dates are included in the footnotes to the relevant tables. The actual maturity date could be earlier or later depending upon future market conditions and a cancellation would not result in a cash flow other than in respect of interest outstanding at the cancellation date. The effect of the cancellation of any of these interest rate swaps would be to reduce the proportion of the Group's borrowings that were at a fixed rate, increasing the Group's exposure to cash flow interest rate risk. Shortly after any such cancellation Group Treasury would, if deemed necessary as part of the management of interest rate risk, transact further interest rate swaps to replace the cancelled swaps. It is currently believed that there is sufficient appetite amongst counterparties for such transactions.

Debt is issued in the market or markets that are most appropriate at the time of raising new finance.

GBP equivalent at 30 September 2011 £ million	Matures in financial year ending in						Total
	2012	2013	2014	2015	2016	Thereafter	
Capital market issuance							
European commercial paper	521	–	–	–	–	–	521
£350m 6.875% notes due June 2012	350	–	–	–	–	–	350
€1,250m 5.0% notes due June 2012	1,076	–	–	–	–	–	1,076
€500m 5.125% notes due October 2013	–	–	430	–	–	–	430
€1,200m 4.375% notes due November 2013	–	–	1,033	–	–	–	1,033
€750m 7.25% notes due September 2014	–	–	645	–	–	–	645
€500m 4.0% notes due December 2015	–	–	–	–	430	–	430
€1,500m 8.375% notes due February 2016	–	–	–	–	1,291	–	1,291
£450m 5.5% notes due November 2016	–	–	–	–	–	450	450
€850m 4.5% notes due July 2018	–	–	–	–	–	731	731
£200m 6.25% notes due December 2018	–	–	–	–	–	200	200
£500m 7.75% notes due June 2019	–	–	–	–	–	500	500
£1,000m 9.0% notes due February 2022	–	–	–	–	–	1,000	1,000
£600m 8.125% notes due March 2024	–	–	–	–	–	600	600
£500m 5.5% notes due September 2026	–	–	–	–	–	500	500
Interest accruals, discounts and fair value adjustments	21	–	59	–	49	124	253
Total capital market issuance	1,968	–	2,167	–	1,770	4,105	10,010
Bank loans and overdrafts, borrowed at LIBOR (or equivalent) plus a margin at the time of borrowing	136	–	–	34	–	–	170
Total bank borrowings	136	–	–	34	–	–	170
Total borrowings	2,104	–	2,167	34	1,770	4,105	10,180

Derivative financial instruments are then transacted to change the debt issued into the desired currency and into floating interest rates, per the following table:

GBP equivalent at 30 September 2011 £ million	Matures in financial year ending in							Fair value at 30 September 2011	
	2012	2013	2014	2015	2016	Thereafter	Total	Asset	Liability
Cross currency swaps									
<i>Receive sterling fixed, pay euro variable:</i>									
Notional amount	350 ¹	-	-	-	-	650 ¹	1,000	16	212
Sterling interest rate to receive (%)	6.7	-	-	-	-	5.6	6.0		
Interest margin over EURIBOR to pay (%)	1.3	-	-	-	-	0.8	1.0		
<i>Receive euro fixed, pay US dollar fixed:</i>									
Notional amount	-	-	-	-	-	731 ¹	731	-	97
Euro interest rate to receive (%)	-	-	-	-	-	4.4	4.4		
US dollar interest rate to pay (%)	-	-	-	-	-	4.3	4.3		
<i>Receive sterling fixed, pay US dollar fixed:</i>									
Notional amount	-	-	-	-	-	500 ¹	500	-	43
Sterling interest rate to receive (%)	-	-	-	-	-	5.4	5.4		
US dollar interest rate to pay (%)	-	-	-	-	-	5.4	5.4		
Foreign exchange swaps									
<i>Receive euro, pay sterling:</i>									
Notional amount	1,415	-	-	-	-	-	1,415	-	22
Sterling interest rate derivatives									
<i>Interest rate swaps – pay variable, receive fixed:</i>									
Notional amount	-	-	-	-	-	2,100	2,100	286	-
Weighted average interest rate to receive (%)	-	-	-	-	-	8.2	8.2		
Weighted average margin over LIBOR to pay (%)	-	-	-	-	-	4.2	4.2		
Euro interest rate derivatives									
<i>Interest rate swaps – pay variable, receive fixed:</i>									
Notional amount	1,075	-	2,107	-	1,720	-	4,902	236	-
Weighted average interest rate to receive (%)	4.8	-	5.3	-	7.0	-	5.8		
Weighted average margin over EURIBOR to pay (%)	2.7	-	1.3	-	4.0	-	2.5		
US dollar interest rate derivatives									
<i>Interest rate swaps – pay variable, receive fixed:</i>									
Notional amount	-	-	-	-	-	1,289	1,289	62	2
Weighted average interest rate to receive (%)	-	-	-	-	-	4.7	4.7		
Weighted average margin over LIBOR to pay (%)	-	-	-	-	-	2.2	2.2		

16 Borrowings and Derivative Financial Instruments *continued*

Derivative financial instruments are then transacted to change a portion of the debt into fixed interest rates, thereby creating the desired interest rate risk.

GBP equivalent at 30 September 2011 £ million	Matures in financial year ending in							Fair value at 30 September 2011	
	2012	2013	2014	2015	2016	Thereafter	Total	Asset	Liability
Sterling interest rate derivatives									
<i>Interest rate swaps – pay fixed, receive variable:</i>									
Notional amount	110	–	128	200	128	1,335 ^{2,4}	1,901	–	212
Weighted average interest rate to pay (%)	6.1	–	4.6	3.4	3.0	4.2	4.2		
Euro interest rate derivatives									
<i>Interest rate swaps – pay fixed, receive variable:</i>									
Notional amount	1,289	48	1,225 ³	643	484	1,843 ⁵	5,532	–	281
Weighted average interest rate to pay (%)	3.9	3.9	3.8	2.7	2.8	3.9	3.7		
US dollar interest rate derivatives									
<i>Interest rate swaps – pay fixed, receive variable:</i>									
Notional amount	448	–	–	448	–	696 ⁶	1,592	–	154
Weighted average interest rate to pay (%)	3.8	–	–	1.6	–	4.8	3.6		

Additional derivatives are then transacted to manage net investment hedging risk.

Non-deliverable forward									
<i>Receive euro, pay Moroccan dirham (MAD):</i>									
Notional amount	127	–	–	–	–	–	127	–	7

Additional derivatives are then transacted to manage the foreign exchange cash flow risk associated with converting euro dividends from subsidiaries into sterling.

Cross currency swaps									
<i>Receive sterling fixed, pay euro fixed:</i>									
Notional amount	983	1,012	584	1,026	–	–	3,605	12	269
Weighted average interest rate to pay (%)	4.6	4.6	4.7	4.6	–	–	4.7		
Weighted average interest rate to receive (%)	5.7	5.6	5.6	5.5	–	–	5.6		

Additional derivatives are then transacted to manage the short-term cash flow risk associated with converting other anticipated cash flows from subsidiaries into sterling.

Foreign exchange forwards									
<i>Receive euro, pay sterling:</i>									
Notional amount	66	–	–	–	–	–	66	–	–

Total fair value of derivative financial instruments at 30 September 2011	612	1,299
Collateral transferred under the terms and conditions of credit support annex documents under ISDA agreements	40	(238)
Total carrying value of derivative financial instruments at 30 September 2011	652	1,061

The above amounts are included in the balance sheet as follows:

Current	223	301
Non-current	429	760
	652	1,061
Net liability		409

Since it is the intention of the Group to hold all derivative financial instruments until maturity they have been classified in the balance sheet as current or non-current according to their contractual cash settlements. Where a portion of a derivative financial instrument is to be cash settled within 12 months of the balance sheet date this portion has been classified as current with the remainder being classified as non-current. Any collateral transferred to counterparties in respect of derivative financial instruments with negative fair values has been classified as current or non-current in line with the classification of the underlying derivative financial instrument since the substance of the collateral transactions is to extinguish the liabilities to counterparties. Any excess collateral transferred to counterparties has been classified as current since it is reasonably expected to be returned within 12 months of the balance sheet date.

The overall effect of the interest rate swaps live at 30 September 2011 is to convert £6,711 million of borrowings into fixed rates in order to manage the Group's exposure to cash flow interest rate risk.

Key:

- 1 Principal amounts under these cross currency swaps are exchanged at the start and maturity of these trades.
- 2 The following trades are included within this balance:
£15 million interest rate swap maturing in 2031 where the counterparty has the option to cancel every six months throughout the life of the trade. This trade is expected to be cancelled in April 2021.
£50 million interest rate swap maturing in 2041 where the counterparty has the option to cancel every five years throughout the life of the trade. This trade is expected to be cancelled in April 2021.
- 3 The following trade is included within this balance:
€1,200 million interest rate swaps maturing in 2013 where the counterparty has the option to cancel every three months throughout the life of the trade. These trades are not expected to be cancelled before their maturity date.
- 4 The following trades are included within this balance:
£336 million forward start ten-year interest rate swaps starting in May 2012.
£90 million forward start ten-year interest rate swaps starting in May 2014.
- 5 The following trades are included within this balance:
€500 million forward start five-year interest rate swaps starting in April 2012.
€600 million forward start five-year interest rate swaps starting in May 2012.
€575 million forward start five-year interest rate swaps starting in May 2017.
- 6 The following trades are included within this balance:
\$500 million forward start five-year interest rate swaps starting in April 2012.
\$186 million forward start ten-year interest rate swaps starting in April 2012.

The following tables are provided in respect of borrowings and derivative financial instruments held by the Group at 30 September 2010.

Debt is issued in the market or markets that are most appropriate at the time of execution.

GBP equivalent at 30 September 2010 £ million	Matures in financial year ending in						Total
	2011	2012	2013	2014	2015	Thereafter	
Capital market issuance							
£350m 6.875% notes due June 2012	–	350	–	–	–	–	350
€1,250m 5.0% notes due June 2012	–	1,082	–	–	–	–	1,082
€500m 5.125% notes due October 2013	–	–	–	433	–	–	433
€1,200m 4.375% notes due November 2013	–	–	–	1,038	–	–	1,038
€750m 7.25% notes due September 2014	–	–	–	649	–	–	649
€500m 4.0% notes due December 2015	–	–	–	–	433	–	433
€1,500m 8.375% notes due February 2016	–	–	–	–	–	1,298	1,298
£450m 5.5% notes due November 2016	–	–	–	–	–	450	450
£200m 6.25% notes due December 2018	–	–	–	–	–	200	200
£500m 7.75% notes due June 2019	–	–	–	–	–	500	500
£1,000m 9.0% notes due February 2022	–	–	–	–	–	1,000	1,000
£600m 8.125% notes due March 2024	–	–	–	–	–	600	600
Interest accruals, discounts and fair value adjustments	–	20	–	59	(24)	183	238
Total capital market issuance	–	1,452	–	2,179	409	4,231	8,271
Bank loans and overdrafts, borrowed at LIBOR (or equivalent) plus a margin at the time of borrowing	328	1,731	–	–	–	–	2,059
Interest accruals	1	1	–	–	–	–	2
Total bank borrowings	329	1,732	–	–	–	–	2,061
Total borrowings	329	3,184	–	2,179	409	4,231	10,332

16 Borrowings and Derivative Financial Instruments *continued*

Derivative financial instruments are then transacted to change the debt issued into the desired currency and into floating interest rates per the following table:

GBP equivalent at 30 September 2010 £ million	Matures in financial year ending in							Fair value at 30 September 2010	
	2011	2012	2013	2014	2015	Thereafter	Total	Asset	Liability
Cross currency swaps									
<i>Receive sterling fixed, pay euro variable:</i>									
Notional amount	–	350 ¹	–	–	–	650 ¹	1,000	33	231
Sterling interest rate to receive (%)	–	6.7	–	–	–	5.6	6.0		
Interest margin over EURIBOR to pay (%)	–	1.3	–	–	–	0.8	1.0		
Foreign exchange swaps									
<i>Receive euro, pay US dollar:</i>									
Notional amount	1,593	–	–	–	–	–	1,593	54	–
<i>Receive euro, pay sterling:</i>									
Notional amount	272	–	–	–	–	–	272	–	9
<i>Receive US dollar, pay sterling:</i>									
Notional amount	717	–	–	–	–	–	717	1	3
Sterling interest rate derivatives									
<i>Interest rate swaps – pay variable, receive fixed:</i>									
Notional amount	–	–	–	–	–	2,100	2,100	196	–
Weighted average interest rate to receive (%)	–	–	–	–	–	8.2	8.2		
Weighted average margin over LIBOR to pay (%)	–	–	–	–	–	4.2	4.2		
Euro interest rate derivatives									
<i>Interest rate swaps – pay variable, receive fixed:</i>									
Notional amount	–	1,082	–	2,125	–	1,732	4,939	296	–
Weighted average interest rate to receive (%)	–	4.8	–	5.3	–	7.0	5.8		
Weighted average margin over EURIBOR to pay (%)	–	2.7	–	1.3	–	4.0	2.5		
Derivative financial instruments are then transacted to change a portion of the debt into fixed interest rates, thereby creating the desired interest rate risk.									
Sterling interest rate derivatives									
<i>Interest rate swaps – pay fixed, receive variable:</i>									
Notional amount	–	351	–	428	87	663 ^{2,4}	1,529	–	157
Weighted average interest rate to pay (%)	–	4.7	–	4.9	3.9	4.9	4.8		
Euro interest rate derivatives									
<i>Interest rate swaps – pay fixed, receive variable:</i>									
Notional amount	–	2,251	1,088 ³	415	172	1,124 ⁵	5,050	–	333
Weighted average interest rate to pay (%)	–	4.0	3.9	3.8	3.3	4.4	4.0		

Derivative financial instruments are then transacted to change a portion of the debt into fixed interest rates, thereby creating the desired interest rate risk.

GBP equivalent at 30 September 2010 £ million	Matures in financial year ending in						Total	Fair value at 30 September 2010	
	2011	2012	2013	2014	2015	Thereafter		Asset	Liability
US dollar interest rate derivatives									
<i>Interest rate swaps – pay fixed, receive variable:</i>									
Notional amount	–	891	–	381	–	692 ⁶	1,964	–	192
Weighted average interest rate to pay (%)	–	3.9	–	4.0	–	4.8	4.2		
<i>Collars purchased:</i>									
Notional amount	127 ⁷	–	–	–	–	–	127	–	1

Additional derivatives are then transacted to manage net investment hedging risk.

Non-deliverable forward									
<i>Receive euro, pay Moroccan dirham (MAD):</i>									
Notional amount	128	–	–	–	–	–	128	–	3

Additional derivatives are then transacted to manage the foreign exchange cash flow risk associated with converting euro dividends from subsidiaries into sterling.

Cross currency swaps									
<i>Receive sterling fixed, pay euro fixed:</i>									
Notional amount	753	983	1,012	584	1,026	–	4,358	19	352
Weighted average interest rate to pay (%)	4.6	4.6	4.6	4.7	4.6	–	4.7		
Weighted average interest rate to receive (%)	5.7	5.7	5.6	5.6	5.5	–	5.6		

Additional derivatives are then transacted to manage the short-term cash flow risk associated with converting other anticipated cash flows from subsidiaries into sterling.

Foreign exchange forwards									
<i>Receive euro, pay sterling:</i>									
Notional amount	103	–	–	–	–	–	103	–	1

Total fair value of derivative financial instruments at 30 September 2010	599	1,282
Collateral transferred under the terms and conditions of credit support annex documents under ISDA agreements.	(29)	(272)
Total carrying value of derivative financial instruments at 30 September 2010	570	1,010

The above amounts are included in the balance sheet as follows:

Current	243	262
Non-current	327	748
	570	1,010
Net liability		440

The overall effect of the interest rate swaps live at 30 September 2010 is to convert £6,726 million of borrowings into fixed rates with £127 million of borrowings floating within a set range, in order to manage the Group's exposure to cash flow interest rate risk.

16 Borrowings and Derivative Financial Instruments *continued*

Key:

- 1 Principal amounts under these cross currency swaps are exchanged at the start and maturity of these trades.
- 2 The following trades are included within this balance:
£15 million interest rate swap maturing in 2031 where the counterparty has the option to cancel every six months throughout the life of the trade. This trade is expected to be cancelled in July 2018.
£50 million interest rate swap maturing in 2041 where the counterparty has the option to cancel every five years throughout the life of the trade. This trade is expected to be cancelled in April 2016.
- 3 The following trade is included within this balance:
£1,200 million interest rate swaps maturing in 2013 where the counterparty has the option to cancel every three months throughout the life of the trade. These trades are not expected to be cancelled before their maturity date.
- 4 The following trades are included within this balance:
£336 million forward start ten-year interest rate swaps starting in May 2012.
£90 million forward start ten-year interest rate swaps starting in May 2014.
- 5 The following trades are included within this balance:
£500 million forward start five-year interest rate swaps starting in April 2012.
£600 million forward start five-year interest rate swaps starting in May 2012.
- 6 The following trades are included within this balance:
£500 million forward start five-year interest rate swaps starting in April 2012.
\$186 million forward start ten-year interest rate swaps starting in April 2012.
- 7 The following trade is included within this balance:
\$200 million interest rate collar maturing in 2011 where the interest rate is fixed within the range 3.78% to 6.00%.

(v) Reconciliation of movement in carrying value of derivative financial instruments

The movements in the carrying value of derivative financial instruments in the year were as follows:

£ million	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate differences recognised in income statement	Total
	Statement of comprehensive income	Income statement		
Fair value gains on derivative financial instruments providing commercial hedges (note 5)	–	7	438	445
Fair value losses on derivative financial instruments providing commercial hedges (note 5)	–	(7)	(421)	(428)
Net fair value gains on derivative financial instruments providing commercial hedges	–	–	17	17
Fair value losses on derivative financial instruments offsetting underlying borrowings (note 5)	–	(76)	–	(76)
Fair value gains on derivative financial instruments designated as net investment hedges	12	–	–	12
Fair value movement during year	12	(76)	17	(47)
Total carrying value of derivative financial instruments at 30 September 2010 (note 16 (iv))				(440)
Collateral transferred in respect of certain derivative financial instruments with negative values				34
Cash payment on settlement of matured derivative financial instruments				44
Fair value at 30 September 2011				(409)

The movements in the carrying value of derivative financial instruments in 2010 were as follows:

£ million	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate differences recognised in income statement	Total
	Statement of comprehensive income	Income statement		
Fair value gains on derivative financial instruments providing commercial hedges (note 5)	–	75	494	569
Fair value losses on derivative financial instruments providing commercial hedges (note 5)	–	(75)	(284)	(359)
Net fair value gains on derivative financial instruments providing commercial hedges	–	–	210	210
Fair value losses on derivative financial instruments offsetting underlying borrowings (note 5)	–	(75)	–	(75)
Fair value gains on derivative financial instruments designated as net investment hedges	192	–	–	192
Fair value movement during year	192	(75)	210	327
Total carrying value of derivative financial instruments at 30 September 2009 (note 16 (iv))				(985)
Collateral transferred in respect of certain derivative financial instruments with negative values				(70)
Interest on collateral transferred in respect of certain derivative financial instruments with negative values				(11)
Cash payment on settlement of matured derivative financial instruments				299
Fair value at 30 September 2010				(440)

(vi) Hedge of net investments in foreign operations

At 30 September 2011 external loans with a fair value of €5,224 million and US\$100 million (2010: €5,465 million and US\$1,000 million), cross currency swaps of €4,555 million (2010: €5,502 million), foreign exchange swaps of US\$nil (2010: US\$1,750 million) and non-deliverable forwards of MAD1,675 million (2010: MAD1,675 million) have been designated as hedges of the net investment in the Group's foreign operations. Gains or losses on the retranslation of these borrowings and derivatives are recognised as other comprehensive income to offset any gains or losses on translation of the net investments in the Group's foreign operations. Permanent intragroup loans with a fair value of €6,365 million (2010: €6,365 million) have been treated as a reduction in investments in the Group's foreign operations.

(vii) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all financial liabilities that are carried in the financial statements at amounts other than fair values.

All financial assets and liabilities are carried at amortised cost, other than derivative financial instruments that are carried at fair value. The carrying amounts of cash and cash equivalents, trade receivables and trade payables are approximate to their fair value and so are excluded from the analysis below. Derivative financial instruments are excluded as they are carried at fair value.

£ million	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Current borrowings				
Sterling	382	395	278	278
Euro	1,616	1,642	29	29
US dollars	106	106	21	21
Other	–	–	1	1
Total current borrowings	2,104	2,143	329	329
Non-current borrowings				
Sterling	3,367	4,056	3,225	3,963
Euro	4,709	5,148	5,746	6,378
US dollars	–	–	1,032	1,032
Other	–	–	–	–
Total non-current borrowings	8,076	9,204	10,003	11,373

Within the table above it is only the capital market issues that have a fair value different to the carrying value and this has been calculated by comparing the current trading levels to par.

17 Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

£ million	2011	2010
Deferred tax assets	102	150
Deferred tax liabilities	(2,056)	(2,074)
	(1,954)	(1,924)

Deferred tax expected to be recovered within 12 months

£ million	2011	2010
Deferred tax assets	56	48
Deferred tax liabilities	(125)	(136)
	(69)	(88)

Deferred tax assets

2011

£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2010	(67)	94	–	123	150
Credited/(charged) to income statement	47	2	–	(38)	11
Transfers	(47)	4	–	(16)	(59)
Exchange movements	2	–	–	(2)	–
At 30 September 2011	(65)	100	–	67	102

2010

£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2009	(57)	79	–	126	148
Credited/(charged) to income statement	(1)	5	–	(35)	(31)
Credited/(charged) to other comprehensive income	–	10	–	(9)	1
Credited to equity	–	–	–	4	4
Transfers	(13)	–	–	46	33
Exchange movements	4	–	–	(9)	(5)
At 30 September 2010	(67)	94	–	123	150

Deferred tax liabilities

2011

£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2010	(2,442)	48	5	315	(2,074)
Credited/(charged) to income statement	19	7	(1)	(52)	(27)
Charged to other comprehensive income	–	(21)	–	–	(21)
Transfers	48	25	–	(14)	59
Exchange movements	10	(1)	–	(2)	7
At 30 September 2011	(2,365)	58	4	247	(2,056)

2010

£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2009	(2,656)	46	6	506	(2,098)
Credited/(charged) to income statement	77	(7)	(1)	(137)	(68)
Credited to other comprehensive income	–	9	–	–	9
Credited/(charged) to equity	2	–	–	(5)	(3)
Transfers	(1)	–	–	(32)	(33)
Exchange movements	136	–	–	(17)	119
At 30 September 2010	(2,442)	48	5	315	(2,074)

Within other temporary differences, deferred tax assets of £88 million (2010: £81 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets of £18 million (2010: £14 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets £12 million (2010: £11 million) will expire within five years.

Also within other temporary differences, deferred tax assets of £113 million (2010: £90 million) are recognised for tax credits carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £8 billion (2010: £7 billion). A provision of £8 million (2010: £8 million) has been made for taxation expected to arise on a planned future dividend payment of £117 million from one subsidiary. No liability has been recognised in respect of other differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

The rate of UK corporation tax was reduced by 2 per cent from 28 per cent to 26 per cent from 1 April 2011 and a further reduction to 25 per cent from 1 April 2012 was enacted at the balance sheet date. Further reductions of 1 per cent per annum are expected to be enacted each year resulting in a reduction to 23 per cent by 1 April 2014. The overall effect of a further reduction to 23 per cent, if applied to the deferred tax balance at 30 September 2011, would be to reduce the deferred tax liability by £4 million.

18 Retirement Benefit Schemes

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's two principal schemes are final salary defined benefit schemes and are operated by Imperial Tobacco Limited in the UK and Reemtsma Cigarettenfabriken GmbH in Germany. The UK scheme's assets are held in trustee administered funds while the German scheme is unfunded. The UK defined benefit scheme was closed to new members with effect from 1 October 2010 and new employees are now offered a defined contribution scheme instead.

The results of the most recent actuarial valuation for the principal UK scheme have been updated to 30 September 2011 by Towers Watson Limited, actuaries and consultants, in order to determine the amounts to be included in the balance sheet and income statement. Actuarial valuations of the pension liabilities of other schemes of the Group were made as at or updated to 30 September 2011 by the various actuaries to those schemes.

Amounts recognised in the income statement

£ million	2011	2010
Current service cost	51	43
Past service cost	(5)	(5)
Losses from special termination benefits	3	8
Curtailment gains	–	(1)
Defined benefit costs in operating profit	49	45
Interest on retirement benefit liabilities	180	186
Expected return on retirement benefit assets	(178)	(181)
Retirement benefits net financing costs in net finance costs (note 5)	2	5
Total defined benefit scheme cost	51	50
Defined contribution costs in operating profit	18	18
Total retirement benefit scheme costs in the income statement	69	68

Retirement benefit scheme costs charged to operating profit

£ million	2011	2010
Defined benefit costs in operating profit	49	45
Defined contribution costs in operating profit	18	18
Total retirement benefit scheme costs in operating profit	67	63

Which is split as follows in the income statement:

£ million	2011	2010
Cost of sales	32	29
Distribution, advertising and selling costs	24	17
Administrative and other expenses	11	17
Total retirement benefit scheme costs in operating profit	67	63

18 Retirement Benefit Schemes *continued***Defined benefit schemes – amounts recognised in the balance sheet**

£ million	2011	2010
Present value of funded obligations	(2,943)	(3,022)
Fair value of scheme assets	2,876	2,960
	(67)	(62)
Present value of unfunded obligations	(687)	(780)
	(754)	(842)

Recognised in the balance sheet as:

£ million	2011	2010
Retirement benefit assets	5	25
Retirement benefit liabilities	(759)	(867)
	(754)	(842)

Defined benefit scheme obligations – changes in present value

£ million	2011	2010
At 1 October	3,802	3,592
Current service cost	51	43
Past service cost	(5)	(5)
Special termination benefits	3	8
Curtailement gains	–	(1)
Interest cost	180	186
Actuarial (gains)/losses	(199)	257
Contributions by employees	3	2
Benefits paid	(202)	(227)
Exchange movements	(3)	(53)
At 30 September	3,630	3,802

Defined benefit scheme assets – changes in fair value

£ million	2011	2010
At 1 October	2,960	2,798
Expected return on scheme assets	178	181
Actuarial (losses)/gains	(158)	146
Contributions by employees	3	2
Contributions by employer	94	70
Benefits paid	(202)	(227)
Exchange movements	1	(10)
At 30 September	2,876	2,960

The actual return on defined benefit scheme assets was a gain of £20 million (2010: £327 million).

Amounts recognised in other comprehensive income

£ million	2011	2010
Net actuarial (gains)/losses	(41)	111
Cumulative net actuarial losses since 1 October 2004	405	446

Defined benefit scheme – principal actuarial assumptions used in scheme valuations**2011**

	UK	Germany	Other
Discount rate	5.40%	5.41%	5.28%
Expected return on scheme assets	6.24%	n/a	5.50%
Future salary increases	4.70%	3.10%	3.71%
Future pension increases	3.20%	2.00%	1.91%
Inflation	3.20%	2.00%	2.22%

2010

	UK	Germany	Other
Discount rate	5.10%	4.40%	4.45%
Expected return on scheme assets	6.45%	n/a	5.26%
Future salary increases	4.60%	3.10%	3.64%
Future pension increases	3.10%	2.00%	2.23%
Inflation	3.10%	2.00%	2.26%

Other represents the weighted averages of the rates used for schemes outside the UK and Germany.

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory, and are provided in the table below for the defined benefit schemes in the UK and Germany, which in aggregate represent 84 per cent (2010: 83 per cent) of the Group's total defined benefit scheme obligations at the year end. The average life expectancy, in years, of a pensioner retiring at age 65 is as follows:

2011

	UK		Germany	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	20.9	22.8	18.4	22.5
Member currently aged 50	22.0	24.0	20.5	24.5

2010

	UK		Germany	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	20.8	22.7	18.3	22.4
Member currently aged 50	21.9	23.9	20.3	24.3

Categories of scheme assets and their expected rates of return

2011

£ million unless otherwise indicated	UK			Other		
	Expected return per annum	Fair value	Percentage of UK assets	Expected return per annum	Fair value	Percentage of other assets
Equities	7.6%	1,153	46.0%	7.4%	126	34.0%
Bonds	4.4%	877	35.0%	4.4%	203	54.9%
Property	7.1%	276	11.0%	5.5%	11	3.0%
Other	5.7%	200	8.0%	4.4%	30	8.1%
		2,506	100.0%		370	100.0%

2010

£ million unless otherwise indicated	UK			Other		
	Expected return per annum	Fair value	Percentage of UK assets	Expected return per annum	Fair value	Percentage of other assets
Equities	7.8%	1,426	55.0%	7.1%	133	36.1%
Bonds	4.1%	907	35.0%	4.1%	191	51.8%
Property	7.1%	259	10.0%	6.1%	15	4.2%
Other	–	–	–	4.3%	29	7.9%
		2,592	100.0%		368	100.0%

The derivation of the overall expected return on assets reflects the actual asset allocation at the measurement date combined with an expected return for each asset class. The bond return is based on current market yields. The corporate bond yield has been reduced to allow for an element of default risk. The return on equities and property is based on a number of factors including the income yield at the measurement date, the long-term growth prospects for the economy in general, the long-term relationship between each asset class and bond returns, and the movement in market indices since the previous measurement date.

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco Group PLC amounted to £3 million (2010: nil).

18 Retirement Benefit Schemes *continued***History of the plans**

£ million	2011	2010	2009	2008	2007
At 30 September					
Present value of defined benefit obligations	3,630	3,802	3,592	2,874	3,033
Fair value of total plan assets	2,876	2,960	2,798	2,769	3,238
Net total (deficit)/surplus on plans	(754)	(842)	(794)	(105)	205
Experience (loss)/gain on total plan liabilities	(24)	63	8	(18)	(19)
Experience (loss)/gain on total plan assets	(158)	146	(58)	(633)	121

UK scheme triennial valuation and contribution levels

Following completion this year of the triennial valuation of the Imperial Tobacco Pension Fund (ITPF – the main UK Group scheme) as at 31 March 2010 the level of employer's contributions to this scheme has been increased from nil to £31 million per year as set by the ITPF actuary. This level of contribution will be reviewed again at the next triennial valuation in 2013 at which time future payments may be increased or decreased.

In relation to the triennial valuation, the assumptions which had the most significant effect when valuing the ITPF's liabilities were those relating to the rate of investment return on the ITPF's existing assets, the rates of increase in pay and pensions and estimated mortality rates. On the basis that the ITPF is continuing, it was assumed that the future investment returns relative to market values at the valuation date would be 5.5 per cent per annum and that pay and pension increases would average 5.0 per cent and 3.5 per cent respectively. The assets were brought into account at their market value.

At 31 March 2010 the market value of the invested assets of the ITPF was £2,622 million. The total assets were sufficient to cover 100 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 88 per cent of the total benefits that had accrued to members for past service and future service benefits for current members.

19 Provisions

£ million	Restructuring	Other	Total
At 1 October 2010	450	384	834
Additional provisions charged to the income statement	30	35	65
Unwind of discount on redundancy and social plan liabilities	8	–	8
Amounts used	(106)	(35)	(141)
Unused amounts reversed	(30)	(24)	(54)
Exchange movements	(1)	(3)	(4)
At 30 September 2011	351	357	708

Analysed as:

£ million	2011	2010
Current	163	187
Non-current	545	647
	708	834

Restructuring provisions relate primarily to European Integration projects announced in June 2008 as part of the integration of Imperial Tobacco and Altadis. They affect sales and marketing, manufacturing and central support functions in a number of markets and have largely been implemented. The remaining provisions are expected to be used over a number of years.

Other provisions principally relate to commercial legal claims and disputes. The majority of other provisions represent the fair value at acquisition of current and potential Altadis commercial disputes, litigation and duty claims arising in the normal course of business. These liabilities are expected to crystallise within the next five years.

20 Share Capital

£ million	2011	2010
Authorised		
56,040,000,000 ordinary shares of 10p each (2010: 56,040,000,000)	5,604	5,604
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2010: 1,067,942,881)	107	107

21 Share Schemes

The Group operates three types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

Share Matching Scheme

Awards are made to eligible employees who are invited to invest a proportion of their gross bonus in Imperial Tobacco Group PLC shares for a period of three years, after which additional shares are awarded on a 1:1 ratio.

Long Term Incentive Plan (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria based on adjusted EPS growth and total shareholder returns compared to the FTSE 100 and a comparator group.

Sharesave Plan

Options are granted to eligible employees who participate in a designated savings scheme for a three or five year period.

Further details of the schemes including additional criteria applying to directors and some senior executives are set out in the Directors' Remuneration Report on pages 60 to 74.

Analysis of charge to the consolidated income statement

£ million	2011	2010
Share Matching Scheme	17	17
Long Term Incentive Plan	6	8
Sharesave Plan	3	3
	26	28

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2011 was £1.6 million (2010: £0.9 million).

Reconciliation of movements in awards/options

2011

Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price
Outstanding at 1 October 2010	2,770	1,034	2,217	£14.19
Granted	1,214	491	428	£17.80
Lapsed/cancelled	(192)	(253)	(132)	£15.26
Exercised	(811)	(183)	(356)	£15.41
Outstanding at 30 September 2011	2,981	1,089	2,157	£14.64
Exercisable at 30 September 2011	–	–	74	£16.97

2010

Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price
Outstanding at 1 October 2009	2,625	1,268	2,344	£13.69
Granted	1,095	494	571	£15.63
Lapsed/cancelled	(161)	(237)	(179)	£14.50
Exercised	(789)	(491)	(519)	£13.31
Outstanding at 30 September 2010	2,770	1,034	2,217	£14.19
Exercisable at 30 September 2010	–	–	91	£14.39

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £19.77 (2010: £19.36). The weighted average fair value of sharesave options granted during the year was £4.77 (2010: £4.18).

21 Share Schemes *continued***Summary of awards/options outstanding at 30 September 2011**

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding
Share Matching Scheme			
2009	832	5	n/a
2010	957	17	n/a
2011	1,192	29	n/a
Total awards outstanding	2,981		
Long Term Incentive Plan			
2008	340	2	n/a
2009	294	13	n/a
2010	455	21	n/a
Total awards outstanding	1,089		
Sharesave Plan			
2006	7	–	£12.12
2007	81	10	£14.96
2008	87	22	£17.50
2009	1,020	14	£12.55
2010	536	24	£15.63
2011	426	37	£17.80
Total options outstanding	2,157		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option, except that following the rights issue in 2008, adjustments were made to the share plans outstanding at that time. In respect of the Share Matching Scheme, the Trustees sold sufficient rights 'nil paid' to enable the balance of the rights to be taken up. In the case of the Sharesave Plan and LTIP, the number of shares under option or subject to awards were adjusted by the relevant bonus factor. In the case of the Sharesave Plan the option price was also adjusted by the relevant bonus factor.

Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme and Sharesave Plan. A summary of the assumptions used in the Black-Scholes model for 2010 and 2011 is as follows.

	2011		2010	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate	2.0%	1.1% – 2.4%	2.0%	1.4% – 2.3%
Volatility (based on 3 or 5 year history)	34.1%	31.5% – 33.4%	36.0%	31.0% – 36.0%
Expected lives of options granted	3 years	3-5 years	3 years	3-5 years
Dividend yield	4.4%	4.4%	4.4%	4.4%
Fair value	£17.34	£4.15 – £5.39	£18.03	£3.87 – £4.42
Share price used to determine exercise price	£19.79	£22.24	£20.57	£19.53
Exercise price	n/a	£17.80	n/a	£15.63

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2011 and 2010 are given in the following table.

	2011	2010
Future Imperial Tobacco Group share price volatility	28%	30%
Future Imperial Tobacco Group dividend yield	4.4%	4.4%
Share price volatility of the tobacco and alcohol comparator group	21% – 50%	20% – 49%
Share price volatility of the FTSE 100 comparator group	21% – 116%	20% – 114%
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	35%	35%
Correlation between Imperial Tobacco and the FTSE 100 comparator group	40%	40%

Employee Share Ownership Trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £181.9 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2011. All finance costs and administration expenses connected with the Trusts are charged to the income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

Shares held by Employee Share Ownership Trusts

Millions of shares	2011	2010
At 1 October	3.8	3.5
Distribution of shares held by Employee Share Ownership Trusts	(1.2)	(1.6)
Gift of treasury shares	1.2	1.9
Purchase of shares	1.0	–
At 30 September	4.8	3.8

The shares in the Trusts are accounted for on a first in first out basis and comprise 1.5 million (2010: 1.6 million) shares acquired in the open market at a cost of £28.2 million (2010: £33.1 million) and 3.3 million (2010: 2.1 million) treasury shares gifted to the Trusts by the Group, of which 1.2 million were gifted in the financial year 2011 (2010: 1.9 million).

22 Treasury Shares

Shares purchased under the Group's buy back programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During the year the Group purchased 8,673,000 shares (2010: nil) at a cost of £182 million (2010: nil).

Thousands of shares	2011	2010
At 1 October	49,569	51,481
Gift to Employee Share Ownership Trusts	(1,235)	(1,912)
Purchase of treasury shares	8,673	–
At 30 September	57,007	49,569
Percentage of issued share capital	5.3%	4.6%

23 Commitments

Capital commitments

£ million	2011	2010
Contracted but not provided for:		
Property, plant and equipment	147	114

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

£ million	2011	2010
Property		
Within one year	30	21
Between one and five years	73	66
Beyond five years	11	7
	114	94

24 Legal Proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health-related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the consolidated financial statements.

In 2003 the Office of Fair Trading (OFT) commenced an investigation under the Competition Act 1998 into the operation of the UK tobacco supply industry in the period from 2000 to 2003. In a decision dated 15 April 2010, the OFT concluded that certain of the Group's promotional arrangements with tobacco retailers had the object of restricting competition and imposed a fine of £112.3 million on the Group. At the same time it confirmed that two other allegations included in its 2008 statement of objections had been dropped.

The Group takes compliance with competition law very seriously and continues to reject any suggestion that it acted in breach of the Competition Act or in any way contrary to the interests of consumers. On 15 June 2010 the Group submitted an appeal to the Competition Appeal Tribunal against the OFT's findings of infringement and the level of the fine. Five tobacco retailers also submitted appeals against the OFT's decision. The appeal is currently being heard by the Competition Appeal Tribunal which may uphold, quash or vary the OFT's decision or the fine that has been imposed. As part of its appeal the Group has asked for the fine to be quashed in its entirety. Consequently, the Group has not provided for any amount in the consolidated financial statements.

25 Cash Flows from Operating Activities

£ million	2011	2010
Profit for the year	1,816	1,522
Adjustments for:		
Taxation	337	596
Investment income	(785)	(844)
Finance costs	1,272	1,254
Share of post-tax loss of associates	1	–
Depreciation, amortisation and impairment	598	666
Profit on disposal of property, plant and equipment	(1)	(3)
Loss on disposal of software	2	–
Post-employment benefits	(45)	(25)
Costs of employees' services compensated by share schemes	26	28
Acquisition accounting adjustments	–	14
Movement in provisions	(130)	(198)
Operating cash flows before movement in working capital	3,091	3,010
Increase in inventories	(39)	(213)
Decrease/(increase) in trade and other receivables	80	(118)
(Decrease)/increase in trade and other payables	(47)	545
Movement in working capital	(6)	214
Taxation paid	(529)	(365)
Net cash flows from operating activities	2,556	2,859

26 Analysis of Net Debt

The movements in cash and cash equivalents, borrowings, derivative financial instruments and finance lease liabilities in the year were as follows:

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Finance lease liabilities	Total
At 1 October 2010	773	(329)	(10,003)	(440)	(25)	(10,024)
Cash flow	416	627	(575)	78	2	548
Reallocate non-current to current	–	(2,434)	2,434	–	–	–
Accretion of interest	–	–	(5)	–	–	(5)
Change in fair values	–	–	–	(47)	–	(47)
Exchange movements	(18)	32	73	–	–	87
At 30 September 2011	1,171	(2,104)	(8,076)	(409)	(23)	(9,441)

Adjusted net debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and finance lease liabilities.

£ million	2011	2010
Reported net debt	(9,441)	(10,024)
Accrued interest	297	292
Fair value of derivatives providing commercial hedges	290	410
Finance lease liabilities	23	25
Adjusted net debt	(8,831)	(9,297)

27 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2011	2010
Increase/(decrease) in cash and cash equivalents	416	(208)
Settlement of exchange rate derivative financial instruments	44	299
Increase/(decrease) in collateralisation deposits	34	(70)
Increase in borrowings	(1,785)	(1,542)
Repayment of borrowings	1,837	2,790
Repayment of finance leases	2	2
Change in net debt resulting from cash flows	548	1,271
Other non-cash movements including revaluation of derivative financial instruments	(52)	326
Exchange movements	87	423
Movement in net debt during the year	583	2,020
Opening net debt	(10,024)	(12,044)
Closing net debt	(9,441)	(10,024)

28 Acquisitions

2011

There were no significant acquisitions during the year ending 30 September 2011.

2010

During 2010, agreement was reached with the sellers of Reemtsma regarding the reimbursement and settlement of costs incurred by the Group as a consequence of investigations into alleged foreign trading violations prior to our acquisition of Reemtsma in 2002. Reimbursement of £27 million received in cash and £14 million of costs settled directly by the sellers on behalf of the Group have been treated as an adjustment to the cost of the Reemtsma acquisition and so are reflected as a reduction to goodwill of £41 million in note 9. To the extent that costs were settled directly by the sellers they have been shown as a non-cash movement of £14 million to arrive at operating cash flow before movement in working capital in note 25. Costs of £24 million incurred in 2010 have been recognised in the 2010 consolidated income statement in administrative and other expenses, and have been excluded from our adjusted performance measures since the costs did not relate to the trading performance of the Group.

Independent Auditors' Report to the Members of Imperial Tobacco Group PLC

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We have audited the parent company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2011 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other Matter

We have reported separately on the Group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2011.



David Charles (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

1 November 2011

Imperial Tobacco Group PLC Balance Sheet

at 30 September 2011

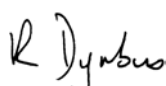
125

£ million	Notes	30 September 2011	30 September 2010
Fixed assets			
Investments	(ii)	3,035	3,035
Current assets			
Debtors	(iii)	5,659	3,976
Cash at bank and in hand		98	48
Net current assets		5,757	4,024
Total assets		8,792	7,059
Capital and reserves			
Called up share capital	(iv)	107	107
Share premium account	(v)	5,833	5,833
Profit and loss account	(v)	2,852	1,119
Total shareholders' funds		8,792	7,059

The financial statements on pages 125 to 128 were approved by the Board of Directors on 1 November 2011 and signed on its behalf by:



Iain Napier
Chairman



Robert Dyrbus
Director

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Basis of Preparation

The financial statements have been prepared on the going concern basis in accordance with the historical cost convention, the Companies Act 2006 and UK Generally Accepted Accounting Principles.

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account has been presented for the Company. As permitted by FRS 29, the Company has elected not to present FRS 29 Financial Instruments: Disclosures in the notes to its individual financial statements as full equivalent disclosures are presented in the consolidated financial statements. As permitted by FRS 8 Related Party Disclosures the Company has not disclosed transactions with wholly owned subsidiaries.

The principal accounting policies are set out below.

Investments

Investments comprise the Company's investment in subsidiaries and are shown at cost less any provision for impairment.

Dividends

Final dividends payable are recognised as a liability in the period in which the dividends are approved by shareholders, dividends receivable are recognised as an asset when they are approved, while interim dividends are recognised in the period in which the dividends are paid.

Financial Instruments

Non-derivative financial assets are classified as cash and debtors. Debtors are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the profit and loss account. For interest-bearing assets, the carrying value includes accrued interest receivable.

Treasury Shares

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

(i) Dividends

Dividend per share in respect of financial year

Pence	2011	2010	2009
Interim	28.1	24.3	21.0
Final	67.0	60.0	52.0
Total	95.1	84.3	73.0

Interim dividends are paid and recognised in the second half of the year, and final dividends in respect of a year are paid and recognised in the following financial period.

Amounts recognised as distributions to ordinary shareholders in the year

£ million	2011	2010
Final dividend paid in the period in respect of previous financial year	608	527
Interim dividend	284	246
	892	773

The proposed final dividend for the year ended 30 September 2011 of 67.0p per share amounts to a proposed final dividend payment of £674 million based on the number of shares ranking for dividend at 30 September 2011, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2011 will be £958 million (2010: £854 million).

(ii) Investments

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2011	2010
At 1 October	3,035	1,035
Additions	–	2,000
At 30 September	3,035	3,035

A list of the principal subsidiaries of the Company is shown on pages 129 to 130.

(iii) Debtors: Amounts Falling Due Within One Year

£ million	2011	2010
Amounts owed by Group undertakings	5,659	3,976

Amounts owed by Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand.

(iv) Called Up Share Capital

£ million	2011	2010
Authorised		
56,040,000,000 ordinary shares of 10p each (2010: 56,040,000,000)	5,604	5,604
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2010: 1,067,942,881)	107	107

(v) Reserves

£ million	Share premium account	Profit and loss account
At 1 October 2010	5,833	1,119
Profit for the year	–	2,807
Dividends	–	(892)
Purchase of own shares	–	(182)
At 30 September 2011	5,833	2,852

Profit for the year

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £2,807 million (2010: £990 million). This is after charging an audit fee of £0.4 million (2010: £0.9 million).

Treasury shares

Shares purchased under the Group's buy back programme are not cancelled but are retained in issue and represent a deduction from shareholders' funds. During the year the Group purchased 8,673,000 shares (2010: nil) at a cost of £182 million (2010: nil).

Thousands of shares	2011	2010
At 1 October	49,569	51,481
Gift to Employee Share Ownership Trusts	(1,235)	(1,912)
Purchase of treasury shares	8,673	–
At 30 September	57,007	49,569
Percentage of issued share capital	5.3%	4.6%

(vi) Reconciliation of Movements in Shareholders' Funds

£ million	2011	2010
Profit for the year	2,807	990
Dividends	(892)	(773)
Purchase of own shares	(182)	–
Movements in total shareholders' funds	1,733	217
Opening total shareholders' funds	7,059	6,842
Closing total shareholders' funds	8,792	7,059

(vii) Guarantees

Imperial Tobacco Group PLC has guaranteed various borrowings and liabilities of certain UK and overseas subsidiary undertakings, including various Dutch and Irish subsidiaries. At 30 September 2011, the contingent liability totalled £9,308 million (2010: £9,790 million).

The guarantees include the Dutch subsidiaries which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, Imperial Tobacco Group PLC has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2011. The Irish companies, namely John Player & Sons Limited and Imperial Tobacco Mullingar, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

(viii) Related Party Disclosures**Key management personnel**

The key management personnel of the Group and the Company are the same. The relevant disclosures are given in the Directors' Remuneration Report on pages 60 to 74.

Directors' emoluments

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report on pages 60 to 74. These disclosures form part of the financial statements.

The principal subsidiaries and joint ventures of the Group, which are unlisted unless otherwise indicated, are shown below.

Registered in England and Wales, wholly owned

Name	Principal activity
Imperial Tobacco Holdings (2007) Limited	Holding investments in subsidiary companies
Imperial Tobacco Limited	Manufacture, marketing and sale of tobacco products in the UK
Imperial Tobacco International Limited	Export and marketing of tobacco products
Imperial Tobacco Finance PLC	Finance company

Incorporated overseas, wholly owned

Name	Country of incorporation	Principal activity
Altadis SA	Spain	Manufacture, marketing, sale and distribution of tobacco products in Spain
Altadis Distribution France SAS	France	Distribution of tobacco products in France
Altadis Emisiones Financieras SAU	Spain	Finance company
Altadis Finance BV	Netherlands	Finance company
Altadis Middle East Fzco	United Arab Emirates	Marketing and sale of tobacco products in the Middle East
Altadis USA Inc	United States of America	Manufacture, marketing and sale of cigars in the United States of America
Commonwealth Brands Inc	United States of America	Manufacture, marketing and sale of tobacco products in the United States of America
Compañía de Distribución Integral Logista SAU	Spain	Distribution of tobacco products and related services in Spain
Ets L Lacroix Fils NV	Belgium	Manufacture, marketing and sale of tobacco products in Belgium
Imperial Tobacco Australia Limited	Australia	Marketing and sale of tobacco products in Australia
Imperial Tobacco CR sro	Czech Republic	Marketing and sale of tobacco products in the Czech Republic
Imperial Tobacco Finland Oy	Finland	Marketing and sale of tobacco products in Finland
Imperial Tobacco Hellas SA	Greece	Marketing and sale of tobacco products in Greece
Imperial Tobacco Italia Srl	Italy	Marketing and sale of tobacco products in Italy
Imperial Tobacco Magyarorszag Dohanyforgalmazó Kft	Hungary	Marketing and sale of tobacco products in Hungary
Imperial Tobacco Maroc SA	Morocco	Manufacture, marketing, sale and distribution of tobacco products in Morocco
Imperial Tobacco Mullingar	Republic of Ireland	Manufacture of fine cut tobacco in the Republic of Ireland
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture, marketing and sale of tobacco products in New Zealand
Imperial Tobacco Norway AS	Norway	Marketing and sale of tobacco products in Norway
Imperial Tobacco Polska SA	Poland	Manufacture, marketing and sale of tobacco products in Poland
Imperial Tobacco Sales & Marketing LLC	Russia	Marketing and sale of tobacco products in Russia
Imperial Tobacco Sigara ve Tutunculuck Sanayi ve Ticaret AS	Turkey	Manufacture of tobacco products in Turkey
Imperial Tobacco Slovakia AS	Slovak Republic	Marketing and sale of tobacco products in the Slovak Republic
Imperial Tobacco Taiwan Co Limited	Taiwan	Marketing and sale of tobacco products in Taiwan
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan
Imperial Tobacco Tutun Urunleri Satis ve Pazarlama AS	Turkey	Marketing and sale of tobacco products in Turkey
Imperial Tobacco Ukraine	Ukraine	Marketing and sale of tobacco products in Ukraine
OOO Imperial Tobacco Volga LLC	Russia	Manufacture of tobacco products in Russia
John Player SA	Spain	Marketing and sale of tobacco products in the Canary Islands
John Player & Sons Limited	Republic of Ireland	Marketing and sale of tobacco products in the Republic of Ireland
Logista Italia SpA	Italy	Distribution of tobacco products in Italy

Incorporated overseas, wholly owned *continued*

Name	Country of incorporation	Principal activity
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture, marketing and sale of tobacco products in Germany
Reemtsma International Asia Services Limited	China	Marketing of tobacco products in China
Skruf Snus AB	Sweden	Manufacture, marketing and sale of tobacco products in Sweden
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SA	France	Manufacture, marketing and sale of tobacco products in France and export of tobacco products
Supergroup SAS	France	Wholesale distribution in France
Tobaccor SAS	France	Holding investments in subsidiary companies involved in the manufacture, marketing and sale of tobacco products in Africa
Tobacna Ljubljana doo	Slovenia	Marketing and sale of tobacco products in Slovenia
Van Nelle Tabak Nederland BV	Netherlands	Manufacture, marketing and sale of tobacco products in the Netherlands
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies involved in the sale of cigars in the United States of America

Incorporated overseas, partly owned

Name	Country of incorporation	Principal activity	Percentage owned
Imperial Tobacco Polska Manufacturing SA	Poland	Manufacture of tobacco products in Poland	99.97
ZAO Imperial Tobacco Yaroslavl CJSC	Russia	Manufacture of tobacco products in Russia	99.9
Imperial Tobacco Production Ukraine	Ukraine	Manufacture of cigarettes in Ukraine	99.8
Imperial Tobacco TKS ad	Macedonia	Manufacture, marketing and sale of tobacco products in Macedonia	99.1
Reemtsma Kyrgyzstan OJSC	Kyrgyzstan	Manufacture, marketing and sale of tobacco products in Kyrgyzstan	98.6
Société Ivoirienne des Tabacs SA	Ivory Coast	Manufacture, marketing and sale of tobacco products in the Ivory Coast	74.1

Incorporated overseas, joint ventures

Name	Country of incorporation	Principal activity	Percentage owned
Altabana SL	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars	50.0
Corporación Habanos SA	Cuba	Export of cigars manufactured in Cuba	50.0

Partnerships

The Group also owns the following partnership:

Name	Country	Principal activity
Imperial Tobacco (EFKA) GmbH & Co KG	Germany	Manufacture of tubes in Germany
Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany		

The subsidiaries listed above were held throughout the year.

The consolidated Group financial statements include all the subsidiary undertakings and entities shown above. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held by the Company. A full list of undertakings is attached to the Annual Return of the Company.

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, are held by a number of Group companies.

Société Ivoirienne des Tabacs SA is listed on the Stock Exchange of the Ivory Coast.

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Financial Calendar and Dividends

Half yearly results are expected to be announced in May 2012 and the full year's results in November 2012.

The Annual General Meeting of the Company is to be held on Wednesday 1 February 2012 at the Bristol Marriott Hotel City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this report.

Dividends are generally paid in August and February. Payment of the 2011 final dividend, if approved, will be on 17 February 2012 to shareholders on the register at the close of business on 20 January 2012. The associated ex dividend date is 18 January 2012.

Shareholders who do not currently mandate their dividends and who wish to do so should complete a mandate instruction form obtainable from Equiniti, at the address shown.

Share Dealing Service

A low cost, execution-only share-dealing service for the purchase and sale of Imperial Tobacco Group PLC ordinary shares is available from NatWest Stockbrokers. NatWest Stockbrokers is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange and PLUS. For details, please contact NatWest Stockbrokers, Premier Place, 2½ Devonshire Square, London EC2M 4BA, telephone: 0808 208 4433.

Individual Savings Account (ISA)

Investors in Imperial Tobacco Group PLC ordinary shares may take advantage of a low cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Tobacco Group ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £5.00 and £1.75 respectively for the sale and purchase of ordinary shares.

For a brochure or to apply for an Investment Account or ISA go online to www.shareview.co.uk/dealing or call Equiniti on 0845 300 0430*.

* calls to this number will be charged at local rate from a BT landline. Mobile and other providers' charges may vary.

Dividend Reinvestment Plan (DRIP)

Imperial Tobacco Group PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Tobacco Group Plc ordinary shares in the market. Further information can be obtained from Equiniti, telephone: 0871 384 2268* (+44 (0)121 415 7173) or online at www.shareview.co.uk.

* calls to this number will be charged at 8p per minute from a BT landline. Mobile and other providers' charges may vary.

American Depositary Receipt Facility

Imperial Tobacco Group PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'ITYBY'. Each ADS represents two Imperial Tobacco Group PLC ordinary shares. The ADS facility is administered by Citibank, N.A. and enquiries should be directed to them at the address shown.

Website

Information on Imperial Tobacco Group PLC is available on our website: www.imperial-tobacco.com.

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk.

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