Imperial Tobacco

Building Total Tobacco Brands

Imperial Tobacco Group PLC
Annual Report and Accounts 2012

Who we are

We're a leading international tobacco company with a strong track record of creating value for our shareholders.

We employ 37,000 people and sell our products in more than 160 countries around the world.

Our total tobacco portfolio and our understanding of consumers set us apart from our competitors and provides significant future growth opportunities.

Our unique values further differentiate us, guiding the way we work with each other and our stakeholders.

Building Total Tobacco Brands

Cover image: *Davidoff iD*
We delivered 9 per cent volume growth in our key strategic premium brand *Davidoff* this year. The launch of *Davidoff iD* in the second half of the year was a major portfolio initiative to accelerate momentum behind the brand.

www.imperial-tobacco.com

Contents

In this report

Our Business Model
We outline how our business model creates value for our shareholders.

Strategy in Action
See how our focus on sales growth drivers and key enablers is delivering success.

Operating Review
We show how we're driving quality growth across our balanced geographic footprint.

Governance
We explain how high standards of governance are important to our long-term sustainability.

Our Strategy

We focus on delivering high quality sustainable sales growth, whilst effectively managing our costs and cash flows.

Our success is built around our differentiated approach; applying our in-depth consumer understandings to realise the potential of our total tobacco portfolio.

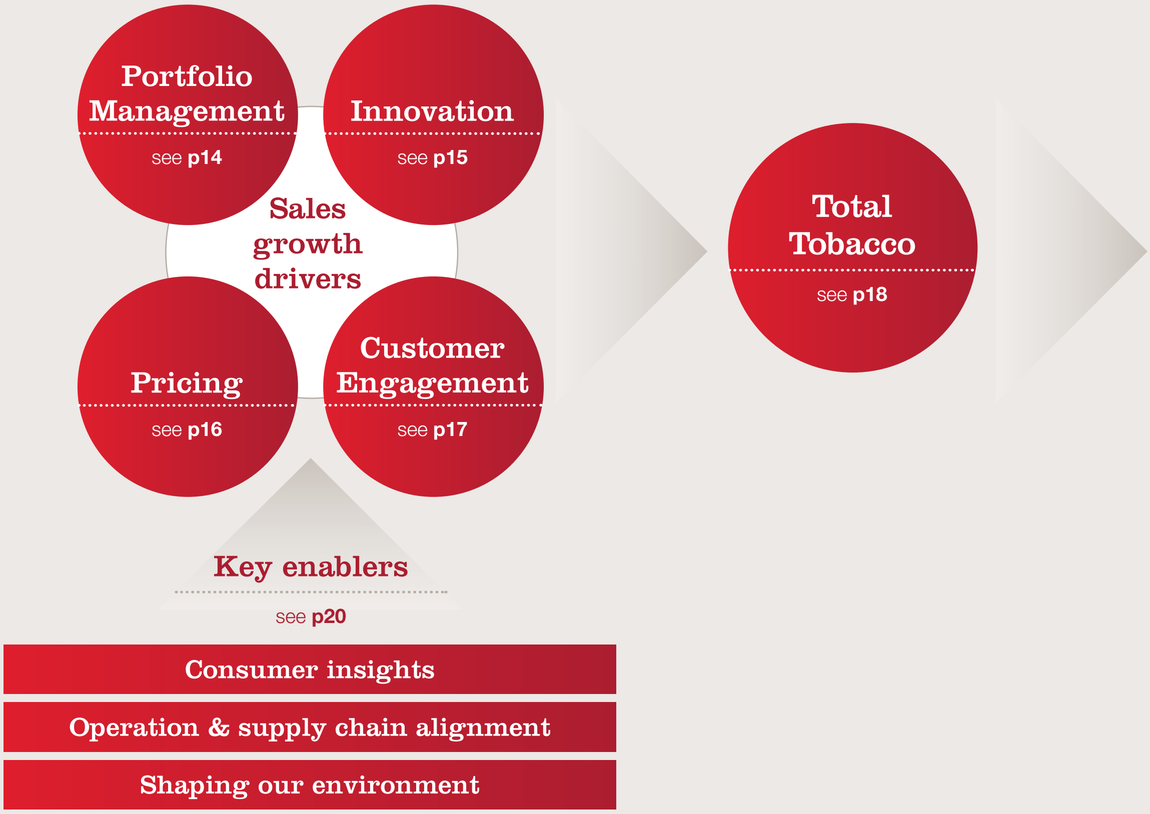
Our portfolio's a unique asset encompassing a diverse array of great brands and products, from cigarettes to smokeless, from fine cut tobacco to cigars.

It's a portfolio for all consumers, whatever their choices, and includes new and exciting consumer experiences we're creating through innovation.

The work we're doing with all our sales growth drivers and our key enablers is essential to our long-term sustainability, and our business model below shows how we bring our strategy to life to maximise returns for our shareholders.

Read more in our strategic review on **p8**

Our Business Model



How we create value

Supporting Sustainable Sales Growth

Governance
The high standards of corporate governance we've embedded throughout the business are essential for ensuring our long-term sustainability.

Read about our governance on **p58**

Responsibility
Operating in a responsible manner is how we do business and supports sustainable value creation.

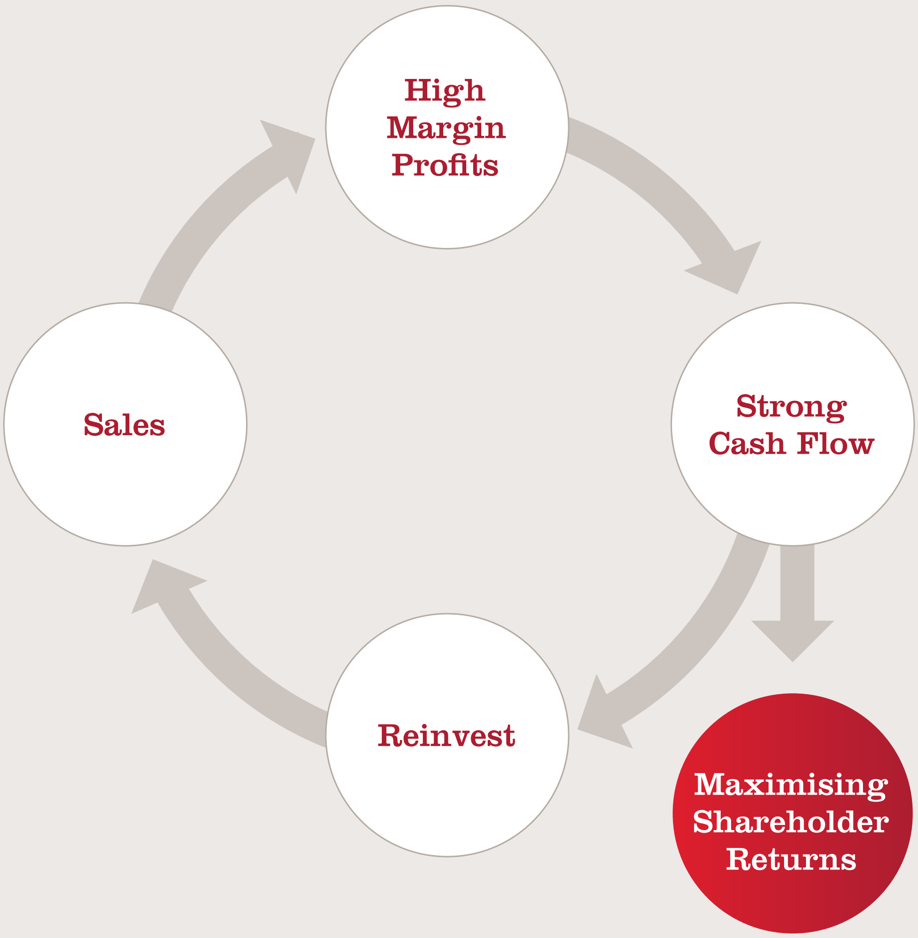
Read about how we operate responsibly on **p37**

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

Read about how we manage our risks on **p48**

Reward
We want our people to be fairly compensated and incentivised to deliver on our strategy.

Read about our policy on remuneration on **p77**



How our Business Model Works

We're building total tobacco brands that deliver high quality sustainable growth. This generates strong cash flows which we use to reinvest in the business and reward our shareholders. Applying our sales growth drivers to our total tobacco portfolio, supported by our focus on key enablers, drives sustainable sales growth at high margins.

Read more on our sales growth drivers on **p14** and our key enablers on **p20**

Results in Brief

-2.7%
Stick equivalents
2012: **336.6bn**

+4%[1]
Tobacco net revenue
2012: **£7,005m**

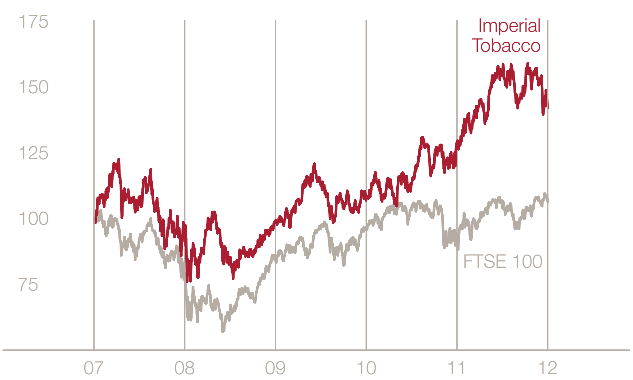
+4%[1]
Adjusted operating profit
2012: **£3,161m**

+8%[1]
Adjusted earnings per share
2012: **201.0p**

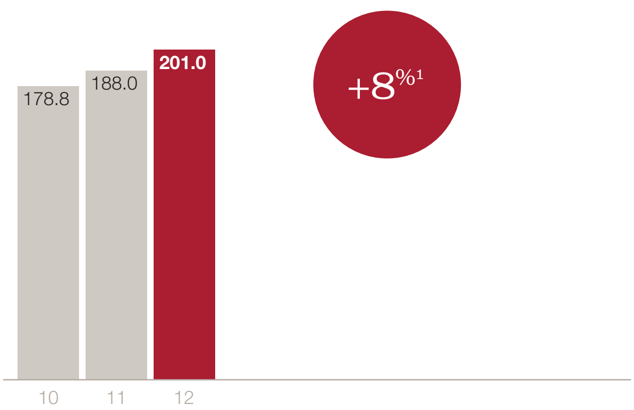
+11%
Dividend per share
2012: **105.6p**

1 Throughout the Annual Report percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

Total Shareholder Return KPI



Adjusted Earnings per Share (pence) KPI



Performance
In 2012, we underperformed the FTSE 100 Index by 8 percentage points. However, over five years we have outperformed by 34 per cent. With dividends reinvested £100 invested in Imperial Tobacco five years ago would now be worth £142 compared to £106 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.

Performance
We have grown adjusted earnings per share to 201.0 pence, up by 8 per cent, as we've continued to build on our sales momentum whilst ensuring costs and cash continue to be managed effectively.

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.

How we have performed

For our financial performance see **p34**

"I'm pleased to introduce our 2012 annual report which describes how we're putting our strategy for growth into action, and how we ensure that we're governed in the best interests of our stakeholders."

Iain Napier Chairman

We've made further good progress this year, growing sales while effectively managing our costs and cash flows.

Our focus on building total tobacco brands is delivering quality growth across our total tobacco portfolio, including particularly strong performances from our key strategic brands.

Improved Returns for our Shareholders[1]

We grew total adjusted operating profits by 4 per cent and delivered 8 per cent adjusted earnings per share growth to 201.0 pence. Reported earnings per share were 68.1 pence, (2011: 177.3 pence), reflecting the write down of our Spanish goodwill, as a result of the deterioration in the Spanish economy. We explain this further in our finance section on page 35.

We are increasing our dividend payout ratio to 52.5 per cent of adjusted earnings per share and your Board is recommending a final dividend of 73.9 pence, bringing the total dividend this year to 105.6 pence, up by 11 per cent[2].

Sustainability and Responsibility

By running a successful business, we make a positive contribution to the economic and social well-being of many countries around the world. We employ 37,000 employees and contribute around £20 billion every year in taxes.

We also actively work with governments, non-governmental organisations and other stakeholders on issues of common concern, such as the illicit trade of tobacco products and protecting natural resources, which underpins our long-term sustainability. More details on our initiatives and progress are included in this report and on our website www.imperial-tobacco.com

Governance and Board

As Chairman, it is my responsibility to make sure that Imperial Tobacco is governed and managed with openness, honesty and transparency. The Board and I are committed to ensuring this is the case.

We have further enhanced the skill set and mix of backgrounds and experiences of the Board with a number of appointments during the year.

Matthew Phillips, Group Corporate & Legal Affairs Director, was appointed to the Board as Corporate Affairs Director on 1 June 2012, reflecting the significant role Corporate Affairs plays in supporting our sales growth strategy.

We also appointed two Non-Executive Directors: Malcolm Wyman and David Haines. Both bring considerable international experience across a range of industries. At our 2012 Annual General Meeting, Pierre Jungels retired from the Board as a Non-Executive Director and as a result Mark Williamson was appointed Senior Independent Director and Malcolm Wyman was appointed Chairman of the Audit Committee. I'd like to thank Pierre for his significant contribution to our success and wish him well for the future.

In Conclusion

2012 has been another successful year and I would like to thank all my colleagues; both those on the Board and our talented people around the world for their dedication and hard work.

Our ongoing strategic focus aims to ensure that we continue to create long-term sustainable value for our shareholders.

Iain Napier
Chairman

1 Throughout the Annual Report percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.
2 This will be paid on 18 February 2013 to those shareholders on the register on 18 January 2013.


Imperial
Tobacco
OHN PLAYER
SPECIAL

Strategic Review

"We're making great progress generating quality sales from quality brands to drive sustainable returns."

What you will find in this section:

Building Total Tobacco Brands

JPS

JPS continued to resonate strongly with value seeking consumers and we delivered very positive results in Australia and the UK where we made gains in cigarettes and fine cut tobacco.

"Our portfolio offers consumers unrivalled choice and provides significant opportunities for further growth. Our focus on realising this growth potential, whilst effectively managing cost and cash, will continue to maximise value for our shareholders."

Alison Cooper Chief Executive

Overview

Over the last two years we've made great progress in shifting our strategic focus to put consumers at the heart of our business and drive organic sales growth.

It's been a rapid transition and we're pleased with the progress we're making, generating quality growth from quality brands to drive sustainable returns.

Our success is built around a differentiated approach that's focused on applying our understanding of consumer motivations to realise the potential of our portfolio and offer consumers the best tobacco experiences.

The response from our people to these changes has been remarkable; a united focus on sales, on building total tobacco brands and on consistently applying our four sales growth drivers of portfolio management, innovation, pricing and customer engagement to deliver high quality sustainable growth.

2012 Results

Our focus on driving sales has delivered a number of highlights in the year.

We've increased tobacco net revenues by 4 per cent to £7.0 billion, as we continued to build momentum behind our total tobacco portfolio.

Our overall volumes recovered strongly from our first quarter and we ended the year with overall stick equivalent volumes declining 2.7 per cent, the majority of which was due to ongoing market weakness in Ukraine and Poland and compliance with international trade sanctions in Syria.

The quality of our brands and the growth they're delivering is reflected in the strong portfolio gains we made in the year. The excellent performance of our key strategic brands, *Davidoff*, *Gauloises Blondes*, *West* and *JPS*, resulted in combined volume growth of 7 per cent and net revenue growth of 13 per cent.

Our fine cut tobacco volumes were stable, with net revenues up by 13 per cent. We delivered further strong results from premium cigars growing volumes by 11 per cent and revenues by 10 per cent and grew Scandinavian snus volumes by 53 per cent and net revenues by 46 per cent.

We believe our approach positions us well to perform in countries experiencing difficult economic conditions. We have grown profits in Spain this year, but the deterioration in the economy has led to us taking a non-cash impairment charge of £1.2 billion in the year, impacting our reported results, as we explain in more detail on page 35.

Building Brands: Key Strategic Brand Success

Driving momentum behind our key strategic brands is an ongoing priority. In 2010, *Davidoff*, *Gauloises Blondes*, *West* and *JPS* accounted for 26 per cent of our total stick equivalent volumes; today they account for 30 per cent – a great performance and one that we're building on going forward.

Accelerating the sales momentum behind *Davidoff* has been a particular focus this year. We delivered volume growth of 9 per cent and made excellent progress in Asia, the Middle East and Eastern Europe, gaining volume and share in profitable consumer growth segments such as kingsize superslims and queen size.

Driving quality growth

We're making *Davidoff* more accessible to a wider range of consumers in both new and existing markets through the launch of *Davidoff iD*, a new kingsize range available in both standard and our innovative GlideTec packs. *Davidoff iD* has been rolled out to 19 markets including in Spain, Taiwan, Russia, Ukraine and Global Duty Free.

We've further developed *Gauloises Blondes* this year building on the brand's strong base in the EU and delivering very strong performances in Africa and the Middle East. We improved volumes by 11 per cent with innovation and portfolio management initiatives continuing to support the brand's momentum, including the Tactil and crushball variants in France, and new additive free cigarette and fine cut tobacco launches in Germany.

Innovation has been key to the positive performance we've delivered with *West* and volumes were up by 5 per cent. We delivered particularly good results in a number of markets in Eastern Europe and Asia-Pacific with queen size, kingsize superslims and crushball variants enhancing the brand's profile in high growth segments.

JPS continues to resonate strongly with value seeking consumers. We delivered volume growth of 3 per cent with very positive results in Australia and the UK where we grew in both cigarette and fine cut tobacco.

Our enhanced sales agenda initially focused on our key strategic brands; the priority two years ago was to drive growth in these brands and we'll be building on our successes.

We're also growing other core brands in the portfolio such as *News*, *Bastos*, *Maxim* and *Fine*. These brands have strong heritage and we have a number of initiatives underway to add to their growth momentum.

Building Brands: Fine Cut Tobacco, Premium Cigars, Smokeless Tobacco

Our world leadership in fine cut tobacco is a real strength of our business, particularly in the current economic climate. We know the category and the consumers better than anyone.

Our performance reflects some great successes in the high growth make your own sector in core EU markets. We improved make your own volumes by 8 per cent; excluding Poland they were up 20 per cent. A number of strong brand performances are driving this growth, including *JPS* and *Fairwind* in Germany, *West* in the Netherlands and *Ducados* in Spain.

We also grew volumes in papers and tubes by 4 per cent and 8 per cent respectively – adding to our margin generation from fine cut tobacco consumption.

Our premium cigar division, which includes *Habanos* and other premium cigars, continues to perform well. We delivered very strong results in emerging markets through our luxury Cuban cigars, with excellent growth in China, Russia and the Middle East and we're also driving good growth in premium cigars in the USA. Limited edition launches continue to support sales and overall, we increased volumes by 11 per cent and net revenues by 10 per cent, with emerging market volumes up 7 per cent and net revenues climbing 16 per cent.

Excellent growth from our key strategic brands[1]

+7%
Key Strategic Brands Volume Growth

+13%
Key Strategic Brands Net Revenue Growth

Davidoff Cigarettes

+9%
Volume Growth

Gauloises Liberté Toujours

+11%
Volume Growth

West

+5%
Volume Growth

JPS

+3%
Volume Growth

1 Volume growth in our key strategic brands is on a stick equivalent basis.

Our Scandinavian snus portfolio had another great year, building on what has been a strong track record of growth.

Innovation: New Consumer Experiences

We've made great progress with our innovation pipeline this year as we continue to focus on creating new consumer experiences. We're developing more concepts that can be rolled out across multiple markets to drive growth.

Through our GlideTec pack we've developed an industry leading innovation built around the sociability of smoking, enabling smokers to offer a cigarette with a one handed motion. This innovation provides smokers with choice and reinforces brand differentiation.

Since its launch last year we've delivered sales of a billion cigarettes in 17 markets plus global duty free. GlideTec continues to improve the performance of our key strategic brands and strengthen the position of a number of brands in our portfolio with strong local heritage such as *Lambert & Butler* in the UK and *Fortuna* in Spain.

We're also focused on growing share in high consumer growth segments. We launched a number of brands using crushball filter technology which allows smokers to determine the strength of the menthol flavour in each cigarette. We've been expanding our kingsize superslims, superslims and queen size variants in many markets and through *Gauloises Blondes* applying our blend expertise to launch additive free cigarette and fine cut tobacco products.

Pricing and Customer Engagement

Our success at building our brands is also about further developing our pricing and excise strategies. Price-mix doubled in the year to 7 per cent (2011: 3.0 per cent) driven by innovation and our key strategic brands. We've strengthened our pricing analysis in a number of markets and broadened the price options available to consumers with additional formats. This has improved both consumer choice and the quality of our growth.

Maximising the availability and advocacy of our portfolio at the point of sale is an important part of our sales strategy. One of our centres of excellence is Australia where customer engagement has been integral to the share gains we made in the year.

High Margin Profits

Strong financial discipline is a hallmark of our business and we continue to optimise costs throughout the company. We continue to invest for growth with an additional £200 million invested this year in brand and product initiatives and in people to support our sales growth agenda. Our diligent approach to balancing our investments and managing cost has enabled us to maintain strong tobacco operating margins at around 42 per cent.

Maximising Cash Returns

High margin sales generate strong cash flows that we use to reward our shareholders and reinvest to support our sales growth strategy. Cash conversion was 71 per cent, impacted by £0.5 billion working capital movements, in part reflecting the unwinding of a timing difference in our Italian logistics business and investment in our sales growth agenda. This included extending our leaf stock duration and new product launches.

We've again delivered a strong dividend increase and have continued to steadily increase our dividends per share ahead of the growth in adjusted earnings per share. In addition, we spent £528 million during the year on our share buyback programme, acquiring 21.9 million shares.

Our People and Our Values

Our people and our values set us apart from other companies. Our values express what our business and our people stand for, guiding the way we work with each other and with our stakeholders, encouraging fresh thinking and new ways of driving success. The talent, commitment and energy of our 37,000 people around the world is inspiring and I thank them all for their achievements in the year.

Creating Sustainable Value

We've put consumers at the forefront of everything we do and applied that to a portfolio that offers consumers unrivalled choice. We'll continue to focus on building total tobacco brands and consumer experiences to deliver further high quality growth across our markets.

We'll be driving revenue and profit growth in the EU whilst strengthening our position in the USA and targeting the significant growth opportunities that we have in our Rest of the World region.

Our focus on cost optimisation and effective cash management supports our sales agenda and by building on the momentum we're generating we'll continue to create sustainable value for our shareholders.

Alison Cooper
Chief Executive

2013 Priorities

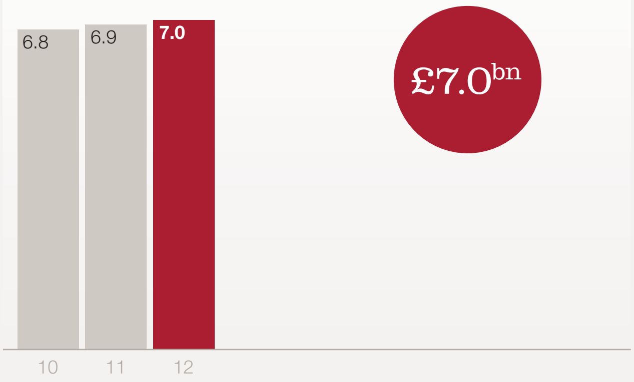
We're focusing on these key areas, to continue to drive sustainable sales in the coming year.

- Further developing consumer understandings to drive portfolio strategies
- Adding to the momentum across our total tobacco portfolio
- Accelerating the international roll-out of *Davidoff iD*
- Continuing to build our innovation pipeline to develop new consumer experiences
- Capitalising on growth potential of our core heritage brands
- Strengthening our anti-illicit trade activities across our market footprint
- Enhancing our stakeholder engagement to encourage reasonable regulatory policies
- Further embedding our values across the business

Tobacco Net Revenue (£bn)

KPI

Relevance to Business Model: Sales



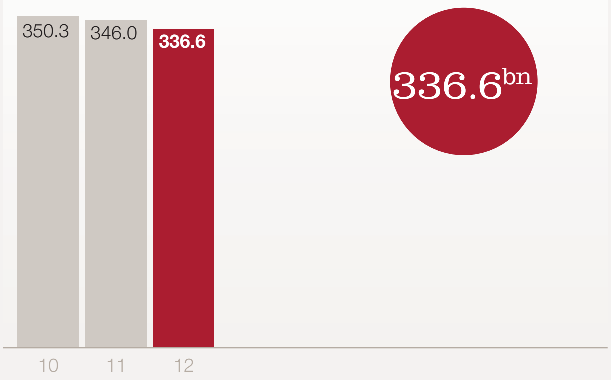
Performance
Our tobacco net revenue was up by 4.1 per cent (constant currency) to £7.0 billion with good net revenue growth in the UK, Germany, Rest of EU and Rest of the World regions more than offsetting declines elsewhere.

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

Stick Equivalent Volumes (bn)

KPI

Relevance to Business Model: Sales



Performance
Our stick equivalent volumes declined by 2.7 per cent, mostly due to ongoing market weakness in Ukraine and Poland and compliance with international trade sanctions in Syria.

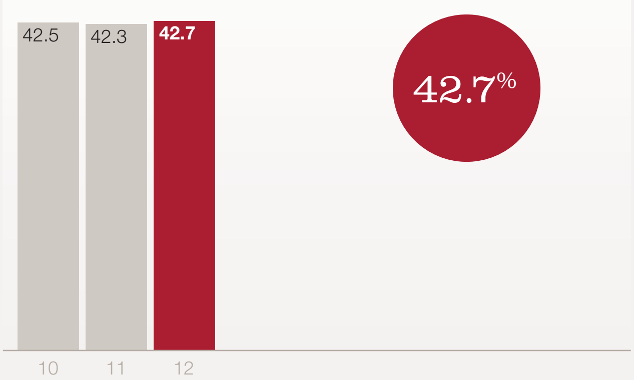
Definition
Stick equivalent volumes reflect our combined cigarette and fine cut tobacco volumes.

Our 2011 and 2010 stick equivalent volumes have been restated due to a change to the conversion factors used to convert the fine cut tobacco volumes into stick equivalent volumes, reflecting increasing consumption patterns of expanded tobacco products.

Tobacco Adjusted Operating Margin (%)

KPI

Relevance to Business Model: High Margin Profits



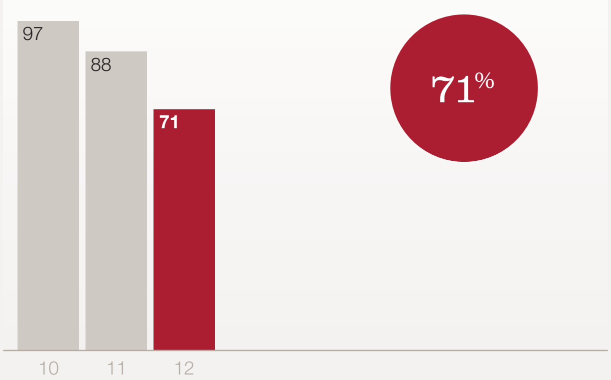
Performance
Our tobacco adjusted operating margin was broadly stable at around 42 per cent, reflecting our diligent approach to investments and cost management.

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

Cash Conversion Rate (%)

KPI

Relevance to Business Model: Strong Cash Flow



Performance
Cash conversion was 71 per cent, impacted by £0.5 billion working capital movements, in part reflecting the unwinding of a timing difference in our Italian logistics business that benefited last year and our strategic decisions to support growth. These include extending our leaf stock duration and product launches supporting our sales growth agenda.

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 people are highly skilled and committed to delivering excellence. We're focused on supporting them to develop their skills and achieve their career aspirations.

Values, capabilities and engagement are integral to the development of our people.

Our capability framework is aligned with our values and strategy, and includes the behaviours, skills and knowledge required for our people to achieve our sales growth ambitions.

We're focused on creating an inspiring environment where people can do their best work. We support their career aspirations and encourage creative thinking so that their talents and skills flourish.

See how we are enabling our people to drive our strategy forward **p43**

Driving our business forward

Our values uniquely express what our business and our people stand for. The combination of the 'We' and the 'I' values reflect the way we operate, encouraging both collaborative teamwork and individual contribution.

We surprise
New thinking, new actions, exceed what's possible

We can
Everything is possible, together we win

I engage
Listen, share, make connections

I own
See it, seize it, make it happen

We enjoy
Thrive on challenge, make it fun

I am
My contribution counts, think free, speak free, act with integrity

Roberto Funari
Group Marketing Director

For an overview of our business model see **p2**

Portfolio Management
More Consumers, More Occasions

> "The starting point is always our consumers; we're building total tobacco brands that truly resonate with them."

Total Tobacco in Action

Through portfolio management we apply our unique portfolio to maximise our share of consumers and consumption occasions to drive quality growth. Put simply, it's total tobacco in action.

The starting point is always our consumers; understanding their choices and preferences through our consumer insight work is crucial to the way we manage our portfolio. It enables us to make the most of sales growth opportunities by building total tobacco brands that truly resonate with consumers.

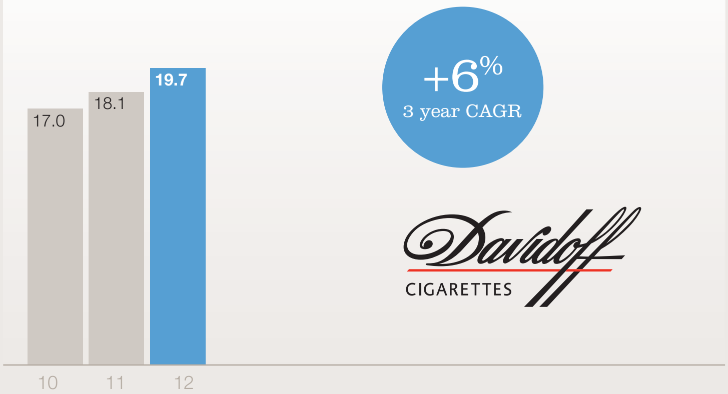
Enhancing *Davidoff* Sales

Our work on developing *Davidoff* to realise its global growth potential has been a major portfolio management initiative during the year.

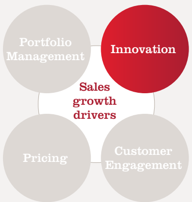
Davidoff is a key strategic brand that continues to perform strongly on an international scale. In June we launched *Davidoff iD*, a new kingsize range that's enhanced the brand's appeal to a far wider base of consumers whilst retaining its premium credentials.

We've made *Davidoff iD* available in standard and GlideTec packs and by the end of the year we'd launched it in 19 markets worldwide, with many more to follow. The response from consumers and retailers has been excellent and the sales we're generating are enhancing *Davidoff's* overall growth momentum.

***Davidoff* volumes (bns)**



Driving quality growth



For an overview of our business model see **p2**

Innovation
New Consumer Experiences

Delivering High Returns

As with portfolio management, deep consumer insights are key to our innovation sales growth driver. We're translating those insights into tangible ideas and concepts that allow us to deliver new consumer experiences across our total tobacco portfolio.

The innovation pipeline we're building focuses on scalable initiatives that will deliver high returns. By scalable, we mean innovations that have international appeal and can be rolled out across our diverse markets.

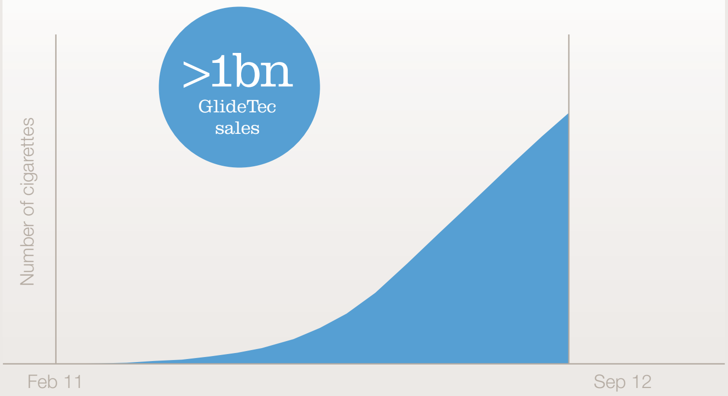
World-leading GlideTec Pack

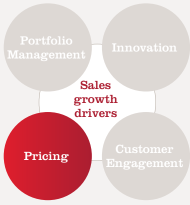
GlideTec is a world-leading pack innovation built around the sociability of smoking, enabling smokers to offer a cigarette with a one handed motion. Pack innovations like GlideTec provide smokers with choice and reinforce brand differentiation.

First launched in the UK with *Lambert & Butler,* GlideTec's a great example of how we combine consumer insights with a fewer, bigger, better approach to deliver quality growth across multiple markets.

So far we've launched GlideTec in 17 markets including in France with *Gauloises*, Spain with *Fortuna*, Germany with *JPS* and in Saudi Arabia with *Davidoff iD*. We've already sold over a billion cigarettes in GlideTec packs and this innovation will be applied to more brands in more markets in the coming year.

GlideTec volumes





For an overview of our business model see **p2**

Pricing
Maximising Revenue Growth

Managing Pricing and Excise

Our understanding of consumer purchasing behaviours enables us to make effective pricing decisions by brand, pack size and sales channel. We're focused on maximising revenue growth whilst continuing to give consumers value for money.

Excise can account for over 80 per cent of the price that consumers pay for tobacco products in some markets and so it's important that we consider government excise strategies as part of our pricing decisions. We encourage governments to take a sensible approach to excise increases in order to protect their revenues and to avoid fuelling illicit trade.

USA Pricing Strategy

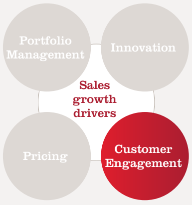
Our cigarette market share in the USA has been under pressure due to the increasingly uncompetitive price positioning of our two main brands, *USA Gold* and *Sonoma*.

We conducted a detailed and thorough pricing analysis, taking the time to understand what drives the purchasing behaviours of our consumers. Based on these insights we devised a new pricing strategy with the objective of stabilising our market share.

Between February and May 2012 we successfully trialled our new strategy in four key states and in June we applied this strategic approach to a further 15 states.

The strategy's improved the performance of *USA Gold* and *Sonoma* and stabilised our overall cigarette market share at 3.4 per cent over the remaining three months of the financial year.

Developing stronger connections



For an overview of our business model see **p2**

Arthur van Benthem
Group Sales Director

> "We're building even stronger connections with our retail partners around the world to drive sales growth."

Customer Engagement
Availability and Advocacy

Excellent Retail Partnerships

We have long-standing partnerships with retailers around the world, from large multi-national supermarkets to small independent shops, and through customer engagement we work hard to provide them with excellent service at all times.

We work with our retail partners to maximise both the availability and the advocacy of our brands and products at the point of sale which is an important part of our sales strategy. Customer engagement benefits both parties and is particularly important in highly regulated environments where the voice of the retailer is crucial to building consumer awareness of new brand launches and innovations.

Customer Engagement in Australia

Our continued focus on building our customer relationships in Australia is delivering excellent results. This further supports our investments behind our portfolio and key brands *Horizon*, *JPS* and *Champion* and builds awareness of our innovation initiatives.

Retailer advocacy is particularly important in Australia given the introduction of the plain packaging of tobacco products in December 2012.

Last year we worked closely with our trade customers during the plain packaging consultation and our 'No Nanny State' advertising campaign. This helped us to further strengthen these key relationships.

Customer engagement has been essential to the market share gains we have delivered this year: we've grown our Australian cigarette share to 19.4 per cent and our fine cut tobacco share to 60.7 per cent (2011: 19.1 per cent and 59.9 per cent respectively).

Overview
Strategic Review
Performance
Risk
Governance
Financials

Total Tobacco

For an overview of our business model see **p2**

We are driving quality volume and revenue growth by building total tobacco brands and developing new consumer experiences. Through our unique portfolio we provide consumers with the finest range of brands and products in the world.

A growing key strategic brand portfolio

No 1 in papers and tubes

No 1 in luxury Cuban cigars

No 1 in fine cut tobacco

We sell some of the world's most popular cigarette brands and are global leaders in fine cut tobacco, papers and tubes. We exclusively sell all the luxury Cuban cigar brands around the world and have a very successful smokeless tobacco business.

Our expertise in all these tobacco categories, coupled with our consumer insights, is enabling us to build total tobacco brands that will deliver long-term quality growth.

Unrivalled consumer choices

We take time to understand our consumers and continually evolve our portfolio so that it remains fresh and exciting to the millions of people around the world who enjoy our brands and products.

Key enablers

Consumer insights
Operation & supply chain alignment
Shaping our environment

For an overview of our business model see **p2**

Consumer Insights

Understanding What Drives our Consumers

We're focused on truly understanding consumer motivations and translating these insights into innovations and portfolio strategies that provide our consumers with unrivalled choice.

Our consumers are experimenting with more formats and we're providing new experiences across the tobacco spectrum. By actively listening to them and translating our learning across our portfolio, we're able to further build our brands and develop innovations that deliver high quality growth.

Operation and Supply Chain Alignment

A Fast and Flexible Business Focused on Delivery

Across our manufacturing and supply chain operations we're focused on operational excellence, delivering our sales growth strategy in the most efficient way possible. We're especially focused on maximising product availability and quality.

We're responding quickly to insights from our consumers to evolve our portfolio and deliver innovative brands and products that enable us to maximise growth opportunities.

For example, in the 2012 Advantage International Survey of Global Duty Free Customers, Imperial Tobacco was ranked as the highest performing tobacco manufacturer, and third of all FMCG participants, in Logistics and Supply Chain management.

Supporting our sales growth strategy

Proactively Shaping our Environment

Matthew Phillips
Corporate Affairs Director

"We're partnering with governments and law enforcement agencies internationally to proactively tackle the illicit trade in tobacco products."

Our Proactive Approach

We're very experienced at successfully developing our business in a highly regulated environment and we work constructively with governments and other organisations to find reasonable solutions to regulatory issues.

We support proportionate regulation that's based on sound evidence but will continue to speak out against regulatory proposals that don't meet these criteria.

We're very concerned at how extreme regulation and excessive tobacco tax increases can fuel the growth in illicit trade. This is damaging to everyone except the criminals who profit from tobacco smuggling and counterfeiting: children can more easily obtain tobacco products, governments are deprived of tax revenues and the livelihoods of independent tobacco retailers are threatened.

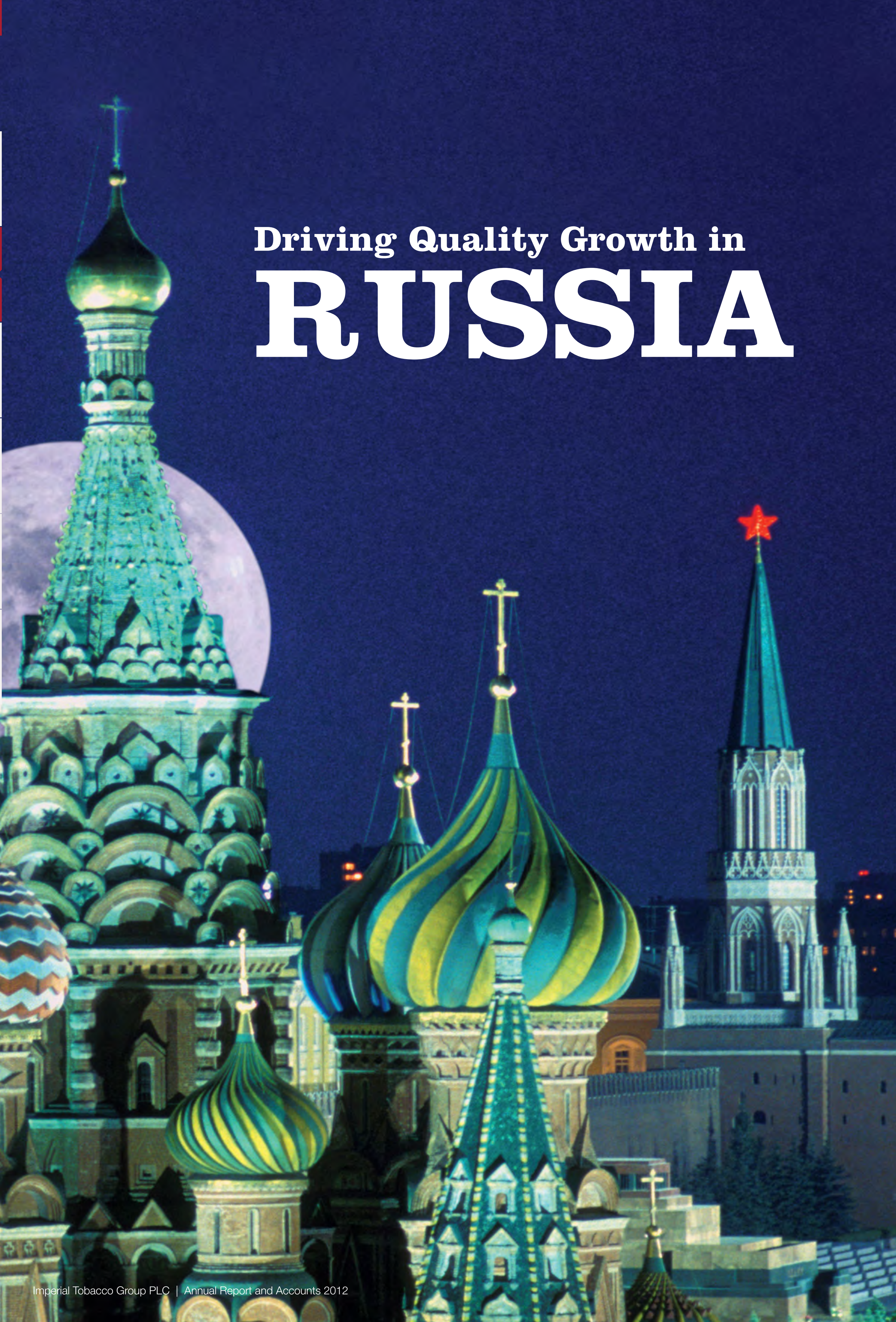
We regularly make these points through our global stakeholder engagement activities and encourage regulatory authorities in particular to recognise the relationship between regulation, excise and illicit trade.

We also partner with governments and law enforcement agencies internationally to proactively tackle the smuggling and counterfeiting of tobacco.

Our commitment to combating illicit trade is underpinned by the numerous anti-illicit trade agreements we have around the world, including a long-term partnership that we initiated with the European Commission and EU member states.

You can read more about regulation and our anti-illicit trade activities on **p42**

Driving Quality Growth in RUSSIA



On the following pages we show how different elements of our strategy come together to deliver success in one of our key emerging markets.

Growing a Successful Business

Eastern Europe is a key strategic growth area for our business and we are delivering quality growth in Russia.

Russia is the largest country in the world and the second largest tobacco market, after China, with annual cigarette volumes of more than 350 billion.

We sell more cigarettes in Russia than in any other country; our annual sales are 35 billion cigarettes and we have a 9.3 per cent market share.

Central to our success has been the strength and versatility of our portfolio and the consistent application of our four key sales growth drivers: portfolio management, innovation, customer engagement and pricing.

Our work on our three key enablers supports our sales performance. We're developing deep consumer insights to help shape our portfolio strategies, whilst managing complex manufacturing and supply chain operations that are aligned with our sales ambitions.

The regulatory and excise climate continues to evolve and through our focus on proactive stakeholder engagement we're actively participating in the ongoing debates.

Critical to our Russian success story is our people and the unique Imperial values that bind them and guide the way they do business.

Building Sustainable Sales

Over the years we've continually developed our portfolio to ensure it's well positioned to deliver sustainable sales, focusing on the brands and tobacco market segments where consumer demand is strongest.

By focusing investment and innovation on four key cigarette brands, *Davidoff*, *West*, *Style* and *Maxim*, we're making significant gains in high growth slimmer formats like slims, superslims and kingsize superslims.

We've also been active in the field of filter innovation and Russia was one of the first markets in which we launched *West Duo*, a cigarette that offers consumers the option of a mint flavour burst by squeezing a mint crushball in the filter.

Managing Regulatory Change

We have a long track record of delivering international growth against a backdrop of evolving tobacco regulation.

In Russia our engagement focus has been on highlighting the adverse consequences of government plans to implement significant regulatory and excise change.

This could potentially involve considerable rises in tobacco excise and restrictions on both smoking in public places and the display of tobacco products in retail outlets.

We're encouraging our Russian stakeholders to recognise the impact that this disproportionate approach to regulation and excise has on illicit trade through our proactive engagement activities.

The evidence from other markets around the world is clear: rapidly rising excise duties combined with excessive regulation increases the smuggling and counterfeiting of tobacco products.

This illicit trade in tobacco is a significant and growing global problem and we'll continue to draw attention to the issue whilst also partnering with law enforcement agencies to combat illicit trade.

In addition, our total tobacco focus means we're able to meet consumer demand for cigars, including popular mass market brands as well as prestigious Cuban premium brands through our exclusive partnership with Habanos.

Offering consumers different brands and products across the pricing spectrum, from premium to value, drives our focused approach to pricing.

Through extensive ongoing price modelling we seek to enhance revenue growth whilst giving our consumers a quality smoking experience.

And then there's our customer engagement work. We want our trade partners to advocate our portfolio at the point of sale, so we're building even stronger retail partnerships across the country.

This is particularly true within the supermarket sales channel, which is growing rapidly and is responsible for an increasing volume of tobacco sales to consumers.

Delivering Excellent Results

This integrated strategic approach to maximising sales growth opportunities in Russia continues to deliver excellent results.

In 2012 we again built on our track record of success, growing our volumes by 4 per cent.

Our four key cigarette brands delivered excellent performances: *Maxim* grew by 13 per cent, *Davidoff* by 16 per cent, *Style* by 26 per cent and *West* was up by 6 per cent.

These portfolio achievements provide a strong platform for future success and we're very excited about our prospects in Russia.

We've got the right strategic approach, the right portfolio and the right people to take our business forward which gives us great confidence in our ability to deliver long-term sustainable growth.

Focused on Delivery

The sheer size of Russia and its nine different time zones present unique regional and logistical challenges.

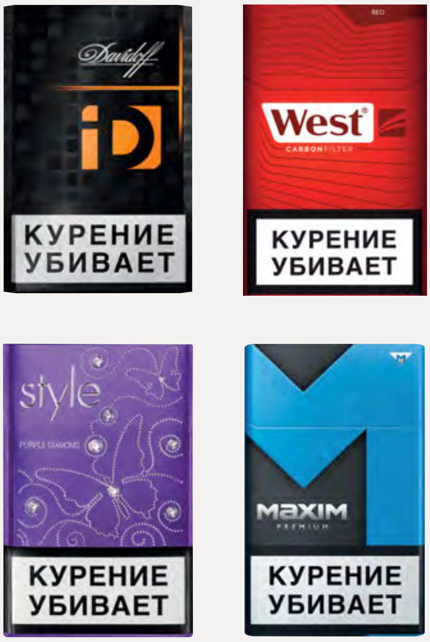
From an operational perspective our local team, led by General Manager Wayne Merrett, view Russia not as a single country but as several individual markets, each with their own very different characteristics.

"Our strategic approach has to take regional differences into account," said Wayne, "applying our portfolio and our sales growth drivers in different ways to reflect the wide range of local consumer and trade customer preferences.

"Our opportunities for growth in somewhere like Siberia for instance, where we have a 15 per cent market share, are very different to those in the south of the country where we have a smaller market share."

Finding solutions to the logistical complexities of running a successful business in Russia is a stimulating challenge for Wayne and his team.

"Not only are the winters very harsh but as we arrive at our Moscow office each morning, our people furthest east are coming to the end of their working day," he said.



1,900
Employees

Furthermore, products manufactured at our two factories in Volgograd and Yaroslavl take three to four weeks to arrive at the furthest outposts in the east, some 8,000 kilometres away.

"Having a reliable distributor in place is essential but this is backed up by our great portfolio, a clear strategy and our really motivated people," said Wayne.

"The drive and enthusiasm of our people are critical to our ongoing success. Our values underpin everything we do and we have a continual focus on employee engagement and development."

This includes performance recognition programmes and partnering with local universities to run leadership training courses. Wayne also chairs quarterly meetings with employee representatives and the local Board of directors that provides an opportunity to discuss business issues.

"The drive and enthusiasm of our people are critical to our ongoing success."

Wayne Merrett General Manager Russia and Belarus


MONTECRISTO
HABANA
ROMEO Y JULIETA
Desde 1875
HABANA · CUBA
HOYO
DE
MONTERREY
HABANA
PARTAGAS
HABANA-CUBA
HABANA · CUBA

Overview
Strategic Review
Performance
Risk
Governance
Financials

Performance

"We're focused on driving quality growth across our regions, building total tobacco brands that resonate with consumers and will deliver long-term sustainable sales."

What you will find in this section:

Building Total Tobacco Brands

Luxury Cuban cigars

Our cigar portfolio includes some of the world's most prestigious brands including *Cohiba*, *Montecristo* and *Romeo y Julieta*. We're continuing to deliver very strong results in emerging markets, achieving excellent growth in China, Russia and the Middle East.

Performance

Volume

Billions	Stick equivalents 2012	Stick equivalents 2011[1]	Cigarettes 2012	Cigarettes 2011	Fine cut tobacco 2012	Fine cut tobacco 2011[1]
UK	**25.3**	25.6	**18.7**	19.2	**6.6**	6.4
Germany	**32.0**	32.2	**22.6**	23.4	**9.4**	8.8
Spain	**22.0**	23.8	**18.7**	20.8	**3.3**	3.0
Rest of EU	**74.7**	80.3	**53.4**	57.8	**21.3**	22.5
Americas	**10.8**	12.8	**10.3**	12.3	**0.5**	0.5
Rest of the World	**171.8**	171.3	**168.8**	168.6	**3.0**	2.7
Total	**336.6**	346.0	**292.5**	302.1	**44.1**	43.9

1 Our 2011 stick equivalent volumes have been restated due to a change to the conversion factors used to convert fine cut tobacco volumes into stick equivalent volumes reflecting consumption patterns of expanded tobacco.

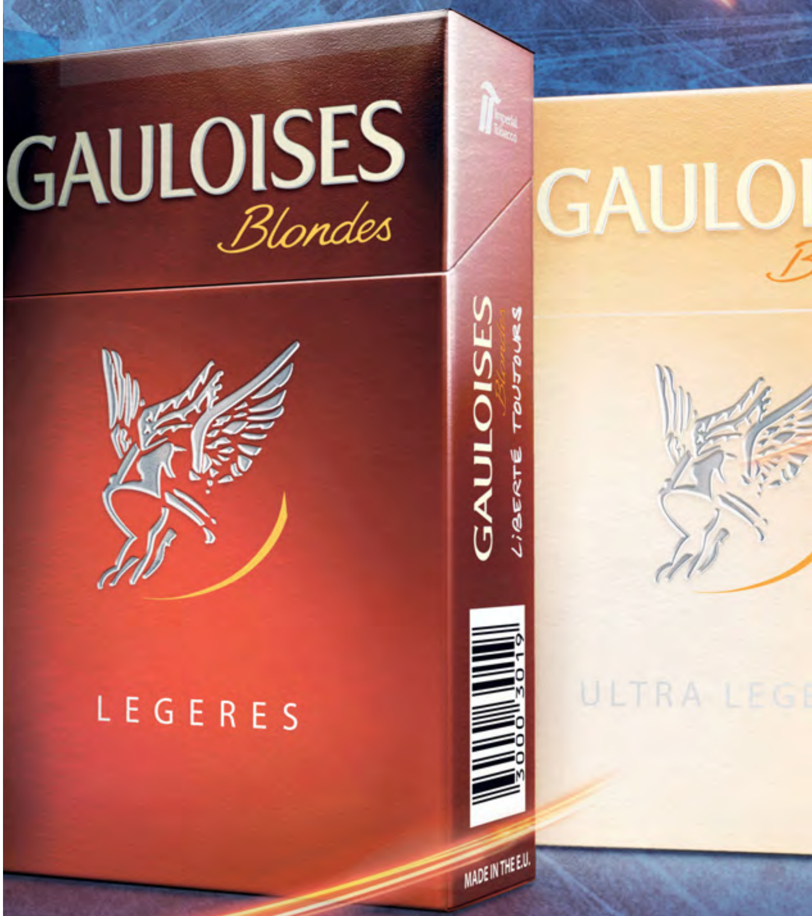
Net Revenue[2]

£ million	2012	Foreign exchange 2012	Constant currency growth	Change at constant currency %	2011
UK	**936**	**–**	**67**	**7.7**	869
Germany	**861**	**(47)**	**29**	**3.3**	879
Spain	**470**	**(26)**	**(1)**	**(0.2)**	497
Rest of EU	**1,534**	**(94)**	**36**	**2.3**	1,592
Americas	**660**	**12**	**(83)**	**(11.4)**	731
Rest of the World	**2,544**	**(34)**	**233**	**9.9**	2,345
Total	**7,005**	**(189)**	**281**	**4.1**	6,913

Adjusted Operating Profit[2]

£ million	2012	Foreign exchange 2012	Constant currency growth	Change at constant currency %	2011
UK	**627**	**3**	**47**	**8.1**	577
Germany	**448**	**(22)**	**9**	**2.0**	461
Spain	**202**	**(11)**	**13**	**6.5**	200
Rest of EU	**626**	**(40)**	**8**	**1.2**	658
Americas	**214**	**6**	**(26)**	**(11.1)**	234
Rest of the World	**872**	**20**	**58**	**7.3**	794
Total	**2,989**	**(44)**	**109**	**3.7**	2,924

2 We focus on adjusted, or non-GAAP measures which management use to run and control our business.



In our operating review we provide details about how we're bringing our strategy to life in our regions and markets. We explain the external environment and consumer dynamics that have characterised 2012 and how we've driven performance.

Driving Quality Growth

We focus on driving quality growth across our regions, building total tobacco brands that resonate with consumers and will deliver long-term sustainable sales growth.

We're achieving this by consistently applying our sales growth drivers combined with our consumer understandings to realise the growth potential of our brands and products across our markets.

Our versatile portfolio spans the tobacco spectrum, providing strength in all major consumer growth segments within cigarette, fine cut tobacco, cigar and smokeless. This means we're able to meet the needs of changing consumer preferences to maximise growth.

In the developed markets of the EU our bias is on driving revenue and profit performance, whilst actively managing our market share positions. We focus on maximising returns by strategically balancing market shares, revenues and profits.

The economic and regulatory climate in a number of developed markets continues to shape consumer choices. Many consumers are economising, further stimulating growth in value brands and products. We're well-positioned to continue to capitalise on this dynamic through our value cigarette brands and world leadership in fine cut tobacco, whilst also realising opportunities for our premium portfolio.

Our Rest of the World focus is biased to quality volume and share growth. The region includes some developed markets such as Australia, but primarily comprises developing countries in Eastern Europe, Africa and the Middle East and Asia. In many of these countries there are consumers with rising disposable incomes who are increasingly demanding premium brands, but there is also a value dynamic in place.

Our investments are weighted towards supporting sales in this region and enhancing momentum behind our key strategic brands *Davidoff*, *Gauloises*, *West* and *JPS*. New cigarette formats like kingsize superslims and queen size are growing rapidly and we're increasing our share of consumption in these high growth segments. We're also focused on capitalising on the growing demand for our luxury Cuban cigars.

Our Financial Performance

We grew net revenue and adjusted operating profit in the EU, although challenging economic conditions affected results in some markets. In the UK we increased net revenues and adjusted operating profit by 8 per cent and in Germany net revenues were up over 3 per cent and adjusted operating profit grew by 2 per cent.

Further weakness in market volumes in Spain affected our performance, although a strong sales mix meant our net revenues were flat and we grew our adjusted operating profits by over 6 per cent. However, further deterioration in the Spanish economy means that under IFRS accounting standards the value of intangibles previously allocated to Spain has been reduced by £1.2 billion. More detail is provided in our financial review on page 35.

Despite macro-economic weakness in our Rest of EU region, we grew our net revenues by 2 per cent and adjusted operating profits by 1 per cent.

Outside the EU we delivered net revenue growth of almost 5 per cent and increased adjusted operating profits by 3 per cent. In the Americas, where our primary market is the USA, our net revenue and adjusted operating profit both declined by 11 per cent. In the Rest of the World region we delivered an excellent performance. We grew our net revenues by just under 10 per cent and our adjusted operating profit by over 7 per cent.

UK

Market Context

In the UK we estimate that the overall duty paid market declined by 3 per cent, with cigarettes down by 6 per cent and fine cut tobacco up by 8 per cent. The overall duty paid market continued to be impacted by significant duty increases that have taken place during the last two years.

Performance Highlights

Innovation continues to strengthen our UK portfolio and support our leading *Lambert & Butler* brand franchise. During the year we rolled-out GlideTec packs nationally, *Lambert & Butler Profile* (queen size cigarettes) and *Lambert & Butler Fresh Burst* (with a crushball menthol filter) to strengthen the brand's position and enhance our sales mix.

We also continued to focus on the performance of our value brands *JPS Silver* and *Windsor Blue*. These brands grew with our overall cigarette market share broadly held at 45.0 per cent.

In September, we strengthened the premium offerings within our portfolio with the launch of *Davidoff iD* cigarettes and *Montecristo* mini cigars.

Our fine cut tobacco share was 47.4 per cent, reflecting declines in *Golden Virginia* and *Drum* although we delivered further positive performances from *JPS* and *Gold Leaf* and grew our volumes and profits.

Germany

Market Context

In Germany we estimate that the overall market was broadly stable. Cigarette volumes were down 2 per cent and fine cut tobacco volumes were up 3 per cent, with strong growth in make your own tobacco, up by 5 per cent.

Performance Highlights

Our cigarette market share declined in the year to 25.8 per cent partly due to *West* which was impacted by further downtrading. However our share has been on an improving trend during the second half due to the success of a number of portfolio initiatives. The sales momentum we're generating has been driven by the launch of *JPS GlideTec* and several limited editions of *Gauloises Blondes*.

We're making excellent progress in fine cut tobacco, leveraging our expertise to capitalise on growing consumer demand. *JPS* and *Route 66* make your own tobacco are performing particularly well, up by 28 per cent and 16 per cent respectively, which combined with the success of the *Fairwind* brand launched in March, has improved our overall fine cut tobacco share to 22.3 per cent.

Spain

Market Context

Economic conditions remain difficult in Spain; high unemployment and increasing government austerity measures are placing further pressures on consumers and the duty paid tobacco market, with illicit trade a growing problem.

Against this backdrop, we estimate that the overall duty paid market declined by 10 per cent, with cigarettes down 13 per cent and fine cut tobacco up 17 per cent.

As explained in our financial review on page 35, the macro economic indicators have resulted in us taking a non-cash impairment charge of £1.2 billion during the year.

Performance Highlights

We are the number one tobacco company in Spain, with leading positions in all tobacco categories. We continue to strengthen our leadership by evolving our portfolio to reflect changing consumer preferences.

Fortuna is a brand with a rich heritage in Spain and we're improving its cigarette share performance through a number of initiatives including *Fortuna GlideTec*, *Fortuna 24* and *Fortuna Redline*. Consumers have also responded very well to new *Nobel* formats, with *Nobel Style* and *Nobel Slims* supporting the brand's overall growth.

We've built on the momentum behind *Fortuna* and *Nobel* and have grown our domestic blonde cigarette share to 28.3 per cent. In addition, we enhanced our portfolio with the launch of *Davidoff iD* in June.

In fine cut tobacco we achieved excellent growth with our market share up to 41.6 per cent. Our strong performance was driven by the ongoing success of *Ducados Rubio* and *Fortuna* fine cut tobacco products, reflecting our focus on building brands across the tobacco spectrum.

Rest of EU

Regional Context

We estimate that overall duty paid regional volumes were down by 3 per cent, reflecting cigarette market declines of 5 per cent and fine cut tobacco growth of 6 per cent.

Performance Highlights

We've been actively managing our portfolio in France, our largest and most profitable market in this region, with cigarette innovations including *Gauloises Tactil* (in a GlideTec pack) and *Gauloises D-clic* (with a crushball filter) supporting our recent cigarette market share improvements and profit growth.

Our market shares are also on an improving trend in other markets such as the Netherlands and Czech Republic, and we've delivered further market share growth elsewhere in the region including in Italy and Portugal.

In fine cut tobacco, overall regional volumes were held back by significant growth in non-duty paid volumes in Poland.

JPS grew by 7 per cent, achieving particular success in make your own tobacco, reflecting our success in optimising performance in high consumer growth segments.

Elsewhere we grew our fine cut tobacco shares for the year in Austria and Belgium and our shares in other markets such as France and Hungary have been on an improving trend in recent months.

In Scandinavia, our snus business delivered another exceptional performance with volumes up by 53 per cent and our market shares in Sweden and Norway increasing to 7.2 per cent and 27.0 per cent respectively.

Americas

Market Context

In our Americas region, our focus is on the USA which remains very competitive with consumer dynamics focused around value brands. We estimate the overall cigarette market was down by 4 per cent.

Performance Highlights

We completed the integration of our cigarette and mass market cigar sales forces during the year and are refocusing our business with a new management team to drive growth in key states.

Through customer engagement we're strengthening retailer partnerships and we've stabilised *USA Gold* and *Sonoma* shares as a result of a new cigarette pricing strategy that was rolled out across 19 states in the summer after a successful trial phase.

The excellent performance of our premium cigar portfolio meant we improved volumes by 11 per cent and revenues by more than 10 per cent and we'll be building on this strong growth going forward.

Rest of the World:

Regional Context

Our Rest of the World region encompasses diverse markets, providing us with huge growth opportunities particularly with our key strategic brands *Davidoff*, *Gauloises Blondes*, *West* and *JPS*. We're generating significant momentum behind these brands, growing regional volumes by 14 per cent and net revenue by 10 per cent.

Performance Highlights

In **Asia-Pacific**, we've grown our profits by 17 per cent and made excellent progress in our market shares in several countries including Taiwan, Vietnam, Australia and New Zealand. In Taiwan, we launched *Davidoff iD* in July and growth in *West* took our overall market share to 11.5 per cent.

In Australia *JPS* continued to grow strongly driving our cigarette market share up to 19.4 per cent and our fine cut tobacco share up to 60.7 per cent. *Bastos* grew volumes in the region by 10 per cent with an excellent performance in Vietnam and Laos.

Across **Eastern Europe** innovative formats of our brands continue to grow, particularly in the popular kingsize superslims and queen size cigarette segments and in both Russia and Ukraine, we launched *Davidoff iD*.

We grew *Davidoff*, *Style* and *West* in Ukraine which supported growth in our cigarette share in recent months. In Russia, we also grew *Davidoff*, *Style* and *West* supported by strong growth from *Maxim* although our overall market share was down slightly. More details on our Russian business are included in a case study on pages 22 to 25.

In **Africa and the Middle East** we grew our overall volumes by 6 per cent and made excellent progress with *Gauloises Blondes* with regional volumes up by 20 per cent and continued strong growth in Algeria and Morocco.

In Africa we grew volumes of *Fine* by 14 per cent, with particular success in Côte D'Ivoire, Chad and Congo. In the Middle East *Davidoff* and *West* made strong gains, particularly with innovative formats including kingsize superslims and slims in Saudi Arabia and we recently launched *Davidoff iD*.

We delivered another strong emerging market performance across our **luxury Cuban cigar** portfolio which includes *Montecristo*, *Cohiba* and *Romeo y Julieta*. Limited editions have continued to support the excellent growth momentum we're achieving; net revenues were up 13 per cent in China, 38 per cent in Russia and 19 per cent in the Middle East region.

Cigarette Market Shares[1]

%	2012	2011
Algeria	**15.2**	12.2
Australia	**19.4**	19.1
France[3]	**22.5**	22.6
Germany	**25.8**	26.6
Greece	**11.5**	11.2[2]
Ireland	**22.9**	23.8
Italy	**2.5**	2.2
Morocco	**81.2**	83.1
Netherlands	**11.4**	11.4
Poland	**23.0**	25.0
Portugal	**10.3**	8.0
Russia	**9.3**	9.4[2]
Spain[3]	**28.3**	28.1
Taiwan	**11.5**	11.3
Turkey	**3.6**	3.3
UK	**45.0**	45.1
Ukraine	**22.0**	22.5[2]
USA	**3.4**	3.9
Vietnam	**10.3**	9.8

Fine Cut Tobacco Market Shares[1]

%	2012	2011
Australia	**60.7**	59.9
Belgium	**16.1**	14.7[2]
France	**21.2**	21.4[2]
Germany	**22.3**	20.4[2]
Netherlands	**45.1**	46.3[2]
Poland	**55.4**	60.1
Spain	**41.6**	40.3[2]
UK	**47.4**	51.0

1 Imperial Tobacco estimates.
2 Restated due to change of source or basis.
3 Domestic blonde market share.

Building on our Growth Momentum

Our focus in 2013 remains on building total tobacco brands that generate long-term quality growth.

In our developed markets such as those in the EU and Australia, consumers will continue to seek value and we have the brands and products to capitalise on this trend and drive revenue and profit growth, providing our consumers with unrivalled choice and value. We're also seeking to further build our portfolio for those consumers looking for premium brands and products.

We see significant growth opportunities in our Rest of the World region across Eastern Europe, Africa and the Middle East and Asia Pacific and we'll continue to invest to support sustainable growth, building on the strong momentum of *Davidoff*, *Gauloises Blondes* and *West*.

Our logistics business has operations in Spain, France, Italy, Portugal and Poland and is one of the largest of its kind in Europe.

Logistics Overview

Our logistics business has operations in Spain, France, Italy, Portugal and Poland and is one of the largest of its kind in Europe. We make more than 40 million deliveries every year and specialise in different sectors and channels. There are two key aspects to our business: tobacco and non-tobacco logistics.

We offer our customers a comprehensive, high quality logistics service encompassing order taking, storage and stock management, order preparation, transport and distribution, invoicing and collection and customer services.

We reach a wide network of 300,000 points of sale in the European countries we service, including tobacconists, convenience stores, grocery stores, kiosks and bookshops, pharmacies, hospitals and petrol stations.

Logistics Performance Highlights

Our logistics business delivered a good performance in a challenging operating environment.

Distribution fees were £872 million and on a constant currency basis we grew our adjusted operating profit by 2 per cent to £176 million.

We delivered a good performance in **tobacco logistics** with cost saving initiatives and tobacco price increases, offsetting tobacco volume declines.

In **non-tobacco logistics**, we have continued to focus on maintaining our profitability while looking for opportunities to profitably grow our business. Our pharma business grew sales as a result of market share gains and the development of our direct distribution business. Our lottery business grew by adding new points of sale to the network and launching new games. Our wholesale business also performed well and we made further efficiency gains in our transport business.

Our focus remains on continuing to identify and develop growth opportunities while ensuring all aspects of our logistics operations are effectively and efficiently structured to drive success in a trading environment that we expect to remain challenging in 2013.

Financial Review

Overview
Strategic Review
Performance
Risk
Governance
Financials

Robert Dyrbus
Finance Director

“Our results benefited from our focus on delivering quality growth while effectively managing costs and cash.”

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. The basis of our non-GAAP or adjusted measures is explained in our accounting policies in our summary financial statements.

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 2011 exchange rates to the 2012 results.

Revenue Performance

£ million	2012	2011
Tobacco revenue	21,161	21,277
Logistics revenue	8,368	8,911
Eliminations	(955)	(965)
Group revenue	28,574	29,223
Tobacco net revenue	7,005	6,913
Logistics distribution fees	872	932

Tobacco net revenue increased by 4 per cent, with volume growth in our key strategic brands, cigars and smokeless tobacco, together with price increases in many of our markets offsetting overall volume declines. In a difficult operating environment logistics distribution fees were 1 per cent lower.

Group Earnings Performance

£ million unless otherwise indicated	Adjusted		Reported	
	2012	2011	2012	2011
Operating profit				
Tobacco	2,989	2,924	1,447	2,577
Logistics	176	183	75	67
Eliminations	(4)	(4)	(4)	(4)
Group operating profit	3,161	3,103	1,518	2,640
Net finance costs	(535)	(562)	(437)	(487)
Profit before taxation	2,626	2,541	1,081	2,153
Taxation	(604)	(617)	(382)	(337)
Profit for the year	2,022	1,924	699	1,816
Earnings per ordinary share (pence)	201.0	188.0	68.1	177.3

Adjusted operating profit grew by 4 per cent reflecting a good performance in the majority of EU markets given current market conditions and excellent results in our Rest of the World region, partially offset by reductions in the Americas.

Tobacco adjusted operating profit was up 4 per cent and Logistics adjusted operating profit was up by 2 per cent.

After tax at an effective rate of 23.0 per cent (2011: 24.3 per cent), adjusted earnings per share grew by 8 per cent to 201.0 pence.

Reported earnings per share were 68.1 pence (2011: 177.3 pence) additionally reflecting fair value and exchange movements on financial instruments, amortisation of acquired intangibles, an impairment of Spanish goodwill of £1.2 billion and other adjusting items.

Group Results – Constant Currency Analysis

£ million unless otherwise indicated	2011	Foreign exchange	Constant currency growth	2012	Change	Constant currency change
Tobacco net revenue	6,913	(189)	**281**	**7,005**	**1.3%**	**4.1%**
Logistics distribution fees	932	(48)	**(12)**	**872**	**(6.4%)**	**(1.3%)**
Tobacco adjusted operating profit	2,924	(44)	**109**	**2,989**	**2.2%**	**3.7%**
Logistics adjusted operating profit	183	(10)	**3**	**176**	**(3.8%)**	**1.6%**
Adjusted operating profit	3,103	(54)	**112**	**3,161**	**1.9%**	**3.6%**
Adjusted net finance costs	(562)	31	**(4)**	**(535)**	**4.8%**	**(0.7%)**
Adjusted EPS	188.0p	(1.6)p	**14.6p**	**201.0p**	**6.9%**	**7.8%**

Reconciliation of Adjusted Performance Measures

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	**2012**	2011	**2012**	2011	**2012**	2011
Reported	**1,518**	2,640	**(437)**	(487)	**68.1**	177.3
Acquisition accounting adjustments	**(10)**	–	**–**	–	**(0.9)**	–
Amortisation and impairment of acquired intangibles	**1,552**	402	**–**	–	**149.0**	32.1
Fair value and exchange (gains)/losses on financial instruments providing commercial hedges	**–**	–	**(125)**	(85)	**(10.4)**	(6.1)
Post-employment benefits net financing cost	**–**	–	**27**	10	**1.8**	0.6
Restructuring costs	**101**	61	**–**	–	**7.2**	4.3
Tax provisions released	**–**	–	**–**	–	**(13.8)**	(20.2)
Adjusted	**3,161**	3,103	**(535)**	(562)	**201.0**	188.0

Adjusting Items

Acquisition accounting adjustments includes the release of a small number of provisions established on the acquisition of Altadis that are no longer required. Amortisation and impairment of acquired intangibles was £1,552 million (2011: £402 million) including a non-cash impairment charge in respect of Spanish intangibles. Net fair value and exchange gains on financial instruments providing commercial hedges included in reported net finance costs were £125 million (2011: £85 million). The net financing cost of post-employment benefits amounted to £27 million compared with £10 million in 2011.

Restructuring costs of £101 million compared with £61 million in 2011 reflect a non-cash £43 million impairment of surplus properties and plant and machinery, and further costs in respect of US and European rationalisation including several factory closures during the year.

The release of tax provisions of £137 million (2011: £205 million) due to the resolution of certain prior year tax matters outside of changes in estimates in the normal course of business significantly reduced our reported tax charge in 2012.

Spanish Intangibles

At the end of the financial year we have written down part of the value of the intangible assets in our Spanish tobacco business, primarily reflecting further deterioration in Spanish economic indicators.

Spain has been particularly affected by the euro crisis and a collapse in Spanish property prices, with high unemployment levels, regional and central government deficits, a banking sector bail-out, and the introduction of austerity measures.

Under International Financial Reporting Standards (IFRS), goodwill and other intangible assets are attributed to the various cash generating units (CGUs) at the time of an acquisition.

On the acquisition of Altadis in 2008 we allocated total acquired intangibles of £13.5 billion to CGUs, including £2.7 billion to our Spanish tobacco business. This allocation was made on the basis of the existing assets and our expectations for each CGU at that time. IFRS requires us to recognise a reduction in the value of intangible assets if our current expectations for an individual CGU do not fully support the value of intangible assets previously attributed to it.

At the end of September 2011 the carrying value of our Spanish tobacco intangible assets was £2.8 billion. As we noted in our 2011 financial statements, the carrying value was sensitive to movements in a number of assumptions we are required to make when testing that the value remains appropriate.

During 2012, and particularly in the second half of the financial year, the Spanish economy has deteriorated further, and we believe the timing of a recovery of the economy has receded while the current level of uncertainty has increased. In line with these developments we have updated our assumptions to reflect current market data for the purposes of impairment testing, and have consequently increased the discount rate applied to Spain and reduced the long-term growth rate. The effect of the macro-economic conditions and the current downward revision of longer term economic assumptions have together resulted in an impairment of £1.2 billion of the goodwill in our Spanish business.

The impairment charge is a non-cash item and has been excluded from our adjusted results in line with our existing policy on non-GAAP measures.

Taken as a whole, the Altadis acquisition has enhanced the Group's performance and generated returns in line with our expectations, strengthening our geographic spread and our brand and product portfolios, as well as generating significant cost synergies.

Net Finance Costs

£ million	2012	2011
Net finance costs	**437**	487
Net fair value and exchange gains on financial instruments providing commercial hedges	**125**	85
Post-employment benefits net financing cost	**(27)**	(10)
Adjusted net finance costs	**535**	562

Adjusted net finance costs were down from £562 million to £535 million despite the impact of a full year's share buyback and higher dividend payments. Reported net finance costs were £437 million (2011: £487 million). Our all in cost of debt was improved at 5.5 per cent (2011: 5.7 per cent) and our interest cover was 5.9 times (2011: 5.5 times).

Cash Flows and Financing

Our reported net debt was £9.0 billion, down from £9.4 billion at 30 September 2011 due to fair value and exchange movements.

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 (2011: £8.8 billion).

Cash conversion was 71 per cent, impacted by £0.5 billion working capital movements, in part reflecting the unwinding of a timing difference in our Italian logistics business and our investment in our sales growth agenda. These include extending our leaf stock duration and new product launches.

During the year we increased returns to our shareholders to £1.5 billion (2011: £1.1 billion), comprising £0.5 billion of share buybacks (2011: £0.2 billion) and dividend payments of £1.0 billion (2011: £0.9 billion).

The denomination of our closing adjusted net debt was 45 per cent euro, 10 per cent US dollar and 45 per cent sterling. As at 30 September 2012 we had committed financing facilities in place of around £12.5 billion. Some 25 per cent was bank facilities with the balance raised through capital markets. We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Share Buyback Programme and Dividends

We continued our share buyback programme and in the year we spent just over £0.5 billion, acquiring 21.9 million shares which are held as treasury shares. The average price paid was £24.02. At 30 September 2012, we held 77.8 million shares representing 7.3 per cent of our issued share capital. We intend to continue the buyback programme at around £500 million per annum.

The Board has declared a final dividend of 73.9 pence per share. This brings the total dividend for the year to 105.6 pence, an increase of 11 per cent over 2011, ahead of the growth in adjusted earnings per share and in line with our dividend policy.

Liquidity and Going Concern

The Group's policy is to ensure that we always have sufficient funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

In order to satisfy ourselves that we have adequate resources for the future, the Board has reviewed the Group's committed funding and liquidity positions, its ability to generate cash from trading activities and its ability to meet the need to raise external funding in the future. The Board has also reviewed our future plans, our strategy and the principal risks we face (as described on pages 52 to 55).

In performing its review the Board acknowledged the current level of uncertainty in the financial markets and considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group in the context of the maturity profile of the Group's facilities set out in note 19 to the accounts. The Group has approximately £1.4 billion of bonds maturing in October and November 2013 and a combination of cash generated from operations as well as new financing will be used to replace these. The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available.

Based on its review, the Board is of the opinion that the Group as a whole and Imperial Tobacco Group PLC have adequate resources to meet their operational needs for the foreseeable future and conclude that it is appropriate to prepare the financial statements on a going concern basis.

Sustainability and Responsibility: What corporate responsibility means to us

Responsibility is central to our sustainable growth strategy – how we behave today impacts our business tomorrow.

Millions of people around the world choose to enjoy our tobacco products every day. We make, market and sell our brands and products in a way that is financially, socially and environmentally responsible. We also actively support our consumers and proactively tackle important issues such as the smuggling and counterfeiting of tobacco products.

We respect the natural resources we use, whether it's tobacco leaves, wood for paper and packaging or water to grow and then process our tobacco. Our manufacturing processes use energy and water and create waste, and we focus on reducing our environmental impact.

The welfare of our people is very important to us. We've created a rewarding work place for our 37,000 employees with our values guiding the way they work with each other, our business partners and other stakeholders.

We operate on an international scale and make many positive contributions to society, not just in terms of wealth creation and employment, but by being an active member of the communities of which we are part.

Find out more online

You will find several QR codes throughout the CR section of this report.

Download a QR code scanning app to your smartphone and scan the code to access extra content online at www.imperial-tobacco.com/cr

Overview
Strategic Review
Performance
Risk
Governance
Financials

Supporting Stakeholders and the Communities we Operate in

37,000 employees

In countries around the globe; indirectly the tobacco industry sustains tens of millions of jobs, most of them in the developing world

£20 billion

Returned to governments

Every year through duty, excise and company taxation

US$300 million

Investment to fight illicit trade

Through a 20 year partnership agreement we initiated in 2010 with the European Commission and EU member states

£7.9 billion

Paid to shareholders

Through dividends and share buybacks since 1996, benefiting millions of pensions and other investments worldwide which in turn supports international economies

Leaf buying, processing and planning

Product manufacture

Our global operations and the contribution we make

Respecting natural resources

We've reduced CO_2 emissions by 4 per cent and energy consumption by 5 per cent

Supporting consumers

We stand up for our consumers by fighting disproportionate regulation and championing their right to enjoy tobacco products

Tackling child labour

We actively oppose child labour and are a board member of the Eliminating Child Labour in Tobacco Foundation

Storage and distribution

Sales, marketing and brand management

Delighting and satisfying our consumers

Sustainability and Responsibility

Responsibility and our Strategy: What's Important and Why?

Our most important responsibility issues are those which have the potential to impact our business and are of the greatest interest to our stakeholders. These issues are highlighted in the table below. To find out more about how we're managing risks associated with these issues see pages 52 to 55 of this report.

Focus Area	Important Issues
Responsible with Products	Tobacco and Health Regulatory Engagement Anti-Illicit Trade
Rewarding Workplace	Our People – Our Values Workplace Health and Safety
Respecting Natural Resources	Climate Change Environmental Performance
Reinvesting in Society	Responsible Sourcing

Reporting on our Performance

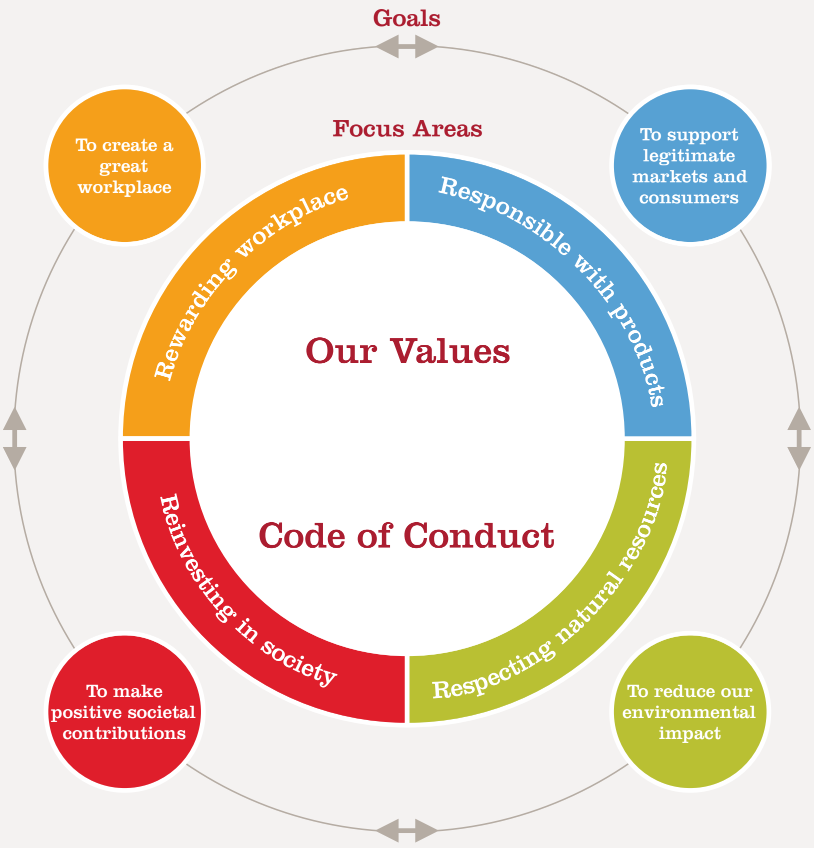
Every year we use our annual report to update you on the progress we're making in managing our important responsibility issues.

More detailed information on other responsibility issues is available in the Responsibility section of our corporate website www.imperial-tobacco.com/cr

CR Framework

By assessing what's important for us to continue to successfully develop our business and by understanding the external expectations of our stakeholders, we've carefully identified four long-term goals and focus areas which are defined in our CR Framework.

We use these to align our business activities and stakeholder issues and set new objectives each year to further drive responsible performance.



2012 Performance Highlights

We have delivered a number of CR performance highlights this year driven by the responsible behaviour and contribution of our people.

Responsible with Products

- Our intelligence assisted law enforcement agencies to make the largest ever seizure of Chinese counterfeit cigarettes in Europe.
- Investment in our flagship research and development facility at Fleury-les-Aubrais in France.

Rewarding Workplace

- We delivered over 80 ‘Our People’ workshops globally to bring our values to life and build our people capabilities.
- We have further reduced the number of lost time accidents and are pleased that 15 factories have recorded zero LTAs for more than 12 months.

Respecting Natural Resources

- We reduced energy use by 5 per cent and exceeded targeted energy savings of £1.5 million.
- We increased our score in the Carbon Disclosure Project to 75 per cent and reduced carbon emissions by 4 per cent.

Reinvesting in Society

- We engaged with key leaf suppliers on wood sustainability and improved our score by 8 per cent for our Social Responsibility in Tobacco Production Programme.
- We conducted an independent review of our direct and indirect business impacts in Morocco which highlighted a number of positive contributions and identified areas for improvement.

2013 Priorities

Our top level priorities for 2013 are below with our detailed objectives for 2013 on our website.

Responsible with Products

- Increase market engagement on responsible sales issues with the roll-out of an enhanced anti-illicit trade framework and toolbox.
- Continue to support our consumers by driving forward consumer relevant quality and simplifying our complaint management processes.

Rewarding Workplace

- Further reduce accidents towards zero lost time accidents with continued management commitment and employee engagement through initiatives such as the ‘Safety Pin’ quiz competition.
- Embed our new responsibility strategy focused on engaging our people and enabling creativity around our values.

Respecting Natural Resources

- Promote an approach of reduce, re-use and recycle with a specific focus on factory excellence based on best practice manufacturing techniques.
- Target energy reductions by establishing further energy saving contracts.

Reinvesting in Society

- Strengthen our community involvement through the development of key partnerships and by supporting employee activities.
- Progress our leaf sustainability strategy with an action plan for wood self sufficiency in Africa and targets for further improvement in supplier performance.

pwc

Key data reported in the annual report and accounts for the year to 30 September 2012 has been independently assured under the limited assurance requirements of the ISAE3000 standard by PwC. They have also been engaged to look at our alignment with AA1000AS (2008) principles of inclusiveness, materiality and responsiveness. Some of the selected data covered by this assurance is clearly highlighted within the Corporate Responsibility section of the annual report and all of the selected data is included in the Corporate Responsibility section of the website www.imperial-tobacco.com/cr where their limited assurance statement can be found. PwC have provided Imperial Tobacco with CR assurance services from FY10. Earlier data was assured by another provider.

External Recognition of our Progress

- We maintained a ‘Gold’ status in the 2012 Business in The Community Corporate Responsibility Index
- We achieved our highest ever score of 76 per cent in the SAM assessment for the Dow Jones Sustainability Index

CR INDEX 2012 GOLD BUSINESS IN THE COMMUNITY

sam sustainability investing

Corporate Responsibility Performance 2012

Responsible with Products

Overview

Every day millions of people choose to enjoy our tobacco products. We're focused on manufacturing, marketing and selling our products in a way that is financially, socially and environmentally responsible. We stand up for our consumers by fighting unreasonable regulation and championing our consumers' right to enjoy smoking.

We're protecting the legitimate tobacco market which helps to ensure that tobacco products are sold only to adults, and criminals do not profit through illicit trade.

Tobacco and Health

We recognise that stakeholders have concerns over the potential health risks associated with tobacco-use. Our scientists monitor and review tobacco and health developments and make the results of our scientific research available to the public via our science website www.imperialtobaccoscience.com.

During 2012 we invested in our flagship research and development facility at Fleury-les-Aubrais in France. We have increased the number of accredited methods and laboratory techniques so we can better respond to product regulation developments. Further details can be found on our website.

Regulatory Engagement

We proactively engage with regulators, governments and other stakeholders on a range of tobacco issues. We support balanced, proportionate regulation and continue to oppose regulation that undermines consumer and commercial freedoms such as attempts to ban smoking in private spaces, product display restrictions and further encroachment on our packaging.

Much of our engagement this year has been focused on the plain packaging of tobacco products, which we strongly oppose. Plain packaging represents an unwarranted attack on our valuable trademarks and intellectual property rights. Making all tobacco products available in the same, easy-to-copy plain packaging will also significantly increase counterfeiting, undermining the joint anti-illicit trade initiatives we work on with police and customs authorities worldwide.

The plain packaging of tobacco products will be introduced in Australia on 1 December 2012. Australia is the only country in the world to implement plain packaging laws. A legal challenge against the legislation by Imperial Tobacco and other tobacco companies was rejected by the High Court of Australia.

Elsewhere, government consultations on plain packaging are ongoing in the UK and New Zealand and we continue to actively participate in the debate.

In Europe the key driver of regulation is the European Commission, through the European Union Tobacco Products Directive (EUTPD) which is currently being revised. We've continued to engage with relevant ministries both within individual EU Member States and within the EU Commission and are seeking to ensure that any changes to the EUTPD by the Commission are based on factual, scientific and robust evidence.

Anti-illicit Trade

Through our anti-illicit trade activities we work hard to stop the smuggling and counterfeiting of tobacco products. By doing so we protect the legal duty paid tobacco market from unregulated product.

We have invested US$300 million to fight illicit trade through a 20 year partnership agreement with the European Commission and EU member states.

During 2012, as a result of investigations undertaken by Imperial, the largest single EU seizure of Chinese counterfeit cigarettes was made. We passed intelligence to the European Anti-Fraud Office (OLAF) in Brussels who worked with the authorities to identify several suspect containers. This led to further raids, seizing 160 million counterfeit cigarettes.

We have a number of co-operation agreements or Memoranda of Understanding (MoUs) in place to help us formalise the way we share information with customs authorities. We have a total of 21 MoUs, including newly signed agreements with France, Luxembourg and Kosovo.

Our tracking and tracing systems follow the movement of bulk quantities of genuine product through the supply chain. If there's a seizure of genuine smuggled tobacco products, we can assist law enforcement officials to determine where the seized tobacco products came from and where they were supposed to go.

At an industry level we're continuing to develop new and innovative tracking and tracing systems.

The Digital Coding & Tracking Association founded by Imperial Tobacco, British American Tobacco, Japan Tobacco and Philip Morris International develops and promotes tracking and tracing standards. This includes a supply chain control system known as Codentify which uses advanced digital coding technology printed directly onto product packaging, replacing easy-to-copy paper-based tax stamps.

The association is working with INTERPOL to make Codentify accessible via a new INTERPOL Global Register (IGR) to combat illicit trade.

Responsible with Products: Performance Indicators[1]

3%
Percentage increase in Global Quality index

34
Number of countries for which cigarette ingredients are published on Imperial Tobacco's corporate site (2011: 34)

1 2012 data has been assured by PwC. See website for further information.

Case Studies

Case studies of our progress are on our website.

- Insights from the Head of Science and Stewardship
- Engaging with Regulators – The Food and Drug Administration
- Supporting our consumers with smoking shelters
- A journey of continuous improvement – Lao

Rewarding Workplace

Overview

Our goal is to create an inspiring work environment for our employees, so that they can do their best work. We support their career aspirations and build their capabilities so that their talents and skills flourish. We take the time to listen to our people, reward them fairly and respect them as individuals.

Values, Capabilities, Engagement

Values, capabilities and engagement are integral to the development of our people.

Our capability framework is aligned with our values and our strategy, and includes the behaviours, skills and knowledge required for our people to achieve our sales growth ambitions.

Our values provide us with a common bond, guiding the way we do business and influencing the way we behave. During 2012 we launched new values (see page 13) across our global operations. This has included running 80 'Our People' workshops for over 1,000 managers around the world between January and April 2012 that brought the values to life and focused on further building our capabilities to deliver our sales growth strategy.

In addition, our values have been embedded into our annual performance and development reviews, meaning every member of the management team will be measured on how they are delivering their objectives in line with our values.

We're continuing to drive engagement across our business and this year are conducting a much wider survey to gather the views of a much wider employee population which is taking place in November 2012. This builds on the engagement actions we have progressed since our management engagement survey towards the end of 2010.

The first meeting of the Imperial Tobacco European Employee Works Council (ITEEWC) was held in December 2011. This is a forum that combined our European Forum (EEF) and the Comite d'Enterprise European du Groupe Altadis to discuss transnational issues affecting employees in Europe.

Senior executives and employee representatives came together to share information on the Company's performance and future plans and discuss issues affecting our European employees. The next meeting is being held in December 2012.

Workplace Health & Safety

We provide a safe, well-equipped, working environment for our people and actively encourage them to be part of our efforts to make Imperial Tobacco a great place to work.

Our annual 'Safety Pin' quiz competition, which tests manufacturing employees on their safety, quality, environmental and product knowledge, has been a real success story. This year more than 2,000 manufacturing employees at 43 sites worldwide took part and further details can be found on our website.

In addition, an enhanced behavioural safety training initiative is being rolled-out across our factories in the next 12 months to build on previous successful schemes around health and safety in the workplace.

Overview
Strategic Review
Performance
Risk
Governance
Financials

We have invested in new machinery and factory infrastructure across the business to achieve greater efficiency as well as health and safety benefits.

A further nine facilities have achieved OHSAS 18001 certification recognising their commitment to occupational health and safety, including the Skopje factory in Macedonia which extended the scope to include field sales operations.

We have continued our efforts to reduce the number of Lost Time Accidents (LTAs) – incidents that lead to employee absences and major injuries, and are pleased that 15 factories have recorded zero LTAs for more than 12 months.

Employment Policies

We apply universally accepted standards for human rights to ensure our people 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 benefits 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.

Case Studies

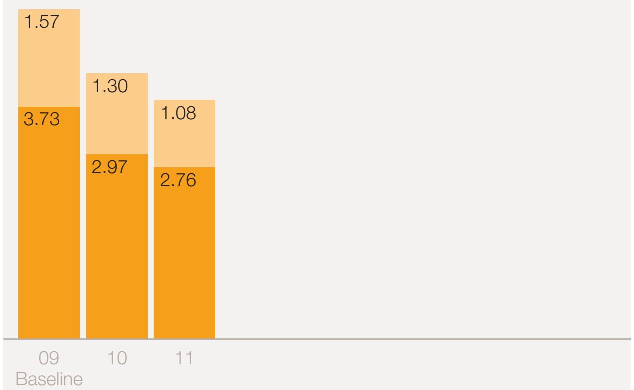
Case studies of our progress are on our website.

- Safety Pin quiz competition
- Apprentice scheme – UK
- Supporting employee health in Cote D'Ivoire
- Human Rights and Social Assessments
- Award from German Health Ministry

Rewarding Workplace: Performance Indicators

59%
Engagement score across management team

Rewarding Workplace: Lost time accidents and sickness (per 200,000 hours)



■ Sickness absence (days sickness/average number working days) incl. non-work-related and work-related absence.

■ Lost time accident frequency rate.[1]

1 2011 lost time frequency rate is assured by PwC – see website for more information. We report health and safety data 12 months in arrears to allow for data collection and verification.

Respecting Natural Resources

Overview
Our manufacturing processes use energy and water and create waste and we're working to achieve our goal of reducing our environmental impact.

Climate Change
Our goal is to reduce energy usage by 20 per cent by 2020. Our climate change strategy aims to reduce our impact through energy conservation, lower carbon technology, renewable energy and, where applicable, carbon offsetting.

Energy saving initiatives at our factories in Logroño, Spain and Radom, Poland, have both exceeded the target savings of £1.5 million. We plan to introduce similar initiatives at our larger factories worldwide in a phased eight-year programme and expect them to deliver substantial savings in energy costs.

Further details on our climate change risks and opportunities can be found on our website.

Carbon Disclosure Project
The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation that encourages private and public sector organisations to measure and reduce emissions and climate change impacts. As part of our wider carbon management strategy, we have responded to the CDP annual Information Request for a number of years. In 2012, we increased our score to 75 per cent.

We continue to engage with our strategic suppliers to identify opportunities for shared savings and to reduce the impact of climate change. We continued to improve supplier participation in the CDP Supply Chain initiative, including participation of our logistics business – Logista. Further details are available at www.cdproject.net.

Environmental Performance
We continue to reduce waste to landfill and water consumption compared with our 2009 baseline. The unverified data for 2012 indicates that this trend is continuing.

71 per cent of our factories have achieved ISO 14001 accreditation of their environmental management standards.

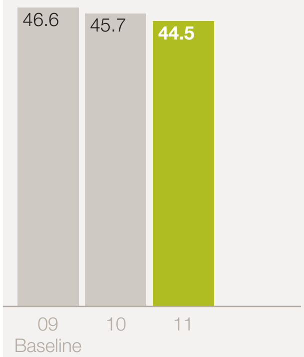
Case Studies

Case studies of our progress are on our website.

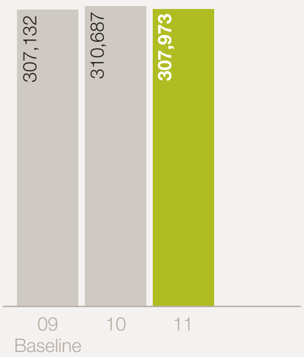
- Environmental management in Taiwan
- Producing renewable energy
- Fuel-efficient 'rocket barns'
- Protecting Morocco's beaches

Respecting Natural Resources: Performance Indicators[1]

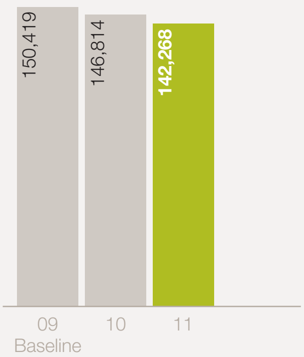
CO_2 equivalent emissions from manufacturing process (Tonnes/£ million)



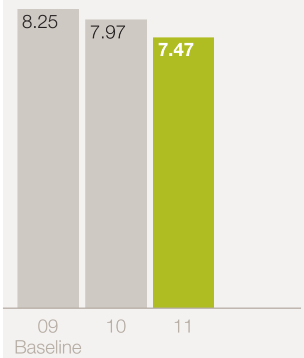
Absolute CO_2 equivalent emissions from manufacturing process (Tonnes)



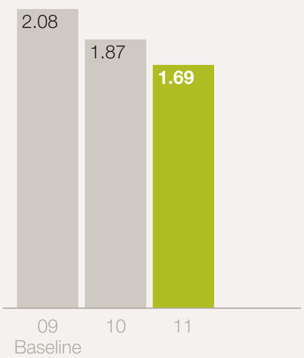
Energy consumption (KWh/£ million)



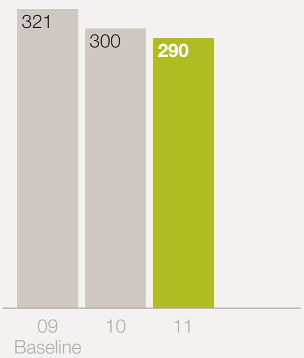
Waste (Tonnes/£ million)



Waste to landfill (Tonnes/£ million)



Water consumption – mains and abstracted (m^3/£ million)



1 Current FY data has been assured by PwC; please see the website for more information.
Environmental data is reported 12 months in arrears to allow for data collection and verification.
Our cigar and cigarette manufacturing sites and main offices measure energy by revenue. For completeness we have restated our baseline to 2009 to incorporate this unit. Environmental data includes all manufacturing sites over which we have operational control.
Ozone depleting substances and our cigar operations have been included in our reporting scope.

Reinvesting in Society

Overview
We are active members of many different communities around the world and have built long-standing relationships with many stakeholders.

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

Leaf Partnership
The majority of the tobacco we use is from the leading international leaf supply companies – only a small amount is purchased directly from growers. All of our leaf suppliers are required to participate in the SRiTP programme.

Our enhancements to the programme, including minimum performance standards, helped focus our supplier engagement during 2012. The overall SRiTP percentage increased to 68 per cent (63 per cent: 2010), indicating that a good degree of risk management is in place.

We continue to work with and seek to improve low scoring suppliers, however if a supplier consistently fails to meet our minimum standards we consider ending our business relationship with them.

We also 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, increased our support through a new agronomy team and are targeting improvements in performance with our suppliers in this area.

We continue to support the Eliminating Child Labour in Tobacco (ECLT) Foundation, of which we are a board member. The ECLT works with communities in tobacco growing regions to address the underlying causes of child labour.

Non-tobacco Materials
Our non-tobacco material suppliers comply with our Supplier Qualification programme, which includes social and environmental criteria. We conduct audits to ensure compliance against our own standards as well as ISO 9001 certification for quality and ISO 14001 for environmental impact.

Case Studies

Case studies of our progress are on our website.

- Supporting sustainable development in West Africa
- Protection of forests in Malawi
- The Altadis Foundation

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

Partnership Investment
We allocated £3 million to partnership investment in 2012. In addition to this central investment, there were a number of financial contributions at a local level as well as employee volunteering and management time to maximise the benefits from our involvement.

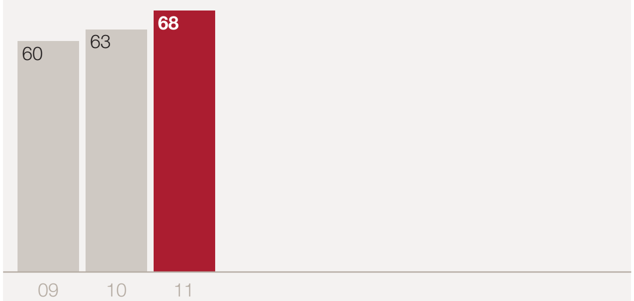
This year, we also commissioned an independent review of our direct and indirect business impacts in Morocco. The impact assessment highlighted a range of positive societal and economic benefits from our operations and informed the local approach by identifying a number of areas where our positive impacts can be enhanced.

During 2012 many of our employees also gave their time to contribute to local community projects in a number of markets. More information, including case studies, is available on our website.

Stakeholder Panel
Representatives from our main stakeholder groups, including consumers, investors, suppliers, employees and the wider community, met with us again in 2012 through our Stakeholder Panel. They shared their views on the business and their valuable input continues to help shape our approach to Corporate Responsibility. Their feedback as well as our response can be found on our website.

Reinvesting in Society: Performance Indicator

Social Responsibility in Tobacco Production (SRiTP) progress – total weighted mean[1] (%)



1 99 per cent of tobacco suppliers participated in the SRiTP programme in 2011. The one non-responding supplier has been included into the programme for 2012.
FY11 data has been assured by PwC. See our website for more information.

Effectively Managing the Risks We Face

Risk Management:
How it works at Imperial Tobacco

Board

Oversight of risk management framework and review of its effectiveness

Audit Committee

Ongoing review of the risks and controls in place to mitigate these risks

Operating Executive

Operational ownership of the risks and mitigating activities

Corporate Assurance Department

Works with our business to consolidate identified risks across our markets, factories, regions and functions into our Group Risk Register

Group Risk Register

Managed and maintained by our Corporate Assurance Department to assist in reflecting and assessing the risk landscape and to identify mitigating activities

Senior/local management

Identify and manage the key risks across our markets, factories, regions and functions and develop mitigating actions at a local level

In this section we outline the risks we face across our business and our approach to mitigating and managing them.

Our approach

Our business and the risks we face are constantly changing and we regularly review our policies and risk management procedures to ensure they are up-to-date and appropriately protect our stakeholders.

During the year, and in consultation with the Board and Audit Committee, we continued to strengthen our risk management processes and procedures. We have now brought these together into a new Corporate Assurance Department with responsibility for further driving risk management initiatives throughout the organisation. Our Director of Corporate Assurance reports regularly to the Audit Committee and the Operating Executive (OPEX) on matters of risk management.

This approach enables us to clearly focus on the key risks facing our business, particularly where these change as a result of our strategy and/or changes to both the macro-economic and tobacco operating environments.

In past years the Risk Coordination Committee (RCC) played an important role in developing the Group risk management framework and overall assessment of key risks. Having reached this point, this role has now been assumed by the OPEX, supported by other management meetings across the Group and facilitated by the new Corporate Assurance Department.

We have reviewed the material risks facing our business to ensure 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.

This top down approach is complemented by an annual bottom up review by local management of principal areas of risk and uncertainty by each area of the business. This process has driven the production of our Risk Register. As well as strategic, operational, financial and legal risks our Risk Register covers a number of emerging, environmental, community and ethical risks.

For more detail on our principal risks see **pages 52 to 55**

Risk and the Board

The Directors are ultimately responsible for overseeing our risk management system and for reviewing its effectiveness. This system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and the Group's risk management system is subject to regular review to ensure compliance with the UK Corporate Governance Code (the Code) and the Turnbull Guidance (2005) on internal control and risk management.

The Board, with advice from the Audit Committee, has completed its annual review of the effectiveness of the system of internal control and risk management and confirms that an ongoing 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 the Turnbull Guidance.

The principal risks and uncertainties facing the Group are set out at the end of this section on pages 52 to 55.

Risk and the Operating Executive

The OPEX considers the careful and appropriate management of risk as a key management role and has ultimate operational responsibility for the Group's system of risk management. The OPEX reviews the Group's significant risks and subsequently reports to the Board on material changes and the associated mitigating actions.

In accordance with the Turnbull Guidance, an annual review of the effectiveness of the risk management system was carried out by the OPEX in September 2012.

Risk and Group-Wide Management

Managing business risk to deliver opportunities is a key element of all our business activities, and is undertaken using a practical and flexible framework which provides a consistent and sustained approach to risk evaluation. Business risks, which may be strategic, operational, financial or environmental, or concern the Group's reputation, are understood and visible. The business context determines in each situation the level of acceptable risk and controls. The Group continues to seek improvement in the management of risk by sharing best practice throughout the organisation.

Key features of the Group's system of risk management are:

- Group statements on strategic direction, ethics and values, including our Code of Conduct;
- clear business objectives and business principles;
- Group policies and standards;
- a continuing process for the identification and evaluation of significant risks to the achievement of business objectives;
- management processes in place to mitigate significant risks to an acceptable level;
- ongoing monitoring of significant risks and internal and external environmental factors that may change the Group's risk profile;
- an annual Risk Assessment Summary process, which combines a top down view of strategic risks with a bottom-up risk assessment exercise requiring individual markets, factories, regions and functions across the Group to identify major areas of business risk, including any specific local risks and demonstrate how these are mitigated and managed by controls at the local (and where appropriate, Group) level. This exercise forms the basis for the Directors' annual review of the effectiveness of the system of internal control; and
- a regular review of both the type and amount of external insurance purchased by the Group after consideration of the availability of such cover, its cost and the likelihood and magnitude of the risks involved.

Risk and Local Management

By re-enforcing the message that responsibility for risk management sits at the local operational level, it becomes further embedded in our day-to-day operations and becomes more effective.

This approach requires each relevant business unit to:

- identify those key risks to the business that have, or may result in, losses or adverse results and to reflect any changes in the risk position;
- analyse those risks and estimate the probability, impact and potential timescales should the risks arise;
- confirm and record the actions, mitigating controls or other business processes that are used to manage the risks, so that they are either eliminated entirely or reduced to an acceptable level; and
- track and report progress of managing these risks on an ongoing basis.

Governance, Assurance and Compliance

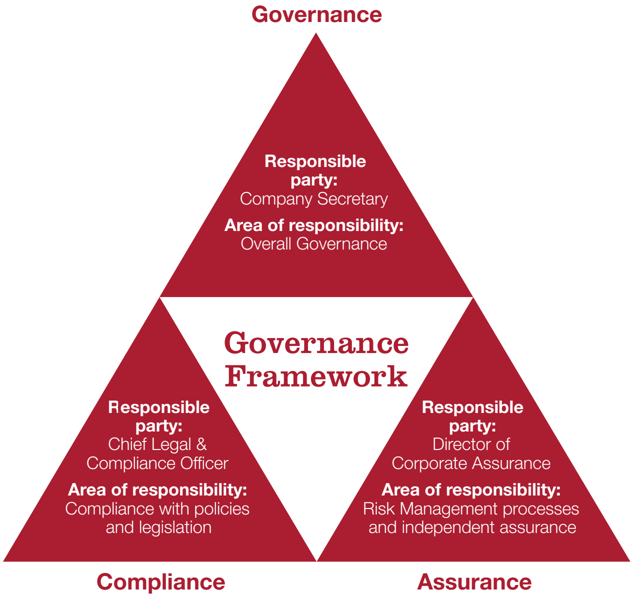
During the year we established a Corporate Assurance Department to oversee the Group's risk management process replacing Group Compliance and to encompass our Group Internal Audit team (see below).

As a result we have streamlined the way in which risk management and assurance activities are aligned to our governance (and compliance) framework by creating three areas of responsibility: governance, assurance and compliance.

These three areas of our business are working to ensure the effective delivery of the Group's governance framework:

- our Company Secretary is responsible for maintaining and developing the Group's framework of governance, including our Code of Conduct, Group policies and Speaking Up (whistle-blowing) process;
- our Director of Corporate Assurance provides assurance that the controls to mitigate risks to an acceptable level are operating as they should, through both the risk management processes and internal audit work; and
- our Chief Legal and Compliance Officer acts to ensure that the Group meets its legal obligations and follows our Code of Conduct and policies.

Our Governance Framework



Code of Conduct & Group Policies

All employees are expected to comply with our Code of Conduct and Group policies.

Our Code of Conduct sets out the standards of responsible behaviour that all our employees are expected to follow and we continue to update our senior management team through a series of face-to-face workshops. This is supplemented by a supporting e-learning system, which we have used to focus on our priority risk topics, including anti-illicit trade, anti-bribery and corruption, and competition law compliance.

Our Code of Conduct is aligned with our long established and embedded policies that cover responsible operation of the Group in terms of commercial, employment, manufacturing and trading practices and provides guidance for business integrity, responsible commercial practice, trust, respect and responsibility.

Speaking Up (whistle-blowing)

The Company Secretary, Director of Corporate Assurance and the Chief Legal & Compliance Officer work together to resolve any governance issues that are raised, including through our Speaking Up (whistle-blowing) process. Any allegations of misconduct, fraud and irregularity are thoroughly investigated and implications for our control environment are considered.

Our people have the opportunity to make confidential disclosures about suspected impropriety or wrongdoing. During the year we made our employees aware of the improved communication channels we have put in place, via an external supplier, for them to make any confidential disclosures, through our Speaking Up policy, which has been translated into 37 languages. A Speaking Up committee, comprising the Company Secretary, the HR Director (or a suitable HR representative – depending on area) and the Director of Corporate Assurance, reviews any reported incidents and decides on the appropriate method and level of investigation. The Audit Committee is notified of any material disclosures made and receives reports on the results of investigations and actions taken. The Audit Committee also has the power to request further information, conduct its own enquiries or order additional action as it sees fit.

Internal Control

The Turnbull Guidance recommends internal control practices for UK listed companies to assist them in assessing the application of the UK Corporate Governance Code's principles and compliance with the Code's provisions with regard to internal control.

The Group's systems of internal control are designed and operated to support the identification, evaluation and management of risks affecting the Group. These include controls in relation to the financial reporting process and the preparation of consolidated accounts, but extend across all areas of operations. They are subject to continuous review as circumstances change and new risks emerge.

We gain assurance over compliance with systems of internal control and on their effectiveness by continuing to develop our:

- regular management reviews including reviews of key financial controls and reviews by Group Internal Audit;
- testing of certain aspects of the internal financial control systems by the external Auditors during the course of their statutory examinations; and
- regular reports to the Audit Committee by the external Auditors.

We have refocused our Group Internal Audit team to ensure a greater focus on key business risks and controls across the most material parts of the business. During the year we have created a comprehensive audit universe of business entities, processes, projects and themes, which we have ranked in terms of their relative risk to the Group. Going forward internal audits will be carried out to ensure suitable coverage is obtained over an acceptable period.

Key features of the systems of internal control in the Group are:

- a clear tone from the top from the Board and senior management, supported by our Code of Conduct and our values;
- risk management processes, as described in this section;
- written policies and procedures within our businesses, which are detailed in policy manuals;
- clearly defined lines of accountability and delegation of authority – at all levels throughout the Group;
- minimisation of operating risk by using appropriate infrastructure, controls, systems and people throughout the businesses;
- business continuity planning, including preventative and contingency measures, back-up capabilities and the purchase of insurance;
- financial controls;
- key policies and standards employed in managing operating risk involve segregation of duties, transaction authorisation, monitoring, financial and managerial review and comprehensive reporting and analysis against approved standards and budgets;
- a treasury operating framework which establishes policies and manages liquidity and financial risks, including foreign exchange, interest rate and counterparty exposures, and incorporates central and regional treasury committees that monitor these activities and compliance with the policies. Additionally, well defined procedures for appraisal, approval, control and review of capital and strategic expenditure, including acquisitions are reviewed regularly by the Audit Committee on behalf of the Board;
- a Group tax risk and tax operating framework which forms the basis of tax governance across the business and is managed by the Group Tax department, which monitors tax risk and implements strategies and procedures to control it;
- Group Internal Audit reviews; and
- a year end certification process, under which management confirms that risk mitigation controls have operated effectively throughout the year and that entities have complied with our policies, including the Code of Conduct and anti-bribery requirements, as well as fraud prevention processes. As a separate exercise, all our senior managers are also required to certify that there have been no related party transactions within their areas of control.

Group Finance

Our Group Finance department plays a key role in the governance process by setting 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. Group Finance 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 is chaired by the Company Secretary and 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 Chief Executive and Finance Director and, where appropriate, the Audit Committee.

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

Risk Management Overview

We outline below the principal risks specific to our business and how we manage and mitigate them. 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 assumes greater importance in the future, and vice versa.

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, cyber-security breaches, failure of our IT infrastructure, the cost of our raw materials, the impact of competition, political instability in some of the countries in which we operate and source our raw materials and the impact of natural disasters.

Principal Risks

Illicit Trade

Principal relevance to strategy: Potential impact on sales

Overview

Illicit trade remains a key risk for the Group, particularly given the tough economic conditions in certain markets during the year. In countries where difficult economic conditions result in 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). This area is a significant and growing problem for the legitimate tobacco industry. We estimate that the illicit trade in tobacco accounts for over 10 per cent of the global tobacco market and in our engagement activities we are proactively encouraging regulators to address the relationship between excessive regulation, excise duty increases and illicit trade.

Risk and potential impact	Mitigating activities
Illicit trade may lead to erosion of demand for legitimate tobacco products and damage to our brand integrity, resulting in loss of potential earnings, and potentially an impact on our reputation. 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.	We proactively engage on the issue of illicit trade with a wide range of stakeholders. We invest to counter the illicit trade in tobacco products and are working with governments, other legitimate tobacco companies and international organisations globally. 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. We have signed Memoranda of Understanding (MoU) and industry agreements with customs authorities in 21 countries to tackle illicit trade, based on joint action and shared intelligence. We have strong internal business conduct standards 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.

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
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. Excise duty increases also encourage both legal and illegal cross-border trade from countries with lower levels of duty.	Our total tobacco portfolio ensures that we have a range of products to meet consumers' preferences at different price points. As part of our strategy we monitor our portfolio to ensure it continues to be aligned to consumer preferences in the context of the excise duty structure in each market. We are focused on continuing to develop portfolio strategies that will enable us to capitalise on value seeking consumers. We are engaging with local tax and customs authorities to encourage them to address the relationship between excise duty increases and illicit trade.

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, as regulators seek to reduce consumption of tobacco products. In many of the countries in which we operate, there are 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. Some of these measures may also have the effect of reducing the value of our brands in the various markets where we operate, as well as encouraging illicit trade.

Risk and potential impact	Mitigating activities
Imperial Tobacco, along with all other tobacco companies, is often excluded from engaging with regulators on the development of regulatory proposals which may lead to excessive regulation. Tobacco regulation is often designed to change consumer behaviour by influencing availability and demand through denormalising smoking, by means of such measures as increasing pack encroachment and plain packaging, the restriction in places where smoking is permitted and higher excise duties. Increasing regulation combined with rising excise duties encourage growth in illicit trade. 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.	We employ experienced senior Corporate Affairs specialists to manage regulatory risk and engage with regulators and consult with external experts where necessary to provide advice and guidance. We develop company positions and toolkits and provide training and guidance for our markets to comply with regulation. We monitor proposals for new measures globally and analyse them to identify their potential impact on the Group and its products. We work towards consistent engagement on key issues and we are active members of relevant industry bodies, challenging unreasonable and disproportionate regulation. We continuously look to understand and predict potential consumer reaction to excessive regulation and adapt our strategy accordingly, including for example assessing our footprint, assets and product quality.

Market Place

Principal relevance to strategy: Potential impact on sales and cost

Overview

The continued growth of our business is underpinned by the performance of our key brands as well as our position in our key markets, including in the UK, Germany, Spain and other EU markets. Given our significant position in certain markets, we may be subject to enhanced regulatory scrutiny in these countries, as well as being affected by their economic positions.

Risk and potential impact	Mitigating activities
Any material decline in the economic circumstances of, and/or our performance in, our key markets may impact on our future profit development and have an adverse impact on the Group's revenue or profits. Our significant market position in certain countries could also result in investigations and adverse regulatory action by relevant competition authorities, including the potential for monetary fines and negative publicity.	Our international footprint and total tobacco portfolio provides an increasingly balanced exposure to both EU and Non-EU markets. 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. 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. We provide training and guidance to relevant employees detailing the obligations and requirements of competition laws. We employ experienced internal and external lawyers specialising in competition laws to provide advice and guidance regarding interpretation and compliance with competition laws. More detail of a market specific regulatory action by a competition authority is outlined on page 74.

Eurozone – Country and currency risk

Principal relevance to strategy: Potential impact on sales and profitability

Overview

Recent developments in Eurozone countries have resulted in a higher risk of disruption, a reduction in the level of consumer spending and increased risk of currency volatility and/or the potential of an exit of one or more countries from the euro.

Risk and potential impact	Mitigating activities
Fifty three per cent of our revenue is from our sales in Eurozone countries and, accordingly, we have a significant exposure to these markets. Ongoing uncertainty regarding the future of the euro, or the exit of one or more countries may impact consumer spending patterns. Further, were a break-up to occur, the resulting situation may cause disruption to our manufacturing and supply chain operations.	We are continually monitoring our exposure and reviewing our existing processes and policies to minimise our economic exposure and to preserve our ability to operate in a range of potential conditions that may exist in the event of one or more of these future events. Our total tobacco portfolio also gives us a measure of resilience as the market changes.

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
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. 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. 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. If we are unable to refinance our debt or incur higher interest costs this could impact the Group's profitability, credit rating and ability to operate as a going concern. In addition, limited ability to borrow additional funds may also reduce the flexibility for, or reacting to, competitive and industry pressures, or opportunities.	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. 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. The GTC oversees the operation of Group Treasury in accordance with the terms of reference set out by the Board. The Board reviews and approves all major treasury decisions and receives regular reports from the Group Treasurer. Cashflows 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.

Further details of the Group's treasury operations and the approach to managing its financing risks can be found in note 19 to the Financial Statements on pages 118 to 123.

Legal Compliance

Principal relevance to strategy: Potential impact on cost and sales

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
Failure to comply with local and international laws (including sanctions) 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. 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.	The Group's policies and standards, including our Code of Conduct, mandate that all employees must comply with legislation relevant to a UK listed company and in the countries in which we operate. We monitor closely developments in international sanctions and ensure that we are fully compliant with them. 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.

Further details of market specific tobacco litigation claims against Group companies are outlined on page 74.


JOHN

Governance

What you will find in this section:

Building Total Tobacco Brands

Fine cut tobacco

Our world leadership in fine cut tobacco is a real strength of our business, particularly in the current economic climate. We're having great success in our core EU markets, particularly in the high growth segment of make your own tobacco.

Governance
Chairman's Introduction

"Strong governance is integral to our business model and this year we have focused on succession planning and enhancing risk management and assurance."

Iain Napier Chairman

As Chairman, my primary responsibility is to make sure that Imperial Tobacco is governed and managed with openness, honesty and transparency and in the best interests of both our shareholders and our wider stakeholders.

We are committed to maintaining high standards of corporate governance, which we believe are fundamental to discharging our stewardship responsibilities.

In the section that follows, we set out our governance framework and explain how the sound and effective corporate governance practices we have in place are supporting our strategy of creating long-term, sustainable growth.

Board Focus in 2012

During 2012, as a Board we have overseen and worked with the management team to ensure the continued successful execution of our strategy. Pages 8 to 37 of this report contain a detailed performance overview of how we've delivered sustainable sales growth whilst effectively managing costs and cash.

With strong governance integral to our business model, we have additionally focused on two key areas this year: succession planning and risk management and assurance.

Board Succession and Diversity

Our Directors have differing international backgrounds combined with a wide range of professional, business and sector specific expertise. This ensures a truly balanced Board with the right mix of skills and experiences sitting round the Boardroom table to fully contribute to and effectively challenge decision making.

The Board's composition has continued to evolve this year in line with the current and future needs of the business and the dynamic nature of the tobacco operating environment. The appointments we've made this year further strengthen the Board's skill set, experiences and diversity.

Corporate Affairs continues to play an increasingly significant role in supporting our sales growth agenda and as a result Matthew Phillips, formerly Company Secretary and Group Corporate and Legal Affairs Director, was appointed Corporate Affairs Director on 1 June 2012.

Malcolm Wyman and David Haines were appointed Non-Executive Directors. Pierre Jungels retired at our Annual General Meeting in February 2012 and, as part of an orderly succession, Mark Williamson took over as Senior Independent Director and Malcolm Wyman as Audit Committee Chairman.

Diversity for us means appointing the right people for the job and our Board appointments are made purely on merit. We're committed to appointing the best people, regardless of gender, race, religion, age or disability and do not think it is appropriate to set diversity targets for Board appointments.

Risk Management and Assurance

Successfully managing risk to support growth is fundamental to our long-term sustainability.

We have further strengthened our risk management procedures and brought these together into a new Corporate Assurance Department replacing our Group Compliance function with responsibility for driving risk management initiatives throughout the organisation. More detail on our risk management and assurance processes can be found in the Risk Management section on page 48.

Committed to good governance

Remuneration

Our remuneration policies are designed to attract, retain and motivate our people. To better align with our strategy we have conducted a review of our remuneration policies and have included details on page 84.

Board Evaluation

As a Board, we want to continually improve our performance and every year I lead a rigorous evaluation, assisted by an independent consultant. I was assisted in the 2012 evaluation by EquityCommunications Ltd.

Both our 2011 and 2012 evaluations concluded that there is an open and collaborative Board culture with a good level of trust and respect and universal Board alignment behind our key strategic objectives.

The two main areas identified for review are our ongoing succession plans for Directors approaching retirement and ensuring our improved risk and assurance processes are further integrated into the business. You can read more on our objectives on page 64 of this report.

Board Priorities 2013

Strong governance continues to be integral to our business model, supporting our strategy of creating long-term sustainable value.

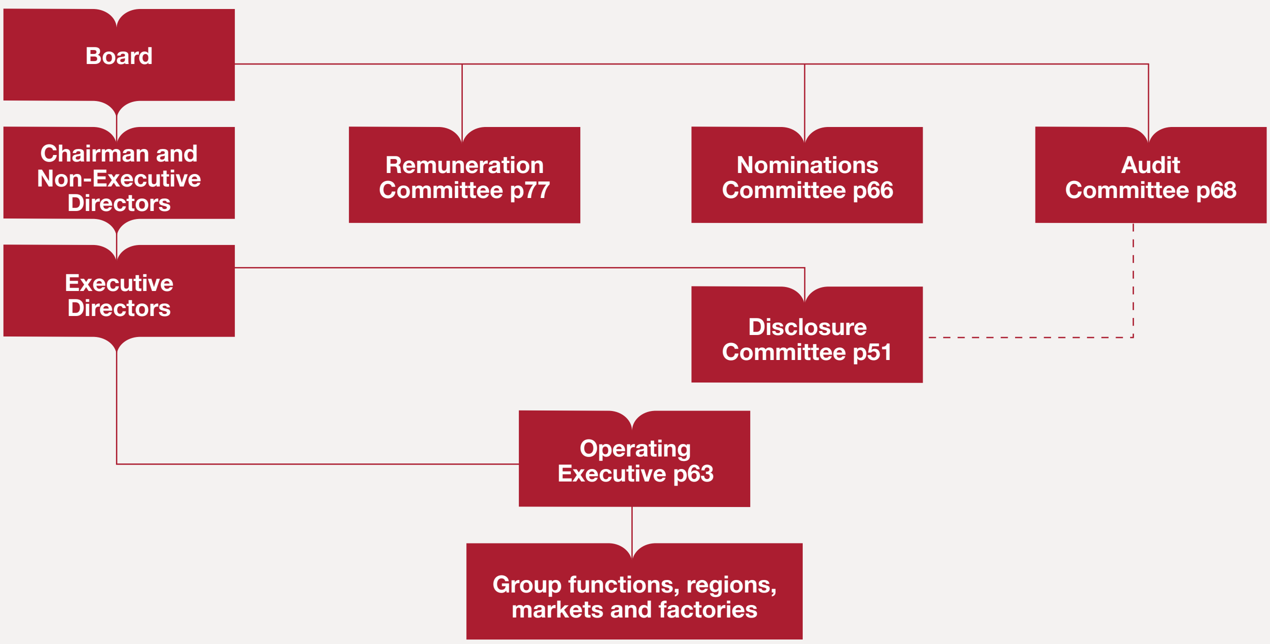
Overseeing the successful delivery of our sales growth strategy remains the Board's priority.

In order to drive the delivery of our strategy we will continue developing ongoing succession plans to ensure an appropriate skill set and, subject to obtaining shareholder approval, will oversee the introduction of our revised remuneration policy.

In addition we will also continue to embed our enhanced risk management and assurance processes throughout the business.

Iain Napier
Chairman

Management and Corporate Structure



Our Skills and Experience

Our Directors bring together the right mix of skills and diversity of backgrounds and experiences to deliver our strategy, enhance shareholder value and ensure our long-term sustainability. The in-depth tobacco experience of our Executive Directors is supported by our independent Non-Executive Directors who bring a wide range of global experiences, including FMCG, finance, mergers and acquisitions, and sales and marketing.

Our Values and Code of Conduct

We're responsible for ensuring that high standards of behaviour begin at Board level and are embedded throughout our business.

Key

- Executive Director
- Non-Executive Director
- Company Secretary
- N Nominations Committee
- A Audit Committee
- R Remuneration Committee

Matthew Phillips

Corporate Affairs Director

Skills and experience

Matthew has held a number of senior roles including Company Secretary, General Counsel and Group Corporate and Legal Affairs Director prior to his appointment to the Board as Corporate Affairs Director in June 2012. He played a key role in the acquisitions of Altadis and Reemtsma and has been closely involved in developing and supporting the Group's sales growth strategy.

Iain Napier

Chairman

Skills and experience

As a former Chief Executive of Taylor Woodrow PLC and main board Director of Bass PLC, Iain brings considerable senior level board and general management experience to the Group.

N *Chairman*

Alison Cooper

Chief Executive

Skills and experience

Since being appointed as Chief Executive Alison has led the development and implementation of the Group's sustainable sales growth strategy. Alison joined the Group in 1999 and, through a number of senior roles, has contributed significantly to the international expansion of the Group including leading the Altadis acquisition team.

Robert Dyrbus

Finance Director

Skills and experience

Robert draws on over 25 years of financial experience in listed companies and has been instrumental in the Group's international expansion. He has overall responsibility for the financial management and control of the Group, including its treasury, tax, information services, corporate assurance and investor relations functions.

Berge Setrakian
Non-Executive Director

Skills and experience

Berge is a senior partner in the law firm DLA Piper LLP (US) and brings extensive expertise in international transactions. He also brings significant experience as a Non-Executive Director, including within the tobacco sector having been appointed to Altadis S.A.'s board in 2004.

N R

David Haines
Non-Executive Director

Skills and experience

David brings considerable senior level board experience and is currently Chief Executive Officer of Grohe AG. He joined Grohe in 2004 from Vodafone Group PLC where he was Global Marketing Director. He is also a former Chairman of Vimpelcom A/O. David gained extensive general management and sales experience with Vodafone and Mars earlier in his career.

N A R

Malcolm Wyman
Non-Executive Director

Skills and experience

As a qualified accountant and former Chief Financial Officer of SAB Miller plc, with responsibility for the group's financial operations, corporate finance and development and group strategy, Malcolm brings not only a wealth of financial expertise but also considerable general management experience to the Board. He also meets the financial expert requirements of the UK Corporate Governance Code.

N A *Chairman* R

Michael Herlihy
Non-Executive Director

Skills and experience

Michael is General Counsel for Smiths Group plc. He 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.

N A R *Chairman*

Mark Williamson
Senior Independent Non-Executive Director

Skills and experience

Mark is a qualified accountant, who brings considerable financial and general managerial experience to our Board and who meets the financial expert requirements of the UK Corporate Governance Code. Mark was Chief Financial Officer of International Power plc until 2012 and has considerable experience of managing relationships with the investor and financial communities.

Prior to joining International Power plc, Mark was Group Financial Controller and Group Chief Accountant of Simon Group.

N A R

John Downing
Company Secretary

Skills and experience

John joined Imperial in 2005 having worked for law firm Linklaters. He has had a number of senior legal roles in Imperial and was appointed Head of Group Legal in 2010. He played a leading role in the Altadis acquisition and has considerable experience in managing key corporate projects related to financing, business development and other commercial matters.

Ken Burnett
Non-Executive Director

Skills and experience

Ken, an independent management consultant, brings significant experience of the consumer goods sector in the Asia Pacific region. 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).

N A R

Susan Murray
Non-Executive Director

Skills and experience

Susan brings to the Board a wealth of international general management, strategy and marketing experience, as a former Chief Executive of Littlewoods Stores Limited and worldwide President and Chief Executive of The Pierre Smirnoff Company.

Susan has considerable experience as a Non-Executive Director. She is 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.

N A R

Iain Napier, FCMA
Chairman
Appointment
Appointed Chairman in January 2007.

Non-Executive Director from March 2000.

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.

Alison Cooper, BSC, ACA
Chief Executive
Appointment
Appointed Director in July 2007. Appointed Chief Executive in May 2010.

External appointments
Non-Executive Director, Inchcape plc since July 2009.

Robert Dyrbus BSC, FCA
Finance Director
Appointment
Appointed Finance Director on demerger in 1996.

External appointments
No external Director appointments.

Matthew Phillips LLB
Corporate Affairs Director
Appointment
Appointed Corporate Affairs Director in June 2012.

External appointments
No external Director appointments.

Mark Williamson, CA (SA)
Senior Independent Non-Executive Director
Appointment
Mark joined the Board in July 2007 and was appointed Senior Independent Non-Executive Director in February 2012.

External appointments
Serves on the board of National Grid plc.

Ken Burnett, MA, MBA, PHD, M Inst M
Non-Executive Director
Appointment
Appointed Non-Executive Director in April 2006.

External appointments
Director of Elemental Energy Technologies Limited.

David Haines
Non-Executive Director
Appointment
Appointed Non-Executive Director in February 2012.

External appointments
Chief Executive Officer of Grohe AG, Director of Joyou AG.

Michael Herlihy, MA (Oxon), Solicitor
Non-Executive Director
Appointment
Appointed Non-Executive Director in July 2007.

External appointments
Serves on the board of Compass Partners International LLP and is currently General Counsel of Smiths Group plc.

Berge Setrakian
Non-Executive Director
Appointment
Appointed Non-Executive Director in June 2008.

External appointments
Partner of DLA Piper LLP (US), Executive Chairman and CEO of AGBU, Non-Executive Director of Interaudi Bank of New York, Non-Executive Director of The Morganti Group, Inc.

Malcolm Wyman, CA (SA)
Non-Executive Director
Appointment
Appointed Non-Executive Director in October 2011 and Chairman of the Audit Committee in February 2012.

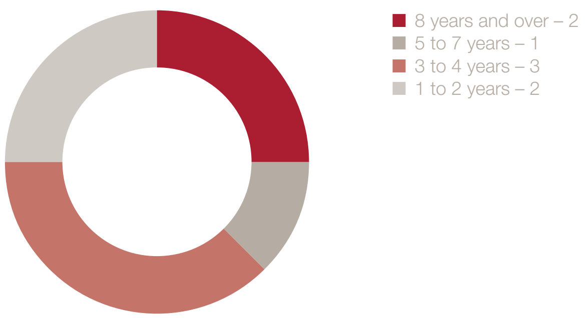
External appointments
Senior Independent Non-Executive Director of Nedbank Group Limited and a Non-Executive Director of Tsogo Sun Holdings Limited, both listed on the Johannesburg Stock Exchange.

Susan Murray CCMI
Non-Executive Director
Appointment
Appointed Non-Executive Director in December 2004.

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.

John Downing
Company Secretary
Appointment
Appointed Company Secretary in June 2012.

Tenure of Non-Executive Directors



Operating Executive

Alison Cooper
Chief Executive and Chairman of OPEX

"Our focus on building total tobacco brands has driven quality sales growth in 2012."

Overview

The Board delegates responsibility for developing and implementing the Group's strategy and for day-to-day management to the Chief Executive, Alison Cooper, who is supported by the Operating Executive (OPEX), which she chairs.

OPEX members are appointed by the Chief Executive, after consultation with the Board. The OPEX meets on a monthly basis and its purpose is to support the Chief Executive in carrying out the duties delegated to her by the Board. In that context, the OPEX oversees brand and operational execution, delivers strategic plans, financial plans and reports for the Board's consideration and, through the Chief Executive, reports on these matters to the Board. The OPEX also ensures that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the Group.

Members

Robert Dyrbus (Finance Director)

Helen Clatworthy (Group Supply Chain Director)

Fernando Dominguez (Chief Operating Officer Cigar Business)

Roberto Funari (Group Marketing Director)

Kathryn Turner (Group Human Resources Director to December 2011)

Andrew Newall (Group Human Resources Director from October 2012)

Matthew Phillips (Corporate Affairs Director)

Walter Prinz (Group Manufacturing, Research & Development Director)

Arthur van Benthem (Group Sales Director)

Achievements for 2012

- Continued delivery of sales growth strategy.
- Effective day-to-day operational management of the Group and detailed monitoring of operational performance across all aspects of the business.
- Increased risk management focus and oversight as part of our enhanced risk management process.
- The launch of our new values across our global operations.

2013 Objectives

- Building momentum across our total tobacco portfolio and to further develop our consumer insights.
- Accelerate the international roll-out of *Davidoff iD* and capitalise on the growth potential of core heritage brands.
- Further embed our values across the business.
- More detail on our 2013 priorities is on page 10.

The Board and its Committees

Board

Iain Napier
Chairman

"Board succession planning and risk management and assurance have been key areas of focus this year."

Overview

The Board sets the strategic objectives for the Group and their measurement criteria, determines investment policies and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through monthly and quarterly performance reporting.

At each meeting the Board receives regular updates from the Chief Executive on the Group's operations, reports from the Finance Director on financial performance and updates on compliance with corporate governance requirements and other regulations from the Company Secretary. In addition, senior management makes regular presentations to the Board, enabling Directors to explore and consider specific issues and developments in greater detail.

The Board's full terms of reference are available on www.imperial-tobacco.com.

Members

Ken Burnett
Alison Cooper
Robert Dyrbus
David Haines (appointed 2/2/12)
Michael Herlihy
Pierre Jungels (retired 1/2/12)
Susan Murray
Matthew Phillips (appointed 1/6/12, Secretary to 1/6/12)
Berge Setrakian
Mark Williamson (Senior Independent Director)
Malcolm Wyman (appointed 3/10/11)

John Downing (Secretary, appointed 1/6/12)

Achievements for 2012

- Review and development of our three year business plan.
- Continued oversight of the management team for successful execution of our strategy.
- Continued focus on succession planning with the appointment of a new Senior Independent Director, two Non-Executive Directors and a Corporate Affairs Director.
- Further improvements to our risk management and assurance process.
- Remuneration review completed. New performance criteria identified and agreed, subject to shareholder approval at our 2013 Annual General Meeting.

2013 Objectives

- Ensuring that through ongoing succession plans the Board maintains the appropriate skill set to continue to deliver our strategy and create long-term value for our shareholders.
- Oversee delivery against our business plan for the year and the development of our next three year business plan.
- Facilitate opportunities for the Non-Executive Directors to meet with the Group's senior management team.
- Further improvements to our risk management and assurance process.

Board in 2012

In the 2012 financial year 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 Board 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 Board meetings, Directors are supplied with monthly performance reports, including detailed commentary and analysis.

October 2011	– Review of the 2011 financial results – Consideration of the Group's Going Concern status – Review of Corporate Responsibility Performance – Review of Logista operations – Consideration of final dividend – Review of external operating environment – Review of the 2011 Board evaluation
January/February 2012	– AGM preparation including interim management statement – Succession review including appointment of Non-Executive Director, Senior Independent Director and Chairman of Audit Committee – Review of macro economic environment and impact on strategy – Capital expenditure review – Update on Investor Relations issues
April 2012	– Review of the 2012 Half Year Results – Consideration of the Group's funding strategy – Update on assurance and risk processes
June 2012	– Visit to Cantabria factory – Financial performance update – Consideration of interim management statement – Market reviews – including update on sales growth drivers and review of Spain and Russia
September 2012	– Review of the 2012 Board evaluation – Consideration of the three year corporate plan – Review of the risk, assurance and internal control processes – Evaluation of future growth opportunities – Review of potential impact of regulatory activity

Board visit to Cantabria

It's important for the Board to visit our operations, meet our people and see the progress we're making at first hand.

In 2012 the Board visited our factory in Cantabria, Spain which is our centre of excellence for mass market cigar-making.

An investment of €9.5 million has seen the factory expand and annual production has doubled in just three years.

Directors toured the factory, met employees and received detailed presentations from the Spanish and Russian management teams on how growth is being achieved.

David Haines, Non-Executive Director said: "The Cantabria visit allowed me to build my knowledge and understanding, but most importantly I was able to meet the people in the factory and gain exposure to our cigar centre of excellence."

The Board and its Committees *continued*

Nominations Committee

Iain Napier
Chairman

"We're focused on ensuring the Board has the right balance of skills and experience to build on our long track record of success."

Overview

During the year the Nominations Committee, which comprises all the Non-Executive Directors and meets as required, was chaired by Iain Napier.

The Nominations Committee considers the composition of the Board and its Committees, the retirement, appointment and replacement of Directors, and makes appropriate recommendations to the Board.

The Committee has continued to evaluate the balance of skills, knowledge and experience of the Board and remains committed to the progressive renewal of the Board through orderly succession. Where vacancies arise the Committee prepares a description of the role and capabilities required for the appointment. Appropriate succession plans for the Non-Executive Directors, for the Executive Directors and for senior management were also kept under close review.

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 professional and geographic backgrounds to ensure the Board has a wide range of business and financial expertise. Given our commitment to appointing the best people we do not think it is appropriate to set targets for Board appointments.

The Nominations Committee's full terms of reference are available on www.imperial-tobacco.com.

Members

Ken Burnett
David Haines (appointed 2/2/12)
Michael Herlihy
Pierre Jungels (retired 1/2/12)
Susan Murray
Berge Setrakian
Mark Williamson
Malcolm Wyman (appointed 3/10/11)
Matthew Phillips (Secretary to 1/6/12)
John Downing (Secretary, appointed 1/6/12)

Achievements for 2012

– Continued to evolve succession plans.
– Appointment of Mark Williamson as Senior Independent Director succeeding Pierre Jungels.
– Appointment of David Haines and Malcolm Wyman as Non-Executive Directors.
– Appointment of Matthew Phillips as Corporate Affairs Director, reflecting the dynamic nature of the tobacco operating environment.

2013 Objectives

– Maintain ongoing succession plans, specifically in respect of Directors approaching retirement and if required identify and recommend to the Board appropriate candidates for appointment.
– Review the balance of the Board in terms of Executive and Non-Executive Directors.
– Ensure the Board retains the skill set appropriate to drive the Company's strategy whilst understanding its external environment.

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 election and subsequent annual re-election by shareholders.

Before recommending such election or re-election the performance of each Director is considered as part of the annual evaluation of the Board. Following the 2012 evaluation and consideration of each Director's attendance at Board and Committee meetings as detailed in the table below, the Board recommends the election or re-election of all Directors who are standing for election or re-election at our 2013 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 and shareholding requirements 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.

Accordingly, prior to the appointment of Malcolm Wyman and David Haines, skill set requirements were developed further to which Korn Ferry/Whitehead Mann was instructed to identify potential candidates. Following their appointments, Malcolm Wyman and David Haines underwent a tailored induction and briefing programme, further details of which are on page 71.

Meetings of the Board, Board Committees and AGM

	Board	Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in Financial Year	5	2	4	7	1
Number of meetings attended in Financial Year					
Executive Directors					
Mrs A J Cooper	5/5	–	–	–	1/1
Mr R Dyrbus	5/5	–	–	–	1/1
Mr M R Phillips[1]	2/2	–	–	–	–
Non-Executive Directors					
Mr I J G Napier	5/5	2/2	–	–	1/1
Dr K M Burnett[2]	5/5	2/2	2/2	6/6	1/1
Mr D J Haines[3]	3/3	1/1	1/1	3/3	–
Mr M H C Herlihy	5/5	2/2	4/4	7/7	1/1
Dr P H Jungels[4 6]	1/2	1/1	1/2	0/1	1/1
Ms S E Murray	5/5	2/2	4/4	7/7	1/1
Mr B Setrakian[2]	5/5	2/2	–	6/6	1/1
Mr M D Williamson	5/5	2/2	4/4	7/7	1/1
Mr M I Wyman[5 6]	5/5	2/2	4/4	6/7	1/1

1 Mr M R Phillips was appointed to the Board on 1 June 2012.
2 Dr K M Burnett was appointed to the Audit Committee and the Remuneration Committee and Mr B Setrakian was appointed to the Remuneration Committee on 31 January 2012.
3 Mr D J Haines was appointed to the Board on 2 February 2012.
4 Dr P H Jungels retired from the Board on 2 February 2012.
5 Mr M I Wyman was appointed to the Board on 3 October 2011.
6 Due to prior commitments, Dr P H Jungels was unable to attend one Board meeting and its associated Committee meetings, and Mr M I Wyman was unable to attend one Committee meeting.

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

Audit Committee

Malcolm Wyman
Chairman

> "We've improved our corporate assurance processes, further embedding our risk management processes and internal controls."

Overview

The Audit Committee comprises six independent Non-Executive Directors. Both Malcolm Wyman and Mark Williamson are qualified accountants and, therefore, we meet the requirements of the Code and the Committee's terms of reference that at least one of its members is a financial expert.

The responsibilities of the Audit Committee include assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements, overseeing the internal control and risk management processes, ensuring that appropriate standards of governance, reporting and compliance are being met, appointing the Group's Auditors and monitoring their performance and independence and overseeing our Speaking Up (whistle-blowing) policy.

The Finance Director, the Director of Finance and Planning, the Group Financial Controller, the Head of Group Compliance (and from January 2012 the Director of Corporate Assurance), the Deputy Company Secretary and other financial managers are invited to attend each meeting of the Committee, as well as our external Auditors. Both the Director of Corporate Assurance and the external Auditors have separate formal meetings with the Committee, without any Executive Director or other manager being present, at each meeting.

The Audit Committee's full terms of reference are available on www.imperial-tobacco.com

Members

Ken Burnett

David Haines (appointed 26/4/12)

Michael Herlihy

Pierre Jungels (retired 1/2/12)

Susan Murray

Mark Williamson (Chairman to 1/2/12)

Matthew Phillips (Secretary to 1/6/12)

John Downing (Secretary from 1/6/12)

Achievements for 2012

- Improved risk management and assurance process, reflecting our enhanced internal controls, our new risk and assurance processes and the creation of our new Corporate Assurance Department (see page 50).
- Review of the Group's financial results throughout the financial year including periodic announcements to the market and the potential impairment adjustments as a result of the continued deterioration in the Spanish economy.
- Considered the results of a net investment hedging review carried out during the first half of the year.
- Reviewed the processes to ensure the Group has adequate procedures in place to control bribery and corruption risks.

2013 Objectives

- Oversee the embedding of our revised risk management and assurance processes and ensuring their effective operation.
- Reviewing the Group's financial results throughout the year.
- Oversee the rotation of the external audit partner and reviewing the independence of our Auditors and their ongoing effectiveness.

Activities of the Committee

The Audit Committee held four meetings during the financial year. In addition to the achievements on page 68, the Audit Committee considered the following standing items of business:

- evaluating the Board's going concern review (more details on page 36). The Audit Committee is satisfied that the Board has made an appropriate assessment taking into account the risks facing the Group;
- the Group's net investment hedging and related foreign exchange exposures;
- reports from members of Corporate Assurance, Group Compliance (Internal Audit), Group Finance and other functions. These reports and the opportunity to ask questions provide 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;
- the internal audit plan for the financial year ending 30 September 2013;
- an annual review of the external Auditors' independence, 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 to the Board their reappointment;
- the output from the evaluation of the effectiveness of the Audit Committee, which confirmed the Committee continues to operate effectively;
- approving accounting policies, as required; and
- consideration of the accounting treatment relating to ongoing enquiries detailed on pages 74 and 75;

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 external 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 108.

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 95).

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). The Audit Committee discusses engagement partner rotation with PwC on a regular basis and a succession plan is in place for David Charles to be replaced in 2013 at his normal rotation date after five years in the role. The Audit Committee will give further consideration during the incoming engagement partner's term to the application of the audit tendering provision of the recently published 2012 edition of the UK Corporate Governance Code. The Audit Committee considers that for a major international group these matters must be well planned to ensure that the Group complies with best practice corporate governance as well as ensuring the Group receives a high quality, efficient and effective external audit service. 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.

The Board accepted at its October 2012 meeting the Committee's recommendation to put a resolution to reappoint PwC as Auditors to the Company to shareholders at the forthcoming AGM.

Application of the UK Corporate Governance Code

The Board applied all of the principles and provisions of the June 2010 Code throughout the year ended 30 September 2012 and is reviewing the provisions of the revised code published in September 2012 which will apply to the Group from 1 October 2012.

Operation of the Board

Our Board and Board Committee meetings encourage direct, robust and constructive challenge and debate.

In order to deliver our strategy, enhance shareholder value and ensure our long-term sustainability, we believe it is vital that our Directors have the right mix and diversity of backgrounds and experiences.

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 Committee chairmen communicate regularly with the Chief Executive and other members of the Operating Executive.

Matters Reserved for the Board

There is a schedule of matters which are dealt with exclusively by the Board and on which it must make the final decision. These include approval of financial statements; the Group's business strategy; the annual capital expenditure plan; major capital projects; major changes to the Group's management and control structure; material investments or disposals; risk management strategy; sustainability and environmental policies; the appointment or removal of Directors and the Company Secretary; and treasury policies.

Board Committees

Each standing Board Committee has specific written terms of reference issued by the Board and adopted by Committee. These are available on our website. All Committee chairmen report verbally on the proceedings of their Committees at the next meeting of the Board and the minutes of the Committee meetings are included in the papers distributed to all Board members in advance of the next Board meeting.

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 the effective leadership of the Board, our Chairman ensures all Directors are able to 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 effective communication with our shareholders and ensuring they can raise any concerns.

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

There were no significant changes to the Chairman's external commitments during the year.

Non-Executive Directors

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

Our Non-Executive Directors also 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 on pages 66 to 68 and page 77. The open atmosphere at our Committee meetings enables 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.

Following the annual Board evaluation, page 71, the Board concluded at its meeting in September 2012 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

The Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. In accordance with the Companies Act 2006 (the Act), the Articles of Association of the Company allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit.

Directors are required to give notice of any such 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 2012 we reviewed and reconsidered all situations entered in the Conflicts Register.

In order to underpin his independence we entered into an agreement with Berge Setrakian, Non-Executive Director, in June 2008 to minimise the risk of any conflict of interest between Dewey & LeBoeuf LLP, of which he was a partner, and the Company. This agreement remained in full force and effect until he left the partnership in May 2012. In July 2012 a similar agreement was entered into in respect of DLA Piper LLP (US) where he is now a partner, which remains in full force and effect.

The Board confirms Berge Setrakian's compliance with the terms of these agreements and, therefore, his continued independence.

Following the annual review the Board is satisfied that the independence of those Directors who have other external board appointments or relationships has not been compromised.

Outside Appointments

Non-Executive Directors may serve on a number of other boards provided they continue to demonstrate the requisite commitment to discharge effectively their duties. The Chairman and the Nominations Committee review the extent of Non-Executive Directors' other interests throughout the year. The Board is satisfied that the Chairman and each of the Non-Executive Directors commit sufficient time to their duties in relation to the Company and the Non-Executive Directors have also confirmed that they have sufficient time to fulfil their respective obligations to the Company.

The Board believes, in principle, in Executive Directors and members of the Operating Executive accepting non-executive directorships of other companies in order to widen their experience and knowledge for the benefit of the Company. Accordingly, subject to the agreement of the Board, Executive Directors and members of the Operating Executive are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment.

Information and Training

The Company is committed to the continuing development of Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate.

The Company Secretary is responsible for advising the Board, through the Chairman, on matters of corporate governance. The Board and its Committees are supplied with full and timely information, including detailed financial information, to enable Directors to discharge their responsibilities, and the Committees are provided with sufficient resources to undertake their duties. All Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters. Independent professional advice is also available to Directors in appropriate circumstances, at the Company's expense.

Following their appointment to the Board, new Directors are briefed on the duties they owe to the Company as Directors. Tailored induction programmes are arranged which include industry-specific training, including visits to the Group's businesses and meetings with senior management, as appropriate. They are briefed on internal controls at head office and business unit level and are advised of the legal and other duties they have as Directors of a listed company as well as on relevant Company policies and governance-related matters.

Other than the induction and briefing programme, no training needs were identified in 2012, although ongoing training is available to all Directors to meet their individual needs. We 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 external Auditors and remuneration advisor respectively to ensure they remain up-to-date with current regulations and developments.

Performance Evaluation

During the year the Board, assisted by an independent consultant, EquityCommunications Ltd, who provided no other services to the Group, reviewed its performance, that of its Committees and individual Directors. The feedback, obtained through detailed questionnaires, 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 Chairman held meetings with the Non-Executive Directors to consider, amongst other things, the performance of the Executive Directors.

The evaluation did not identify any significant areas for concern nor any requirement to provide extra training for our Directors and, consequently, 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.

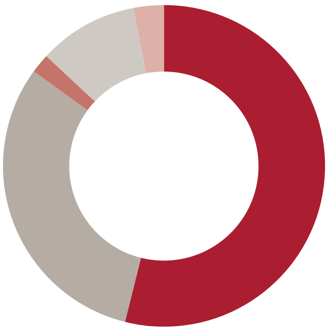
The main areas identified for review were the ongoing succession plans for Directors approaching retirement, the future balance of Executive and Non-Executive Directors, enhancing opportunities for Non-Executive Directors to meet with the wider management team and ensuring the revised risk and assurance processes are embedded in the organisation and operate effectively.

We have addressed the issues identified in the 2011 Board evaluation and in line with the Board's succession plans, a number of Directors were appointed during the year and the Group undertook a review of its remuneration policies to ensure they continue to incentivise the delivery of its strategy and further align performance to results. More details of the review are contained in our Remuneration Report on page 77.

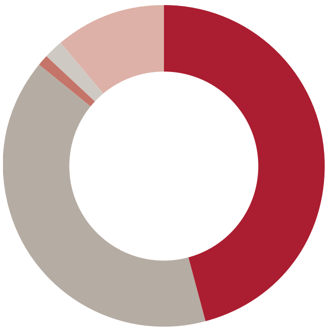
Insurance

We have purchased and maintain 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.

Geographical analysis of investors (as at 30 September 2012)



Shareholder structure (as at 30 September 2012)



Dialogue with our Investors

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.

We maintain an active engagement with our key financial audiences including institutional shareholders and sell side analysts as well as potential shareholders. During the year there were regular presentations to and meetings with institutional investors in the UK, Europe, Asia, Canada and the US to communicate our sales growth strategy and progress and answer questions from our investors. Throughout the year our senior management team present at industry conferences, organised by investment banks for their institutional investor base. Our Director of Investor Communications manages the interaction with these audiences with regular presentations taking place during the year. We also undertake a regular communication programme with potential 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.

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 to them 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 AGM are added to the proxy votes and the final results published through a Regulatory Information Service, on our website and via OTCQX.

At our 2012 AGM we received votes representing approximately 77 per cent of our issued share capital (excluding shares held in treasury).

Our next AGM will be held on Wednesday 30 January 2013.

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 24 to the Financial Statements (page 131). All shares other than those held in treasury are freely transferable and rank pari passu for voting and dividend rights.

At our AGM on 1 February 2012 shareholder authority for the buyback of up to 106,794,000 ordinary shares of 10 pence each was obtained.

As at 30 September 2012 we held 77,802,200 of our ordinary shares in treasury, which represent 7.3 per cent of issued share capital and have an aggregate nominal value of £7,780,000.

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 30 October 2012 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	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 92. Other than as disclosed on page 73, 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 6 to the Financial Statements (page 108) 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 76.

The profit attributable to equity holders of the Company for the financial year was £678 million, as shown in our consolidated income statement on page 96. Note 3 to the Financial Statements gives an analysis of revenue and profit from operations (page 106).

An analysis of net assets is provided in the Consolidated Balance Sheet on page 98 and the related Notes to the Financial Statements.

The Directors have declared and proposed dividends as follows:

£ million	2012	2011
Ordinary Shares		
Interim paid, 31.7p per share (2011: 28.1p)	**314**	284
Proposed final, 73.9p per share (2011: 67.0p)	**729**	674
Total ordinary dividends, 105.6p (2011: 95.1p)	**1,043**	958

The final dividend, if approved, will be paid on 18 February 2013 to our shareholders on the Register of Members at the close of business on 18 January 2013. The associated ex dividend date will be 16 January 2013. We paid an interim dividend on 17 August 2012 to shareholders on the register at the close of business on 20 July 2012.

Relations with Other Stakeholders

Charitable and Political Donations

We continue to support the communities in which we operate by allocating £3.1 million (2011: £3.1 million) to partnership investment. From this figure, we have donated £0.2 million (2011: £0.2 million) to UK registered charities operating in the UK, £0.3 million (2011: £0.3 million) to UK registered charities operating abroad and £1.6 million (2011: £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 (2011: 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 2012 was equivalent to 37 days (2011: 40 days) of trade purchases.

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 77 to 93.

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.

The Group has four credit facility agreements that provide, 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, the respective borrowers must repay any outstanding utilisation made by them under the respective facility agreement and the total commitments under that facility agreement will be immediately cancelled.

The four credit agreements are:

- a credit facilities agreement dated 16 December 2010 under which certain banks and financial institutions made available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited committed credit facilities across three tranches of $632 million, £600 million and €1,785 million and uncommitted credit facilities in a maximum amount of £800 million, for a period of five years;

- a letter of credit facility agreement dated 2 March 2011 under which certain banks and financial institutions made available to Imperial Tobacco Limited a Letter of Credit in a maximum amount of £232.8 million until 31 August 2016;
- a credit facility agreement dated 16 November 2011 under which certain banks and financial institutions made available to Imperial Tobacco Finance PLC a committed credit facility of €300 million for a period of two years; and
- a credit facility agreement dated 15 August 2012 under which certain banks and financial institutions made available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited a committed credit facility of £400 million for a period of two years.

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;
- 5 July 2011 €850,000,000 4.5 per cent guaranteed notes due 2018;
- 26 September 2011 £500,000,000 5.5 per cent guaranteed notes due 2026; and
- 2 December 2011 €750,000,000 5 per cent guaranteed notes due 2019.

Update on Ongoing 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 against 18 individuals, one of whom is a former Reemtsma employee. Proceedings against the former Reemtsma employee were terminated on terms agreed by the former employee with the authorities.

In November 2006, charges relating to violations of the German foreign trade act were brought against four other former Reemtsma employees. 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, on 15 April 2010 the UK Office of Fair Trading (OFT) reached a decision finding 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 £225 million on the parties involved, including a fine of £112.3 million on Imperial Tobacco Group.

Imperial Tobacco Group lodged an appeal with the Competition Appeal Tribunal (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) also appealed against the decision and the fines imposed on them by the OFT.

The CAT heard the appeals between September and November 2011. On 12 December 2011, following an admission from the OFT that it could no longer defend the findings in the decision, the CAT upheld the appeals and quashed the findings of infringement and the fines imposed on Imperial Tobacco Group and the other appellants.

The OFT decided not to appeal against the CAT's judgment and subsequently announced that it would not reopen its investigation. Accordingly Imperial Tobacco Group is no longer liable to pay the fine.

Update on Tobacco Related Litigation

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. The hearing of the appeal was listed for mention before the Supreme Court on 11 July 2012. In advance of the hearing, the plaintiff's lawyers issued a motion to come off the record that is returnable on 5 November 2012. At the hearing on 11 July, the Chief Justice put the appeal in for mention on 8 November 2012 to allow for the hearing of the motion that the plaintiff's lawyers come off the record and to give the plaintiff the opportunity to obtain new representation if he wishes to do so.

Following our acquisition of Altadis in January 2008, we are currently facing a claim in Spain brought in the Administrative Court (the CADAN) on behalf of the Regional Government of Andalucia (the Junta) 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. The CADAN issued a further decision in July 2012 ordering the Junta to provide the co-defendants with a full set of the documentation which was attached to the claim. The co-defendants have not yet received a copy of the documentation and are awaiting a decision from the CADAN on whether the Junta complied with the order and how this case should proceed.

We are currently facing two claims in Italy. One against Logista which is the subject of a challenge on grounds of jurisdiction and the admission of evidence. This challenge was heard in 2006 but judgment is still awaited. The other against Imperial Tobacco Italia S.r.l. is a claim recently filed in Sicily for €5,000 relating to damage allegedly caused by a humidifying stone. Imperial Tobacco Italia S.r.l. filed its defence at a hearing on 26 September 2012. The claimant has been ordered to file its rebuttal evidence at the next hearing on 26 January 2013.

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.

In France, we are facing pre-action summary proceedings brought by an individual who, according to his summons, later intends to seek an undisclosed level of compensation for the emotional damage he is alleged to have suffered for the loss of his former partner who, it is alleged, smoked 3 packets of *Gauloises* cigarettes a day for 20 years and died of lung cancer in April 2012. The claimant alleges that tobacco leaves absorb Polonium 210, a radioactive element, which the claimant alleges passes into the lungs of smokers causing them to be radioactively contaminated, and has asked a court in Paris to appoint an expert to analyse the alleged radioactivity of Polonium 210 in *Gauloises* cigarettes; examine his former partner's medical records; and assess whether there is a causal link between any radioactivity in the cigarettes and his former partner's alleged lung cancer. An initial hearing has been scheduled for 16 November 2012.

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 International Financial Reporting Standards (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.

Overview
Strategic Review
Performance
Risk
Governance
Financials

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 62, 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

John Downing
30 October 2012

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

Michael Herlihy
Chairman

> "Within a demanding, competitive international environment we want our employees to be fairly compensated and incentivised to deliver on our strategy."

Overview

Our remuneration policy seeks to achieve a balance between the interests of our employees and long-term shareholders. Executive Director and senior management rewards are, therefore, weighted towards performance related elements with targets incentivising the delivery of our strategy.

During the financial year the Remuneration Committee has undertaken a review of the overall remuneration philosophy and policy of the Group. The review concluded that whilst our policy has served us well it could be enhanced to further support our strategy. The main changes are, therefore, to amend the performance criteria to better align our senior executives' remuneration with our strategic focus on organic growth. With the exception of the proposed changes to the Share Matching Scheme and the Long Term Incentive Plan for which we are seeking shareholder approval at our forthcoming AGM, the Committee has, therefore, implemented the revised policy in respect of total remuneration, base salary and bonus structure for the financial year ending 30 September 2013. Full details of the revised policy are shown on page 84.

The Remuneration Committee's full terms of reference are available on www.imperial-tobacco.com

Members

Ken Burnett
(appointed 31/1/12)

David Haines
(appointed 26/4/12)

Pierre Jungels
(retired 1/2/12)

Susan Murray

Berge Setrakian
(appointed 31/1/12)

Mark Williamson

Malcolm Wyman
(appointed 3/10/11)

Trevor Williams
(Secretary)

Achievements for 2012

- A review of the overall remuneration philosophy of the Group to further align remuneration with the interests of our long-term shareholders and our sales growth strategy.
- Consideration of base salary and bonus targets.
- Reviewing the structure of the remuneration packages of a number of senior appointments.
- Considering the achievement of performance criteria for the annual bonus and share plans and approving vesting levels.
- Consideration of shareholders' feedback from the 2012 AGM.

2013 Objectives

- Consult with shareholders in relation to proposed changes to current share plans.
- Ensure the Group is well placed to meet any requirements emanating from the Department for Business, Innovation and Skills consultation on revised remuneration reporting regulations.
- Ensure that senior executives remain appropriately compensated and incentivised to deliver our strategy.

Rewarding performance

Activities of the Committee

The Board recognises that it is ultimately accountable for executive remuneration but has delegated this responsibility to the Committee.

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

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 of our employee share plans.

The Remuneration Committee held seven meetings during the financial year. In addition to the achievements on page 77, the Remuneration Committee's responsibilities include:

- ensuring remuneration arrangements support our strategy, align with our values and drive performance;
- maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate thereby ensuring we can attract and retain high calibre individuals;
- aligning senior executives' remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive; and
- the output from the evaluation of the effectiveness of the Remuneration Committee, which confirmed the Committee continues to operate effectively.

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 UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. 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 Remuneration Committee confirms that throughout the financial year the Company 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 95 and we have clearly marked the audited sections of the Report.

Membership and Advice

All members are independent Non-Executive Directors, which we see as fundamental 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 any Executive Director or other manager being present.

Mr I J G Napier (Company Chairman), Mrs A J Cooper (Chief Executive), Mr R Dyrbus (Finance Director) and Mr J M Downing (Company Secretary) were consulted and invited to attend where appropriate. Mr T M Williams (Deputy Company Secretary) also attended each meeting as secretary to the Committee.

The Group Head of Compensation and Benefits also attended and provided internal support and advice on market and regulatory developments in remuneration practice and our employee share plans. His attendance ensured the Committee was 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.

Aon Hewitt Limited is the Committee's principal external adviser and reviews our remuneration principles and practices against corporate governance best practice and helps us adhere to our Remuneration Policy. Aon Hewitt Limited is a signatory to the Code of Conduct for Remuneration Advisers. Aon Hewitt Limited 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 with employee engagement surveys and acts as its insurance broker. The Committee is, however, satisfied that the provision by Aon Hewitt Limited of those other services in no way compromises its position as the Committee's independent advisers.

The Committee also retained Kepler Associates to assist it with the review of the overall remuneration philosophy of the Group.

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 Committee as and when required. They both provide other legal services to the Group. Allen & Overy is 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.

Remuneration Policy and Practice for Financial Year Ended 30 September 2012

Executive 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 long-term 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.

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. Our policy for the financial year to 30 September 2012 was to position fixed elements of remuneration around the median paid by our comparator group of companies, which was the FTSE 50 with secondary reference to the FTSE 30 both excluding companies in the financial and pharmaceutical sectors. As further discussed in the Revised Remuneration Policy and Practice section on page 84 the Committee reviewed this during the year and total remuneration is now assessed against a comparator group of companies from FTSE size peers (including pharmaceutical companies) and international sector peers.

Our policy supported our strategy by linking the major elements of remuneration to performance criteria aligned with our KPIs. These elements included both short-term and long-term incentives, the main elements being annual bonus, Share Matching Scheme (SMS) and Long Term Incentive Plan (LTIP).

To ensure our Remuneration Policy is firmly linked to our strategy and risk management, bonus and employee share plan targets are set to reflect key business imperatives, for example volume growth, cash conversion and growth in net revenue, all of which are used to measure strategy as discussed on page 11. This link is supported by our share ownership guidelines.

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

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. 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, with the exception of Mr Phillips who was appointed to the Board on 1 June 2012, 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.

Base Salary

We believe there should be a cohesive remuneration structure across the Group. Our approach for all employees, including Executive Directors, is, therefore, to set remuneration that takes account of: market practice; economic conditions; the performance of the Group, 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.

Base salaries are reviewed annually following detailed consideration of a number of factors including individual responsibilities, performance and the market rate for the position. Our policy for the financial year to 30 September 2012 was 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 again 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.

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.

For the financial year ended 30 September 2012 the potential maximum bonus was 200 per cent of base salary for the Chief Executive, 150 per cent for the Finance Director and 125 per cent for the Corporate Affairs Director (pro rata from date of appointment).

Bonus targets constituted stretching EPS (50 per cent of maximum), net revenue (20 per cent of maximum), volume growth (12.5 per cent of maximum), cash conversion (7.5 per cent of maximum) and non-financial metrics (10 per cent of maximum).

During the year we delivered adjusted EPS of 201.0 pence resulting in 58 per cent of this element vesting. We consider the other targets to be commercially confidential, however, they were met in part, with 44.4 per cent of these elements vesting overall.

Any annual bonus earned up to 100 per cent of base salary 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 shares in the Company which the Director is required to retain for a minimum of three years. These shares are not eligible for investment in the SMS.

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. Claw back would be applied 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 annual bonus is guaranteed.

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. For 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. 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	Award vesting 2013	Awards vesting 2014 and 2015
Below Inflation plus 3 per cent per annum	Zero	Zero
At Inflation plus 3 per cent per annum	100%	50%
At Inflation plus 6 per cent or more per annum		100%[1]

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

Long Term Incentive Plan

The LTIP is a conditional award of shares to Executive Directors and other senior management. These awards vest three years after grant dependent upon satisfaction of performance criteria 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, 150 per cent for the Finance Director and 125 per cent for the Corporate Affairs 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:

EPS Growth 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.

TSR Relative to FTSE 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 the index. Between these thresholds this element vests on a straight-line basis.

TSR Relative to Bespoke Comparator Group 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 bespoke 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 bespoke comparator group for the November 2011 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 bespoke 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 bespoke 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 bespoke 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, bespoke comparator group and vesting schedules for LTIP awards and decided to retain these performance criteria pending the introduction of the revised remuneration arrangements from 2013 onwards.

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 periods for outstanding awards 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.

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
125 for Corporate Affairs Director	25 per cent on TSR against comparator group

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 long-term shareholders. Annually we offer as many employees as practicable, together with our Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent to the closing mid-market price of our shares on the London Stock Exchange on the day prior to invitation. The Sharesave 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 shares. In common with most plans of this type, no performance conditions are applied.

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. Dependant 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), £1.5 million for retirements in the tax year 2012/2013 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. Other than Mrs A J Cooper and Mr M R Phillips, each of the current Executive Directors 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 and Mr M R Phillips are also in receipt of a salary supplement. Prior to 6 April 2006 their 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 and Mr Phillips each receive a salary supplement of 12 per cent of this amount.

In each case these salary supplements have been calculated by the 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 table on page 91 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 have made additional voluntary contributions.

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 in 1996 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. The Company is 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 losses are taken into account in every case. Our policy is to stop or reduce compensatory payments to former Executive 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 SMS and LTIP, outstanding awards vest if a participant leaves for specified reasons, including death, 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 and the Committee does not exercise its discretion to allow an award to vest a participant's full awards lapse.

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Mrs A J Cooper	1 July 2007	Terminable on 12 months' notice	No provisions
Mr R Dyrbus	21 August 1996	Terminable on 12 months' notice	Payment of a liquidated sum calculated by reference to benefits receivable during the notice period
Mr M R Phillips[1]	31 May 2012	Terminable on 12 months' notice	No provisions

1 Mr M R Phillips was appointed to the Board on 1 June 2012.

Policy in Respect of External Board Appointments

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

Mrs A J Cooper is a Non-Executive Director of Inchcape PLC and was permitted to retain the £50,000 fees received from this position in the financial year.

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 our Senior Independent Director and the Chairmen of our Audit and Remuneration Committees. These fees are reviewed, but not necessarily increased, on an annual basis after taking account of market practice, with reference to the same comparator group as used for Executive Directors, together with the need to attract and retain high calibre individuals.

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 long-term shareholders, annually 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 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 31 January 2012. Under the terms of our Articles of Association, all 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.

Revised Remuneration Policy and Practice

The Committee continues to view its primary responsibility as ensuring that the Company can recruit, motivate and retain high quality management to run its business in the best interests of long-term shareholders. We believe that it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we do not pay more than is necessary.

Striking the right balance in finding a fair outcome in setting a competitive level of total remuneration is a matter of judgement. In forming this judgement the Committee considers pay data at comparator companies of similar scale and operating in a similar sector. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most serve, to define a “playing field” within which an individual’s rewards need to be positioned. In determining that positioning, the primary factors taken into account will be the scale of the challenges intrinsic to that individual’s role; their ability and experiences and fundamentally their performance.

The policy is to offer packages that are significantly weighted towards performance based elements with measures that reflect individual, functional and corporate performance. The aim is to set targets that are both stretching and achievable.

Following a review of Executive Directors’ Remuneration and consultation with the Group’s major shareholders and investor representative bodies, the Committee has revised the policy for Executive Directors as summarised below. The review concluded that the Group’s remuneration policy has served both it and its long-term shareholders well and, therefore, the revised policy does not change the overall structure of our remuneration packages; the balance of fixed and variable pay or the level of awards under the annual bonus, SMS or LTIP.

With the exception of the SMS and LTIP, the revised policy was introduced for the financial year to 30 September 2013. The proposed amendments to the SMS and LTIP will, subject to shareholder approval at the forthcoming AGM, be introduced in the financial year commencing 1 October 2013.

Base Salary

Base salaries for the financial year ending 30 September 2013 were reviewed by the Committee in September 2012 in accordance with the revised policy.

The Finance Director’s base salary was increased to £664,500 (from £654,500) and, having been appointed during the year, the Corporate Affairs Director’s base salary was not reviewed.

Upon the Chief Executive’s appointment the Committee decided to set her base salary at a level below that of her predecessor and that indicated by the Group’s remuneration policy, with the intention of increasing it over time, subject to performance. Having reviewed her performance during the year, including with reference to the 2012 Board evaluation, an increase above the 3.0 per cent average for our wider UK management population was approved to continue to bring her base salary closer to that indicated by her performance, the Group’s size, international profile and the critical importance of the role. As a result, the Chief Executive’s base salary was increased by 7.0 per cent to £920,000 (from £860,000).

The percentage increases for senior executives’ base salaries effective both 1 October 2011 and 1 October 2012 were generally lower than the average for other employees of the Group located in the same region.

Summary of Changes to Remuneration Policy and Practice

We have made the following changes to our method of determining pay levels:

- the “playing field” for the value of total remuneration is assessed against two comparator groups, one being companies from FTSE size peers (including pharmaceutical companies) and the other being international sector peers; and
- base salary to be assessed primarily against the same comparators as total remuneration and in addition secondary reference to FTSE 30 and FTSE 50 (both excluding financial sector companies)

We propose the following changes to our incentive plans:

- increase weighting on revenue growth and reduce weighting on EPS;
- set long-term financial targets (including EPS) on a nominal basis rather than relative to inflation; and
- where the same performance criteria are used in the SMS and LTIP similar vesting schedules and targets will be used; dividends will be rolled up on vested SMS and LTIP shares and paid on vesting.

Revised Executive Directors' Remuneration Policy

Element	Objective	Comparator Groups/ Award Level	Performance Criteria	Performance Period
Total Remuneration	Attract and retain high performing individuals and incentivise delivery of the Group's strategy.	Competitive level against two comparator groups one being companies from FTSE size peers, the other being international sector peers.		
Base Salary	Attract and retain high performing individuals reflecting market value of role and executive's skills, experience and performance.	As total remuneration with secondary reference to FTSE 30 and FTSE 50 (both excluding financial sector companies).	N/A	N/A
Annual Bonus	Incentivise delivery of Group objectives and enhance performance.	Maximum percentage of base salary. Chief Executive 200% Finance Director 150% Corporate Affairs Director 125%. Cash element up to first 100% of base salary	Criteria for 2013 financial year: EPS targets (50% of maximum bonus); Net Revenue growth targets (20% of maximum bonus); Strategic/operational targets (15% of maximum bonus). For 2013 financial year will be a volume target; and Non-financial targets (15% of maximum bonus) All non-EPS elements have an EPS underpin.	1 year
		Non-matchable deferred shares element: Any bonus paid over the limit set for the cash element.		3 year retention period
Share Matching Scheme	Incentivise Executive share ownership, growth in EPS and Net Revenue growth in line with the Group's strategy.	May elect to invest some or all of gross cash element percentage of the annual bonus in shares. Maximum match 1:1. Dividend roll-up on vested shares.	2 elements: 50% EPS growth with ROIC underpin; and 50% Net Revenue growth with EPS underpin.	3 years
Long Term Incentive Plan	Incentivise long-term delivery of Net Revenue growth, EPS and TSR and align with interests of long-term shareholders.	Percentage of base salary: Chief Executive 200%, Finance Director 150%, Corporate Affairs Director 125%. Dividend roll-up on vested shares.	3 elements: 25% EPS growth with ROIC underpin; 25% Net Revenue growth with EPS underpin; and 50% TSR vs comparator group.	3 years

Performance Criteria

When setting the performance criteria the Committee has taken account of the Group's long-term plan and analysts' forecasts. The proposed vesting schedules for the initial awards are set out below. For both the EPS and Net Revenue targets, the revised policy will use growth in absolute terms rather than relative to inflation. As an international Group with the majority of sales coming from outside the UK, the measurement of financial performance relative to UK inflation has become less relevant as this does not reflect the Group's footprint and, therefore, inflation relevant to the Group as a whole.

Performance Criterion – Net Revenue Growth elements

Vesting of awards on these elements would occur as per the vesting schedule below:

Compound annual growth in net revenue	Shares vesting (as a percentage of element)
Less than 3% per annum	Nil
3% per annum	25%
3% to 7% per annum	Between 25% and 100% (pro rata)
7% per annum or higher	100%

In order to ensure that Net Revenue growth is not overly incentivised at the expense of profitability, an EPS underpin will apply in respect of the Net Revenue growth elements for the Executive Directors. This will require that a minimum level of EPS growth will have to be achieved in order for any awards under the Net Revenue growth element to vest.

Performance Criterion – EPS elements

Vesting of awards on these elements would occur as per the vesting schedule below:

Compound annual EPS growth	Shares vesting (as a percentage of element)
Less than 5% per annum	Nil
5% per annum	25%
5% to 10% per annum	Between 25% and 100% (pro rata)
10% per annum or higher	100%

In order to ensure that EPS growth is not achieved without due regard to the capital required to achieve such growth, an underpin based on Return on Invested Capital (ROIC) will apply in respect of the EPS elements for the Executive Directors. ROIC is a measure of profitability versus the Company's total utilised capital including goodwill and so is particularly useful to incentivise an appropriate approach towards acquisitions. The ROIC underpin will require that a minimum level of ROIC will have to be achieved in order for any awards under the EPS growth element to vest.

Performance Criterion – TSR element

The performance criterion for the TSR element will be based on a single comparator group including over 40 companies across a broadly defined consumer goods sector.

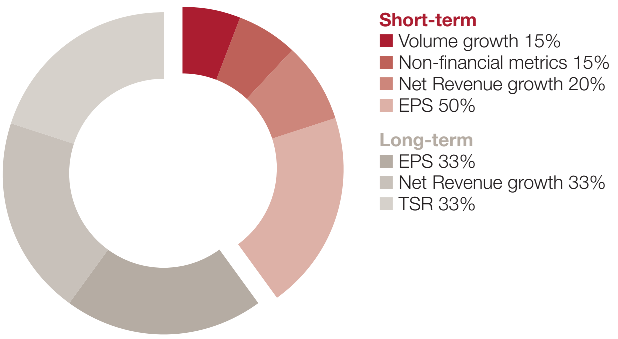
Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of number relating to relative TSR performance condition)
Below median of peer group	Nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Overall Balance of Measures for Variable Pay

The combined effect of the revised performance criteria is to rebalance the focus of the financial metrics of variable pay towards top line growth. For long-term incentives (SMS and LTIP), based on the Chief Executive's remuneration, this will result in the weighting shifting from one third TSR and two thirds EPS to one third TSR, one third EPS and one third Net Revenue growth. For the financial year ending 30 September 2013 the performance targets for the annual incentive will be 50 per cent EPS, 20 per cent Net Revenue growth, 15 per cent volume growth and 15 per cent non-financial.

Illustrative breakdown of CEO variable pay by performance measures



Report on the Financial Year

Directors' Emoluments for the Year Ended 30 September 2012 (Audited)

£'000	2012	2011
Executive Directors		
Base salary	**1,660**	1,602
Benefits	**47**	47
Pension salary supplement	**317**	296
Bonus	**1,477**	913
LTIP annual vesting[1]	**1,219**	1,058
SMS annual vesting[2]	**1,242**	701
	5,962	4,617
Non-Executive Directors		
Fees	**1,020**	883
Benefits	**56**	–
	1,076	883
Former Executive Directors		
Salary of former Executive Director	**–**	21
Bonus of former Executive Director	**–**	7
Subsidiary Board fees	**–**	10
Benefits	**–**	1
	–	39
Fees of former Non-Executive Directors		
Subsidiary Board fees	**–**	5
	–	5
Total remuneration	**7,038**	5,544
Operating Executive (excluding Executive Directors)		
Base salary	**2,154**	2,227
Benefits	**155**	196
Pension salary supplement	**137**	132
Bonus	**1,346**	911
LTIP annual vesting[1]	**2,025**	309
SMS annual vesting[2]	**662**	548
	6,479	4,323

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 £15,173,257 (2011: £11,449,359).

Key Management Compensation for the Year Ended 30 September 2012 (Audited)

£'000	2012	2011
Short-term employee benefits	**7,910**	6,807
Post employment benefits	**934**	952
Other long-term benefits	**–**	–
Termination benefits	**–**	–
Share-based payment (in accordance with IAS 24)	**5,864**	6,741
	14,708	14,500

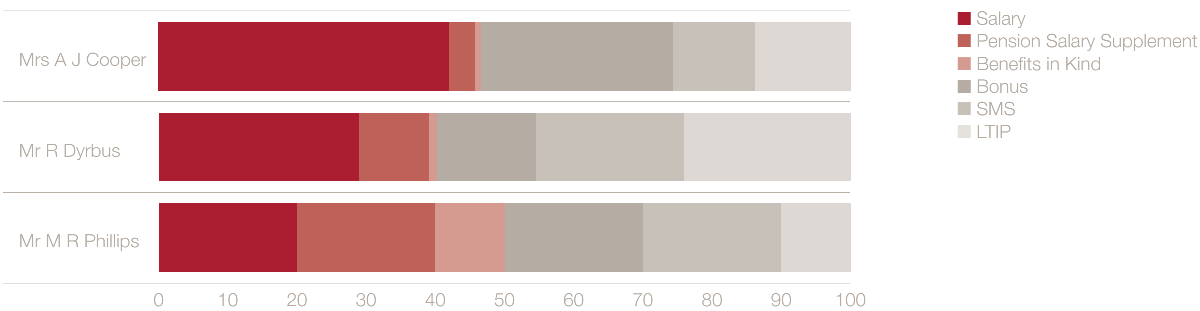
Emoluments by Individual Director (Audited)

£'000	Base salary	Fees	Bonus	Pension salary supplement[1]	Benefits in kind[2]	**Sub total 2012**	Sub total 2011	SMS[3]	LTIP[3]	**Total 2012**	Total 2011	Base salary/ fees from 1/10/2012
Executive Directors												
Mrs A J Cooper, Chief Executive	860	–	881	79	16	**1,836**	1,417	443	408	**2,687**	1,905	920
Mr R Dyrbus, Finance Director	655	–	503	229	27	**1,414**	1,212	799	811	**3,024**	2,223	665
Mr M R Phillips[4], Corporate Affairs Director	145	–	93	9	4	**251**	–	–	–	**251**	–	435
Mr G L Blashill[5], Group Sales and Marketing Director	–	–	–	–	–	**–**	229	–	–	**–**	489	–
	1,660	–	1,477	317	47	**3,501**	2,858	1,242	1,219	**5,962**	4,617	2,020
Non-Executive Directors												
Mr I J G Napier, Chairman	–	450	–	–	1	**451**	433	–	–	**451**	433	450
Dr K M Burnett	–	73	–	–	23	**96**	65	–	–	**96**	65	73
Mr D J Haines[6]	–	48	–	–	2	**50**	–	–	–	**50**	–	73
Mr M H C Herlihy[7]	–	88	–	–	2	**90**	75	–	–	**90**	75	93
Dr P H Jungels[7,8]	–	33	–	–	–	**33**	95	–	–	**33**	95	–
Ms S E Murray	–	73	–	–	1	**74**	65	–	–	**74**	65	73
Mr B Setrakian	–	73	–	–	25	**98**	65	–	–	**98**	65	73
Mr M D Williamson[7]	–	96	–	–	1	**97**	85	–	–	**97**	85	98
Mr M I Wyman[7,9]	–	86	–	–	1	**87**	–	–	–	**87**	–	98
	–	1,020	–	–	56	**1,076**	883	–	–	**1,076**	883	1,031
Former Directors												
Mr G L Blashill[5]	–	–	–	–	–	**–**	29	–	–	**–**	291	–
Mr D Cresswell[10]	–	–	–	–	–	**–**	5	–	–	**–**	5	–
Mr S Huismans[11]	–	–	–	–	–	**–**	5	–	–	**–**	5	–
Mr S T Painter[12]	–	–	–	–	–	**–**	5	–	–	**–**	5	–
	–	–	–	–	–	**–**	44	–	–	**–**	306	–

1 Further details are contained in the Executive Directors' pension section on page 82.
2 Benefits in kind principally include the provision of a company car and health insurance. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Registered Office.
3 SMS and LTIP represent the value of SMS awards vesting and LTIP options exercised in the year.
4 Mr M R Phillips was appointed to the Board on 1 June 2012.
5 Mr G L Blashill retired from the Board on 2 February 2011. He remained an employee until 15 February 2011.
6 Mr D J Haines was appointed to the Board on 2 February 2012.
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 Dr P H Jungels retired from the Board on 1 February 2012.
9 Mr M I Wyman was appointed to the Board on 3 October 2011.
10 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.
11 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.
12 Mr S T Painter retired from the Board on 31 May 2000. He received fees in connection with his Non-Executive Director appointment in Imperial Tobacco Maroc S.A., formerly Altadis Maroc S.A., until 27 September 2011.

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

Percentage of total actual remuneration for the financial year to 30 September 2012



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

	Balance at 1/10/2011[1]	Contingent rights arising	Prevailing share price at date of grant £	Vested during year	Market price at date of vesting 15/2/2012 £	Amount realised on vesting £'000	**Balance at 30/9/2012**	Actual/expected vesting date
Mrs A J Cooper	17,895	–	17.80[2]	(17,895)	24.73	443	**–**	February 2012
	20,644	–	20.57[3]	–	–	–	**20,644**	February 2013
	31,606	–	19.79[4]	–	–	–	**31,606**	February 2014
	–	21,415	24.73[5]	–	–	–	**21,415**	February 2015
	70,145	21,415	–	(17,895)	–	443	**73,665**	
Mr R Dyrbus	32,303	–	17.80[2]	(32,303)	24.73	799	**–**	February 2012
	32,255	–	20.57[3]	–	–	–	**32,255**	February 2013
	32,424	–	19.79[4]	–	–	–	**32,424**	February 2014
	–	12,896	24.73[5]	–	–	–	**12,896**	February 2015
	96,982	12,896	–	(32,303)	–	799	**77,575**	
Mr M R Phillips[6]	8,902	–	20.57[3]	–	–	–	**8,902**	February 2013
	10,929	–	19.79[4]	–	–	–	**10,929**	February 2014
	10,473	–	24.73[5]	–	–	–	**10,473**	February 2015
	30,304	–	–	–	–	–	**30,304**	

1 Or date of appointment as a Director if later.
2 Award granted 15 February 2009.
3 Award granted 15 February 2010.
4 Award granted 15 February 2011.
5 Award granted 15 February 2012.
6 Mr M R Phillips was appointed to the Board on 1 June 2012 and there have been no movements in his contingent rights since appointment.

There have been no changes in any Executive Directors' contingent rights since 30 September 2012.

During February 2012 the SMS relating to annual bonuses earned in the financial year to 30 September 2008 matured. The performance criterion was met in full. In respect of annual bonuses earned in the financial year to 30 September 2011 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 2013 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 decided to retain the performance criterion pending the introduction of the revised remuneration policy.

In respect of the February 2010 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 29 October 2012, being the latest practicable date prior to publication, was £23.32 valuing the February 2010 award as follows:

	Award vesting Number of shares	Award vesting Illustrative value £'000
Mrs A J Cooper	20,644	481
Mr R Dyrbus	32,255	752
Mr M R Phillips	8,902	208

Interim measurement calculations prepared as at 30 September 2012 indicate that, in the event that only this level of performance were maintained over the relevant performance periods, the February 2011 award would lapse and approximately 71.6 per cent of the February 2012 award would vest.

Overview
Strategic Review
Performance
Risk
Governance
Financials

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

	Balance at 1/10/2011[1]	Granted during year	Date of grant	Market price at date of grant £	Vested during year (26/11/2011)	Market price at date of vesting £	Market price at date of exercise £	Lapsed during year	Amount realised on exercise £'000	**Balance at 30/9/2012**	Performance period
Mrs A J Cooper	31,972	–	26/11/08	14.70	(17,811)	22.54	22.91	(14,161)	408	**–**	2008-2011[2]
	29,192	–	11/11/09	18.70	–	–	–	–	–	**29,192**	2009-2012[3]
	78,624	–	03/11/10	20.35	–	–	–	–	–	**78,624**	2010-2013[4]
	–	75,604	02/11/11	22.75	–	–	–	–	–	**75,604**	2011-2014[5]
	139,788	75,604	–	–	(17,811)	–	–	(14,161)	408	**183,420**	
Mr R Dyrbus	63,571	–	26/11/08	14.70	(35,415)	22.54	22.91	(28,156)	811	**–**	2008-2011[2]
	51,472	–	11/11/09	18.70	–	–	–	–	–	**51,472**	2009-2012[3]
	47,299	–	03/11/10	20.35	–	–	–	–	–	**47,299**	2010-2013[4]
	–	43,153	02/11/11	22.75	–	–	–	–	–	**43,153**	2011-2014[5]
	162,342	43,153	–	–	(35,415)	–	–	(28,156)	811	**141,924**	
Mr M R Phillips[6]	12,393	–	11/11/09	18.70	–	–	–	–	–	**12,393**	2009-2012[3]
	13,636	–	03/11/10	20.35	–	–	–	–	–	**13,636**	2010-2013[4]
	12,807	–	02/11/11	22.75	–	–	–	–	–	**12,807**	2011-2014[5]
	38,836	–	–	–	–	–	–	–	–	**38,836**	

1 Or date of appointment as a Director if later.
2 Exercisable, upon the payment of the option exercise price of 1 penny, between 26 November 2011 and 25 November 2018.
3 Exercisable, upon the payment of the option exercise price of 1 penny, between 11 November 2012 and 10 November 2019.
4 Exercisable, upon the payment of the option exercise price of 1 penny, between 3 November 2013 and 2 November 2020.
5 Exercisable, upon the payment of the option exercise price of 1 penny, between 2 November 2014 and 1 November 2021.
6 Mr M R Phillips was appointed to the Board on 1 June 2012 and there have been no movements in his Conditional Share Awards since appointment.

There have been no changes in any Executive Directors' awards since 30 September 2012.

During the year, the November 2008 – November 2011 award vested partially on 26 November 2011. Based on EPS and TSR performance to the end of the financial year approximately 80.4 per cent of the first element vested, approximately 62.1 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 2009 – November 2012 award, based on EPS and TSR performance to the end of the financial year approximately 19.6 per cent of the first element will vest on 11 November 2012, approximately 73.75 per cent of the second element will vest and the third element will lapse. For illustrative purposes only, the share price on 29 October 2012, being the latest practicable date prior to publication, was £23.32, valuing the awards as follows:

	Award lapsing Number of shares	Award vesting Number of shares over which option granted	Award vesting Illustrative value £'000
Mrs A J Cooper	20,945	8,247	192
Mr R Dyrbus	36,931	14,541	339
Mr M R Phillips	8,893	3,500	82

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 2012 indicate that, in the event that only this level of performance were maintained over the relevant performance periods, the first element of the November 2010 – November 2013 award would lapse, 100 per cent of the second element would vest and the third element would lapse. In respect of the November 2011 – November 2014 award, approximately 28.8 per cent of the first element would vest, approximately 97.1 per cent of the second element would vest and the third element would lapse.

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

	Number of shares	November 2013 Illustrative value £'000	Number of shares	November 2014 Illustrative value £'000
Mrs A J Cooper	19,656	458	29,220	681
Mr R Dyrbus	11,824	276	16,678	389
Mr M R Phillips	3,409	79	4,949	115

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

	Balance at 1/10/2011[1]	Granted during the year	Lapsed during the year	Exercised during the year	Market price at date of exercise £	**Balance at 30/09/2012**	Exercise price £	Range of exercisable dates of options held at 30/9/2012[2]	Gains on exercise[3] During the year £'000	Gains on exercise[3] 2011 £'000
Mrs A J Cooper	729	–	–	(729)	24.97	**–**	12.54	01/08/12 – 31/01/13	9	–
	–	440	–	–	–	**440**	20.45	01/08/15 – 31/01/16	–	–
	729	440	–	(729)	–	**440**	–	–	9	–
Mr R Dyrbus	437	–	–	(437)	24.97	**–**	12.54	01/08/12 – 31/01/13	5	–
	232	–	–	–	–	**232**	15.63	01/08/13 – 31/01/14	–	–
	–	264	–	–	–	**264**	20.45	01/08/15 – 31/01/16	–	–
	669	264	–	(437)	–	**496**	–	–	5	–
Mr M R Phillips[4]	437	–	–	(437)	24.97	**–**	12.54	01/08/12 – 31/01/13	5	–
	232	–	–	–	–	**232**	15.63	01/08/13 – 31/01/14	–	–
	264		–	–	–	**264**	20.45	01/08/15 – 31/01/16	–	–
	933	–	–	(437)	–	**496**	–	–	5	–

1 Or date of appointment as a Director if later.
2 Any option not exercised by the end of the range of exercisable dates will lapse.
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 £19,925 (2011: £nil).
4 Mr M R Phillips was appointed to the Board on 1 June 2012 and there have been no movements in his share options since appointment.

There have been no changes in any Executive Directors' share options since 30 September 2012.

Our middle market share price at the close of business on 30 September 2012, being the last trading day of the financial year, was £22.92 and the range of the middle market price during the year was £21.25 to £25.95.

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' Pension Disclosures (Audited)

			Disclosures required under the Regulations							Disclosures required under the Listing Rules £'000	
			Accrued pension £'000			Transfer value of accrued pension £'000					
	Age at 30/09/2012 Years	Pensionable service at 30/09/2012 Years	At 1/10/2011	Increase during the year	At 30/09/2012	At 1/10/2011	Increase/ (decrease) during the year net of Director's contributions	Director's contribution	At 30/09/2012	Increase in accrued pension (net of inflation) during the year	Transfer value of increase (net of inflation)
Mrs A J Cooper	46	13	109	20	129	1,114	367	32	1,513	15	182
Mr R Dyrbus	59	30	324	6	330	5,564	601	–	6,165	–	–
Mr M R Phillips	41	12	64	10	74	601	194	10	805	7	82

Remuneration Arrangements for Former Director

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.

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	
	1/10/11[1]	**30/09/12[2]**	1/10/11[1]	**30/09/12[2]**	1/10/11[1]	**30/09/12[2]**	1/10/11[1]	**30/9/12[2]**
Executive Directors								
Mrs A J Cooper	130,187	**147,917**	729	**440**	209,933	**257,085**	340,849	**405,442**
Mr R Dyrbus	399,462	**410,000**	669	**496**	259,324	**219,499**	659,455	**629,995**
Mr M R Phillips[3]	36,671	**37,108**	669	**496**	69,140	**69,140**	106,480	**106,744**
Non-Executive Directors								
Mr I J G Napier	16,807	**18,457**	–	**–**	–	**–**	16,807	**18,457**
Dr K M Burnett	1,876	**2,109**	–	**–**	–	**–**	1,876	**2,109**
Mr D J Haines[4]	–	**139**	–	**–**	–	**–**	–	**139**
Mr M H C Herlihy	3,442	**3,810**	–	**–**	–	**–**	3,442	**3,810**
Dr P H Jungels[5]	6,012	**6,012**	–	**–**	–	**–**	6,012	**6,012**
Ms S E Murray	2,758	**2,991**	–	**–**	–	**–**	2,758	**2,991**
Mr B Setrakian	1,018	**1,251**	–	**–**	–	**–**	1,018	**1,251**
Mr M D Williamson	2,890	**3,151**	–	**–**	–	**–**	2,890	**3,151**
Mr M I Wyman[6]	–	**3,041**	–	**–**	–	**–**	–	**3,041**

1 Or date of appointment if later.
2 Or date of resignation or retirement if earlier.
3 Mr M R Phillips was appointed to the Board on 1 June 2012.
4 Mr D J Haines was appointed to the Board on 2 February 2012.
5 Dr P H Jungels retired from the Board on 1 February 2012.
6 Mr M I Wyman was appointed to the Board on 3 October 2011.

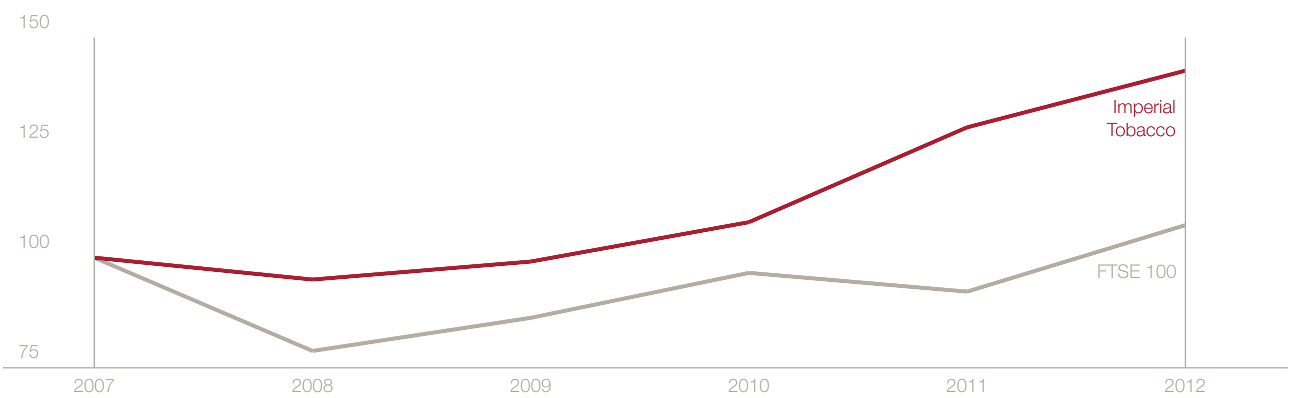
There have been no changes in these interests since 30 September 2012.

Other Information

Review of Past Performance

The chart below shows the value of £100 invested in the Company on 1 October 2007 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year ends to 30 September 2012. 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



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 PLC 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 2012, we held 77,802,000 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 1/10/2011	Acquired during year	Distributed during year	Balance at 30/09/2012	Ordinary shares under award at 30/09/2012	Surplus/ (shortfall)
Executive Trust	979,644	70,000	(236,517)	813,127	804,848	8,279
2001 Trust	3,834,659	1,000,000	(1,598,385)	3,236,274	4,286,880	(1,050,606)

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 10 years for all employee share plans, with an additional restriction to 5 per cent in 10 years for executive share plans. Currently an aggregate total of 0.3 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 3.1 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	1.9	0.2
5% in 5 years	1.0	0.2
5% in 10 years (executive plans)	1.2	0.1

For the Board

M H C Herlihy
Chairman of the Remuneration Committee

30 October 2012

Financial Statements and Notes – Contents

Group Financial Statements

Notes to the Financial Statements

Parent Company Financial Statements

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

We have audited the Group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2012 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 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 and Accounts 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 2012 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 Matter 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 2012 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

30 October 2012

Consolidated Income Statement
for the year ended 30 September

£ million unless otherwise indicated	Notes	2012	2011
Revenue	3	**28,574**	29,223
Duty and similar items		**(13,902)**	(14,037)
Other cost of sales		**(9,178)**	(9,736)
Cost of sales		**(23,080)**	(23,773)
Gross profit		**5,494**	5,450
Distribution, advertising and selling costs		**(2,005)**	(2,006)
Impairment of acquired intangibles	11	**(1,187)**	–
Other expenses		**(784)**	(804)
Administrative and other expenses		**(1,971)**	(804)
Operating profit	3	**1,518**	2,640
Investment income	7	**1,036**	785
Finance costs	7	**(1,473)**	(1,272)
Net finance costs	7	**(437)**	(487)
Profit before taxation	4	**1,081**	2,153
Taxation	8	**(382)**	(337)
Profit for the year		**699**	1,816
Attributable to:			
Owners of the parent		**678**	1,796
Non-controlling interests		**21**	20
Earnings per ordinary share (pence)			
– Basic	10	**68.1**	177.3
– Diluted	10	**67.9**	176.8

Consolidated Statement of Comprehensive Income
for the year ended 30 September

£ million	Notes	2012	2011
Profit for the year		**699**	1,816
Other comprehensive income			
Exchange movements		**(523)**	(127)
Current tax on exchange movements		**6**	–
Net actuarial (losses)/gains on retirement benefits	22	**(404)**	41
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	21	**96**	(21)
Other comprehensive income for the year, net of tax		**(825)**	(107)
Total comprehensive income for the year		**(126)**	1,709
Attributable to:			
Owners of the parent		**(144)**	1,692
Non-controlling interests		**18**	17
Total comprehensive income for the year		**(126)**	1,709

Reconciliation from operating profit to adjusted operating profit

£ million	Notes	2012	2011
Operating profit		**1,518**	2,640
Acquisition accounting adjustments		**(10)**	–
Amortisation of acquired intangibles	11	**365**	402
Impairment of acquired intangibles	11	**1,187**	–
Restructuring costs	5	**101**	61
Adjusted operating profit		**3,161**	3,103

Reconciliation from net finance costs to adjusted net finance costs

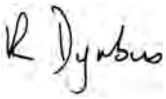
£ million	Notes	2012	2011
Net finance costs		**(437)**	(487)
Net fair value and exchange gains on financial instruments providing commercial hedges	7	**(125)**	(85)
Post-employment benefits net financing cost	7	**27**	10
Adjusted net finance costs		**(535)**	(562)

Consolidated Balance Sheet
at 30 September

£ million	Notes	2012	2011
Non-current assets			
Intangible assets	11	**17,609**	20,487
Property, plant and equipment	12	**2,025**	2,038
Investments in associates		**16**	18
Retirement benefit assets	22	**–**	5
Trade and other receivables	15	**98**	100
Derivative financial instruments	20	**636**	429
Deferred tax assets	21	**142**	102
		20,526	23,179
Current assets			
Inventories	14	**3,132**	3,055
Trade and other receivables	15	**3,029**	2,897
Current tax assets	8	**55**	42
Cash and cash equivalents	16	**631**	1,171
Derivative financial instruments	20	**266**	223
		7,113	7,388
Total assets		**27,639**	30,567
Current liabilities			
Borrowings	18	**(1,234)**	(2,104)
Derivative financial instruments	20	**(182)**	(301)
Trade and other payables	17	**(7,231)**	(7,617)
Finance lease liabilities	18	**(20)**	(1)
Current tax liabilities	8	**(372)**	(434)
Provisions	23	**(103)**	(163)
		(9,142)	(10,620)
Non-current liabilities			
Borrowings	18	**(8,333)**	(8,076)
Derivative financial instruments	20	**(729)**	(760)
Trade and other payables	17	**(18)**	(19)
Finance lease liabilities	18	**–**	(22)
Deferred tax liabilities	21	**(1,877)**	(2,056)
Retirement benefit liabilities	22	**(1,046)**	(759)
Provisions	23	**(410)**	(545)
		(12,413)	(12,237)
Total liabilities		**(21,555)**	(22,857)
Net assets		**6,084**	7,710
Equity			
Share capital	24	**107**	107
Share premium		**5,833**	5,833
Retained earnings		**(150)**	956
Exchange translation reserve		**245**	759
Equity attributable to owners of the parent		**6,035**	7,655
Non-controlling interests		**49**	55
Total equity		**6,084**	7,710

The financial statements on pages 96 to 136 were approved by the Board of Directors on 30 October 2012 and signed on its behalf by:

Iain Napier
Chairman



Robert Dyrbus
Director

Consolidated Statement of Changes in Equity

for the year ended 30 September

£ 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 2011	**107**	**5,833**	**956**	**759**	**7,655**	**55**	**7,710**
Profit for the year	**–**	**–**	**678**	**–**	**678**	**21**	**699**
Exchange movements	**–**	**–**	**–**	**(520)**	**(520)**	**(3)**	**(523)**
Current tax on exchange movements	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Net actuarial losses on retirement benefits	**–**	**–**	**(404)**	**–**	**(404)**	**–**	**(404)**
Deferred tax relating to net actuarial losses on retirement benefits	**–**	**–**	**96**	**–**	**96**	**–**	**96**
Other comprehensive income	**–**	**–**	**(308)**	**(514)**	**(822)**	**(3)**	**(825)**
Total comprehensive income	**–**	**–**	**370**	**(514)**	**(144)**	**18**	**(126)**
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	**–**	**–**	**8**	**–**	**8**	**–**	**8**
Costs of employees' services compensated by share schemes	**–**	**–**	**20**	**–**	**20**	**–**	**20**
Current tax on share-based payments	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Deferred tax on share-based payments	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Changes in non-controlling interests	**–**	**–**	**5**	**–**	**5**	**(5)**	**–**
Increase in own shares held as treasury shares	**–**	**–**	**(528)**	**–**	**(528)**	**–**	**(528)**
Dividends paid	**–**	**–**	**(983)**	**–**	**(983)**	**(19)**	**(1,002)**
At 30 September 2012	**107**	**5,833**	**(150)**	**245**	**6,035**	**49**	**6,084**
At 1 October 2010	107	5,833	206	883	7,029	60	7,089
Profit for the year	–	–	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

Consolidated Cash Flow Statement
for the year ended 30 September

£ million	Notes	2012	2011
Cash flows from operating activities	29	**2,119**	2,556
Cash flows from investing activities			
Interest received		**15**	18
Purchase of property, plant and equipment		**(300)**	(341)
Proceeds from sale of property, plant and equipment		**21**	21
Purchase of intangible assets – software		**(24)**	(22)
Net cash used in investing activities		**(288)**	(324)
Cash flows from financing activities			
Interest paid		**(515)**	(570)
Cash from employees on maturity/exercise of share schemes		**8**	4
Purchase of shares by Employee Share Ownership Trusts		**–**	(22)
Settlement of exchange rate derivative financial instruments		**(275)**	(44)
Increase in borrowings		**1,335**	1,785
Repayment of borrowings		**(1,486)**	(1,837)
Decrease/(increase) in collateralisation deposits		**196**	(34)
Finance lease payments		**(2)**	(2)
Purchase of treasury shares		**(528)**	(182)
Dividends paid to non-controlling interests		**(19)**	(22)
Dividends paid to owners of the parent		**(983)**	(892)
Net cash used in financing activities		**(2,269)**	(1,816)
Net (decrease)/increase in cash and cash equivalents		**(438)**	416
Cash and cash equivalents at start of year		**1,171**	773
Effect of foreign exchange rates on cash and cash equivalents		**(102)**	(18)
Cash and cash equivalents at end of year		**631**	1,171

1 Accounting Policies

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.

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 note 2 Critical Accounting Estimates and Judgements. 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 141 and 142.

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 consolidated 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 consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and with those arising on financing transactions reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

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 that are regarded as highly effective are transferred to other comprehensive income and offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

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 cost of sales in the consolidated income statement. 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.

1 Accounting Policies *continued*

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 down 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 consolidated income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

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.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

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 instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include 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 in the consolidated 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 12 months is classified as a current asset, consistent with recognised industry practice.

Provisions

A provision is recognised in the consolidated 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 consolidated 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 consolidated 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.

1 Accounting Policies *continued*

Treasury Shares

When 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. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases 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 and impairment 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 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported taxation in note 8, and adjusted and reported earnings per share in note 10.

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

Adjusted measures exclude acquisition-related items which do not relate to the operational performance of the Group, such as subsequent releases of, or additional charges to, provisions established at the time of an acquisition.

Amortisation and Impairment 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 and impairment 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.

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 consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated 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 (outside of changes in estimates in the normal course of business) 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

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. 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.

Under IAS 19 (Revised) which becomes mandatory for the Group in its 2014 accounts, 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 monitoring the potential impact, which is likely to be an increase in 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. IFRS 11 is likely to become mandatory for the Group in its 2015 accounts and will require the Group to equity account for its joint ventures which are currently proportionately consolidated. It is not expected to have a material effect on the results or net assets of the Group.

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.

2 Critical Accounting Estimates and Judgements

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 a favourable or 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 28 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 11 and 12 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. 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. Details of the key assumptions are set out in note 22.

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.

3 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 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	2012	2011
Revenue	21,161	21,277
Net revenue	7,005	6,913
Operating profit	1,447	2,577
Adjusted operating profit	2,989	2,924
Adjusted operating margin %	42.7	42.3

Logistics

£ million unless otherwise indicated	2012	2011
Revenue	8,368	8,911
Distribution fees	872	932
Operating profit	75	67
Adjusted operating profit	176	183
Adjusted distribution margin %	20.2	19.6

Revenue

	2012		2011	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
UK	5,390	5,390	5,030	5,030
Germany	3,931	3,931	4,147	4,147
Spain	470	32	497	56
Rest of European Union	5,015	4,498	5,469	4,945
Americas	1,223	1,223	1,408	1,408
Rest of the World	5,132	5,132	4,726	4,726
Total Tobacco	21,161	20,206	21,277	20,312
Logistics	8,368	8,368	8,911	8,911
Eliminations	(955)	–	(965)	–
Total Group	28,574	28,574	29,223	29,223

Tobacco net revenue

£ million	2012	2011
UK	936	869
Germany	861	879
Spain	470	497
Rest of European Union	1,534	1,592
Americas	660	731
Rest of the World	2,544	2,345
Total Tobacco	7,005	6,913

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £254 million (2011: £326 million).

Adjusted operating profit and reconciliation to profit before tax

£ million	2012	2011
Tobacco		
UK	**627**	577
Germany	**448**	461
Spain	**202**	200
Rest of European Union	**626**	658
Americas	**214**	234
Rest of the World	**872**	794
Total Tobacco	**2,989**	2,924
Logistics	**176**	183
Eliminations	**(4)**	(4)
Adjusted operating profit	**3,161**	3,103
Acquisition accounting adjustments – Tobacco	**10**	–
Amortisation of acquired intangibles – Tobacco	**(283)**	(299)
Amortisation of acquired intangibles – Logistics	**(82)**	(103)
Impairment of acquired intangibles – Tobacco	**(1,187)**	–
Restructuring costs – Tobacco	**(82)**	(48)
Restructuring costs – Logistics	**(19)**	(13)
Operating profit	**1,518**	2,640
Net finance costs	**(437)**	(487)
Profit before tax	**1,081**	2,153

Other segment information

	2012		2011	
£ million	**Additions to property, plant and equipment**	**Depreciation and software amortisation**	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
UK	**39**	**21**	27	26
Germany	**31**	**17**	48	20
Spain	**9**	**10**	16	10
Rest of European Union	**122**	**35**	106	35
Americas	**14**	**7**	15	6
Rest of the World	**68**	**46**	109	37
Total Tobacco	**283**	**136**	321	134
Logistics	**17**	**35**	20	35
Total Group	**300**	**171**	341	169

Additional geographic analysis

External revenue and non-current assets are presented for the UK and for individually significant countries.

	2012		2011	
£ million	**External revenue**	**Non-current assets**	External revenue	Non-current assets
UK	**5,390**	**166**	5,030	162
Germany	**3,931**	**3,064**	4,147	3,325
Spain	**1,849**	**2,691**	1,972	4,316
France	**3,814**	**3,160**	3,992	3,479
Rest of European Union	**7,235**	**2,626**	7,948	2,791
Americas	**1,223**	**2,908**	1,408	3,074
Rest of the World	**5,132**	**5,035**	4,726	5,396
Total Group	**28,574**	**19,650**	29,223	22,543

Non-current assets comprise intangible assets, property, plant and equipment, and investments in associates.

4 Profit Before Taxation

Profit before taxation is stated after charging/(crediting):

£ million	2012	2011
Raw materials and consumables used	1,467	1,476
Operating lease charges	62	65
Net foreign exchange gains	(86)	(66)
Write down of inventories	27	28
Profit on disposal of property, plant and equipment	–	(1)
Impairment of trade receivables	1	(1)

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2012	2011
Audit of parent company and consolidated financial statements	0.4	0.4
Audit of the company's subsidiaries	4.0	4.0
Audit related assurance services	0.3	0.2
Other assurance services	0.1	–
	4.8	4.6
Tax advisory services	0.9	0.9
Tax compliance services	0.2	0.2
Other services	0.3	0.3
	6.2	6.0

5 Restructuring Costs

£ million	2012	2011
Employment related	28	12
Asset impairments	43	27
Other charges	30	22
	101	61

Restructuring costs in 2012 and 2011 included impairments of surplus properties in Spain to reflect current property market conditions, amounts related to integration of our American businesses, manufacturing rationalisation in Europe, and the streamlining of parts of our Logistics operations. During 2012 we closed our factories in Berlin, Palazuelo and Menen, rationalised our Asian administrative offices, and closed our office in Farnham Royal in readiness for moving to our new purpose-built Headquarters in Bristol in 2013.

The net charge of £101 million in 2012 (2011: £61 million) included £29 million (2011: £30 million) of unused restructuring provisions reversed during the period, £33 million (2011: £30 million) of additional restructuring provisions and £43 million (2011: £27 million) impairment of tangible assets. The remaining charge of £54 million (2011: £34 million) was recorded directly in the income statement as incurred as these costs did not meet the provisioning requirements of IAS 37 at previous reporting periods.

Restructuring costs are included within administrative and other expenses in the consolidated income statement.

6 Directors and Employees

Employment costs

£ million	2012	2011
Wages and salaries	929	911
Social security costs	189	202
Pension costs (note 22)	45	67
Share-based payments (note 25)	22	26
	1,185	1,206

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 77 to 93. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2012		2011	
	At 30 September	Average	At 30 September	Average
Tobacco	**31,000**	**30,900**	31,600	31,200
Logistics	**6,200**	**6,400**	6,600	6,700
	37,200	**37,300**	38,200	37,900

Number of people employed by the Group by location during the year

	2012		2011	
	At 30 September	Average	At 30 September	Average
European Union	**17,000**	**17,100**	17,300	17,100
Americas	**8,600**	**8,600**	9,100	9,100
Rest of the World	**11,600**	**11,600**	11,800	11,700
	37,200	**37,300**	38,200	37,900

7 Net Finance Costs

£ million	2012	2011
Interest on bank deposits	**(15)**	(18)
Expected return on retirement benefit assets	**(168)**	(178)
Fair value gains on derivative financial instruments providing commercial hedges	**(761)**	(445)
Exchange gains on financing activities	**(92)**	(144)
Investment income	**(1,036)**	(785)
Interest on bank and other loans	**550**	580
Interest on retirement benefit liabilities	**187**	180
Unwind of discount on redundancy and social plans	**8**	8
Fair value losses on derivative financial instruments providing commercial hedges	**723**	428
Fair value losses on derivative financial instruments hedging underlying borrowings	**5**	76
Finance costs	**1,473**	1,272
Net finance costs	**437**	487

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2012	2011
Reported net finance costs	**437**	487
Fair value gains on derivative financial instruments providing commercial hedges	**761**	445
Fair value losses on derivative financial instruments providing commercial hedges	**(723)**	(428)
Exchange gains on financing activities	**92**	144
Fair value losses on derivative financial instruments hedging underlying borrowings	**(5)**	(76)
Net fair value and exchange gains on financial instruments providing commercial hedges	**125**	85
Expected return on retirement benefit assets	**168**	178
Interest on retirement benefit liabilities	**(187)**	(180)
Unwind of discount on redundancy and social plans	**(8)**	(8)
Post-employment benefit net financing cost	**(27)**	(10)
Adjusted net finance costs	**535**	562

8 Taxation

Analysis of charge in the year

£ million	2012	2011
Current tax		
UK corporation tax at 25% (2011: 27%) being the average rate for the year	(112)	(29)
Overseas taxation	490	350
Total current tax	378	321
Deferred tax		
Origination and reversal of temporary differences	4	16
Total tax charged to the income statement	382	337

During the year ended 30 September 2012 certain outstanding matters were resolved with tax authorities. The reported tax charge for the period includes a release of £137 million (2011: £205 million) of tax provisions following resolution of these matters (outside of changes in estimates in the normal course of business). This significant one-off tax provision credit is excluded from the adjusted tax charge to aid comparability and understanding of the Group's performance in accordance with our stated policy on the use of adjusted measures.

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 10.

£ million	2012	2011
Reported taxation	382	337
Tax on acquisition accounting adjustments	(1)	–
Deferred tax on amortisation of acquired intangibles	69	77
Tax on net fair value and exchange gains on financial instruments providing commercial hedges	(21)	(23)
Tax on post-employment benefits net financing cost	9	4
Tax on restructuring costs	29	17
Tax provisions released	137	205
Adjusted tax charge	604	617

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 average UK corporation tax rate for the year of 25 per cent (2011: 27 per cent) as follows:

£ million	2012	2011
Profit before tax	1,081	2,153
Tax at the UK corporation tax rate of 25% (2011: 27%)	270	581
Tax effects of:		
Differences in effective tax rates on overseas earnings	(145)	(58)
Impairment of deferred tax assets	55	–
Permanent differences	45	16
Non-deductible goodwill impairment	296	–
Tax provisions released	(137)	(205)
Adjustments in respect of prior years	(2)	3
Total tax charged to the income statement	382	337

Movement on current tax account

£ million	2012	2011
At 1 October	(392)	(602)
Charged to the income statement	(378)	(321)
Credited to other comprehensive income	6	–
Credited to equity	1	–
Cash paid	442	529
Exchange movements	8	1
Other movements	(4)	1
At 30 September	(317)	(392)

9 Dividends

Dividend per share in respect of financial year

Pence	2012	2011	2010
Interim	31.7	28.1	24.3
Final	73.9	67.0	60.0
Total	105.6	95.1	84.3

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	2012	2011
Final dividend paid in the period in respect of previous financial year	669	608
Interim dividend	314	284
	983	892

The proposed final dividend for the year ended 30 September 2012 of 73.9p per share amounts to a proposed final dividend payment of £729 million based on the number of shares ranking for dividend at 30 September 2012, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2012 will be £1,043 million (2011: £953 million).

10 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	2012	2011
Earnings: basic and diluted	678	1,796
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	995.4	1,013.0
Potentially dilutive share options	2.9	3.0
Shares for diluted earnings per share	998.3	1,016.0
Pence		
Basic earnings per share	68.1	177.3
Diluted earnings per share	67.9	176.8

Reconciliation from reported to adjusted earnings and earnings per share

	2012		2011	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	68.1	678	177.3	1,796
Acquisition accounting adjustments	(0.9)	(9)	–	–
Amortisation of acquired intangibles	29.7	296	32.1	325
Impairment of acquired intangibles	119.3	1,187	–	–
Net fair value and exchange gains on financial instruments providing commercial hedges	(10.4)	(104)	(6.1)	(62)
Post-employment benefits net financing cost	1.8	18	0.6	6
Restructuring costs	7.2	72	4.3	44
Tax provisions released	(13.8)	(137)	(20.2)	(205)
Adjusted	201.0	2,001	188.0	1,904
Adjusted diluted	200.4	2,001	187.4	1,904

11 Intangible Assets

£ million	2012 Goodwill	Trademarks	Supply agreements	Software	Total
Cost					
At 1 October 2011	**13,035**	**7,485**	**1,456**	**142**	**22,118**
Additions	**–**	**–**	**–**	**24**	**24**
Disposals/retirements	**–**	**–**	**–**	**(6)**	**(6)**
Exchange movements	**(857)**	**(466)**	**(102)**	**(9)**	**(1,434)**
At 30 September 2012	**12,178**	**7,019**	**1,354**	**151**	**20,702**
Amortisation and impairment					
At 1 October 2011	**21**	**1,165**	**363**	**82**	**1,631**
Amortisation charge for the year	**–**	**271**	**94**	**21**	**386**
Impairment charge for the year	**1,187**	**–**	**–**	**–**	**1,187**
Disposals/retirements	**–**	**–**	**–**	**(5)**	**(5)**
Exchange movements	**–**	**(70)**	**(29)**	**(7)**	**(106)**
At 30 September 2012	**1,208**	**1,366**	**428**	**91**	**3,093**
Net book value					
At 30 September 2012	**10,970**	**5,653**	**926**	**60**	**17,609**

£ million	2011 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

Supply agreements include 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.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

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.

An impairment charge of £1.2 billion was taken in 2012 in respect of goodwill relating to the Spanish market, which is explained in more detail below.

Goodwill and intangible assets 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.

	2012		2011	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Spain	**218**	**–**	1,511	–
Other European Union	**4,466**	**117**	4,814	126
Americas	**1,776**	**102**	1,842	106
Rest of the World	**2,663**	**315**	2,868	340
Cuban cigar joint ventures	**281**	**242**	291	252
Tobacco	**9,404**	**776**	11,326	824
Logistics	**1,566**	**–**	1,688	–
	10,970	**776**	13,014	824

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 CGU is based on value-in-use calculations. These calculations use cash flow projections derived from three year financial plans which are approved by the Board annually and are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts 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, 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.

Growth rates and discount rates used

The compound annual growth rates implicit in these value-in-use calculations are shown below.

	2012		2011	
%	Initial growth rate	Long-term rate	Initial growth rate	Long-term rate
Spain	**1.7**	**1.5**	10.9	2.7
Other European Union	**5.8**	**1.8**	4.2	3.0
Americas	**5.0**	**2.5**	10.4	3.0
Rest of the World	**12.0**	**4.0**	11.8	3.0
Cuban cigar joint ventures	**9.7**	**4.0**	7.6	3.0
Logistics	**7.4**	**1.7**	4.3	3.0

Cash flows from the three year plan period are extrapolated out to year five using the growth rate implicit in the three year plan. Estimated long-term weighted average compound annual growth rates of between 1.5 per cent and 4.0 per cent per annum are used beyond year five. 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.

Long-term growth rates 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 in light of current uncertainty over prospects for the Spanish economy. Other long-term growth rates have also been revised in line with long-term growth trends in the relevant economies.

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 in 2012 ranged from 8.5 per cent to 13.1 per cent (2011: 8.7% to 11.3%).

Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

11 Intangible Assets *continued*

Spain

The Spanish economy has been particularly affected by the euro crisis and the collapse in Spanish property prices, with high unemployment levels, regional and central government deficits, a banking sector bail-out, and the introduction of austerity measures. During 2012, and particularly in the second half of the financial year, the Spanish economy has deteriorated further, and we believe the timing of a recovery of the economy has receded while the current level of uncertainty has increased. In line with these developments we have updated our assumptions to reflect current market data for the purposes of impairment testing, and have consequently increased the discount rate applied to Spain to 13.1 per cent (from 10.6 per cent last year) and reduced the long-term growth rate to 1.5 per cent (from 2.7 per cent last year). The effect of the macro-economic conditions and the current downward revision of longer term assumptions have together resulted in an impairment of £1.2 billion of the goodwill in our Spanish business.

Further impairment of our Spanish intangible assets could result in the event of an increase in the discount rate, or a reduction in the initial or long-term growth rates, or a reduction in the value of overall cash flows. An increase of 50 basis points in the discount rate would result in further impairment of £70 million, a reduction in the initial growth rate of 50 basis points in further impairment of £35 million, and a reduction of 50 basis points in the long-term growth rate in a further impairment of £45 million. A reduction of 5 per cent in overall cash flows would result in a further impairment of £90 million.

Other CGUs

The impairment test for Americas indicated headroom of £100 million, and that an impairment would result in the event of either an increase in the discount rate of 25 basis points from 9.9 per cent, or a 75 basis point reduction in the short-term growth rate, or a 30 basis point reduction in the long-term growth rate, or a 3 per cent reduction in overall cash flows. Our assumptions for the performance of the Americas business also take into account the benefits we expect to arise from actions we have recently taken to strengthen the business, including the integration of our US businesses, a new management team and a revised strategy focused on key growth states.

We have previously reported that a reasonable movement in assumptions for the Cuban cigar joint ventures would result in an impairment. Due to continued strong growth in revenue and profitability of the joint ventures there is increased headroom in our impairment calculation. Accordingly we no longer consider that a reasonable movement in the key assumptions will result in an impairment of this CGU.

For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

12 Property, Plant and Equipment

	2012			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2011	1,125	1,576	437	3,138
Additions	32	220	48	300
Disposals	(9)	(41)	(25)	(75)
Reclassifications	14	(3)	(12)	(1)
Exchange movements	(76)	(69)	(19)	(164)
At 30 September 2012	1,086	1,683	429	3,198
Depreciation and impairment				
At 1 October 2011	161	709	230	1,100
Depreciation charge for the year	13	99	38	150
Impairment	26	11	2	39
Disposals	(3)	(28)	(23)	(54)
Reclassifications	3	(1)	(3)	(1)
Exchange movements	(16)	(38)	(7)	(61)
At 30 September 2012	184	752	237	1,173
Net book value				
At 30 September 2012	902	931	192	2,025

The net book value above includes property of £23 million (2011: £25 million) held under a finance lease.

£ million	2011 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 impairment charges in 2012 and 2011 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.

In 2011 certain spare parts and consumables of individually low value were reclassified from plant and equipment to other inventory as this better reflects their nature and pattern of usage. The net book value of these items was £31 million. Also during 2011 a number of other items were reclassified including £8 million, at net book value, of software from fixtures and motor vehicles to intangible assets.

13 Joint Ventures

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the Group's share of joint ventures, which are accounted for under the proportional consolidation method, is shown below:

£ million	2012 Corporación Habanos	Altabana	Others	Total
Revenue	**49**	**104**	**13**	**166**
Profit after taxation	**15**	**18**	**2**	**35**
Non-current assets	**184**	**8**	**3**	**195**
Current assets	**38**	**62**	**12**	**112**
Total assets	**222**	**70**	**15**	**307**
Current liabilities	**(35)**	**(21)**	**(2)**	**(58)**
Non-current liabilities	**(7)**	**(1)**	**–**	**(8)**
Total liabilities	**(42)**	**(22)**	**(2)**	**(66)**
Net assets	**180**	**48**	**13**	**241**

£ million	2011 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

13 Joint Ventures *continued*

Transactions and balances with joint ventures

£ million	2012	2011
Sales to	73	53
Purchases from	97	77
Accounts receivable from	11	8
Current loans to	3	6
Accounts payable to	(13)	(10)

14 Inventories

£ million	2012	2011
Raw materials	1,006	928
Work in progress	65	63
Finished inventories	1,913	1,887
Other inventories	148	177
	3,132	3,055

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 (2011: £120 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

During 2011 £31 million of spare parts were reclassified from plant and equipment to other inventories as this better reflects their pattern and nature of usage.

15 Trade and Other Receivables

	2012		2011	
£ million	Current	Non-current	Current	Non-current
Trade receivables	2,910	–	2,790	–
Less: provision for impairment of receivables	(58)	–	(55)	–
Net trade receivables	2,852	–	2,735	–
Other receivables	73	80	76	81
Prepayments and accrued income	104	18	86	19
	3,029	98	2,897	100

Trade receivables may be analysed as follows:

	2012		2011	
£ million	Current	Non-current	Current	Non-current
Within credit terms	2,759	–	2,664	–
Past due by less than 3 months	57	–	56	–
Past due by more than 3 months	36	–	15	–
Amounts that are impaired	58	–	55	–
	2,910	–	2,790	–

16 Cash and Cash Equivalents

£ million	2012	2011
Cash at bank and in hand	608	1,153
Short-term deposits and other liquid assets	23	18
	631	1,171

£183 million (2011: £233 million) of 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.

17 Trade and Other Payables

£ million	2012 Current	2012 Non-current	2011 Current	2011 Non-current
Trade payables	**1,036**	**–**	1,169	–
Other taxes, duties and social security contributions	**5,594**	**–**	6,015	–
Other payables	**151**	**–**	126	–
Accruals and deferred income	**450**	**18**	307	19
	7,231	**18**	7,617	19

18 Borrowings and Finance Lease Liabilities

The Group's borrowings and finance lease liabilities at amortised cost at the balance sheet date are as follows:

£ million	2012	2011
Current borrowings		
Secured:		
Finance lease liabilities	**20**	1
Unsecured:		
Bank loans and overdrafts	**84**	136
Capital market issuance:		
European commercial paper	**1,150**	521
£350m 6.875% notes due June 2012	**–**	357
€1,250m 5.0% notes due June 2012	**–**	1,090
Total current borrowings	**1,234**	2,104
Total current borrowings and finance lease liabilities	**1,254**	2,105
Non-current borrowings		
Secured:		
Finance lease liabilities	**–**	22
Unsecured:		
Bank loans	**–**	34
Capital market issuance:		
€500m 5.125% notes due October 2013	**418**	450
€1,200m 4.375% notes due November 2013	**993**	1,070
€750m 7.25% notes due September 2014	**600**	647
€500m 4.0% notes due December 2015	**389**	414
€1,500m 8.375% notes due February 2016	**1,258**	1,356
£450m 5.5% notes due November 2016	**471**	470
€850m 4.5% notes due July 2018	**682**	738
£200m 6.25% notes due December 2018	**212**	210
£500m 7.75% notes due June 2019	**509**	509
€750m 5.0% notes due December 2019	**623**	–
£1,000m 9.0% notes due February 2022	**1,054**	1,053
£600m 8.125% notes due March 2024	**625**	625
£500m 5.5% notes due September 2026	**499**	500
Total non-current borrowings	**8,333**	8,076
Total non-current borrowings and finance lease liabilities	**8,333**	8,098
Total borrowings and finance lease liabilities	**9,587**	10,203
Analysed as:		
Borrowings	**9,565**	10,180
Finance Lease Liabilities	**20**	23
Overdrafts	**2**	–

Current borrowings and non-current borrowings at 30 September 2012 include interest payable of £2 million (2011: £19 million) and £285 million (2011: £278 million) respectively.

18 Borrowings and Finance Lease Liabilities *continued*

Certain borrowings drawn under revolving credit facilities have been classified as non-current borrowings, in accordance with the ultimate maturity date of those facilities, but contractual cash flows will be required within 12 months of the balance sheet date repaying such borrowings and they may then be redrawn subject to condition precedents being met.

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 2012 bear interest (before the effects of financial derivatives which are detailed in note 20) at a fixed rate throughout their life. The Group has not defaulted on any borrowings or finance lease liabilities during the year (2011: no defaults).

Undrawn borrowing facilities

At 30 September the Group had the following undrawn committed facilities in respect of which all condition precedents had been met at that date.

£ million	**2012**	2011
Amounts expiring:		
Within one year	**–**	–
Between one and two years	**639**	–
Between two and five years	**2,415**	–
In five years or more	**–**	2,498
	3,054	2,498

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current financial liabilities at 30 September (including net derivative financial liabilities detailed in note 20) was as follows:

	2012			2011			
£ million	**Borrowings and overdrafts**	**Net derivative financial liabilities**	**Total**	Borrowings and overdrafts	Finance leases	Net derivative financial liabilities	Total
Amounts expiring:							
Between one and two years	**2,011**	**(29)**	**1,982**	–	22	253	275
Between two and five years	**2,118**	**34**	**2,152**	3,971	–	1	3,972
In five years or more	**4,204**	**88**	**4,292**	4,105	–	77	4,182
	8,333	**93**	**8,426**	8,076	22	331	8,429

19 Financial Risk Factors

Financial risk management

Overview

In the normal course of business, the Group is exposed to market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

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 Group Finance Director and other senior management from Group Finance and Planning, Group Sales, Group Marketing, Investor Communications and Group Treasury.

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.

Market risk

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. Currently, the Group's financial results are principally exposed to gains or losses arising from fluctuations in sterling, euro and US dollar exchange rates.

Translation risk

The Group has a policy of managing its balance sheet translation risk by funding material acquisitions and the underlying material business assets with borrowings (post cross currency swaps) in the currency of the underlying net assets. This also results in foreign currency operating profits 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.

Transaction risk

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'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.

Foreign currency sensitivity analysis

The tables below illustrate the Group's currency exposures arising on financial assets and liabilities held by Group companies in currencies other than their functional currencies and resulting in exchange movements in the income statement and balance sheet.

	2012			
£ million	GBP	EUR	USD	Other
Financial assets:				
Trade and other receivables	5	–	79	2
Derivative financial instruments[1]	–	1,978	564	350
Cash and cash equivalents	58	19	127	4
Intra-group assets	–	4,475	1,518	58
	63	6,472	2,288	414
Potential impact on income statement – (loss)/gain				
10% increase in functional currency value	(6)	(588)	(208)	(38)
10% decrease in functional currency value	7	719	254	46
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	–	–	–
10% decrease in functional currency value	–	–	–	–
Financial liabilities:				
Trade and other payables	1	4	21	–
Derivative financial instruments[1]	–	4,363	1,184	113
Borrowings	–	5,404	113	27
Intra-group liabilities	–	10,638	718	206
	1	20,409	2,036	346
Potential impact on income statement – (loss)/gain				
10% increase in functional currency value	–	684	185	29
10% decrease in functional currency value	–	(837)	(226)	(35)
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	1,171	–	2
10% decrease in functional currency value	–	(1,431)	–	(3)

1 Amounts represent the notional amounts of derivative financial instruments.

19 Financial Risk Factors *continued*

	2011			
£ million	GBP	EUR	USD	Other
Financial assets:				
Trade and other receivables	5	–	77	3
Derivative financial instruments[1]	–	2,339	–	–
Cash and cash equivalents	–	–	36	4
Intra-group assets	–	3,242	2,280	49
	5	5,581	2,393	56
Potential impact on income statement – (loss)/gain				
10% increase in functional currency value	–	(507)	(217)	(5)
10% decrease in functional currency value	1	620	266	6
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	–	–	–
10% decrease in functional currency value	–	–	–	–
Financial liabilities:				
Trade and other payables	–	1	8	–
Derivative financial instruments[1]	–	4,639	1,240	150
Borrowings	1	5,494	–	2
Intra-group liabilities	–	11,210	699	317
	1	21,344	1,947	469
Potential impact on income statement – (loss)/gain				
10% increase in functional currency value	–	677	171	41
10% decrease in functional currency value	–	(828)	(210)	(49)
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	1,263	6	2
10% decrease in functional currency value	–	(1,544)	(7)	(3)

1 Amounts represent the notional amounts of derivative financial instruments.

The above movements in foreign exchange rates are considered to represent reasonably possible changes. Other larger or smaller changes are also possible. The sensitivity analysis has been prepared on the basis that the amount of net debt 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. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates and ignores any tax effects.

The effect in the income statement from foreign exchange rate movements primarily relates to financial instruments that commercially hedge Group exposures, but which are not accounted for as hedges under IAS 39 although commercially effective (see note 20 for hedge accounting). This value is expected to be substantially offset by related movements through other comprehensive income and, accordingly, any residual gain or loss is excluded from our adjusted performance measures.

At 30 September 2012, approximately 24% (2011: 24%) of reported net debt was denominated in sterling, 56% in euro (2011: 51%) and 20% in US dollars (2011: 25%).

Interest rate risk

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 manages its interest rate exposure on a regular basis and reports the position monthly to the Board and GTC.

The Group transacts interest rate swaps to manage the Group's exposure to interest rate risk. Historically, the Group chose to convert newly issued fixed rate debt into floating rates at the time of issue, executing fixing transactions in accordance with the interest rate risk management framework and GTC approval as and when deemed appropriate.

At 30 September 2012, after adjusting for the effect of derivative financial instruments detailed in note 20, 31% (2011: 26%) of reported net debt was at a floating rate of interest and 69% (2011: 74%) was at a fixed rate of interest.

Interest rate sensitivity analysis

The table below illustrates the effect on the income statement and other comprehensive income of movements in interest rates related to variable rate financial instruments.

	2012				
£ million	**Total**	**GBP**	**EUR**	**USD**	**Other**
Net debt[1]	**8,956**	**3,420**	**5,872**	**(20)**	**(316)**
Less: fixed rate debt	**(8,353)**	**(3,390)**	**(4,963)**	**–**	**–**
Variable rate debt	**603**	**30**	**909**	**(20)**	**(316)**
Adjust for the effect of derivative financial instruments	**2,151**	**597**	**1,461**	**140**	**(47)**
Net variable rate debt exposure	**2,754**	**627**	**2,370**	**120**	**(363)**
+/- 100bps change					
Potential impact on income statement	**27**	**6**	**24**	**1**	**(4)**
+/- 100bps change					
Potential impact on other comprehensive income	**–**	**–**	**–**	**–**	**–**

1 Excluding net derivative financial instruments.

	2011				
£ million	Total	GBP	EUR	USD	Other
Net debt[1]	9,032	3,771	5,569	84	(392)
Less: fixed rate debt	(9,489)	(3,724)	(5,765)	–	–
Variable rate debt	(457)	47	(196)	84	(392)
Adjust for the effect of derivative financial instruments	2,777	765	1,899	113	–
Net variable rate debt exposure	2,320	812	1,703	197	(392)
+/- 100bps change					
Potential impact on income statement	23	8	17	2	(4)
+/- 100bps change					
Potential impact on other comprehensive income	–	–	–	–	–

1 Excluding net derivative financial instruments.

The above movements in interest rates are considered to represent reasonably possible changes. Other larger or smaller changes are also possible. The sensitivity analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives portfolio are all constant.

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, and ignores any tax effects.

Interest rate profiles of financial liabilities

The following table sets out the timing of contractual repricing of the underlying borrowings (excluding derivative financial instruments but including finance lease liabilities) exposed to either fixed interest rates or floating interest rates and revises this for the repricing effect of interest rate and cross currency swaps.

	2012			2011		
£ million	**Total borrowings**	**Effect of derivatives**	**Total exposure**	Total borrowings	Effect of derivatives	Total exposure
Financial liabilities:						
Repricing due:						
Within one year	**1,254**	**2,151**	**3,405**	2,105	2,800	4,905
Between one and two years	**2,011**	**(1,780)**	**231**	22	1,033	1,055
Between two and five years	**2,118**	**1,501**	**3,619**	3,971	(1,933)	2,038
In five years or more	**4,204**	**(1,872)**	**2,332**	4,105	(1,900)	2,205
Total interest bearing	**9,587**	**–**	**9,587**	10,203	–	10,203
Analysed as:						
Fixed rate interest	**8,353**	**(2,151)**	**6,202**	9,512	(2,800)	6,712
Floating rate interest	**1,234**	**2,151**	**3,385**	691	2,800	3,491
Total interest bearing	**9,587**	**–**	**9,587**	10,203	–	10,203

19 Financial Risk Factors *continued*

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 22. 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. Currently, these techniques reduce the expected exposure to this risk to levels considered not material and accordingly, no sensitivity analysis has been presented.

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.

Trade and other receivables

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 necessary. Analysis of trade and other receivables is provided in note 15.

Financial instruments

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. Utilisation of credit limits is regularly monitored and to reduce credit exposures, the Group has ISDA Master Agreements with most of its counterparties for financial derivatives, which permit net settlement of assets and liabilities in certain circumstances. In limited cases, collateral is pledged against derivative financial liabilities and these are supported by an ISDA Credit Support Annex in each case.

The table below summarises the Group's major financial institution counterparties by credit rating and balances at 30 September:

	2012		2011	
Counterparty	**S&P credit rating**	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Financial institution A	**A+**	**128**	A+	223
Financial institution B	**A-**	**115**	AA	131
Financial institution C	**A**	**113**	AA	127
Financial institution D	**AA-**	**92**	AA	112
Financial institution E	**A**	**74**	A	98
Financial institution F	**A**	**64**	A-	95
Financial institution G	**A**	**59**	A	90

Management do not expect these counterparties to default on their current obligations.

The Group considers its maximum aggregate credit risk to be £4,443 million at 30 September 2012 (2011: £4,613 million).

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. To prevent over-reliance on individual sources of liquidity, funding is provided by a range of instruments including bank loans, credit facilities, commercial paper and corporate bonds. Management routinely perform stress tests and sensitivity analyses on these forecasts, which are subsequently reviewed by the Audit Committee. Undrawn borrowing facilities are detailed in note 18.

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 in some limited cases through local borrowings by the subsidiaries in appropriate currencies. Available liquidity from subsidiary companies is remitted to Group Treasury where practical and possible on a regular basis.

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.

	2012					
£ million	**Balance sheet amount**	**Contractual cash flows Total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
Non-derivative financial liabilities:						
Bank loans	**84**	**84**	**84**	**–**	**–**	**–**
Capital market issuance	**9,483**	**13,103**	**1,695**	**2,422**	**3,091**	**5,895**
Trade payables	**1,036**	**1,036**	**1,036**	**–**	**–**	**–**
Finance lease liabilities	**20**	**20**	**20**	**–**	**–**	**–**
Total non-derivative financial liabilities	**10,623**	**14,243**	**2,835**	**2,422**	**3,091**	**5,895**
Total derivative financial liabilities – note 20	**911**	**1,264**	**232**	**151**	**372**	**509**

	2011					
£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 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
Total derivative financial liabilities – note 20	1,061	1,427	368	217	446	396

Capital management

The Group manages the capital structure in an efficient manner in order to minimise the cost of capital whilst ensuring access to ongoing sources of finance such as the debt capital markets. The Group defines capital as adjusted net debt (see note 30) and equity attributable to owners of the parent 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 ECP Facility and Bank Bridge 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 and will continue to take the appropriate measures to maintain this, including consideration of the return of capital to shareholders through an appropriate mix of share buy backs and dividends.

Fair value estimation and fair values of financial assets and financial liabilities

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. All derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates (Level 2 classification hierarchy of IFRS 7).

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.

	2012		2011	
£ million	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Current borrowings and finance lease liabilities:				
Sterling	**50**	**50**	383	395
Euro	**1,162**	**1,162**	1,616	1,642
US dollars	**1**	**1**	106	106
Other	**41**	**41**	–	–
Total current borrowings and finance lease liabilities	**1,254**	**1,254**	2,105	2,143
Non-current borrowings and finance lease liabilities:				
Sterling	**3,370**	**4,374**	3,389	4,056
Euro	**4,963**	**5,581**	4,709	5,148
Total non-current borrowings and finance lease liabilities	**8,333**	**9,955**	8,098	9,204

Within the table above, it is only the capital market issuances that have a fair value different to the carrying value and this has been calculated by comparing the current trading levels to par.

20 Derivative Financial Instruments

£ million	2012 Assets	2012 Liabilities	2011 Assets	2011 Liabilities
Current derivative financial instruments				
Interest rate swaps and swaptions	**205**	**175**	155	158
Forward foreign currency contracts	**11**	**9**	–	29
Cross currency swaps	**37**	**9**	28	218
Total current derivatives	**253**	**193**	183	405
Collateral transferred under the terms and conditions of credit support annex documents under ISDA agreements	**13**	**(11)**	40	(104)
	266	**182**	223	301
Non-current derivative financial instruments				
Interest rate swaps and swaptions	**620**	**652**	429	491
Cross currency swaps	**19**	**138**	–	403
Total non-current derivatives	**639**	**790**	429	894
Collateral transferred under the terms and conditions of credit support annex documents under ISDA agreements	**(3)**	**(61)**	–	(134)
	636	**729**	429	760
Total carrying value of derivative financial instruments	**902**	**911**	652	1,061
Net liability		**9**		409

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current according to their undiscounted contractual cash settlements applying spot rates as required. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

£ million	2012 Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Liabilities:						
Net settled derivatives	**791**	**1,101**	**172**	**144**	**362**	**423**
Gross settled derivatives	**120**					
– receipts		**(2,377)**	**(1,274)**	**(307)**	**(90)**	**(706)**
– payments		**2,540**	**1,334**	**314**	**100**	**792**
	911	**1,264**	**232**	**151**	**372**	**509**

£ million	2011 Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
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
	1,061	1,427	368	217	446	396

Derivatives as hedging instruments

The Group has entered into various cross currency swaps, forward foreign currency contracts, interest rate swaps and swaptions to manage foreign exchange and interest rate risk arising on financial assets and liabilities. These risks are discussed in more detail in note 19.

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.

Applied as commercial hedges

As mentioned in note 19, interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments where necessary to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the interest rate risk management framework.

Interest rate swaps and swaptions

The notional amount of interest rate swaps entered into to change newly issued debt into floating rate borrowings was £7,492 million equivalent (2011: £8,291 million). The fair value of these swaps was a net asset of £788 million (2011: net asset of £582 million). The interest rates transacted under these swaps are as follows:

- Sterling denominated: fixed rate received varies from 7.5% to 8.7% (2011: 7.5% to 8.7%) against a floating rate paid of LIBOR plus 301bps to 511bps (2011: 301bps to 511bps).
- Euro denominated: fixed rate received varies from 3.9% to 8.0% (2011: 3.9% to 8.0%) against a floating rate paid of EURIBOR plus 55bps to 503bps (2011: 55bps to 503bps).
- USD denominated: fixed rate received varies from 4.2% to 5.5% (2011: 4.2% to 5.5%) against a floating rate paid of LIBOR plus 175bps to 285bps (2011: 175bps to 285bps).

The notional amount of interest rate swaps entered into to manage the Group's exposure to interest rate risk was £7,337 million equivalent (2011: £9,025 million). The fair value of these swaps was a net liability of £705 million (2011: net liability of £647 million). The interest rates transacted under these swaps are as follows:

- Sterling denominated: fixed rate paid varies from 3.0% to 5.7% (2011: 3.0% to 6.1%) against receiving LIBOR.
- Euro denominated: fixed rate paid varies from 2.0% to 5.1% (2011: 2.0% to 5.1%) against receiving EURIBOR.
- US dollar denominated: fixed rate paid varies from 1.4% to 4.7% (2011: 1.4% to 4.8%) against receiving LIBOR.

Certain of these interest rate swaps have embedded options. Assumptions have been made based on market information and from counterparties expectations at 30 September 2012 to determine whether, and if so when, such options are likely to be exercised in order to determine the probable maturity date. 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 was 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. The embedded options are as follows:

- £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.
- €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.

Additionally, the Group has entered into several forward starting interest rate swaps with a total notional amount of £1,135 million equivalent (2011: £2,307 million equivalent) with tenors extending between 5 and 10 years, starting between October 2012 and May 2017 (2011: April 2012 and May 2017). The fair value of these swaps was a net liability of £73 million (2011: net liability of £256 million).

During the year, the Group sold options to two counterparties providing them with the right to transact interest rate swaps with notional values of €100 million and £100 million. The options are available for exercise by the counterparty on 27 March 2014 and 30 April 2014 and if exercised, would result in the Group paying fixed rates of 2.79% and 2.72% respectively for 5 years. The fair value of these swaps was a net liability of £13 million.

The overall effect of interest rate swaps live at 30 September 2012 is to convert £6,202 million equivalent (2011: £6,711 million equivalent) of floating borrowings into fixed rates in order to manage the Group's exposure to cash flow interest rate risk.

Forward foreign currency contracts

The Group has entered into forward foreign currency contracts to manage short-term foreign currency exposures. As at 30 September 2012 the notional amount of these contracts was £2,373 million equivalent (2011: £1,608 million equivalent) and the fair value of these swaps and contracts was a net asset of £2 million (2011: net liability of £29 million).

20 Derivative Financial Instruments *continued*

Cross currency swaps

The Group has entered into currency swaps to manage foreign exchange cash flow risk associated with converting euro dividends from subsidiaries into sterling. As at 30 September 2012 the notional amount of these contracts was £2,311 million equivalent (2011: £3,605 million) and the fair value of these swaps was a net asset of £9 million (2011: net liability of £257 million). Principal amounts are exchanged at the start and maturity of these trades.

The Group has entered into currency swaps to convert issued debt into the desired currency and type of interest rate. As at 30 September 2012 the notional amount of these contracts was £1,828 million equivalent (2011: £2,231 million equivalent) and the fair value of these swaps was a net liability of £100 million (2011: net liability of £336 million). Principal amounts are exchanged at the start and maturity of these trades.

As detailed in note 19, the overall effect of financial derivatives is to convert £6,202 million equivalent (2011: £6,711 million equivalent) of floating borrowings into fixed rate borrowings.

Designated as hedges of net investments in foreign operations

At 30 September 2012 external loans with a carrying value of €6,424 million (2011: €5,224 million and US$100 million) and cross currency swaps with a notional value of €2,922 million (2011: €4,555 million) have been designated as hedges of the net investment in the Group's foreign operations. To the extent that these hedges are effective, 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 intra-group loans with a fair value of €6,792 million (2011: €6,365 million) have been treated as a reduction in investments in the Group's foreign operations.

During the year, as a result of net investment hedging, foreign exchange gains amounting to £1,143 million (2011: £5 million gain) were transferred to reserves through other comprehensive income.

Reconciliation of fair value gain/loss on derivative financial instruments

The movements in the carrying value of derivative financial instruments in the year were as follows:

	2012			
	Fair value attributable to interest rate movements recognised in:		**Fair value attributable to interest rate movements recognised in:**	
£ million	**Comprehensive income**	**Income statement**	**Income statement**	**Total**
Derivative financial instruments:				
Gains arising on commercial hedges (note 7)	**–**	**122**	**639**	**761**
Losses arising on commercial hedges (note 7)	**–**	**(157)**	**(566)**	**(723)**
Losses offsetting underlying borrowings (note 7)	**–**	**(5)**	**–**	**(5)**
Gains arising on instruments designated as net investment hedges	**288**	**–**	**–**	**288**
Net fair value gains/(losses) on derivative financial instruments	**288**	**(40)**	**73**	**321**
Net fair value of derivatives at 30 September 2011				**(409)**
Collateral transferred in respect of certain derivative financial liabilities				**(196)**
Cash payments on settlement of matured derivative financial instruments				**275**
Net fair value of derivatives at 30 September 2012				**(9)**

	2011			
	Fair value attributable to interest rate movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on commercial hedges (note 7)	–	7	438	445
Losses arising on commercial hedges (note 7)	–	(7)	(421)	(428)
Losses offsetting underlying borrowings (note 7)	–	(76)	–	(76)
Gains arising on instruments designated as net investment hedges	12	–	–	12
Net fair value gains/(losses) on derivative financial instruments	12	(76)	17	(47)
Net fair value of derivatives at 30 September 2010				(440)
Collateral transferred in respect of certain derivative financial liabilities				34
Cash payments on settlement of matured derivative financial instruments				44
Net fair value of derivatives at 30 September 2011				(409)

21 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	2012	2011
Deferred tax assets	142	102
Deferred tax liabilities	(1,877)	(2,056)
	(1,735)	(1,954)

Deferred tax expected to be recovered within 12 months

£ million	2012	2011
Deferred tax assets	32	56
Deferred tax liabilities	(100)	(125)
	(68)	(69)

Deferred tax assets

	2012				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2011	(65)	100	–	67	102
Credited/(charged) to income statement	14	(11)	(1)	37	39
Credited to other comprehensive income	–	79	–	–	79
Credited to equity	–	–	–	1	1
Transfers	(50)	8	4	(47)	(85)
Other movements	–	–	–	(4)	(4)
Exchange movements	34	(18)	–	(6)	10
At 30 September 2012	(67)	158	3	48	142

	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

Deferred tax liabilities

	2012				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2011	(2,365)	58	4	247	(2,056)
Credited/(charged) to income statement	54	–	–	(97)	(43)
Credited to other comprehensive income	–	17	–	–	17
Transfers	50	(8)	(4)	47	85
Exchange movements	138	(4)	–	(14)	120
At 30 September 2012	(2,123)	63	–	183	(1,877)

	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)

Within other temporary differences, deferred tax assets of £24 million (2011: £88 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.

Overview
Strategic Review
Performance
Risk
Governance
Financials

21 Deferred Tax Assets and Liabilities *continued*

During the period, the Group has obtained a ruling from an overseas tax authority confirming the availability of tax losses (£539 million) previously regarded as not available. Due to the uncertainty of future taxable profits no deferred tax asset has been recognised for these losses. As at the balance sheet date, deferred tax assets of £593 million (2011: £18 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, £539 million (2011: nil) losses are expected to expire at approximately £60 million per annum between 2013 and 2021, £12 million (2011: £12 million) are expected to expire within 5 years and £38 million (2011: nil) are expected to expire between 2024 and 2029.

Also within other temporary differences, deferred tax assets of £48 million (2011: £113 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. Deferred tax assets of £57 million have not been recognised due to the potential uncertainty of the utilisation of the credits. These unrecognised deferred tax assets are expected to expire between 2016 and 2021.

We have reviewed the recoverability of deferred tax assets in an overseas territory in the light of further deterioration in economic indicators and a change in the Group's financing arrangements. Consequently, we have impaired deferred tax assets of £55 million relating to losses and tax credits previously recognised on the basis that it is more likely than not that these are not recoverable.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £8 billion (2011: £8 billion). A provision of £6 million (2011: £8 million) has been made for taxation expected to arise on a planned future dividend payment of £92 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 26 per cent to 24 per cent from 1 April 2012 and a further reduction to 23 per cent from 1 April 2013 was enacted at the balance sheet date. A further reduction of 1 per cent is expected to be enacted as from 1 April 2014. The effect of this further reduction of 1 per cent, if applied to the deferred tax balance at 30 September 2012, would be to reduce the deferred tax liability by £2 million.

22 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 since that date new employees are 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 2012 by Towers Watson Limited, actuaries and consultants, in order to determine the amounts to be included in the Group's consolidated financial statements. Actuarial valuations of the pension liabilities of other schemes of the Group were made as at or updated to 30 September 2012 by the various actuaries to those schemes.

Amounts recognised in the income statement

£ million	**2012**	2011
Current service cost	**43**	51
Past service cost	**(18)**	(5)
Losses from special termination benefits	**2**	3
Defined benefit costs in operating profit	**27**	49
Interest on retirement benefit liabilities	**187**	180
Expected return on retirement benefit assets	**(168)**	(178)
Retirement benefits net financing costs in net finance costs (note 7)	**19**	2
Total defined benefit scheme cost	**46**	51
Defined contribution costs in operating profit	**18**	18
Total retirement benefit scheme costs in the income statement	**64**	69

Retirement benefit scheme costs charged to operating profit

£ million	**2012**	2011
Defined benefit costs in operating profit	**27**	49
Defined contribution costs in operating profit	**18**	18
Total retirement benefit scheme costs in operating profit	**45**	67

Which is split as follows in the income statement:

£ million	2012	2011
Cost of sales	33	32
Distribution, advertising and selling costs	22	24
Administrative and other expenses	(10)	11
Total retirement benefit scheme costs in operating profit	45	67

Defined benefit schemes – amounts recognised in the consolidated balance sheet

£ million	2012	2011
Present value of funded obligations	(3,361)	(2,943)
Fair value of scheme assets	3,099	2,876
	(262)	(67)
Present value of unfunded obligations	(784)	(687)
	(1,046)	(754)

Recognised in the consolidated balance sheet as:

£ million	2012	2011
Retirement benefit assets	–	5
Retirement benefit liabilities	(1,046)	(759)
	(1,046)	(754)

Defined benefit scheme obligations – changes in present value

£ million	2012	2011
At 1 October	3,630	3,802
Current service cost	43	51
Past service cost	(18)	(5)
Special termination benefits	2	3
Interest cost	187	180
Actuarial losses/(gains)	588	(199)
Contributions by employees	3	3
Benefits paid	(212)	(202)
Exchange movements	(78)	(3)
At 30 September	4,145	3,630

Defined benefit scheme assets – changes in fair value

£ million	2012	2011
At 1 October	2,876	2,960
Expected return on scheme assets	168	178
Actuarial gains/(losses)	184	(158)
Contributions by employees	3	3
Contributions by employer	101	94
Benefits paid	(212)	(202)
Exchange movements	(21)	1
At 30 September	3,099	2,876

The actual return on defined benefit scheme assets was a gain of £352 million (2011: gain of £20 million).

Amounts recognised in other comprehensive income

£ million	2012	2011
Net actuarial losses/(gains)	404	(41)
Cumulative net actuarial losses since 1 October 2004	809	405

22 Retirement Benefit Schemes *continued*

Defined benefit scheme – principal actuarial assumptions used in scheme valuations

	2012		
%	**UK**	**Germany**	**Other**
Discount rate	**4.30**	**3.60**	**3.56**
Expected return on scheme assets	**5.70**	**n/a**	**4.86**
Future salary increases	**4.30**	**3.10**	**3.66**
Future pension increases	**2.80**	**2.00**	**1.35**
Inflation	**2.80**	**2.00**	**2.20**

	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

Other represents the weighted averages of the rates used for schemes outside the UK and Germany.

We estimate that a 0.5 per cent increase in the discount rate for all plans would increase the IAS 19 pension expense by approximately £0.3 million and a 0.5 per cent decrease would reduce the pension expense by £1.3 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 £15.1 million.

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 (2011: 84 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:

	2012			
	UK		**Germany**	
	Male	**Female**	**Male**	**Female**
Life expectancy at age 65 years:				
Member currently aged 65	**21.0**	**22.9**	**18.6**	**22.6**
Member currently aged 50	**22.1**	**24.1**	**20.6**	**24.6**

	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

Categories of scheme assets and their expected rates of return

	2012					
	UK			**Other**		
£ million unless otherwise indicated	**Expected return per annum %**	**Fair value**	**Percentage of UK assets %**	**Expected return per annum %**	**Fair value**	**Percentage of other assets %**
Equities	**7.0**	**1,189**	**44.0**	**7.2**	**134**	**34.1**
Bonds	**3.4**	**920**	**34.0**	**3.9**	**216**	**54.9**
Property	**6.4**	**325**	**12.0**	**5.5**	**13**	**3.2**
Other	**7.0**	**271**	**10.0**	**4.2**	**31**	**7.8**
		2,705	**100.0**		**394**	**100.0**

	2011					
	UK			Other		
£ million unless otherwise indicated	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

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 (2011: £3 million).

History of the plans

£ million	2012	2011	2010	2009	2008
At 30 September					
Present value of defined benefit obligations	**4,145**	3,630	3,802	3,592	2,874
Fair value of total plan assets	**3,099**	2,876	2,960	2,798	2,769
Net total (deficit)/surplus on plans	**(1,046)**	(754)	(842)	(794)	(105)
Experience (loss)/gain on total plan liabilities	**(36)**	(24)	63	8	(18)
Experience gain/(loss) on total plan assets	**184**	(158)	146	(58)	(633)

UK scheme triennial valuation and contribution levels

Following completion in 2011 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 was 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.

23 Provisions

£ million	Restructuring	Other	Total
At 1 October 2011	**351**	**357**	**708**
Additional provisions charged to the income statement	**33**	**25**	**58**
Unwind of discount on redundancy and social plan liabilities	**8**	**–**	**8**
Amounts used	**(120)**	**(47)**	**(167)**
Unused amounts reversed	**(29)**	**(23)**	**(52)**
Exchange movements	**(22)**	**(20)**	**(42)**
At 30 September 2012	**221**	**292**	**513**

Analysed as:

£ million	2012	2011
Current	**103**	163
Non-current	**410**	545
	513	708

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 which include employee social plans are expected to be used over the next ten 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.

24 Share Capital

£ million	2012	2011
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2011: 1,067,942,881)	**107**	107

25 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 share matching scheme eligible 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 77 to 93.

Analysis of charge to the consolidated income statement

£ million	2012	2011
Share Matching Scheme	17	17
Long Term Incentive Plan	2	6
Sharesave Plan	3	3
	22	26

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2012 was £2.1 million (2011: £1.6 million).

Reconciliation of movements in awards/options

	2012			
Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2011	2,981	1,089	2,157	14.64
Granted	856	349	610	20.45
Lapsed/cancelled	(174)	(264)	(97)	15.77
Exercised	(925)	(245)	(871)	12.96
Outstanding at 30 September 2012	2,738	929	1,799	17.31
Exercisable at 30 September 2012	–	–	107	15.59

	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

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £24.20 (2011: £19.77). The weighted average fair value of sharesave options granted during the year was £3.55 (2011: £4.77).

Summary of awards/options outstanding at 30 September 2012

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2010	842	4	n/a
2011	1,054	16	n/a
2012	842	28	n/a
Total awards outstanding	2,738		
Long Term Incentive Plan			
2009	243	1	n/a
2010	337	13	n/a
2011	349	25	n/a
Total awards outstanding	929		
Sharesave Plan			
2007	10	–	14.96
2008	17	10	17.50
2009	261	22	12.55
2010	502	14	15.63
2011	402	24	17.80
2012	607	37	20.45
Total options outstanding	1,799		

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 was 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 2012 and 2011 is as follows.

	2012		2011	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	0.5	0.7 – 1.3	2.0	1.1 – 2.4
Volatility (based on 3 or 5 year history) %	24.7	23.1 – 31.5	34.1	31.5 – 33.4
Expected lives of options granted years	3	3 – 5	3	3 – 5
Dividend yield %	4.7	4.7	4.4	4.4
Fair value £	21.46	3.51 – 4.94	17.34	4.15 – 5.39
Share price used to determine exercise price £	24.73	25.56	19.79	22.24
Exercise price £	n/a	20.45	n/a	17.80

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2012 and 2011 are given in the following table.

%	2012	2011
Future Imperial Tobacco Group share price volatility	22	28
Future Imperial Tobacco Group dividend yield	4.7	4.4
Share price volatility of the tobacco and alcohol comparator group	18 – 44	21 – 50
Share price volatility of the FTSE 100 comparator group	18 – 104	21 – 116
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

25 Share Schemes *continued*

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 (2011: £19.2 million) and an interest free loan of £181.9 million (2011: £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 2012. All finance costs and administration expenses connected with the Trusts are charged to the consolidated 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	2012	2011
At 1 October	4.8	3.8
Distribution of shares held by Employee Share Ownership Trusts	(1.8)	(1.2)
Gift of treasury shares	1.1	1.2
Purchase of shares	–	1.0
At 30 September	4.1	4.8

The shares in the Trusts are accounted for on a first in first out basis and comprise 1.8 million (2011: 1.5 million) shares acquired in the open market at a cost of £23.3 million (2011: £28.2 million) and 2.3 million (2011: 3.3 million) treasury shares gifted to the Trusts by the Group, of which 1.1 million were gifted in the financial year 2012 (2011: 1.2 million).

26 Treasury Shares

On 16 May 2011, the Group recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback 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 2012 the Group purchased 21,865,000 shares under the programme (2011: 8,673,000) at a cost of £528 million (2011: £182 million).

Thousands of shares	2012	2011
At 1 October	57,007	49,569
Gift to Employee Share Ownership Trusts	(1,070)	(1,235)
Purchase of treasury shares	21,865	8,673
At 30 September	77,802	57,007
Percentage of issued share capital %	7.3	5.3

27 Commitments

Capital commitments

£ million	2012	2011
Contracted but not provided for:		
Property, plant and equipment	123	147

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

£ million	2012	2011
Property		
Within one year	35	30
Between one and five years	80	73
Beyond five years	16	11
	131	114

28 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 August 2012 Imperial Tobacco Ukraine (ITU) received a decision from the State Tax Service Department seeking to apply financial sanctions equivalent to approximately £87 million. The alleged violation is that ITU acted in contravention of the law on state regulation of production and circulation of alcohol and tobacco, by engaging in the wholesale trade of tobacco without the correct licence for the period from July 2011.

ITU filed an appeal against the decision in the Circuit Administrative Court in Kiev primarily on the basis that it has at all times held the correct licence to trade and does not engage in wholesale trade in tobacco from its branches. Hearings took place in September and October 2012, and on 23 October the court upheld ITU's appeal.

The State Tax Service Department is entitled to appeal to the Kiev Administrative Court of Appeal within ten days of receiving the court's written reasons for its decision. As a consequence of the court's decision and on the basis of the advice ITU has received that it has a strong case on the legal arguments, the Group has not provided for any amount in the consolidated financial statements in respect of this matter.

29 Cash Flows from Operating Activities

£ million	**2012**	2011
Profit for the year	**699**	1,816
Adjustments for:		
Taxation	**382**	337
Investment income	**(1,036)**	(785)
Finance costs	**1,473**	1,272
Share of post-tax loss of associates	**–**	1
Depreciation, amortisation and impairment	**1,762**	598
Profit on disposal of property, plant and equipment	**–**	(1)
Loss on disposal of software	**1**	2
Post-employment benefits	**(74)**	(45)
Costs of employees' services compensated by share schemes	**20**	26
Movement in provisions	**(161)**	(130)
Operating cash flows before movement in working capital	**3,066**	3,091
Increase in inventories	**(305)**	(39)
(Increase)/decrease in trade and other receivables	**(285)**	80
Increase/(decrease) in trade and other payables	**85**	(47)
Movement in working capital	**(505)**	(6)
Taxation paid	**(442)**	(529)
Net cash flows from operating activities	**2,119**	2,556

30 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	Finance lease liabilities	Derivative financial instruments	Total
At 1 October 2011	**1,171**	**(2,104)**	**(8,076)**	**(23)**	**(409)**	**(9,441)**
Cash flow	**(438)**	**729**	**(578)**	**2**	**79**	**(206)**
Accretion of interest	**–**	**23**	**(13)**	**–**	**–**	**10**
Change in fair values	**–**	**–**	**–**	**–**	**321**	**321**
Exchange movements	**(102)**	**118**	**334**	**1**	**–**	**351**
At 30 September 2012	**631**	**(1,234)**	**(8,333)**	**(20)**	**(9)**	**(8,965)**

30 Net Debt *continued*

Analysis by denomination currency

£ million	2012 GBP	EUR	USD	Other	Total
Cash and cash equivalents	–	221	20	390	631
Total borrowings and finance lease liabilities	(3,420)	(6,093)	–	(74)	(9,587)
	(3,420)	(5,872)	20	316	(8,956)
Effect of cross currency swaps	1,150	678	(1,828)	–	–
	(2,270)	(5,194)	(1,808)	316	(8,956)
Derivative financial instruments					(9)
Net debt					(8,965)

£ million	2011 GBP	EUR	USD	Other	Total
Cash and cash equivalents	1	756	22	392	1,171
Total borrowings and finance lease liabilities	(3,772)	(6,325)	(106)	–	(10,203)
	(3,771)	(5,569)	(84)	392	(9,032)
Effect of cross currency swaps	1,500	731	(2,231)	–	–
	(2,271)	(4,838)	(2,315)	392	(9,032)
Derivative financial instruments					(409)
Net debt					(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	2012	2011
Reported net debt	(8,965)	(9,441)
Accrued interest	287	297
Fair value of derivatives providing commercial hedges	(94)	290
Finance lease liabilities	20	23
Adjusted net debt	(8,752)	(8,831)

31 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2012	2011
(Decrease)/increase in cash and cash equivalents	(438)	416
Settlement of exchange rate derivative financial instruments	275	44
(Decrease)/increase in collateralisation deposits	(196)	34
Increase in borrowings	(1,335)	(1,785)
Repayment of borrowings	1,486	1,837
Repayment of finance leases	2	2
Change in net debt resulting from cash flows	(206)	548
Other non-cash movements including revaluation of derivative financial instruments	331	(52)
Exchange movements	351	87
Movement in net debt during the year	476	583
Opening net debt	(9,441)	(10,024)
Closing net debt	(8,965)	(9,441)

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

We have audited the parent company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2012 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 and Accounts 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 2012;
- 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 2012.

David Charles (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

30 October 2012

Imperial Tobacco Group PLC Balance Sheet
at 30 September

£ million	Notes	2012	2011
Fixed assets			
Investments	iii	**4,225**	3,035
Current assets			
Debtors	iv	**3,297**	5,659
Cash at bank and in hand		**185**	98
Net current assets		**3,482**	5,757
Total assets		**7,707**	8,792
Capital and reserves			
Called up share capital	v	**107**	107
Share premium account	vi	**5,833**	5,833
Profit and loss account	vi	**1,767**	2,852
Total shareholders' funds		**7,707**	8,792

The financial statements on pages 138 to 140 were approved by the Board of Directors on 30 October 2012 and signed on its behalf by:

Iain Napier
Chairman

Robert Dyrbus
Director

i Accounting Policies

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(3) 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

When 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. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds.

ii Dividends

Dividend per share in respect of financial year

Pence	**2012**	2011	2010
Interim	**31.7**	28.1	24.3
Final	**73.9**	67.0	60.0
Total	**105.6**	95.1	84.3

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	**2012**	2011
Final dividend paid in the period in respect of previous financial year	**669**	608
Interim dividend	**314**	284
	983	892

The proposed final dividend for the year ended 30 September 2012 of 73.9p per share amounts to a proposed final dividend payment of £729 million based on the number of shares ranking for dividend at 30 September 2012, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2012 will be £1,043 million (2011: £953 million).

iii Investments

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	**2012**	2011
At 1 October	**3,035**	3,035
Additions	**1,190**	–
At 30 September	**4,225**	3,035

During the period the Company increased its investment in Imperial Tobacco Holdings (2007) Limited as part of a legal entity reorganisation in the normal course of business.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

A list of the principal subsidiaries of the Company is shown on pages 141 and 142.

iv Debtors: Amounts Falling Due Within One Year

£ million	2012	2011
Amounts owed by Group undertakings	3,297	5,659

Amounts owed by Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand.

v Called Up Share Capital

£ million	2012	2011
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2011: 1,067,942,881)	107	107

vi Reserves

£ million	Share premium account	Profit and loss account
At 1 October 2011	5,833	2,852
Profit for the year	–	426
Dividends	–	(983)
Purchase of own shares	–	(528)
At 30 September 2012	5,833	1,767

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 £426 million (2011: £2,807 million). This is after charging an audit fee of £0.4 million (2011: £0.4 million).

Treasury shares

On 16 May 2011, the Company recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are not cancelled but are retained in issue and represent a deduction from shareholders' funds. During the year the Company purchased 21,865,000 shares under the programme (2011: 8,673,000) at a cost of £528 million (2011: £182 million).

Thousands of shares	2012	2011
At 1 October	57,007	49,569
Gift to Employee Share Ownership Trusts	(1,070)	(1,235)
Purchase of treasury shares	21,865	8,673
At 30 September	77,802	57,007
Percentage of issued share capital %	7.3	5.3

vii Reconciliation of Movements in Shareholders' Funds

£ million	2012	2011
Profit for the year	426	2,807
Dividends	(983)	(892)
Purchase of own shares	(528)	(182)
Movements in total shareholders' funds	(1,085)	1,733
Opening total shareholders' funds	8,792	7,059
Closing total shareholders' funds	7,707	8,792

viii 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 2012, the contingent liability totalled £9,378 million (2011: £9,308 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2012 and 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 2012. 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.

ix Related Party Disclosures

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report on pages 77 to 93. These disclosures form part of the financial statements.

Principal Undertakings

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 SAU	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-Altadis Inc	United States of America	Sales and distribution of tobacco products 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 China Limited	China	Marketing of tobacco products in China
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 Magyarorszäg Dohänyforgalmazö 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 Polska Manufacturing SA	Poland	Manufacture 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

Incorporated overseas, wholly owned *continued*

Name	Country of incorporation	Principal activity
OOO Imperial Tobacco Volga LLC	Russia	Manufacture of tobacco products in Russia
ZAO Imperial Tobacco Yaroslavl CJSC	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
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture, marketing and sale of tobacco products in Germany
Skruf Snus AB	Sweden	Manufacture, marketing and sale of tobacco products in Sweden
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS	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 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.

Shareholder Information

Registered Office
PO Box 244
Upton Road
Bristol BS99 7UJ
+44 (0)117 963 6636
Incorporated and domiciled in England and Wales No: 3236483

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
0871 384 2037*
+44 (0)121 415 7009
0871 384 2255* text phone for shareholders with hearing difficulties

* calls to this number will be charged at 8p per minute from a BT landline. Mobile and other providers' charges may vary. Lines are open 8:30am to 5:30pm, Monday to Friday excluding UK public holidays.

ADR Depositary
Shareholder Services for ADR Holders
Citibank Shareholder Services
PO Box 43077
Providence, RI 02940-3077
USA
Toll-free number in the USA:1-877-CITI-ADR (1-877-248-4237)
email: citibank@shareholders-online.com

Stockbrokers
Morgan Stanley & Co International Limited
20 Bank Street
Canary Wharf
London E14 4AD
+44 (0)20 7425 8000

Credit Suisse Securities (Europe) Limited
One Cabot Square
Canary Wharf
London E14 4QJ
+44 (0)20 7888 5313

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol BS1 5QD

Lawyers
Allen & Overy LLP
One Bishops Square
London E1 6AD

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Financial Calendar and Dividends

Half yearly results are expected to be announced in April 2013 and the full year's results in November 2013.

The Annual General Meeting of the Company is to be held on Wednesday 30 January 2013 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 2012 final dividend, if approved, will be on 18 February 2013 to shareholders on the register at the close of business on 18 January 2013. The associated ex dividend date will be 16 January 2013.

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 ISA or Investment Account 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.

Index

Registered Office
Imperial Tobacco Group PLC
PO Box 244
Upton Road
Bristol BS99 7UJ
UK
www.imperial-tobacco.com

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C001785

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified CarbonNeutral® Company and its Environmental Management System is certified to ISO14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average, 99% of any waste associated with this production will be recycled.

This document is printed on Symbol Freelife Matt Plus, a paper containing 100% virgin fibre sourced from well-managed, sustainable, FSC® certified forests.

Designed and produced by Black Sun Plc.