

A Stronger Business

Imperial Tobacco Group PLC
Annual Report and Accounts 2014



WHO WE ARE

We're an international fast-moving consumer goods company with a strong track record of creating value for shareholders

Our core business is built around a tobacco portfolio that offers consumers comprehensive brand choice, and we're also creating new consumer experiences through our non-tobacco subsidiary Fontem Ventures

We're proud of our success and excited about the future; the strength of our brands, our geographic diversity and the talents of our dynamic people are a winning combination for generating high-quality growth in the years ahead

Brands

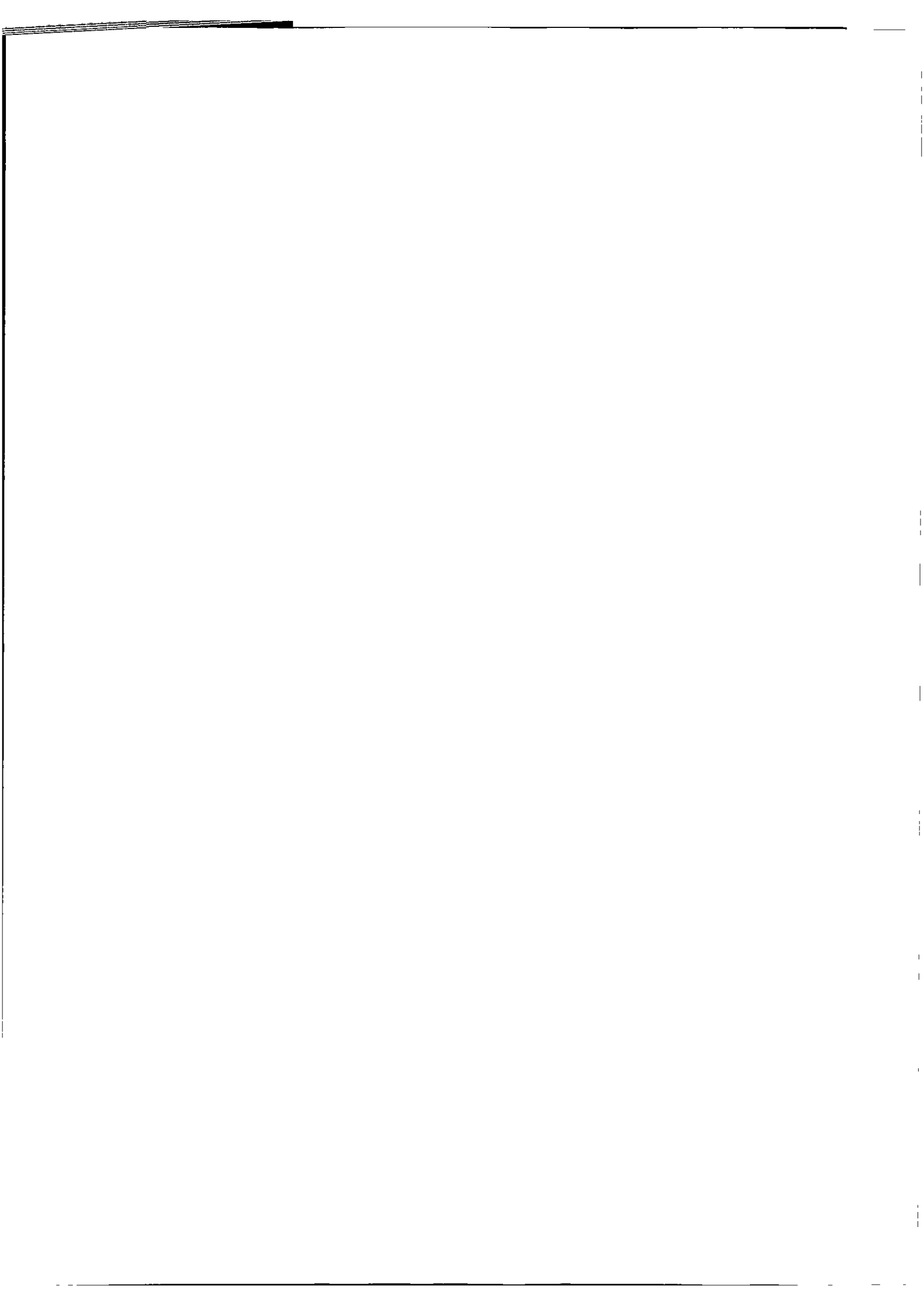
Our Growth Brands and Specialist Brands highlight the quality in our portfolio and have significant potential for future growth

Markets

The strategic role that each market plays in our success story defines how it is managed, with markets prioritising either Growth or Returns

People

Our values express what we stand for and capture the individual and collective behaviours we expect from everyone who works for us



PERFORMANCE HIGHLIGHTS

Dividends Per Share	Adjusted Earnings Per Share ¹
+10% 128.1p	+2% 203.4p
Tobacco Net Revenue ¹	Adjusted Operating Profit ¹
+2% ² £6.6bn	+0% £3bn
Cash Conversion	Adjusted Net Debt Reduction
+5% 91%	-11% £1bn
Growth Brand Volumes	
+7% ² 131bn	

- 1 Changes in our adjusted results are presented on a constant currency basis
- 2 Underlying change
See explanation in the Performance Measures table below

Performance Measures

Measure	Explanation	Where used
Reported (GAAP)	Complies with International Financial Reporting Standards and the relevant legislation	Throughout the report
Adjusted (Non GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next. These measures are defined in the Accounting Policies on page 77	Throughout the report
Constant currency basis	Removes the effect of exchange rate movements on the translation of the results of our overseas operations	Throughout the report
Underlying change	Removes the impact of our stock optimisation programme in order to reflect management's estimate of the underlying performance by adjusting for the one-off fall in sales arising from the reduction in excess stock held in distribution channels	Throughout the report but only for Growth Brand volumes tobacco net revenue and adjusted earnings per share

CONTENTS

STRATEGIC REPORT OVERVIEW

Performance Highlights	1
How We Create Value	2
Strengthening our Business	4
Chairman's Statement	6

STRATEGY

Chief Executive's Review	7
Key Performance Indicators	11

PERFORMANCE

Operating Review	12
Financial Review	15
Corporate Responsibility	17
Risk Management	21
Principal Risks and Uncertainties	24

GOVERNANCE

Chairman's Introduction	27
Board of Directors	28
The Board and its Committees	30
Directors' Report	42
Directors' Remuneration Report	46

FINANCIAL STATEMENTS AND NOTES

Independent Auditors' Report	66
Consolidated Income Statement	72
Consolidated Statement of Comprehensive Income	73
Consolidated Balance Sheet	74
Consolidated Statement of Changes in Equity	75
Consolidated Cash Flow Statement	76
Notes to the Financial Statements	77
Independent Auditors' Report to the Members of Imperial Tobacco Group PLC	115
Imperial Tobacco Group PLC Balance Sheet	116
Notes to the Financial Statements of Imperial Tobacco Group PLC	117

SUPPLEMENTARY INFORMATION

Principal Undertakings	120
Shareholder Information	123

For a more interactive experience visit
www.imperial-tobacco.com

Our Strategy and Business Model

Strategy

Our strategy enables us to deliver sustainable growth and sustainable returns to shareholders. We use consumer insights and selected sales growth drivers to build sales of our Growth and Specialist Brands across our markets. We cluster these markets to generate either Growth or Returns. We target long-term share and profit growth in Growth Markets and prioritise sustainable profit performance, while actively managing our strong share positions, in Returns Markets. Effective cost and cash management supports our sales ambitions.

Sales Growth Drivers

We focus on portfolio management, innovation, customer engagement and pricing to maximise opportunities for quality sustainable growth. These four sales growth drivers are used to drive the performance of our Growth and Specialist Brands in all our markets.

Find out more on page 8

Business Model

Our business model shows how we create value. Our focus on quality sustainable sales growth, combined with the efficient way we manage costs, delivers high operating margins. This generates the strong cash flows that are a hallmark of our business. We use this cash to reinvest in the business, pay down debt or return to shareholders.

How we Support Growth

Strong Governance

High standards of governance are critical to our sustainability

Find out more on page 27

Acting Responsibly

Operating responsibly is integral to the way we do business

Find out more on page 17

Managing Risk

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

Find out more on page 21

Rewarding Success

Our people are rewarded fairly and incentivised to deliver our sales strategy

Find out more on page 46

Stronger Brands

We're optimising our portfolio to focus on our Growth and Specialist Brands, which generate more than half our tobacco net revenue. Portfolio Brands either add to our revenue generation or will be migrated into Growth Brands

Growth Brands

Our Growth Brands have broad appeal and several have been developed into total tobacco offerings, providing consumers with both cigarette and fine cut tobacco smoking experiences. We manage our Growth Brands to drive quality sustainable growth and they account for 45 per cent of our total volumes and 42 per cent of our tobacco net revenue.

Specialist Brands

Our Specialist Brands are enjoyed by specific consumer groups and represent a dynamic range of cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. These brands have a track record of generating strong returns and account for 12 per cent of our tobacco net revenue.

Tobacco net revenue by brand

Stronger Markets

We manage our markets on the strategic role they play, not by geographic location. Our markets prioritise Growth or Returns, driving more effective resource allocation and greater collaboration.

Growth Markets

Our Growth Markets include selected markets in the EU, Eastern Europe, Asia, the Middle East and the USA. The key territories are listed below. There are considerable opportunities for us to build our presence in Growth Markets, where our priority is to drive long-term share and profit growth.

Returns Markets

Returns Markets are split into North and South and include Australia and markets in the EU, Eastern Europe and Africa, the key ones are listed below. In Returns Markets we prioritise sustainable profit performance, while actively managing our strong share positions.

Tobacco net revenue by market

CHAIRMAN'S STATEMENT

Mark Williamson Chairman

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

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

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

Enhancing Returns for Shareholders

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

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

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

Investing in the USA

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

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

Capital Discipline

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

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

Operating Responsibly

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

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

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

Governance and the Board

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

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

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

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

Creating Sustainable Value

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

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



Mark Williamson
Chairman

CHIEF EXECUTIVE'S REVIEW

Alison Cooper Chief Executive

We made good progress this year in further strengthening the business. Imperial has great potential for long-term growth and our strategic priorities are focused on maximising these growth opportunities to drive sustainable returns for our shareholders.

Our business transition initiatives support our strategy and focus on optimising our brand portfolio and market footprint, implementing better ways of working, managing our cost base and improving supply. The actions we're taking are creating a stronger platform for growth, putting us in a stronger position to get the most out of our key assets – our brands, our markets and our people.

Our brand priorities are built around our Growth and Specialist Brands, this is where the real quality and sustainability of our portfolio lies. We achieved some good performances from these brands in the year, particularly our Growth Brands which have grown volume ahead of the market and gained share.

We have a balanced market footprint which is divided into Growth and Returns Markets. We target long-term share and profit growth in Growth Markets and prioritise sustainable profit performance, while actively managing our strong share positions in Returns Markets. We saw strong results in a number of our Growth Markets and demonstrated ongoing resilience in our Returns Markets.

At the beginning of the year, we said our overall performance would be affected by our stock optimisation programme, which reduced the level of stock held by our distributors in some markets to improve our long-term supply effectiveness.

Our underlying performance, which excludes the impact of the stock programme, has been encouraging and provides plenty for us to build on in 2015.

Creating Shareholder Value

We delivered further earnings per share and dividend growth in a difficult operating environment characterised by lower industry volumes, high levels of illicit trade and instability in Eastern Europe and the Middle East. In addition our stock optimisation programme, which was completed in the year, affected our volume, revenue and profit performance.

Against this backdrop we grew underlying tobacco net revenue by 2 per cent. Adjusted operating profit was flat at £3 billion and adjusted earnings per share was up by 2 per cent on a constant currency basis and up by 7 per cent on an underlying basis.

Return on invested capital was 14.2 per cent and we delivered another strong dividend increase of 10 per cent.

A Stronger Business

Our transition initiatives are strengthening the quality of our business and our ability to generate sustainable shareholder returns.

Much of the focus is on optimising our portfolio, improving the way we manage our brands to drive quality sustainable growth. We're also strengthening our operating model, reviewing the way the business operates on a day-to-day basis. This involves looking at systems, processes and structures to reduce complexity and enhance the way we work.

STRATEGY

Our Operating Environment

Global Cigarette Market

The global cigarette market is broadly stable. Around 6 trillion cigarettes are sold each year and there are around a billion adult smokers.

Our markets prioritise Growth or Returns. Growth Markets have large profit and/or volume pools and include selected countries in the EU, Eastern Europe, Asia, the Middle East and the USA. We typically have shares below 15 per cent in these markets and focus on growing share and profit. We tend to have larger shares in Returns Markets, which include Australia and markets in the EU, Eastern Europe and Africa. In many of these countries, particularly in the EU, industry volumes are declining and we focus on generating sustainable profit, while actively managing our share.

Illicit Trade

Around 660 billion illegal cigarettes are consumed every year. Cigarette smuggling and counterfeiting deprive governments of around £30 billion in legitimate taxes per annum.

We work with governments and law enforcement agencies to combat illicit trade, investing in systems and processes to improve the security of our products and sharing intelligence to help authorities disrupt the supply of illegal cigarettes.

Regulating Tobacco

Regulation is driven by the World Health Organization (WHO), through the Framework Convention on Tobacco Control, the FCTC), the European Commission (through the European Union Tobacco Products Directive, the EUTPD) and the USA's Food and Drug Administration (FDA).

We support reasonable regulation, such as appropriate ingredients disclosure and measures that will reduce illicit trade and stop children smoking.

We don't support disproportionate regulation such as display bans, plain packaging and excessive excise increases. These measures don't have any material impact on tobacco consumption and only serve to disrupt markets and fuel illicit trade.

We reinforced this with governments and regulators during the revision of the EUTPD, which includes legislation to standardise the appearance and taste of tobacco products. The revised Directive came into force on 20 May 2014 and EU Member States have two years to transpose it into national law.

During the year, we reorganised Group Marketing and appointed a single global marketing agency to drive a sharper focus on our portfolio priorities. We also started reshaping Group Sales to further support our performance ambitions in Growth and Returns Markets. Other business functions are also evolving in line with our transition agenda.

Portfolio Fronties

Our portfolio consists of Growth, Specialist and Portfolio Brands. Our priority is to drive the performance of Growth and Specialist Brands and build the contribution they make to our business.

Portfolio Brands are a mix of local and regional offerings that fulfil a variety of roles. Some have the capacity to keep adding to our volume and revenue momentum, others are being delisted or migrated into Growth Brands.

We're making good progress with brand migrations. We successfully achieved several migrations during the year and accelerated plans for further migration initiatives, which will continue into 2015.

Good Performance from Growth Brands

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

In optimising our portfolio we've clustered these 10 brands on to five platforms, or 'brand chassis'. Brands that share the same chassis also share the same growth initiatives, including innovations and pack designs. This reduces cost and complexity and drives greater consistency in the way we drive their performance.

Growth Brands continued to outperform the market, with underlying volumes up 7 per cent and underlying net revenue up 9 per cent. In contrast, market volumes in our geographic footprint declined by 4 per cent.

Brand migrations supported the performance of our Growth Brands and included the migration of Royale Club to Parker & Simpson in Iraq, Brooklyn to West in Spain and Maxim to JPS in Greece.

Performance highlights included JPS growth in Australia and the EU, Davidoff gains in Germany and Taiwan, and good progress from West in Turkey, Ukraine and Japan. Innovation initiatives and a new international marketing campaign supported the development of Gauloises Blondes. USA Gold maintained its momentum in key focus states and there were further launches of Parker & Simpson, extending the brand's presence to 27 markets. Bastos performed well in Vietnam and we grew Fine volumes in Africa and News volumes in France. We also strengthened the UK share of Lambert & Butler with a new value variant.

Our total Group tobacco volumes for the year were 294 billion stick equivalents, compared with 317 billion last year. This reflects the impact of market declines and our stock optimisation programme, which reduced the level of stock held by distributors by more than 9 billion stick equivalents.

Growth Brands accounted for 44.5 per cent of total Group tobacco volumes (131 billion), an increase of 380 basis points, and 41.6 per cent of overall tobacco net revenue, an increase of 270 basis points. On an aggregate basis, we grew the market share of our Growth Brands to 5.7 per cent.

Sales Growth Drivers

We have selected four sales growth drivers that we want to excel at: portfolio management, innovation, customer engagement and pricing.

We apply our expertise in each of these areas in all our markets to drive the performance of our Growth and Specialist Brands. This is where the quality of our portfolio lies and we continually seek to grow and develop these brands.

Through portfolio management we focus on connecting our brands with consumers to enhance brand equity and build sales.

With innovation we're creating a drumbeat of initiatives: small and frequent innovations that keep our brands fresh, vibrant and relevant to consumers.

Strong retailer partnerships are integral to customer engagement. We work with retailers to support their business and maximise the availability and advocacy of our brands at the point of sale.

We evaluate pricing opportunities by brand, pack size and sales channel. We take excise structures into account when making pricing decisions and focus on maximising revenue growth while continuing to give consumers value for money.

Strong Returns from Specialist Brands

We have quality brands and products that span the tobacco spectrum and this is reflected in our Specialist Brands: Style, Gitanes (cigarettes), Golden Virginia, Drum, Route 66 (fine cut tobacco), Cohiba, Montecristo, Romeo Y Julieta (premium cigars), Backwoods (cigars), Skruf (snus) and Rizla (papers).

These brands appeal to specific consumer groups and generate strong returns.

Contributions from Golden Virginia, Drum, Route 66 and Rizla continued to underpin our world leadership in fine cut tobacco and papers, while some challenging market conditions and stock optimisation initiatives in Eastern Europe and the Middle East affected the performance of Style and Gitanes.

Our premium cigars, led by Cohiba, Montecristo and Romeo Y Julieta, made gains in a number of Growth Markets and Skruf had another excellent year, further enhancing our share position in Scandinavia.

We increased Specialist Brands net revenues by 2 per cent on an underlying basis and these brands continued to account for 12.3 per cent of our overall tobacco net revenue.

Encouraging Progress in Growth Markets

We have relatively small positions in Growth Markets and see considerable opportunities to build on them to generate long-term share and profit growth. Key territories include the USA and selected countries in the EU, Eastern Europe, Asia and the Middle East.

Our overall share position in Growth Markets was up slightly to 5.8 per cent and our financial performance was good, with underlying net revenue up 7 per cent

We made good progress in a broad spread of these markets including Italy, Greece, Sweden, Norway, Taiwan, Cambodia and Kazakhstan. Results in Russia were undermined by difficult trading conditions, as industry volumes continued to decline following excise increases and changes to regulation and the route to market. In the USA, we improved our share position in a number of key states.

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

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

Resilience in Returns Markets

In Returns Markets we focus on sustainable profit performance and actively managing our market share. Key territories include Australia and selected countries in the EU, Eastern Europe and Africa.

We divide Returns Markets into North and South for reporting purposes. Trading remains challenging in a number of these markets, particularly in Returns South, where difficult economic conditions and illicit trade are resulting in industry volume declines.

We delivered a resilient performance against that backdrop, with good results in Germany, Portugal, Australia, Ukraine and Algeria mitigating the impact of weakness in Spain, France and Morocco.

Our share across Returns Markets was 26.7 per cent compared with 27.3 per cent last year, largely reflecting the weighting of higher, than average market size declines in the UK and Morocco where we have higher share than in other Returns Markets. We grew net revenue per thousand stick equivalents by 4 per cent. Adjusted operating profit was up by 1 per cent, a robust result given the pressures in Returns South.

Growth Brands generated 43.2 per cent of tobacco net revenue in Returns Markets, up by 270 basis points.

Fontem Ventures

Our standalone non-tobacco subsidiary Fontem Ventures launched the Puritane e-cigarette brand in the UK in February. Puritane was initially sold exclusively through the national retailer Boots and Fontem is now widening the brand's availability in the UK by partnering with additional retailers.

Fontem Ventures is also focused on expanding its presence across Europe with a second e-vapour product. Earlier expansion plans were revised after Imperial agreed to buy assets that were being sold as a result of the acquisition of Lorillard by Reynolds American. These assets include the e-cigarette brand blu, which is sold in the UK and the USA.

Fontem Ventures continues to assess other potential product launches, in a variety of non-tobacco lifestyle consumer categories, while further developing and licensing its patented technologies.

Brand Migrations

Our brand migration strategy focuses on migrating Portfolio Brands into Growth Brands.

We have a considerable number of Portfolio Brands, a legacy of our long acquisition track record. Many are single market offerings with limited brand equity. These brands can better support our quality growth aspirations by being migrated into stronger, higher-quality Growth Brands.

Migrations are carefully planned and implemented gradually, usually over a three to six-month period.

A key measure of success is the number of consumers who can be persuaded to complete the journey from one brand to another. In the five brand migrations we completed in the year, we've achieved a high success rate in transitioning consumers.

As well as supporting the global development of our Growth Brands, brand migrations are reducing the complexity of our business and supporting our cost optimisation programme.

More brand migrations will be progressed in 2015 as we continue to focus on simplifying our portfolio and building momentum behind our Growth Brands.

Logista

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

The business services tobacco and non-tobacco customers and has a long track record of delivering good results in tough conditions. 2014 was no exception, with distribution fees up 2 per cent at £848 million. Adjusted operating profit was £166 million compared with £176 million last year, largely due to one-off items.

In tobacco logistics, cost control measures and efficiency improvement programmes continued to mitigate the impact of tobacco volume declines. In non-tobacco logistics, our transport business performed well in Spain and we continued to grow sales in our direct delivery pharma business. We also grew sales of convenience products in the tobacco channel.

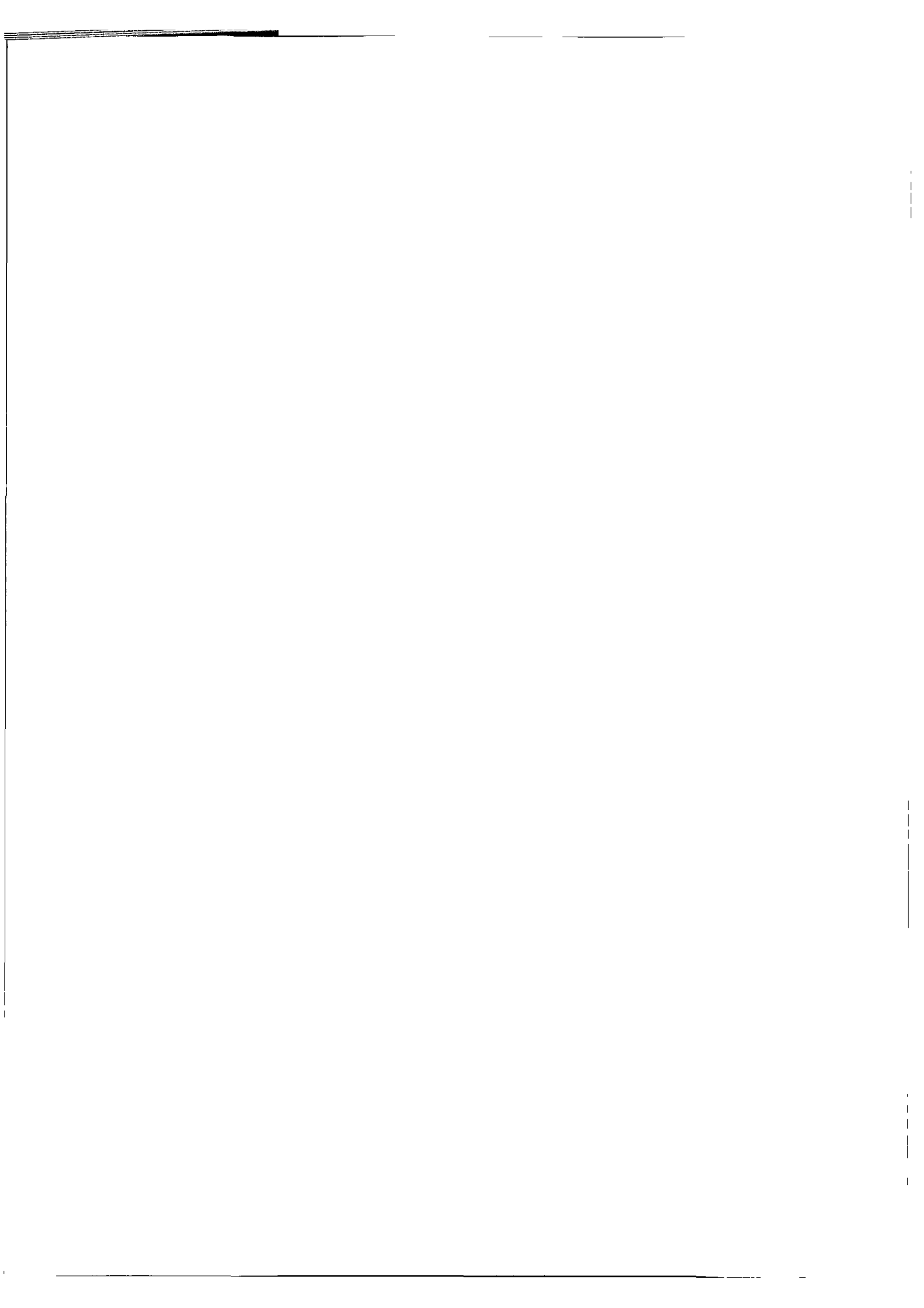
The Logista team continues to focus on managing costs and generating new growth opportunities to drive the profitable development of the business.

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

Cost Optimisation

Efficiently managing cost and cash supports our sustainable growth agenda.

Our cost optimisation programme remains on track to save £300 million per annum from September 2018. More than £60 million was realised in 2014 through a range of initiatives that are reducing complexity in the business, including simplifying our portfolio, driving operational efficiencies and securing further global procurement benefits.



CHIEF EXECUTIVE'S REVIEW continued

Consultations in relation to restructuring projects announced in April to strengthen our competitive position have been concluded in the UK and remain ongoing in France. These projects include the proposed closure of cigarette factories in Nottingham and Nantes and the consolidation of French R&D facilities. It is intended to implement these projects progressively over the next two years and the priority throughout this period will be to support affected employees.

The cost programme is complemented by our stock optimisation programme, which has improved our supply efficiency and the effectiveness of our sales growth driver initiatives.

Capital Discipline

We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest in the business. Our commitment to capital discipline drives a focus on cash generation and effective management of our working capital.

We increased cash conversion to 91 per cent, up from 86 per cent last year, and significantly reduced our debt level by 11 per cent or £1 billion.

Dividend growth was again strong at 10 per cent and from our 2015 financial year we will begin quarterly dividend payments to provide shareholders with more regular cash returns.

We further enhanced shareholder returns through our share buyback programme, spending £341 million to acquire 14.2 million shares. The USA acquisition will be debt financed and, in order to accelerate the pace of debt repayment, the share buyback programme has been suspended.

Responsibility and People

The responsible way we manage our business is crucial to our long-term sustainability and we continue to focus on improving our performance in the four key areas of our corporate responsibility framework.

Our people take pride in getting involved in our corporate responsibility initiatives and supporting each other to drive business performance. They thrive on collaboration and their vibrancy and passion create an energy around the business that continues to inspire me.

Outlook

We are a stronger business going into 2015. We've strengthened our brands and market footprint, increased cash conversion and considerably reduced our debt level. This has created a stronger platform for generating quality sustainable growth, as we continue to drive the performance of our Growth and Specialist Brands.

We expect to complete the USA transaction in the spring of 2015, which will significantly enhance our operational and financial delivery in this key Growth Market.

Our focus on cost optimisation and capital discipline supports our sales strategy by building resilience and freeing up funds to invest in growth.

The external environment remains challenging but the progress we've made has strengthened our ability to navigate headwinds and we can look forward to delivering another year of value creation for our shareholders, including our commitment to dividend growth of at least 10 per cent.



Alison Cooper
Chief Executive

Investing in the USA

Transforming our Presence

In July we announced a deal that will transform our presence in the USA, the world's most profitable tobacco market, outside of China.

The transaction will be debt financed and involves acquiring four USA cigarette brands and the e-cigarette brand blu, plus other assets, for \$7.1 billion (£4.2 billion). These assets are being sold as a result of the acquisition of Lorillard by Reynolds American.

The cigarette brands are being acquired from Reynolds American without historic product liabilities. An indemnity against such liabilities will be provided by Reynolds American under the terms of the transaction.

The deal is subject to the Lorillard/Reynolds American acquisition receiving regulatory and shareholder approval. We also require the approval of our own shareholders at a general meeting and will be sending an explanatory circular to them in due course. We expect completion in the spring of 2015.

Powerful Brands

The cigarette brands we are acquiring are Winston, Maverick, Kool and Salem. When combined with our own brands, our cigarette share will increase from 3 per cent to 10 per cent, positioning us as a significant number three player in the market.

The blu brand is a leading e-cigarette brand in the USA and was recently launched in the UK. Building on the strong platform blu has established and combining the expertise we have through our subsidiary Fontem Ventures will provide exciting opportunities to further internationalise the brand.

Great People

The other assets we're acquiring include Lorillard's cigarette factory in North Carolina and its national sales force. This will enable us to sell our brands across all 50 states, a significant step up from our current approach which is to focus on 19 key states.

Around 2,750 employees will join us from Lorillard and like our own people in our USA business, Commonwealth-Altadis, they're highly skilled. The combined team will be led by Martin Orłowski, a former Chairman, President and CEO of Lorillard.

Sustainable Returns

This is an investment in one of our key Growth Markets that supports our strategy and will create sustainable value for our shareholders.

The acquisition is expected to generate a return on invested capital of more than 10 per cent, well in excess of our weighted average cost of capital, in the first full financial year following completion. It is also expected to be significantly earnings enhancing in the first full year following completion.

KEY PERFORMANCE INDICATORS

How We Measure Our Performance

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

Key Performance Indicators

Performance

Our Growth Brands outperformed market trends, with underlying volumes up 7 per cent compared with market declines of 4 per cent.

Definition

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

Performance

Return on Invested Capital (RoIC) was impacted by foreign exchange rates. Excluding this effect, RoIC was broadly stable at 14.9 per cent.

Definition

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

Performance

Our focus on cash generation and effective working capital management increased cash conversion to 91 per cent.

Definition

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

Performance

Tobacco net revenue was impacted by foreign exchange movements and our stock optimisation programme. Excluding these effects, tobacco net revenue was up by 2 per cent.

Definition

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

Performance

Adjusted earnings per share (EPS) was impacted by foreign exchange movements and our stock optimisation programme. Excluding these effects, adjusted EPS was up by 7 per cent.

Definition

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

Performance

In 2014 we outperformed the FTSE 100 Index by 19 per cent. With dividends reinvested, £100 invested in Imperial Tobacco five years ago would now be worth £183 compared with £157 if invested in the FTSE 100 Index.

Definition

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

Operating Review

We target long-term share and profit growth in Growth Markets and prioritise sustainable profit performance, while actively managing our strong share positions in Returns Markets. This approach drives better resource allocation and greater collaboration between markets, providing a strong platform for generating higher-quality growth

Footprint and Portfolio Overview

Growth Markets include selected markets in the EU, Eastern Europe, Asia, the Middle East and the USA. We typically have shares below 15 per cent in these markets. Returns Markets are split into North and South and include Australia and markets in the EU, Eastern Europe and Africa, where we tend to have large shares above 15 per cent.

Our portfolio priorities are focused on driving the performance of our Growth Brands and Specialist Brands. These are the most important brands in our portfolio and together they account for 54 per cent of our tobacco net revenue. The remainder are Portfolio Brands, local and regional brands that fulfil a variety of roles. Some add to our revenue momentum, while others will create more value by being migrated into Growth Brands.

Growth Brands

	Full Year Result		Change		
	2014	2013	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	5.7	5.4	+30bps		
Net revenue (£m)	2,737	2,729	-	+4%	+9%
Percentage of Group volumes	44.5	40.7	+380bps		+460bps
Percentage of tobacco net revenue	41.6	38.9	+270bps	+220bps	+280bps

¹ See Performance Measures table on page 1

Growth Brands generate a significant amount of our volume and revenue. They are high-quality assets and our aim is to increase the contribution they make over time in order to strengthen the sustainability of the business.

Growth Brands outperformed the market in the year with underlying volumes growing 7 per cent, against a backdrop of market volume declines in our geographic footprint of 4 per cent. We grew the share of Growth Brands from 5.4 per cent to 5.7 per cent and increased underlying net revenue by 9 per cent.

Growth Brands accounted for 44.5 per cent of our total volumes, up from 40.7 per cent last year, and 41.6 per cent of tobacco net revenues, up from 38.9 per cent last year.

Specialist Brands

	Full Year Result		Change		
	2014	2013	Actual	Constant Currency ¹	Underlying
Net revenue (£m)	811	866	-6%	-2%	+2%
Percentage of tobacco net revenue	12.3	12.4	-10bps	-10bps	-

¹ See Performance Measures table on page 1

Specialist Brands appeal to specific consumer groups across the tobacco spectrum. We increased Specialist Brands net revenues by 2 per cent on an underlying basis. These brands account for 12.3 per cent of our overall tobacco net revenue.

Growth Markets

	Full Year Result		Change		
	2014	2013	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	5.8	5.7	+10bps		
Tobacco net revenue (£m)	2,113	2,254	-6%	-	+7%
Adjusted operating profit (£m)	597	668	-11%	-2%	
Growth Brands % tobacco net revenue	38.3	36.8	+150bps	+90bps	+330bps
Growth Brand volume (bn SE)	53	53	-		+11%

Market share excludes China. ¹ See Performance Measures table on page 1

We're building good momentum across our Growth Markets. Against a backdrop of industry volume declines of 4 per cent in our Growth Markets, we improved underlying net revenue by 7 per cent. Our Growth Brands performed well in a broad spread of Growth Markets and our share was up slightly to 5.8 per cent.

Country	Performance
Italy	We continued to perform well in a highly competitive environment, driving the performance of JPS to further increase our cigarette share.
Greece	We improved our cigarette share with Gauloises Blondes and Davidoff and focused on strengthening our fine cut tobacco position with gV.
Sweden and Norway	An excellent performance from Skruf was behind another set of strong results from our snus business, with share, volume, revenue and profit all increasing.
Turkey	Our market share dipped and profit declined due to significant price competition. We launched West queen size and Davidoff superslims to capitalise on the rapid growth of these formats. We also continued to make ground in the growing crushball segment with West Duo.
Iraq	The worsening political and security situation had a major impact on industry volumes. This, combined with our stock optimisation programme, significantly affected our performance.
Saudi Arabia	We grew our cigarette share in a growing market with contributions from Davidoff, Gauloises Blondes and West.
Egypt	We entered this 80 billion cigarette market in the year and have focused on establishing our presence with Davidoff and Gauloises Blondes.
Japan	We continued to build our position in Japan with a focus on West and customer engagement initiatives.
Taiwan	West was the driver behind our cigarette market share and volume gains, supported by Davidoff. We also added to our portfolio with the launch of Parker & Simpson.
Vietnam	Bastos performed well in a challenging environment of increasing regulation and significant growth in illicit trade.
Cambodia	We grew volumes, share, revenue and profit following another strong performance from Fine.
Russia	Our stock optimisation programme has strengthened our position in a market that poses challenging conditions as a result of adverse excise and regulatory changes. We have targeted key growth segments with a number of portfolio initiatives, including queen size formats, big boxes and charcoal filters, which has stabilised our cigarette share.
Kazakhstan	We achieved excellent cigarette volume and market share growth with West and Parker & Simpson.
USA	We increased profit and grew our cigarette share in key states with USA Gold, which is now available in Glide Tec packs.

Returns Markets

	Full Year Result		Change		
	2014	2013	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	26.7	27.3	-60bps		
Net revenue per '000 SE (£)	23.1	23.4	-1%	+3%	+4%
Adjusted operating profit (£m)	2,253	2,335	-4%	+1%	
Growth Brands % tobacco net revenue	43.2	40.0	+320bps	+280bps	+270bps

¹ See Performance Measures table on page 1

Industry volumes declined by 3 per cent in Returns Markets. The impact of a weak operating environment in Returns South was offset by results in Returns North, such that adjusted operating profit across our Returns Markets increased by 1 per cent. Our aggregate market share was down, largely reflecting the weighting of higher than average market size declines in the UK and Morocco where we have higher share than in other Returns Markets.

We grew net revenue per thousand stick equivalents by 4 per cent. We also increased the revenue contribution from our Growth Brands, these brands generated 43.2 per cent of tobacco net revenue in Returns Markets, 320 basis points higher than last year.

OPERATING REVIEW continued

Returns Markets North

	Full Year Result		Change		
	2014	2013	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	24.8	25.5	-70bps		
Net revenue per '000 SE (£)	27.0	27.0	-	+5%	+6%
Adjusted operating profit (£m)	1,511	1,543	-2%	+2%	
Growth Brands % tobacco net revenue	46.7	43.9	+280bps	+210bps	+220bps

¹ See Performance Measures table on page 1

We achieved robust results in Returns Markets North, increasing net revenue per thousand stick equivalents by 6 per cent and adjusted operating profit by 2 per cent. Growth Brands delivered 46.7 per cent of tobacco net revenue, up from 43.9 per cent. Our market share was 24.8 per cent, impacted by industry volume declines in the UK.

Country	Performance
UK	We maintained our leadership position against a backdrop of weak industry volumes. We grew volumes of JPS, strengthened the Lambert & Butler brand franchise with a new value variant and made fine cut tobacco gains with Player's Gold Leaf.
Germany	We delivered a strong financial performance, increasing revenue and profit. Our fine cut tobacco share was down and growth from JPS and Davidoff kept our cigarette share broadly stable.
Benelux	Competitor pressures in the Netherlands affected our overall cigarette and fine cut tobacco shares but good performances elsewhere delivered further profit growth.
Australia	We grew volumes, revenue and profit and increased both our cigarette and fine cut tobacco shares with JPS.
New Zealand	We enhanced our cigarette and fine cut tobacco shares with growth from JPS and West.
Azerbaijan	Our cigarette share was down slightly but we grew revenue and profit and increased volumes of Parker & Simpson.
Ukraine	We performed well in a turbulent environment, significantly improving revenue and profit, although our share dipped slightly. Parker & Simpson gained ground following its launch in the year and West volumes were up.

Returns Markets South

	Full Year Result		Change		
	2014	2013	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	29.4	29.9	-50bps		
Net revenue per '000 SE (£)	18.6	19.3	-4%	-	+1%
Adjusted operating profit (£m)	742	792	-6%	-2%	
Growth Brands % tobacco net revenue	37.3	33.7	+360bps	+350bps	+310bps

¹ See Performance Measures table on page 1

Our focus on improving the quality of our growth was reflected in the further development of our Growth Brands, which accounted for 37.3 per cent of tobacco net revenue in Returns South, up from 33.7 per cent last year. However, the weak operating environment in France, Spain and Morocco undermined our overall financial performance.

Country	Performance
Spain	Industry volume declines slowed but the market remained challenging. We grew our blonde cigarette share and strengthened our portfolio by migrating local brand Brooklyn into West.
France	Our cigarette share declined in an environment of weak industry volumes. We made gains in the growing market for our own segment with Gauloises Blondes and News and added to our cigarette portfolio with the launch of Gauloises Generation.
Portugal	We achieved excellent results with JPS, increasing volumes and both our cigarette and fine cut tobacco share.
Czech Republic	We increased volumes and profit and grew our cigarette share. Our fine cut tobacco share was down but we improved our position with the launch of Parker & Simpson.
Austria	We stabilised our cigarette share and launched a Gauloises variant with biodegradable filter and an additive-free tobacco blend, to capitalise on growth in the additive-free segment.
Algeria	Our good performance was driven by Gauloises Blondes and West, with both brands gaining volume and share.
Ivory Coast	We have a strong market leading position and made further gains with Fine.
Senegal	We made further good progress, increasing our cigarette volume and market share.
Morocco	There were further steep industry volume declines and our cigarette share was down. We focused on strengthening our portfolio with launches of MQS cigarettes, a modern variant of our local brand Marquise, and the market's first fine cut tobacco products through Gauloises and Marquise. These initiatives improved our second half performance.

FINANCIAL REVIEW

Oliver Tant Chief Financial Officer

Effective cost and cash management supports our sales growth strategy. We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest to support growth. By focusing on cash generation and working capital we are embedding a stronger capital discipline in the business.

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide a useful comparison of performance from one period to the next. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures.

Group Results – Constant Currency Analysis

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

¹ See Performance Measures table on page 1

Group Earnings Performance

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

which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies accompanying our financial statements, and reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements. Percentage growth figures for adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

A Year of Significant Progress

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

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

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

FINANCIAL REVIEW continued

Reconciliation of Adjusted Performance Measures

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

R Restated on adoption of IAS 19 (Revised)

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

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

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

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

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

Cash Flows and Financing

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

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

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

The denomination of our closing adjusted net debt was split approximately 75 per cent euro, 14 per cent sterling and 11 per cent US dollar. As at 30 September 2014 we had committed financing facilities in place of around £17 billion (including acquisition facilities of around £4.4 billion available in relation to the proposed US asset

purchase). Some 45 per cent was bank facilities, 2 per cent was commercial paper and 53 per cent was raised through capital markets.

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

Share Buyback and Dividends

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

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

With effect from our 2015 financial year, we will pay a quarterly dividend in order to give shareholders a more regular cash return. The first two quarterly dividends will be announced with our half year results in May 2015 and paid in June and September. The third and fourth quarter dividends will be announced with the full year results in November 2015 and paid in December and, subject to AGM approval, in March 2016.

Liquidity and Going Concern

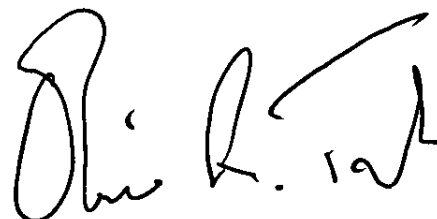
The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

In reviewing the Group's committed funding and liquidity positions, the Board considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group in the context of the maturity profile of the Group's facilities. The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available when required.

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

Based on its review, the Board is of the opinion that the Group as a whole and Imperial Tobacco Group PLC have adequate resources to meet their operational needs for a period of 12 months from the date of this report and conclude that it is appropriate to prepare the financial statements on a going concern basis.

Oliver Tant
Chief Financial Officer



CORPORATE RESPONSIBILITY

Operating responsibly is integral to the way we do business. It supports our sales growth strategy and is crucial to our long-term success.

We measure our performance against the progress we make in four key areas: being responsible with products, having a rewarding workplace, respecting natural resources and reinvesting in society.

These form the basis of our responsibility framework, they are the priorities for our business, our people and our stakeholders.

Our values embody the behaviours we expect from everyone who works for us and our Code of Conduct includes policies, internal controls and risk management processes that underpin our sales growth strategy.

Our values and Code of Conduct are embedded in the business and support our responsibility framework.

Over the next few pages you can find out more about the achievements we've made in each area. More detailed information on our 2014 performance and objectives for 2015 can be found in the Responsibility section of our corporate website www.imperial-tobacco.com/cr.

We're proud of the focus our people give to our responsibility agenda and continue to be encouraged by the positive feedback we receive externally.

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

Responsible with Products

Millions of people around the world choose to enjoy our products every day. We recognise there are societal concerns about the health risks of smoking and ensure that our products are manufactured, marketed and sold responsibly.

High Product Standards

Consumers and other stakeholders rightly expect us to adhere to high product standards. We rigorously test and analyse our products to ensure we continue to build our knowledge and understanding. This enables us to fulfil our duty of care to consumers and meet legal requirements for scientific disclosures and submissions.

During the year, we've been particularly focused on the testing and scientific analysis of e-vapour products. Our non-tobacco business Fontem Ventures launched its first e-vapour product in 2014 and continues to evaluate plans for other product launches in 2015.

Marketing Products Responsibly

Legislation that governs the way tobacco should be advertised and marketed to the public is in place in most markets. We also have our own stringent International Marketing Standards (IMS) which are published in full on our corporate website.

All Imperial Tobacco Group companies and employees, and the agencies we work with around the world, must adhere to our IMS and local legislation at all times. During the year, we appointed a single global marketing agency which has further enhanced the consistency of our marketing.

Fighting Illicit Trade

The illegal market in tobacco undermines society's efforts to ensure that tobacco products are marketed responsibly. As well as depriving governments of valuable tax revenues, illicit trade has other adverse impacts: children can more easily obtain tobacco, adult consumers are exposed to products that have no quality controls, and retailers and tobacco companies lose legitimate sales.

We advocate a partnership approach to fighting illicit trade and seek to work with governments and customs and law enforcement agencies to combat the problem of tobacco smuggling and counterfeiting.

We have 23 Memoranda of Understanding (MoU) with authorities around the world and continue to invest in our long-term anti-illicit trade partnership agreement with the European Commission and Member States. During the year, we renewed our MoU with authorities in Belgium and signed a new MoU agreement with Mali.

We highlight the dangers of illicit trade through our regulatory engagement. Extreme regulation that requires standardising tobacco products makes them easier to counterfeit and increases illicit trade. Cigarettes have been sold in generic plain packaging in Australia since December 2012. Illicit trade has increased since then and there has been no material impact on consumption or the level of youth smoking.

Working with Retailers

We continue to build strong relationships with retail partners around the world to support our sales strategy and responsibility framework.

We actively encourage retailers to sell responsibly. Tobacco products are for adults and should never be sold to children. We reinforce this through our support for initiatives aimed at preventing tobacco sales to children, including schemes that highlight the minimum age at the point of sale.

Rewarding Workplace

We strive to provide a safe and pleasant working environment that inspires employees to do their best. We want to see skills and talent flourish and are proud of the diversity and collaborative spirit of our workforce.

A Diverse Workforce

We employ 34,000 people in more than 60 countries around the world. Our people come from many different backgrounds and cultures, enriching the vibrancy of our business.

CORPORATE RESPONSIBILITY continued

Around 39 per cent of our workforce is female, with some 13,190 women employed. At a senior leadership level, 22 per cent of the Operating Executive and 30 per cent of the Board are female, as of 30 September 2014.

The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct, now available in 24 languages, and underpinned by our values. 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. Our values capture the essence of what it's like to be part of Imperial Tobacco, the combination of the 'We' values and the 'I' values reflect the individual and collective behaviours we expect from our people.

Our efforts to provide the best possible working environment and opportunities for our people have been recognised with a number of Best Employer awards in markets such as Spain, Italy, Russia, Poland and Madagascar.

Engaging and Developing our People

Our global engagement survey gives employees the opportunity to have their say and provides us with valuable feedback that is used to develop local and global action plans.

The 2013 survey generated an excellent 89 per cent response rate and showed a slight increase in overall engagement levels. This is encouraging, particularly against a background of change in the business.

The sense of pride that we instil in being part of Imperial Tobacco and our commitment to corporate responsibility were highlighted as particular strengths of the business. Areas where employees said we can do even better included further improving the way we manage and develop our people, and this has been a key focus in the year.

Partnering with Ashridge Business School, we've launched world-class development programmes that are tailored for employees at different levels of the business. We've also invested more in learning initiatives and enhanced the tools available to support annual performance and development reviews.

Employee Value Proposition

During the year, we worked with 250 employees across multiple markets to develop and launch our Employee Value Proposition (EVP) 'Bring it on'.

'Bring it on' encapsulates who we are and what we stand for, an EVP that connects employees around the world and is a powerful tool for attracting dynamic new talent into the business.

Employee Health, Safety and Wellbeing

The safety of our people is of paramount importance and we are pleased to report a further 15 per cent decrease in our lost time accident frequency rate in the year. We were saddened that two contractors suffered fatal falls in Kiev and Senegal and have assisted authorities with their investigations. We have also undertaken our own local and Group investigations and implemented additional safety measures.

We made further progress in installing world-class management systems aligned to the international occupational health and safety management standard OHSAS 18001 across our manufacturing operations. Five additional sites in Chad, the Philippines, Ivory Coast and Morocco were certified as having reached this standard during the year.

We were delighted with the response from our employees to the Global Corporate Challenge, a 16-week initiative that encourages people to form teams and complete activities that are equivalent to 10,000 steps a day. Around 1,200 companies worldwide signed up to the challenge. More than 7,400 of our employees took part and their remarkable efforts resulted in Imperial Tobacco finishing fourth in the overall global rankings.

Reinvesting in Society

We are proud to be part of many different communities around the world and have developed strong partnerships with a wide range of stakeholders in the communities we serve.

Human Rights

We have a role to play in addressing human rights issues. We have influence with our suppliers and we use this to improve conditions in our supply chain.

This respect for human rights is reflected in our Code of Conduct and Supplier Standards which we use to exert influence in our business and our supply chain. We have a focus on anti-discrimination and harassment, a healthy and safe working environment, responsible procurement, supplier partnerships and environmental responsibilities.

We're a business committed to doing things the right way and that means acting with respect, fairness and integrity at all times. The governance of countries may vary but our respect for human rights extends throughout our operations. It is implicit in our employment practices and within the high standards we expect from suppliers and other business partners.

Supplier Standards

Working with our supply chain stakeholders to address important issues such as leaf sustainability and child labour is a priority.

Our leaf and non-tobacco material suppliers must adhere to our Code of Conduct as well as meet the high standards we set for employment practices, health and safety, quality and environment.

All our leaf suppliers are required to participate in our Social Responsibility in Tobacco Production (SRiTP) programme, which encourages continual performance improvement in key areas including employment, health and safety, environmental management and good agricultural practices.

We work with external consultants to evaluate performance, provide training and share good practice and we were pleased to see our overall leaf supplier performance against the SRiTP criteria increase from 71 per cent to 75 per cent in the year.

Farmer Livelihoods and Child Labour

Child labour is a risk in agricultural supply chains and we continue to support the Eliminating Child Labour in Tobacco (ECLT) Foundation in tackling this problem. Working with the Foundation, we help communities understand child labour issues and seek better access to education and health services for children.

Our own projects aim to improve the livelihoods of farmers in Malawi, Tanzania, Zambia, Madagascar and Laos. This helps secure future tobacco supplies and is essential for providing farmers with a better income and higher standards of living, reducing poverty and the reliance on child labour.

Supporting Communities

We fund a number of projects that are connected to the communities in which we operate. We particularly focus on supporting the most disadvantaged communities around our factories, offices and tobacco sourcing activities.

Our Altadis Foundation supports initiatives to improve livelihoods in areas where we have operational sites. The Foundation supported a number of projects in the year including providing safe drinking water and improving sanitation for communities near one of our cigar factories in the La Romana province of the Dominican Republic.

Our Leaf Partnership Committee supports tobacco farming communities and during the year we funded initiatives aimed at enhancing the livelihoods of farmers including improving tobacco curing and labour efficiency in Malawi, Tanzania, Zambia and Laos.

More and more employees are volunteering to get involved in projects linked to our responsibility framework. In 2014 the projects they supported included refurbishing accommodation for disadvantaged young people in Macedonia, cleaning waterways in the Philippines, tree planting in Poland and building ovens to support a community cooking business in a village in Burkina Faso.

Respecting Natural Resources

We respect natural resources and are committed to further reducing our environmental impact, minimising waste and improving energy efficiency.

We measure progress by comparing our performance with our 2009 base year, using independently verified 2013 data.

Climate Change and Energy

We are well on track to reduce our carbon footprint and energy usage by 20 per cent by 2020, having already reduced our energy consumption by 10 per cent.

A number of energy efficiency initiatives have contributed to our success, including our use of guaranteed energy-saving contracts. Four more of our largest manufacturing sites have signed up to these contracts.

We're original members of the Carbon Disclosure Project (CDP), which works with organisations to measure and reduce their emissions and climate change impacts. We continue to make improvements in this area, achieving an 84 per cent score from the CDP in 2014.

Resource Efficiency

Getting the most out of the materials and natural resources we use is good for our business and good for the environment. Our mantra is reduce, re-use and recycle.

In manufacturing we are increasing the use of environmental management systems that are independently certified to the environmental management standard ISO 14001, with 89 per cent of our factories now certified to this standard.

Our unverified performance indicators for waste and waste to landfill show a very small increase this year. This reflects portfolio, marketing and operational footprint changes we made as part of our business transition agenda.

We have steadily reduced waste and waste to landfill in recent years and remain focused on further building on this positive trend. We also continue working with suppliers to help them minimise waste and reduce their environmental impact.

Reforestation Programmes

We're actively involved in protecting forests. Tobacco growing may use wood either as a fuel for curing tobacco or as construction material for barns. Last year we enhanced our approach to forestry preservation by launching a major tree-growing programme with our suppliers that aims to achieve wood sustainability in Africa by 2020.

Tree planting has continued and we are also introducing measures to improve wood fuel efficiency and reduce wood consumption.

Water Management

We remain committed to building on our strong track record of reducing water consumption. Unverified data indicates a slight increase in water usage for this year. This minimal increase relates to a 1.7 per cent increase in water consumption across our global operations and, although disappointing, does not cause us undue concern.

In our factories we apply environmental management systems under the international standard ISO 14001 to reduce water use and manage waste water. Each location has its own local water management targets.

We're pleased with improvements we're seeing in farming communities in Central America, where we're working with our suppliers to train farmers on good agricultural practices, with a particular focus on maximising opportunities for water conservation and protection.

Environmental Reporting

We report on greenhouse gas emissions resulting from our tobacco operations which fall within our consolidated financial statements using the operational control reporting method. We report scope 1 (direct) and scope 2 (indirect) emissions for which we are responsible using a methodology based on the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition). Any deviations from this standard are described below. We have considered the seven main greenhouse gases and report in CO₂ equivalent. Our relative emissions are expressed against net tobacco revenue, which is consistent with the standardised CDP reporting format and facilitates meaningful comparison with other businesses that report both their emissions and financial fundamentals.

Our scope 1 emissions include emissions from stationary fuel combustion at our sites, emissions from mobile fuel combustion in our fleet of company vehicles, leakage of refrigerant gases, and process emissions from the Dry Ice Expanded Tobacco process at our expansion plants. Our scope 2 emissions include the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites.

We include all main sources of emissions including all manufacturing sites over which we have operational control, our expansion plants in Cadiz and Reidsville, and our main offices (Bristol, Hamburg, Paris, Madrid and Casablanca). Operations not included, as deemed immaterial or beyond our current reporting capabilities, relate to greenhouse gases other than the seven Kyoto gases, the JR 800 Cigar retail outlets in the USA, small sales offices (being those offices not listed above which contribute less than 0.05 per cent of our total scope 1 and 2 emissions), our Habanos joint venture and our Cambodian distribution operation.

Scope 1 emissions arising from mobile fuel combustion in our fleet of company vehicles for the latest financial year are unverified estimates based on data from the previous financial year. All other emissions for the latest financial year are unverified estimated data based on the first six months of the latest financial year and the final six months of the previous financial year. Verified data is reported 12 months in arrears to allow for internal checking, validation and external assurance.

We provide additional information on Logista, which is managed remotely due to commercial sensitivities and does not report wholly into Group data. This year, for the first time, Logista has provided verified data for their absolute emissions within Scopes 1, 2 and 3 for FY13.

FY13

	Scope 1	Scope 2	Scope 3
CO ₂ equivalent emissions (Tonnes)	37,709	7,732	156,586

Logista's scope 1 emissions relate to the stationary and mobile fuel combustion and emissions from landfill waste. Refrigerant gases for Logista are not included due to current reporting capabilities. Scope 2 emissions include the indirect emissions resulting from the use of purchased electricity, heat and steam at Logista's sites. Scope 3 emissions are primarily associated with third-party hauliers.

Logista's unverified relative CO₂ equivalent emissions within Scopes 1 and 2 amount to 53.46 tonnes per million pounds of FY13 distribution fees (our non-GAAP revenue measure for Logista). More detail is available at www.logista.com.

We continue to work on improving our Group reporting boundaries and the timeliness of data. More information on our environmental reporting approach can be found in the Responsibility section of our website.

Responsibility Performance Indicators

- 1 Environmental data is reported 12 months in arrears to allow for data collection and verification. The monetary value (£ million) is for tobacco net revenue (or logistics distribution fees, where appropriate). FY13 data has been assured by PwC, see website for more information.
- 2 Unverified FY14 data is estimated based on data from the last six months of FY13 and the first six months of FY14. Verified data for FY14 will be published next year.
- 3 Verified accident and absence data is reported 12 months in arrears to allow for data collection and verification. Sickness absence includes non-work related and work related absence. FY13 data has been assured by PwC, see website for more information. Provisional unverified FY14 data is provided. Verified data for FY14 will be published next year.
- 3 All our tobacco suppliers participated in the SRiTP programme in 2013 which provides specific guidance for improvement against a variety of criteria. See our website for more information. Data for 2013 has been verified. We report 12 months in arrears to allow for the reporting and analysis of data.

Key data reported in the Annual Report and Accounts for the year to 30 September 2014 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.imperialtobacco.com/cr where their limited assurance statement can be found. PwC has provided Imperial Tobacco with CR assurance services from FY10. Earlier data was assured by another provider.

RISK MANAGEMENT

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

Our Approach

Our ability to achieve our strategic objectives and capitalise on growth opportunities requires effective management of the risks we face

Our risk management system is designed to identify risks that could prevent the achievement of strategic objectives as early as possible, and to ensure that appropriate and agreed mitigation is in place. The approach seeks to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Where risks do crystallise, we respond immediately to reduce the impact of that risk and to ensure that the causes and consequences have been evaluated and any wider implications assessed.

Our risk management approach provides a framework which allows for the identification and management of both Group risks and those risks specific to a location. In a business with a global market footprint as diverse as ours it is imperative to ensure that resource is directed at the most relevant risks and that our management is sufficiently supported to achieve positive outcomes.

A year end certification process is completed, 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.

Our people have the opportunity to make confidential disclosures about suspected impropriety or wrongdoing via an independent external service (Speaking Up), details of which have been translated into 36 languages and can be found in the Investors section of our website.

In accordance with the recommendations of the FRC's Guidance for Directors on Internal Control (formerly known as the Turnbull guidance), the Group's systems of internal control are designed and operated to support the identification, evaluation and management of risks affecting the Group. They facilitate the effective and efficient operation of our business, provide assurance regarding the integrity of our internal reporting and are designed to comply with relevant laws and regulations, across all areas of operations. These systems are subject to continuous review as circumstances change and new risks emerge.

Our risk management approach continues to develop, ensuring we continue to identify, manage and monitor the risks we face.

Risk Management

The Board and Audit Committee

The Board has ultimate responsibility for the Group's strategy and related risk appetite. In addition, the Board is accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit Committee assisting in the discharge of this responsibility.

The Audit Committee oversees the effectiveness of the Group's risk management system and internal controls and is assisted by the Group's Corporate Assurance department (which oversees the completion of the annual assessment of risk management and internal control). The Audit Committee reports to the Board on its activities and makes recommendations and escalates significant risks or issues to the Board as appropriate.

Ensuring that the Board has the right balance of skills and experience to develop our strategy and support its successful implementation, including support of, and insight into, the risk management approach, is the responsibility of the Nominations Committee. This committee provides the Board with the required support to identify and recruit the necessary talent to achieve the Group's objectives.

Achieving the Group's objectives in accordance with our Code of Conduct and business principles is supported by the Remuneration Committee which aligns appropriate senior management objectives and remuneration packages.

In order to assist the Board in its requirement to provide a fair and balanced view of business performance, and to assist with legal and regulatory compliance, oversight of the integrity of the communication of the Group's financial disclosures is provided by the Disclosure Committee. This is chaired by the Company Secretary and comprises senior management from across our business. It meets as required to consider major financial disclosures including the Group's key periodic external reports, including the consolidated and parent company financial statements.

While risk management and the identification of existing and emerging risks are the responsibility of all our people, the Board is supported in the assessment of key risks through work facilitated by the Group's Corporate Assurance department. The approach ensures a consistent top-down method in how we identify, assess and prioritise risks, as well as assessing our existing measures to manage and mitigate those risks.

The top-down approach that supports the Board is complemented by an annual bottom-up review by local management across the organisation which assesses our principal areas of risk and uncertainty across each part of the business. This assessment includes a review of both Group and local risks, along with an assessment of the mitigating controls in place to manage the risks. The separation of risks into Group and Local classifications enables appropriate focus at both senior and local management level, and assists us in the identification of emerging risks. The Group risks are individually owned by a member of the Operating Executive, and ongoing development of the risk management approach continues to improve consistent management of these risks across our global footprint.

RISK MANAGEMENT continued

The Operating Executive (OPEX)

The OPEX is ultimately responsible for the effective operational management and mitigation of the Group's key risks. The successful and effective implementation of Group strategies into our operational activities is the responsibility of the Operating Executive and its functional and divisional management teams. These management teams are responsible for ensuring that the Group's strategic goals are achieved in line with Group policies and standards, and that we conduct business in compliance with our Code of Conduct. This tone from the top extends to responsibility for the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment in their areas of responsibility.

Operational Management

Across the business, operational management is responsible for the implementation and monitoring of the Group's processes and systems of control. This includes ensuring that our people have appropriate training and knowledge to perform their roles in accordance with the Group's policies and standards and defined lines of accountability and delegation of authority.

The Group's functional and divisional management structures enable a continuing process for the identification, evaluation and management of significant risks to the achievement of business objectives and support the controls in place.

Oversight

In addition to the oversight provided by our management structures the Group also benefits from the work carried out by subject matter experts it employs to manage specific technical or legal and regulatory risks. These teams form a key part of our "second line of defence" and are referred to as part of our "other assurance provider" network.

These departments design and implement appropriate control structures and monitoring in order to manage the relevant risks. They also act as centres of excellence, providing advice and assistance to the business to help facilitate local solutions where necessary. These "other assurance providers" liaise with our Director of Corporate Assurance to promote a consistent approach and knowledge sharing within the Group's developing "Total Assurance" model.

Our Group Finance department is responsible for the financial policies and standards adopted within the Group. It also manages our financial reporting processes to ensure the timely and accurate provision of information, which enables the 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.

Governance Framework

The Group's Corporate Assurance department oversees the Group's risk management process and includes our Group Internal Audit team.

Risk management and assurance activities are key elements of our overall governance framework which is based upon a three lines of defence model.

We operate an integrated approach, aligned to ensure that our operational management has the tools, knowledge, and support in order to manage risks as part of its business as usual business processes.

Key elements of our 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 (whistleblowing) process,
- operational management is provided with training and guidance that enables it to implement effective controls and to manage their business risks,
- centres of excellence and Group committees exist in order to provide expert technical advice and guidance in the development of policy and control relating to our legal and regulatory requirements. These centres of excellence provide assurance activities that ensure effective risk management is implemented through our business processes, and
- 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.

This includes co-ordination of the work of other assurance providers within the Group who are technical experts in their field of risk management such as OHSE and product quality.

ITG Governance Framework

Assurance

The Internal Audit department provides independent assessment on the robustness and effectiveness of the systems and processes of risk management and control across the Group. It achieves this through the completion of reviews which are approved by, and reported to, the Audit Committee.

This approach is aligned to the “three lines of defence” model, adopted as an effective structure for risk management.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk Management Overview

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the impact of these risks upon the business. Not all of these factors are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment.

As is common with most large organisations the Group is subject to general commercial risks, for example, cyber-security breaches, failure of our IT infrastructure, the cost of our raw materials, and the impact of competition.

Risk – Reduction in the size of the legitimate tobacco market

What affects us

Changes in regulation

Regulatory restrictions exist in many of our markets which impact our consumers by influencing availability, demand and freedom to use our products. The introduction of excessive and disproportionate regulation, both present and future, could have an adverse effect on consumer choice, potentially impacting the demand for our products, as well as the cost of continuing to comply with such increasing regulation.

What we do

The Group's "rational regulator" strategy is designed to engage with key internal and external stakeholders to ensure that proposed regulatory change is proportionate and does not lead to excessive regulation. This engagement includes:

- consulting with external experts to provide advice and guidance,
- engagement, where possible, with regulators,
- providing industry specific information to ensure that regulators have a more balanced fact base,
- highlighting the unintended consequences of proposed regulatory change, and
- making legal challenges against excessive regulation.

We prioritise the Group's expertise and resources according to the relevant key regulatory issues. Cross-market liaison is promoted within the Group to ensure best practice and opportunities from markets already impacted are identified, understood, and applied.

Increases in excise duty

Governments across the world perceive the use of tobacco excise rates to be a means of raising additional public funding and/or the satisfying of public/private tobacco control agendas.

We engage with local tax and customs authorities as well as politicians/legislators and media where appropriate to provide informed input to the unintended consequences of excise increases. The widening price differential between tobacco products in neighbouring countries increases both the availability and attractiveness to the consumer of purchasing non-domestic duty paid product.

We take commercial steps to mitigate the impact of this issue through the monitoring and compilation of ongoing analysis to ensure strategic price and product offerings exist in the context of the excise duty structures in each market. Through our portfolio of products we are able to meet consumer preferences across different price points.

Illicit trade

The consequence of excise and regulatory regimes is a widening gap between price of legitimate and illegitimate product. As a result the legitimate tobacco industry continues to be subject to the significant impact and increasing threat of illicit trade. The sale of counterfeit product and smuggled "illicit whites" in our markets act as a direct competitor to legitimate domestic duty paid, travel retail and duty free products, eroding our volumes and market shares.

We seek to work with governments and law enforcement agencies around the world on anti-illicit trade initiatives, and work alongside the European Commission's Anti-Fraud Office (OLAF) and law enforcement agencies both in the EU and elsewhere.

In order to achieve this we employ specialist teams to provide effective support to the business and governments/law enforcement agencies, performing market analysis and intelligence to provide appropriate and targeted solutions to the combating of illicit trade. We maintain strong business conduct standards and controls, both for our business and our first-line customers in order to prevent our products being diverted.

Macro-economic conditions

A material decline in the economic conditions affecting consumers, notably an impact upon disposable income, may change their consumption patterns, including an increased propensity to purchase illicit products.

We monitor and analyse consumption patterns and economic indicators in order to ensure that our current and future portfolio provides the consumer with a range of products across different price points. This analysis is a key input to our product development and pricing strategies.

Risk – Marketplace**What affects us****Marketplace**

The Group has a significant presence in mature European markets and thus any material decline in the economic circumstances of, and/or our performance in, our key European markets may affect our future profit development and have an adverse impact on the Group's revenue or profits

Should concerns regarding the future of the euro, or the exit of one or more Eurozone countries re-emerge, consumer spending patterns could be impacted. Such an event could also cause disruption to the business as a whole, including impact upon financing arrangements (both Group and Local), and could also have a short-term impact upon our Manufacturing and Supply Chain operations

As with all businesses our route to market could be affected by political instability, civil unrest, and sanctions, and could also have a detrimental effect on our Manufacturing and Supply Chain operations

What we do

We continuously monitor our exposure and review our portfolio and 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 should one or more of these future events occur

Our international footprint and comprehensive portfolio provides an increasingly balanced exposure to both EU and non-EU markets, with the core of our market concentration being in countries with a lower risk of political instability and civil unrest

The alignment of our market management structures to key strategic drivers enables a more consistent approach to the evaluation of risks and opportunities

Our global manufacturing and supply chain operations have crisis management and contingency plans in place which are regularly reviewed in line with the risks to their ongoing requirements

Financing**What affects us****Funding and liquidity management**

We have a significant level of committed debt, financed in the debt capital markets and bank loan markets. We expect any future required refinancing of this debt upon maturity to be obtained from these markets and for us to be able to rely on funds being available from our bank counterparties when requested to be drawn

Approximately half of the Group's debt is currently at fixed levels of interest, and therefore the Group is exposed to movements in interest rates which could result in higher funding costs and cash outflows on the remainder

A fall in certain of our credit ratings could raise our cost of funding and affect our ability to raise debt with the breadth of funders we currently enjoy

What we do

Our Group Treasury Committee (GTC) oversees the operation of Group Treasury in accordance with the terms of reference set out by the Board

The GTC sets out a framework for the treasury function to operate within. The framework covers, amongst other things, financing, liquidity and counterparty risk and is fully reviewed periodically. The GTC receives regular reporting on all matters covered by the framework

Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with business performance. This information is considered alongside conditions in debt capital and bank loan markets to ensure we are well placed to meet the future financing needs of the Group, and optimise its cost and availability

Legal and regulatory compliance**What affects us****Failure to comply with legislation**

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

What we do

We monitor closely developments in international sanctions and actively seek external advice to ensure that we remain compliant with them

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. E-learning courses are provided to management and relevant employees to ensure understanding of key regulatory and compliance requirements

Additionally, senior management certify the compliance of their area of the business with the Code of Conduct as part of an annual certification process. Exceptions are reported and mitigating actions taken

Steering groups exist for key areas of legal compliance to provide expert advice in the development of policy, process, training and monitoring of compliance

PRINCIPAL RISKS AND UNCERTAINTIES continued

What affects us

Tobacco litigation

Tobacco 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 might result in a significant liability for damages and might 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.

What we do

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.

Significant market positions

Our significant market position in certain countries could result in investigations and adverse regulatory action by relevant competition authorities, including the potential for monetary fines and negative publicity.

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.

In the event of any investigation (which may or may not result in actions being brought against us), we cooperate fully with the relevant authority making the investigation and will continue to do so.

Material strategic initiatives

What affects us

In order to achieve our strategic objectives, the Group may be required to undertake material initiatives, including acquisitions and change programmes.

The Group operates within a regulatory environment that can require the implementation of material initiatives to address changing legal requirements.

What we do

The Group operates a formal project sign-off approach, ensuring an appropriate and transparent review and selection of project proposals aligned to the Group's strategic and operational objectives.

To support the successful delivery of material initiatives within the organisation the Group has developed and implemented a standardised project management process that provides a robust framework to enable effective change management.

This approach is adopted across the Group and provides a consistent and disciplined approach to the management of material initiatives, supported by the employment of project managers across the Group to ensure the right skills are available to successfully deliver such initiatives.

The majority of the Group's material change programmes are coordinated under a single umbrella programme, ensuring alignment of deliverables, management of interdependencies, and limiting the impact of change upon our operational activities.

The Operating Executive receives regular reporting on the progress of key projects. This provides a continuing assessment of deliverables in changing markets, and the evaluation of interdependencies across the business.

Benefits achieved on key projects are appropriately certified before being reported externally. We also carry out post-implementation reviews to ensure appropriate feedback is captured to constantly improve our change management approach.

CHAIRMAN'S INTRODUCTION

Mark Williamson Chairman

“We believe that governance is not only about compliance, it’s about acting with honesty and integrity in our business lives ”

This year has seen the Board and management drive a number of significant developments for the Group including the announcement of the acquisition of brands in the USA and the partial listing of Logista. It has also seen a number of changes to the Board and its Committees, including my appointment as Chairman and the appointment of Karen Witts.

In 2015 we will continue our strategic transition and, subject to completion of the acquisition, commence the integration of our enlarged US business to support long-term value creation without compromising our risk management and internal control environment.

To ensure the success of these developments and that they are in the best interests of our shareholders, it is fundamental for the Group to be managed with openness, honesty and transparency. This can only be achieved by underpinning our actions with high standards of corporate governance and learning from past experiences.

The Board is ultimately responsible to shareholders and other stakeholders for the Group’s activities, strategy and financial performance, the efficient use of the Group’s resources and social, environmental and ethical matters. This includes setting the tone for our governance framework, which incorporates our Code of Conduct together with our values, and is key to the way we work both in respect of our relationships between colleagues and with our customers and suppliers. Our Code of Conduct can be found within the responsibility/standards of behaviour section of our website www.imperial-tobacco.com.

In this report we provide an overview of our governance framework and the work of the Board and its Committees. We have continued to evolve our reporting to take into account developing practice following the recent significant changes to reporting requirements.

We do not see governance as a box-ticking exercise or simply related to processes and controls but rather providing a guide to our embedded governance framework. This, together with our transparent approach, ensures we do the right things in the right way. Achieving this requires the right leadership. Accordingly, our Board is composed of Directors from differing international backgrounds combined with a wide range of professional and sector-specific experience. This ensures that we have a truly balanced Board with the right skills and experience to contribute fully to effective decision making.

The standards of behaviour we require from our employees are guided by our values and our Code of Conduct and are often more stringent than local regulations. Our policies and codes cover key issues such as acceptable business practices, ethical and legal compliance matters and, physical and data security as well as regulatory, governance and occupational health, safety and environmental issues.

More details in respect of our governance framework, including how our sound and effective corporate governance practices support our strategy, are set out in the following sections and in the discussion on effectively managing the risks we face on page 21.



Mark Williamson
Chairman

Management and Corporate Structure

1 Mark Williamson, CA (SA)

Chairman of the Board

Skills and experience Mark is a qualified accountant, who brings considerable financial and general managerial experience to our Board. Mark was Chief Financial Officer of International Power plc until 2012 and is experienced in 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.

Appointment Mark joined the Board in July 2007 and was appointed Senior Independent Non-Executive Director in February 2012. He was subsequently appointed Deputy Chairman of the Board in January 2013 before being made Chairman in February 2014.

External appointments Senior Independent Non-Executive Director and chairman of the Audit Committees of National Grid plc and of Alent plc.

D N Chairman

2 Alison Cooper, BSC, ACA

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.

Appointment Appointed Director in July 2007. Appointed Chief Executive in May 2010.

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

E

3 Oliver Tant, BSc, CA (Scotland)

Chief Financial Officer

Skills and experience Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director Financial Advisory and Private Equity Division and Head of UK Audit.

He was also a member of both the UK and German boards of KPMG. He brings to Imperial international experience in change management, organisational restructuring, corporate finance and mergers and acquisitions.

Appointment Appointed to the Board of Directors in October 2013 and became Chief Financial Officer in November 2013.

External appointments No external Director appointments.

E

4 Matthew Phillips, LLB

Corporate Affairs Director

Skills and experience Matthew has held a number of senior roles including General Counsel and Group Corporate and Legal Affairs Director prior to his appointment to the Board as Corporate Affairs Director and has been integral to the development and implementation of our strategy.

Appointment Appointed Corporate Affairs Director in June 2012.

External appointments No external Director appointments.

E

5 Ken Burnett, MA, MBA, PhD, M Inst M

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).

Appointment Appointed Non-Executive Director in April 2006.

External appointments Non-Executive Chairman of Elemental Energy Technologies Limited. Director of Elemental Energy Technologies (Asia) Pte Limited.

D A N R

6 David Haines

Non-Executive Director

Skills and experience David brings considerable senior level board experience and is currently Chairman and Chief Executive Officer of Grohe Group Sarl. He joined Grohe in 2004 from Vodafone Group PLC where he was Global Marketing Director. He is also a former Chairman of Vimpeicorn A/O.

David gained extensive general management experience with Vodafone Group PLC and Mars inc earlier in his career.

Appointment Appointed Non-Executive Director in February 2012.

External appointments Chairman and Chief Executive Officer of Grohe Group Sarl, Director of Joyou AG.

D A N R Chairman

7 Michael Herlihy, MA (Oxon),

Solicitor

Senior Independent 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.

Appointment Appointed Non-Executive Director in July 2007. In February 2014 he was appointed as Senior Independent Non-Executive Director.

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

D A N R

8 Karen Witts, FCA

Non-Executive Director

Skills and experience Karen brings significant financial and management expertise to the Board. She is currently Group Finance Director and Executive Director of Kingfisher plc and was previously Chief Financial Officer of the Africa Middle East, Asia and Asia Pacific Region at Vodafone plc. Prior to that, Karen held a number of senior positions at BT, including Chief Financial Officer of BT Retail and Managing Director Operations Openreach.

Appointment Appointed Non-Executive Director in February 2014.

External appointments Group Finance Director and Executive Director of Kingfisher plc.

D A N R

9 Malcolm Wyman, CA (SA)

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 recent and relevant financial experience requirements of the UK Corporate Governance Code.

Appointment Appointed Non-Executive Director in October 2011 and chairman of the Audit Committee in February 2012.

External appointments Senior Independent Non-Executive Director and chairman of the Audit Committee of Nedbank Group Limited listed on the Johannesburg Stock Exchange and a Non-Executive Director and chairman of the Audit Committee of Serco Group plc.

D A Charman **N R**

10 John Downing, MA, Solicitor

Company Secretary

Skills and experience John joined Imperial in 2005 having worked for the law firm Linklaters.

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

Appointment Appointed Company Secretary in June 2012.

S

Key

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

Skills and experience of our Board

The diverse global experience of our NEDs which includes FMCG finance, mergers and acquisitions and sales and marketing supports the in-depth tobacco experience of our Executive Directors.

THE BOARD AND ITS COMMITTEES

Board

Mark Williamson Chairman

“Our continued focus on our sales growth strategy creates sustainable value for shareholders ”

Members

Mark Williamson (<i>Chairman</i> from 5 February 2014)	Susan Murray (to 30 September 2014)
Iain Napier (to 5 February 2014)	Matthew Phillips
Alison Cooper	Berge Setrakian (to 5 February 2014)
Ken Burnett	Oliver Tant
Robert Dyrbus (to 5 November 2013)	Karen Witts (from 6 February 2014)
David Haines	Malcolm Wyman
Michael Herlihy	John Downing <i>Secretary</i>

Focus in 2014

- purchase agreement with Reynolds American Inc for the acquisition of assets, including a portfolio of US cigarette brands and the e-cigarette brand blu,
- flotation of approximately 30 per cent of Compañía de Distribución Integral Logista Holdings SA,
- continued focus on leadership and Board succession with the appointment of Mark Williamson to the position of Chairman and the appointment of Karen Witts as a NED,
- optimising our brand and market portfolios focusing on Growth and Specialist Brands,
- resource allocation between Growth and Returns Markets,
- completion of our stock optimisation programme, and
- realigning our cost base through our cost optimisation programme

Focus for 2015

- integration of our enlarged US business*,
- investment prioritisation in our market and brand portfolios,
- continuing to support our standalone subsidiary Fontem Ventures including the integration of the acquired e-cigarette brand blu*,
- implement new ways of working to simplify the business and improve our effectiveness and agility,
- continuation of our cost optimisation programme,
- focus on capital discipline to enhance cash conversion,
- ensuring regulatory engagement and preparedness, and
- maintaining focus on our people agenda including building capabilities and succession

* Subject to the completion of the acquisition noted above

Overview

The Directors are collectively responsible and accountable to our shareholders for the long-term sustainable success of the Group. The Board's role is to provide leadership to the Group, set its strategy and oversee its implementation.

The Board has a key role in ensuring that in achieving our strategy management operates responsibly within our governance framework whilst clearly demonstrating our values and high ethical standards. The Directors are also mindful of their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders whilst having regard to the interests of other stakeholders.

As part of the governance framework, the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group's strategy, business plans, dividends and major financial announcements. The Board is also responsible for approving the acquisition or disposal of assets exceeding defined thresholds.

Within this framework the Board delegates responsibility for developing and implementing the Group's strategy and for day-to-day management to our Chief Executive, Alison Cooper, who is supported by the Operating Executive (OPEX), which she chairs. The Board also delegates matters to Board committees. Clearly defined terms of reference and written limits support these delegations.

The OPEX consists of senior executives from across the business. It oversees operational execution and delivers our strategic and financial plans. The OPEX also ensures that appropriate internal controls are in place and are functioning effectively, and that there is an effective risk management process in operation throughout the Group.

Matters Considered by the Board in 2014

Five principal scheduled and three unscheduled Board meetings were held during the year

2013

October

- Annual Report and Accounts
- Dividend
- Business performance
- Business planning
- Corporate development

November

- Unscheduled meeting to consider Chairman's and NEDs' succession

December

2014

January

- First quarter results
- Business performance
- Corporate development including Logista partial flotation
- AGM

March

April

May

- Half Year Report
- Dividend
- Business performance
- Employee engagement
- Corporate development

June

- Strategy meeting
- Business performance
- US brands acquisition
- Financing

July

- Two unscheduled meetings to consider US brands acquisition

August

September

- Business performance
- Business plan
- Corporate development
- Board evaluation
- NEDs' fees

THE BOARD AND ITS COMMITTEES

Nominations Committee

Mark Williamson Chairman

“We seek to ensure that we have the right people in place to build on our strategy and continue to deliver significant returns to our shareholders ”

Members

Mark Williamson (*Chairman*
from 5 February 2014)

Iain Napier

(to 5 February 2014)

Ken Burnett

David Haines

Michael Herlihy

Susan Murray

(to 30 September 2014)

Berge Setrakian

(to 5 February 2014)

Karen Witts

(from 6 February 2014)

Malcolm Wyman

John Downing

Secretary

Achievements for 2014

- in line with the Group’s ongoing succession plans Oliver Tant was identified as an appropriate successor to the Finance Director and was appointed to the Board on 1 October 2013,
- Mark Williamson was appointed to the position of Chairman, and
- appointment of Karen Witts as a NED

2015 objectives

- maintain ongoing succession plans, especially in respect of NEDs approaching retirement by virtue of their length of service,
- ongoing review of skill set and composition of the Board,
- evaluation of the Board, its Committees and individual Directors, and
- NEDs continuing business update and education

Overview

Role

The Committee keeps under review and evaluates the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence to enable them to function effectively. Succession plans for the NEDs, Executive Directors and the Group’s senior management are also kept under review.

The Committee’s terms of reference are available within the investor relations/corporate governance section of our website.

Composition

The Committee comprises all the NEDs and is chaired by the Group Chairman unless it is dealing with the succession to the Chairman. Executive Directors are invited to attend when appropriate.

Boardroom Diversity

To maintain the appropriate balance of skills, diversity of knowledge, professional and geographic backgrounds and experience, we look ahead to upcoming retirements to identify potential gaps and appoint individuals who are best suited to fill any vacancy. Appointing the best people to our Board is critical to the success of the Company, the search for candidates and any subsequent appointments are, therefore, made purely on merit regardless of gender, race, religion, age or disability. Given our commitment to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group, we do not think it is appropriate to set targets for Board appointments.

Women, including our Chief Executive, made up 30 per cent of our Board at the end of the financial year. On the retirement of Susan Murray, this decreased to 22 per cent. We also have 22 per cent women on our OPEX. Further details on our workforce diversity are set out on page 17.

As announced on 5 November 2013, Iain Napier and Berge Setrakian retired at the conclusion of our AGM in 2014 and Susan Murray retired on 30 September 2014. In addition we welcomed Karen Witts to the Board in February 2014.

Election and re-election of Directors

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Committee

The performance of each Director is considered as part of the annual Board evaluation process. Following the 2014 evaluation, a review of the independence of each NED, particularly in respect of those who have served six years or more, and consideration of attendance, the Board recommends the election or re-election of all Directors at our 2015 AGM

Board succession

During the year, the Committee identified the profile and skill set required for a NED and instructed Korn/Ferry Whitehead Mann to identify appropriate candidates. Having reviewed the list of potential candidates, and subsequent to meetings with shortlisted candidates, the Committee recommended to the Board the appointment of Karen Witts who was subsequently appointed to the Board on 6 February 2014. The Board recommends her election at our 2015 AGM

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	8	3	4	6	1
Number of meetings attended in Financial Year					
Executive Directors					
Alison Cooper	8/8	-	-	-	1/1
Robert Dyrbus ¹	2/2	-	-	-	-
Oliver Tant	8/8	-	-	-	1/1
Matthew Phillips	8/8	-	-	-	1/1
Non-Executive Directors					
Mark Williamson	8/8	3/3	2/2	1/1	1/1
Iain Napier ²	3/3	2/2	-	-	1/1
Ken Burnett	8/8	3/3	4/4	6/6	1/1
David Hanes ³	7/8	3/3	4/4	6/6	1/1
Michael Herlihy	8/8	3/3	4/4	6/6	1/1
Susan Murray ^{3,4}	7/8	3/3	2/2	2/2	1/1
Berge Setrakian ^{2,3}	2/3	2/2	-	2/2	1/1
Karen Witts ⁵	5/5	1/1	2/2	5/5	-
Malcolm Wyman ³	7/8	2/3	4/4	5/6	1/1

1 Robert Dyrbus retired from the Board on 5 November 2013

2 Iain Napier and Berge Setrakian retired on 5 February 2014

3 Berge Setrakian and David Hanes were unable to attend one telephone Board meeting. Susan Murray was unable to attend one Board meeting, a Remuneration Committee meeting and a Nominations Committee meeting held on the same day. They did, however, fully consider the papers before the meeting and provided their thoughts and recommendations to the relevant Chairmen

4 Susan Murray stepped down from both the Audit and Remuneration Committees on 5 February 2014, the ninth anniversary of her election

5 Karen Witts was appointed on 6 February 2014

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

THE BOARD AND ITS COMMITTEES

Audit Committee

Members

Malcolm Wyman <i>Chairman</i>	Susan Murray (to 5 February 2014)
Ken Burnett	Mark Williamson (to 5 February 2014)
David Haines	Karen Witts (from 6 February 2014)
Michael Herlihy	

John Downing
Secretary

Malcolm Wyman Chairman

“Our Audit Committee has a key role in protecting the interests of shareholders by ensuring the integrity of our financial statements and the effectiveness of our risk management processes and internal controls ”

I would like to give you an overview of the operation of the Audit Committee and the work it has undertaken

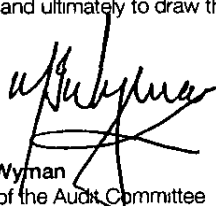
We have set out on page 36 the key matters that we have considered during the year and the conclusions drawn. We meet formally at key times within our reporting calendar as set out on page 35. The agendas for our meetings are designed to cover all significant areas of risk over the course of a year and to provide oversight and challenge to the key financial controls and processes that operate throughout the Group.

Our internal auditors and our external auditors, PwC, attend all Committee meetings and provide detailed reports on their audit work to the Committee. The Committee reviews and discusses these reports with both management and auditors and holds meetings without management being present. I also meet with the Head of Internal Audit and the Lead Audit Partner of PwC on a regular basis between meetings.

We invite management to prepare and present a wide range of papers to the Audit Committee and I am satisfied that these enable effective discussion of the issues. On an ad-hoc basis I meet with members of management below Board level to better understand the challenges that the business faces. I am able to use this understanding to manage the Audit Committee review process effectively.

During the year, we also spent time to build on our understanding of the Group's risk management processes, reviewing the risks that face the business and challenging management concerning the mitigating controls in place.

Overall, I am satisfied these activities have enabled the Audit Committee to gain a good understanding of the key matters impacting the Group during the year along with oversight of the culture, governance and operation of its significant controls and processes and ultimately to draw the conclusions we set out on page 37.



Malcolm Wyman
Chairman of the Audit Committee

Committee Composition

The Committee comprises five Independent Non-Executive Directors and is chaired by Malcolm Wyman. Both Malcolm Wyman and Karen Witts meet the requirements of the Code and the Committee's terms of reference that at least one of its members has recent and relevant financial experience.

The Board Chairman, Chief Executive, Chief Financial Officer, Director of Finance and Planning, Group Financial Controller, Director of Corporate Assurance, Deputy Company Secretary, appropriate financial managers and PwC are invited to attend Committee meetings. At each meeting both the Director of Corporate Assurance and PwC have the opportunity to meet separately with the Committee without management being present.

Role

The responsibilities of the Committee include

- assessing the integrity of our financial reporting, including ensuring that, taken as a whole, including the use of non-GAAP measures, our Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy,
- overseeing and evaluating the effectiveness of our risk management, internal control and speaking-up processes,
- assessing the effectiveness of the Internal Audit department, and
- scrutinising the independence, objectivity and effectiveness of PwC, including reviewing and approving the annual audit plan, reviewing the audit findings, monitoring compliance with ethical and professional guidance and approving PwC's terms of engagement.

The Committee's full terms of reference can be found within the Investor Relations/Corporate Governance section of our website.

Audit Committee Meetings in 2014

Four Committee meetings were held in the financial year, at key times within our reporting and audit calendar, and included the following key matters on the agenda

2013

October

- Annual Report and Accounts
- FX management
- Impairment review
- Going concern
- Auditors' report
- Internal audit report
- Internal control
- Auditors' fees and independence

November

December

2014

January

February

- Audit planning
- Risk management
- Treasury update
- Auditors' effectiveness

March

April

- Half Year Report
- Impairment review
- Auditors' review of Half Year Report
- Tax
- Auditors' fees and independence

May

June

July

August

September

- Annual Report and Accounts preparation
- Adjusted measures review
- Tax
- Significant and complex accounting transactions
- Auditors' report and independence
- Risk management
- Stock optimisation

THE BOARD AND ITS COMMITTEES

Audit Committee continued

Key Matters Considered During the Year

Significant Financial Judgements and Financial Reporting for 2014	How the Committee Addressed these Judgements
<ul style="list-style-type: none"> - Goodwill and intangible asset impairment reviews. Judgements largely related to the assumptions underlying the calculations used to value the businesses being tested. These assumptions included long-term business and macro-economic projections 	<ul style="list-style-type: none"> - Detailed reports from management were considered by the Committee. We challenged management on the methodology applied, the assumptions used and the achievability of the underlying business forecasts. For the individual operating segments (Drive Growth Division and Premium Cigars) with the lowest headroom, we considered different scenarios and sensitivities to assess whether management's conclusions were fair and balanced. The Committee also considered detailed reporting from, and held discussions with, PwC. We concluded that management's assertion that goodwill and intangible assets were not impaired was reasonable. We also approved the disclosures in our financial statements. Further information on the Group's goodwill and intangible assets is provided in Note 11 to the financial statements
<ul style="list-style-type: none"> - The treatment of restructuring costs and their presentation within the Group's financial statements 	<ul style="list-style-type: none"> - We periodically reviewed papers from management on actual and forecast levels of restructuring costs. The restructuring costs disclosure for inclusion within the Group's full year and half year results were also reviewed and discussed with management. Following these detailed reviews and discussions, we concluded that restructuring costs were exceptional in nature and disclosed appropriately
<ul style="list-style-type: none"> - Going concern 	<ul style="list-style-type: none"> - In order to satisfy itself that the Group has adequate resources to support the going concern assumption, the Committee examined the Group's existing committed funding, its ability to generate cash and its ability to raise further external funding. We challenged management's cash projections and sensitivity analysis including mitigating actions. We also considered detailed reporting from, and held discussions with, PwC. This enabled us to conclude that the Group has adequate resources and we subsequently recommended to the Board the adoption of the going concern statement for inclusion in the Annual Report and Accounts
<ul style="list-style-type: none"> - Deferred tax reporting and the resulting reported tax charge 	<ul style="list-style-type: none"> - We received and discussed reports from management in respect of the adequacy of tax loss recognition. We also considered whether a provision for deferred taxation in respect of tax allowances on an overseas investment was still required given the significantly reduced probability that the related temporary difference would reverse. We also considered detailed reports from, and had discussions with, PwC in respect of this. Following consideration of such reports and discussions, we concluded that the deferred tax calculation and recognition is appropriate
<ul style="list-style-type: none"> - Use of adjusted measures 	<ul style="list-style-type: none"> - The Committee reviewed papers prepared by management considering the purpose and practice of our use of adjusted, or non-GAAP, measures in our external reporting. The Committee challenged management on its proposals and held discussions with PwC. Following these considerations the Committee concluded that the Group's use of adjusted measures, including the adjustments for stock optimisation, was fair and balanced
<ul style="list-style-type: none"> - Revenue recognition – as with most companies, there is a risk that, in order to boost revenue in the current year, arrangements could be made to facilitate sales that do not meet the Group's criteria for revenue recognition 	<ul style="list-style-type: none"> - We challenged management in respect of revenue recognition and controls over stock in trade. This primarily involved considering the amount of inventory held by distributors in key markets and the impact of the stock optimisation project. We reviewed reports from PwC and Internal Audit on the measurement of stock in trade. The Committee also noted that no material instances of inappropriate revenue recognition arose during the external audit. These reviews enabled the Committee to satisfy itself that the Group's criteria for revenue recognition were met
<ul style="list-style-type: none"> - Tobacco-related litigation – the Group is exposed to litigation arising from claimants alleging smoking-related health effects 	<ul style="list-style-type: none"> - Internal litigation reports were regularly reviewed by the Committee. We also considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings detailed on page 44 and concluded that risks in respect of tobacco-related litigation are appropriately disclosed in the Annual Report and Accounts
<ul style="list-style-type: none"> - The Group's foreign exchange management 	<ul style="list-style-type: none"> - We regularly considered reports from management covering foreign exchange exposures and the level of net investment hedging. Following consideration of these reports and discussions with management we concluded that the accounting treatment of foreign exchange and the Group's exposure to exchange risks were appropriate

Key Matters Considered During the Year continued

Significant Financial Judgements and Financial Reporting for 2014	How the Committee Addressed these Judgements
- Retirement benefits	- The costs, assets and liabilities of the Group's defined benefit retirement schemes were regularly reviewed by us. Advice was taken from independent actuaries on the appropriateness of the assumptions used and we held discussions with management and PwC.
- Amortisation of intangibles	- Taking into consideration the portfolio optimisation strategy and focus on growth and specialist brands, management have reviewed brand lives during the year. We have considered management's reasoning in determining the useful lives and conclude that the resulting estimations in this respect are reasonable.
- Other accounting matters requiring judgement	- We examined papers prepared by management considering the accounting treatment of significant and/or unusual transactions, including, inter alia, certain provisions, credits due under the Master Settlement Agreement, settlement and curtailments of certain post-retirement benefits, and fees related to certain transactions. We also discussed these matters with PwC. Our examination of management's papers and discussions with PwC supported management's treatment of these items and their disclosure in the Annual Report and Accounts.

Risk Management and Internal Control

During the year, the Group refined its risk management processes to further formalise the evaluation of risks across the business. This approach is designed to provide greater consistency in the identification and assessment of risks, at both a Group and local level. To assist the Committee with its oversight of the risk management process and internal controls, Group Internal Audit has performed a review of the Group's risk management approach and provided a report on its effectiveness. The Committee also received detailed risk management updates during the year. Additionally, this work provides further evidence to support the Committee's recommendation to the Board to accept the opinion of the annual Internal Control Statement.

We are aware of the risks to our information technology systems. To manage these risks, our Group Internal Audit plan includes specific reviews to assess compliance with our relevant information technology standards and policies. In line with the reporting of all internal audit issues, any significant matters are reported to the Committee and their resolution monitored.

In addition, during the year we formed an Information Security Working Group to review the Group's approach to the wider information security topic, as a result of which improvements have been made in our approach with further ongoing assessment of initiatives being reported on an ongoing basis.

The above processes and those described in the Risk Management section on pages 21 to 26 enable the Board, either directly or through the Audit Committee, to review regularly the effectiveness of the key procedures which have been established in order to provide appropriate internal controls. They also enable the Board to confirm 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.

Group Internal Audit Department

A light-touch effectiveness review of the Group Internal Audit Department was carried out during the year, co-ordinated by the Company Secretary. The review was questionnaire-based and invited responses from members of senior management, the chairman of the Committee and the Chairman of the Board. Responses were then forwarded to the Chartered Institute of Internal Auditors which, based on its experience, compiled the results and provided an external perspective.

Responses were generally positive, recognising that the department still needs to evolve further. Actions have been taken to address comments made and the recruitment of a new Head of Group Internal Audit has helped strengthen the management team within Corporate Assurance. Satisfaction surveys completed by operational management after each audit continue to show positive results.

During the year, a number of individuals were recruited into the Group Internal Audit Department which enhanced its ability to extend its coverage across key risks to the Group, including carrying out reviews of various aspects of the strategic change programme and providing assurance regarding the stock optimisation initiative.

Independence of our External Auditors

In order to ensure the independence and objectivity of PwC, the Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that our external Auditors may and may not provide and can be found within the Investor Relations/Corporate Governance section of our website.

PwC, and its predecessor firms, has been the Company's Auditors since its demerger in 1996. 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). John Matland, our Audit Partner, has been in post since 2013.

THE BOARD AND ITS COMMITTEES

Audit Committee continued

PwC may only provide non-audit services where those services do not conflict with its 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 Committee for allowable non-audit work that PwC may perform. Our policy also establishes guidelines for the recruitment of employees or former employees of PwC and for the recruitment of our employees by it. During the year, the only non-audit fee in excess of £250,000 was in relation to work undertaken in connection with the proposed US cigarette brand and e-cigarette acquisition which was considered and approved by the Committee chairman.

During the year, PwC, due to its knowledge of the Group and where it was deemed that it was best placed to provide effectively the services required, also undertook non-audit work, none of which exceeded the above threshold. In our judgement we do not believe that the objectivity of the external audit has been impaired as a result of this work. The non-audit work included:

- regulatory assurance work pursuant to the proposed US cigarette brand and e-cigarette acquisition,
- advice in relation to project governance over core systems development,
- tax advisory and tax compliance work,
- verification of our corporate social responsibility reporting and underlying processes, and
- agreed upon processes in respect of the performance criteria of our employee share plans.

In the current year non-audit fees were 66 per cent of total audit fees (see Note 4). This ratio is significantly impacted in the current year by the work undertaken in connection with the proposed US cigarette brand and e-cigarette acquisition. In our view, the level of non-audit fees is not out of line with those disclosed by similar companies with international activities and in our judgement we do not believe that the objectivity of the external audit has been impaired as a result of this work.

To ensure compliance with this policy, during the year the Committee carried out two reviews of the remuneration received by PwC for audit services, audit-related services and non-audit work. The Committee also considered reports by both management and PwC which did not raise any concerns in respect of PwC's independence and confirmed that PwC maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by PwC, as detailed in Note 4, 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.

The Committee confirms that the Company continues to receive an independent audit service.

Audit Quality and Approach to Audit Tender

We place great importance on ensuring that we receive a high standard and effective external audit. Therefore, we formally review the performance of our external auditor annually. During the year, audit effectiveness questionnaires were completed by members of the Committee and senior managers and finance employees from across the Group. These questionnaires covered the audit scope and planning, quality and delivery, challenge and communication and independence. The responses to the questionnaires indicated that there was a consistently high perception of auditor effectiveness, with no pervasive Group-wide concerns identified.

Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of PwC's reports to the Committee and its interaction with the audit partner, the Committee remains satisfied with the efficiency and effectiveness of the audit. Following the introduction of the audit tendering provisions in the Code, the Committee will annually consider if the audit should be put out to tender. The result of this year's review was not to put the audit out to tender. The Committee considers that for a major international group the tendering of external audit 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. In compliance with the transitional rules of the Competition and Markets Authority and the EU, the Committee plans to put the external audit out to tender in time for the 2018 year end.

There are no contractual or similar obligations restricting the Group's choice of external auditors.

Statement of Auditors' Responsibilities

PwC is 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. In addition, it also reports on other elements of the Annual Report and Accounts as required by legislation or regulation and reports its opinion to members. PwC's opinions are included on pages 66 and 115.

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 PwC in connection with preparing its report) of which PwC is 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 PwC is aware of that information.

The Board accepted at its October 2014 meeting the Committee's recommendation to put to shareholders at the forthcoming AGM a resolution to reappoint PwC as Auditors to the Company.

Application of the UK Corporate Governance Code

We are pleased to confirm that the Company has complied in full with the Code throughout this financial year. The Company has not, however, tendered for audit services in the last ten years.

We detail below how, in practice, the Company has applied the Code's principles and complied with its detailed provisions.

Board and its Committees

Each of our Board Committees has specific written terms of reference issued by the Board and adopted by the relevant Committee. These are available on our website www.imperial-tobacco.com. All Committee chairmen report on the proceedings of their Committees at the next meeting of the Board and, where appropriate, make recommendations to the Board. In addition, minutes of Committee meetings are circulated to Board members.

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 Executive Directors.

Our NEDs play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee is considered on pages 32, 34 and 46. The open atmosphere at our Committee meetings enables our NEDs to use their judgement, experience

and independence to review critically and, where appropriate, challenge constructively strategies proposed by management. This ensures the further development of our business, effective use of our resources and maintenance of our high standards of conduct.

Matters Reserved for the Board

In order to retain control of key decisions, the Board has adopted a schedule of matters on which it must make the final decision, including approval of the Group and parent company 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. Key decisions by the Board during the financial year included the proposed cigarette brand and the e-cigarette brand acquisition in the US, the partial listing on the Spanish stock exchanges of Logista and the appointment of Karen Witts as a NED.

Division of Responsibilities of our Chairman and Chief Executive

Whilst retaining a close working relationship, our Chairman and Chief Executive have clearly defined and separate responsibilities divided between running the Board and the business. 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.

Board Composition and Roles

Chairman	Mark Williamson	Leads the Board and creates an environment that ensures there are strong links between the Board and our shareholders and management. Mark met the independence criteria of the Code on appointment and there were no significant changes to his external commitments subsequent to his appointment.
Chief Executive	Alison Cooper	Supported by the Executive Directors and the OPEX, has day-to-day management responsibility for the Group, for recommending the Group's strategy to the Board and, once agreed, its implementation. Alison promotes the Group's values, culture and high standards of conduct and behaviour which underpins our reputation and supports the delivery of our sustainable sales growth.
Executive Directors	Oliver Tant Matthew Phillips	Support the Chief Executive in devising and implementing our strategy and overseeing the operations of the entire Group, in addition to specific responsibility for managing their own areas of the business.
Senior Independent Director	Michael Herlihy	Responsible for assisting the Chairman with effective shareholder communication and is available to them should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. No such concerns were raised during the year. Michael is available to our NEDs should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman. He also acts as a sounding board for the Chairman and carries out the Chairman's performance evaluation.
Non-Executive Directors	Ken Burnett David Haines Susan Murray (to 30 September 2014) Karen Witts (from 6 February 2014) Malcolm Wyman	Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse range of business and financial expertise which complements and supplements the experiences of the Executive Directors.

THE BOARD AND ITS COMMITTEES

Audit Committee continued

Conflicts of Interest and Independence

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), our Articles of Association 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 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 his or her 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 2014 we reviewed and reconsidered all situations entered in the Conflicts Register and the Board is satisfied that the independence of those Directors who have other external board appointments or relationships has not been compromised. At this meeting, and taking into account the annual Board performance evaluation, the Board concluded that all our NEDs continue to contribute effectively and constructively to Board debate, demonstrate commitment to their role, challenge objectively and question management robustly and at all times have the best interests of our shareholders in mind.

We confirm, therefore, that, with the exception of our Chairman who met the independence criteria of the Code on appointment and Susan Murray who had served more than nine years on our Board, our NEDs remained independent throughout the year as defined in the Code.

External Appointments

NEDs 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 NEDs' other interests throughout the year. The Board is satisfied that the Chairman and each of the NEDs commit sufficient time to their duties in relation to the Company, and the NEDs have also confirmed they have sufficient time to fulfil their respective obligations to the Company.

The Board is supportive of Executive Directors and members of the OPEX 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 OPEX 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 them to discharge their responsibilities.

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, Directors are briefed on the legal and other duties they owe to the Company. Tailored induction programmes are arranged which include industry-specific training, visits to the Group's businesses and meetings with senior management. They are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance-related matters.

Members of our Audit and Remuneration Committees received briefings from PwC and New Bridge Street respectively to ensure they remain up to date with current regulations and developments. No other training needs were identified in 2014, although ongoing training is available to all Directors to meet their individual needs. We provide regular briefings to Directors on matters such as legislation and regulation changes and corporate governance developments.

Performance Evaluation

During the year, the Board reviewed, with the assistance of Independent Audit Limited, its performance, that of its Committees and individual Directors with the aim of improving effectiveness.

This review considered the overall functioning of the Board and its Committees, the balance and range of Directors' skills, diversity, succession, how the Board works as a unit and risk oversight.

As part of the evaluation, our Chairman held meetings with the Non-Executive Directors to consider, amongst other things, the performance of the Executive Directors.

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

The feedback obtained was collated into a report which was presented to the Board at its September 2014 meeting and used as the basis for one-to-one development discussions between the Chairman and each Director.

The evaluation showed that the Board and its Committees continue to operate effectively and no significant areas for concern were identified nor any requirement to provide extra training for our Directors. Consequently, the Board and its Committees are satisfied they are operating and performing effectively. The evaluation 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.

Areas identified for further consideration were, following the recent changes to Board membership, continuing to develop the cohesiveness of the team and that our NEDs would benefit from an increased knowledge and understanding of the wider business, for example through site visits and presentations from our wider management team

We have addressed the issues identified in the 2013 Board evaluation and, in line with the Board's succession plans, we announced in November 2013 the appointment of Mark Williamson to succeed Iain Napier as Chairman. We have also continued to enhance our risk management and internal control processes as discussed on pages 21 and 37

Dialogue with our Investors

We aim to provide balanced, clear and transparent communications which allow 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, Canada and the USA to communicate our sales growth strategy and answer questions from our investors. Throughout the year our senior management team presented at industry conferences organised by investor bodies and investment banks for their institutional investor bases. Our Investor Relations team managed the interaction with these audiences and provided additional regular presentations during the year. We also consulted with our largest shareholders and their representative bodies in respect of the proposed changes to our remuneration policy detailed on pages 48 to 52

The primary means of communication with the majority of our shareholders is via our Annual Report and Accounts, Half Year Report and website on which we publish Interim Management Statements. These are supported by a combination of presentations, conference calls, one-to-one meetings and investor meetings in the UK, Europe, Canada and the US

NEDs, including our Senior Independent Director, were available throughout the year to meet with major shareholders if requested and are kept up to date with investor opinion including via our annual survey of investor opinions

Insurance and Indemnities

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 Annual Report

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 at least 20 working days prior to the meeting

We offer all our shareholders the choice of submitting proxy votes, including abstentions, either electronically or in paper format

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 of the AGM

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 provided. 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 2014 AGM we received votes representing approximately 79 per cent of our issued share capital (excluding shares held in treasury at the date of the AGM)

Our next AGM will be held on Wednesday 28 January 2015, full details of which are contained in the Notice of Meeting available on our website and, where applicable, posted with this Annual Report

DIRECTORS' REPORT

Introduction

One of the Board's primary responsibilities is to ensure that the Company is run in the best long-term interests of our shareholders and wider stakeholders. We believe this can only be achieved if the activities of the Group are supported by appropriate governance processes applied across the Group.

These processes are illustrated below and in the individual Committee reports.

In accordance with the UK Companies Act 2006 (the Act), the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Act, is included in the Strategic Report. The information in our Governance Report is included in this Directors' Report by reference,
- future developments in the business are included in the Chief Executive's Review,
- information relating to our people can be found in the Rewarding Workplace section,
- our principal risks can be found in the Principal Risks and Uncertainties section, and
- the Directors of the Company during the financial year can be found in the Governance report.

Share Capital

Details of our share capital are shown in Note 24 to the Financial Statements. All shares other than those held in treasury are freely transferable and rank par passu for voting and dividend rights.

At our AGM on 5 February 2014 shareholder authority for the buyback of up to 106,794,000 shares was obtained.

As at 30 September 2014 we held 78,909,137 shares in treasury, which represented 7.62 per cent of issued share capital and had an aggregate nominal value of £7,890,914.

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 September 2014 we had been notified of the following interests in 3 per cent or more of our shares and there have been no changes to this information up to the date of this Annual Report:

	Number of ordinary shares (millions)	Percentage of issued share capital
BlackRock Inc	53	5.51 ²
Capital Group Companies Inc	48	4.99 ²
Invesco Limited	47	4.94 ¹
Morgan Stanley Investment Management Limited	42	4.44 ¹
Franklin Resources Inc	41	4.30 ²

- 1 Direct holding
2 Indirect holding

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

The share interests of the Directors, their families and any connected persons are shown on page 58. Other than as disclosed on page 51, 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 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 Strategic Report Strategy, Risks, Performance and Governance sections.

The profit attributable to equity holders of the Company for the financial year was £1,422 million, as shown in our consolidated income statement. Note 3 to the Financial Statements gives an analysis of revenue and operating profit.

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

The Directors have declared and proposed dividends as follows:

£ million	2014	2013
Ordinary Shares		
Interim paid, 38.8p per share (2013 35.2p)	370	341
Proposed final, 89.3p per share (2013 81.2p)	851	783
Total ordinary dividends, 128.1p per share (2013 116.4p)	1,221	1,124

The final dividend, if approved, will be paid on 17 February 2015 to our shareholders on the Register of Members at the close of business on 16 January 2015. The associated ex-dividend date will be 15 January 2015. We paid an interim dividend on 19 August 2014 to shareholders on the Register of Members at the close of business on 18 July 2014. As announced at our Half Year results on 7 May 2014, we are moving to quarterly dividend payments with effect from financial year 2015. The first and second dividends for financial year 2015 will be announced with our half year results on 7 May 2015 and will be paid in June 2015 and September 2015. The third and fourth dividends will be announced with the full year results on 10 November 2015 and paid in December 2015 and, subject to AGM approval, in March 2016.

Relations With Other Stakeholders

Charitable and Political Donations

As part of our responsible approach and our commitment to reinvesting in society, we continue to support the communities in which we operate by choosing to allocate some £3 28 million (2013 £3 20million) to partnership and community investment. Through the UK Charities Aid Foundation we apportion some £1 72 million to registered charities. This funds our support of the Eliminating Child Labour in Tobacco Growing Foundation, our own Altadis Foundation and a small number of UK charities connected with our Global Head Office. The remaining amount of some £1 53 million is allocated to our leaf sustainability partnerships which seek to help rural tobacco growing communities, predominantly in sub-Saharan Africa. Our leaf partnership projects are mainly enabled directly with suppliers under contract, rather than with registered charities. Some £0 03 million was also used to support some ad hoc employee fundraising activities mainly in response to humanitarian needs in the Balkans and Ukraine. The £3 28 million only reflects a centralised budget. We do not currently account for additional activities including management time, volunteering, gifts in-kind and localised activities. More detailed information on our approach to supporting community livelihoods can be found in the Corporate Responsibility section of our website www.imperial-tobacco.com/cr. All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to EU political parties, organisations or candidates (2013 nil)

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 56 and 57.

Articles of Association

The Company's Articles of Association do not contain any entrenchment provisions and, therefore, may be altered or added to or completely new articles may be adopted by special resolution subject to the provisions of the Companies Act 2006.

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

The agreements summarised below are those 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 nine credit facility agreements that provide that, unless the lenders otherwise agree, if any person or group of associated persons acquires the right to exercise more than 50 per cent of the votes at a general meeting of the Company, 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 cancelled.

The nine credit agreements are

- a credit facilities agreement dated 15 July 2014 under which certain banks and financial institutions make available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited a) committed acquisition credit facilities across three tranches of \$4,100 million, \$1,500 million and \$1,500 million, for a maximum period of up to three years, four years and six years respectively, b) committed credit facilities of €1,000 million for a period of up to three years, and c) committed credit facilities in two tranches of €2,835 million and €500 million for a period of five years, and
- eight deeds of counter-indemnity each dated 3 June 2014 made on substantially the same terms under which certain insurance companies and financial institutions each make available to Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £400 million, until 3 December 2019.

In the event that any of the listed credit facility agreements are subject to any such repayment and cancellation, we would expect the Group to replace these agreements with similar arrangements in order to satisfy its existing funding commitments, ongoing working capital and similar requirements, as well as its long-term and strategic plans. In particular, the committed acquisition credit facilities under the credit facilities agreement dated 15 July 2014 are intended to be utilised in due course to satisfy the funding and payment obligations of the Group under the asset purchase agreement that was entered into with Reynolds American Inc. on the same date. Under this asset purchase agreement, the Group has agreed to acquire a number of brands and assets from Reynolds American Inc. currently owned by Reynolds American Inc. and Lorillard Inc. for a consideration of \$7.1 billion, following the proposed acquisition of Lorillard Inc. by Reynolds American Inc. The transaction is expected to complete in the spring of 2015 and, in the event of any such repayment and cancellation of the committed acquisition credit facilities, we would expect the Group to replace these credit facilities with similar or other arrangements in order to enable it to satisfy its funding and payment obligations under the asset purchase agreement.

Imperial Tobacco Finance PLC (the Issuer) has issued bonds under a Euro Medium Term Notes (EMTN) 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, or 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.

DIRECTORS' REPORT continued

The bonds issued in such manner are as follows

- 15 September 2008 £600,000,000 8 125 per cent guaranteed notes due 2024,
- 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,
- 2 December 2011 €750,000,000 5 per cent guaranteed notes due 2019,
- 28 February 2014 €1,000,000,000 2 25 per cent guaranteed notes due 2021,
- 28 February 2014 €650,000,000 3 375 per cent guaranteed notes due 2026, and
- 28 February 2014 £500,000,000 4 875 per cent guaranteed notes due 2032

Imperial Tobacco Finance PLC has also issued bonds in the United States of America under the provisions of section 144a and Regulation S respectively of the US Securities Act (1933). 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 be 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 101% of its nominal value if (a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock, or (ii) there is a transfer (other than by merger, consolidation or amalgamation) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act), or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity, 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

- 11 February 2013 \$1,250,000 2 05 per cent guaranteed notes due 2018, and
- 11 February 2013 \$1,000,000 3 50 per cent guaranteed notes due 2023

Update on Tobacco-Related Litigation

Ireland

In the Republic of Ireland, the number of tobacco-related claims has fallen to only five. In four of these cases, the claimants are deceased and their solicitors have been unsuccessful in their efforts to contact their families. The fifth case has been inactive since 2003 and can be assumed to have been abandoned. Even if it reactivates, it is very likely that it would be struck out on grounds of delay.

Spain

Following our acquisition of Altadis in January 2008, we were involved in a claim in Spain brought in the Administrative Court (the CADAN) on behalf of the Regional Government of Andalusia (the Junta). The claim was brought against Altadis and a number of other tobacco companies, as well as the State. On 23 December 2013, the CADAN dismissed the Junta's claim on procedural grounds. The Junta did not register an intention to appeal. Since all deadlines for appeal have now expired, the case is closed.

Italy

We are currently facing two claims in Italy. The first is 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 second claim has been brought in the Court of Messina by two individuals claiming €800,000 in total. We have denied liability. The first hearing took place on 17 September 2014 and the next hearing has been scheduled for 24 June 2015.

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 vigorously to contest all such litigation against us.

Statement of the Directors in Respect of the Annual Report and Financial Statements

As required by the Code, the Directors confirm that they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by considering the output and reports from a number of long-established and embedded processes including the following:

- the Audit Committee reviewed the use of adjusted measures and their appropriateness in aiding users of our financial statements to better understand our performance,
- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Director of Group Communications to ensure consistency across sections,
- an extensive verification process is undertaken to ensure factual accuracy,
- comprehensive reviews of drafts of the Annual Report are undertaken by members of the OPEX and other senior management,
- an advanced draft is considered and reviewed by our internal Audit Department, our Disclosure Committee, legal advisers and brokers,
- the final draft is reviewed by the Audit Committee prior to consideration by the Board,
- our Board members also receive drafts of the Annual Report and Accounts in sufficient time to facilitate their review and input, and
- discussing the draft Annual Report with both management and PwC and where appropriate challenging the content and any judgement and assumptions used.

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.

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 for 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 29, 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 Strategic Report and the Directors' Report include 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.

The Strategic Report and the Directors' Report were approved and signed by order of the Board.



John Downing
4 November 2014

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

DIRECTORS' REMUNERATION REPORT

Remuneration Committee

David Haines Chairman

"Our remuneration strategy is focused on supporting our business strategy in the drive to maximise long-term sustainable shareholder returns."

Members

David Haines *Chairman*
Ken Burnett
Michael Herlihy
Susan Murray
(to 5 February 2014)

Berge Setrakian
(to 5 February 2014)
Mark Williamson
(to 5 February 2014)
Karen Witts
(from 6 February 2014)
Malcolm Wyman

Trevor Williams *Secretary*

Decisions for 2014

- remuneration review and recommendation to shareholders to withdraw future awards to Executive Directors under the Share Matching Scheme (SMS) with the previous benefit consolidated into the Long Term Incentive Plan (LTIP),
- 2014 annual bonus payment calculated to be 69 per cent of the maximum opportunity,
- LTIP granted in November 2011 partially vested in November 2014,
- SMS granted in February 2012 will lapse in February 2015, and
- in relation to the retirement of Robert Dyrbus, confirming all elements of remuneration to be actioned in line with policy with no discretions exercised in his favour

Material changes for 2015

Subject to shareholder approval, implementation of the revised remuneration policy, including

- the withdrawal of the SMS for Executive Directors,
- amendment to mandatory deferral of bonus to require that half of any bonus paid be deferred into shares and released after three years,
- selected increases in variable pay opportunity;
- introduction of a cash conversion measure to the annual bonus,
- introduction of two-year holding period for vested LTIP awards, in respect of awards granted in February 2015 onwards, and
- strengthening of claw back provisions

Dear Shareholder

Over recent years, we have made changes to our remuneration policy to maintain alignment with our evolving strategic priorities. We continued to strengthen this alignment during 2014 in line with the shareholder-approved remuneration policy introduced at last year's AGM, which can be found in our 2013 Annual Report available on our website, through some additional changes to the measures in our incentive schemes and by further increasing the focus of our executives' pay towards the long-term.

Whilst the external environment continues to be challenging, our good performance in 2014 resulted in an annual bonus pay-out for Executive Directors of 69 per cent. Performance against earnings targets, adjusted for the effects of the stock optimisation programme, was strong, and volume and net revenue targets, again adjusted for the effects of the stock optimisation programme, were partially met. However, this recent progress has yet to be seen in the outcomes of the long-term schemes, there will be minimal vesting of LTIP awards made in November 2011 and no vesting of SMS awards made in February 2012.

Subject to shareholder approval, from 2015, we plan to remove the SMS for our most senior employees. Whilst the SMS has been an effective scheme to promote share ownership across the Company, we have taken heed of some investors' opposition to two long-term incentive schemes and we believe we can achieve the same alignment and retention more simply. We have, therefore, consolidated the SMS opportunity into the LTIP and, in order to preserve the retention effect, will require that half of all earned bonus is deferred in shares for three years. An additional holding period of two years will also apply to vested LTIPs.

We also propose to rebalance the weightings of measures in the LTIP to place greater emphasis on the measures by which executives can drive the success of the business, increasing the weight in earnings growth and reducing TSR. The Committee continues to review incentive measures annually and for the financial year to 30 September 2015 it proposes to introduce cash conversion alongside earnings, revenue, growth brand performance and market share measures to reflect the balance of our strategy.

Oliver Tant was appointed last year on a below-market salary with an intention to raise his pay, over time, to market levels contingent on performance. We believe this mechanism is in the Company's and, therefore, shareholders' best interests. Following a strong first year, the Committee considered it appropriate to bring Mr Tant's salary closer to the market and, therefore, increased it.

During the course of the year, we received feedback on proposed changes from a number of our larger investors, which we considered carefully. As a Committee our role is to balance these individual investor perspectives with our overall responsibility to ensure that remuneration arrangements enable us to attract, motivate and retain employees of the requisite quality to optimise sustainable shareholder returns.



David Haines
Chairman of the Remuneration Committee

Governance

The Role of the Remuneration 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 support the Group's strategy by ensuring that its delivery is incentivised by the remuneration policy, described below. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives

The Committee held six meetings during the financial year

The Committee's responsibilities include

- ensuring the Group's remuneration arrangements support its strategy, align with its 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,
- assessing the output from the Board evaluation process insofar as it relates to the Remuneration Committee,
- 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, and
- ensuring appropriate independent advisers are appointed to provide advice and guidance to the Committee

The Committee's full terms of reference provide further details of the role and responsibilities of the Committee and are available on the Company's website

All members of the Committee 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

During the year, Iain Napier (Company Chairman to 5 February 2014), Mark Williamson (Company Chairman from 5 February 2014), Alison Cooper (Chief Executive), Oliver Tant (Chief Financial Officer) and John Downing (Company Secretary) were consulted, including to provide a performance context to target setting, and invited to attend, where appropriate. Trevor Williams (Deputy Company Secretary) also attended each meeting as secretary to the Committee

The Group Human Resources Director and the Group Reward Director also attended and provided internal support and advice on market and regulatory developments in remuneration practice and our employee share plans. Their 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 and our most senior executives

No one is allowed to participate in any matter directly concerning the details of his or her own remuneration or conditions of service

This Policy Report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (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 2012 (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 and will detail in the 2015 report how it applied the provisions of the revised Code which applies to the Company from its financial year commencing on 1 October 2014

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 66 and we have clearly marked the audited sections of the Report

DIRECTORS' REMUNERATION REPORT continued

Policy Report

Our strategy and business model (further explained on page 2) drive our remuneration policy. The consistent and successful application of our strategy, incentivised by both short- and long-term performance measures, has delivered significant returns to shareholders and the measures proposed within the revised policy focus on building on this track record.

To continue to deliver our strategy we need high-calibre individuals with the skill set and experience appropriate to drive the performance of a Group of the scale and complexity of Imperial Tobacco. Our policy is designed to offer competitive, but not excessive, base salary with significant weighting towards performance-based elements the measures of which incentivise and support the delivery of our strategy whilst also reflecting individual, functional and corporate performance. We aim to set and rigorously apply targets that are both stretching and achievable.

Whilst our incentive plans provide for the Committee to exercise discretion in the determination of vesting, this is only used in exceptional circumstances and if exercised will be disclosed, at the latest, in the report on implementation of the Remuneration Policy for the year in question.

Remuneration Policy for Executive Directors

It is intended that the Remuneration Policy set out in this Report will, if approved, for the purposes of section 226D(6)(b) of the Act, take effect immediately after the AGM on 28 January 2015.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Salary	Attract and retain high-performing individuals reflecting the market value of role and the Executive Director's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Committee taking into account each Executive Director's performance together with changes in role and responsibility. Salary increases, if any, are generally effective from 1 October. The Committee considers pay data for both UK companies and those operating overseas. For the UK we compare against listed companies closest to us by FTSE ranking (and excluding those in the financial services sector) and we also reference the FTSE 30 and FTSE 50 excluding financial sector companies. Our international comparator group includes companies of a similar size, broad sector focus and global footprint. These comparators serve to define a "playing field" within which an individual's rewards need to be positioned. In determining individual remuneration, the primary factors taken into account are individual performance, the scale of the challenges intrinsic to that individual's role, their ability and experience.	No prescribed maximum annual increase. The Committee takes into account each Executive Director's performance, together with changes in role and responsibility and considers general increases for the UK wider management population.
Benefits	Competitive benefits taking into account the market value of the role and benefits offered to the wider UK management population.	Benefits include provision of company car, health insurance, life insurance and permanent health insurance which are provided directly or through the Company pension scheme. Opportunity to join the Sharesave Plan. Provision of relocation assistance upon appointment if/when applicable.	The level of benefit provision is fixed.
Annual Bonus Plan	Incentivise delivery of Group strategic objectives and enhance performance.	At least 60% of the annual bonus will be linked to key financial metrics and no more than 15% will be linked to individual measures. Performance below the threshold results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any annual bonus paid would be in deferred shares to be held for a minimum of three years with the other half paid in cash. Malus provisions apply before payment and claw back provisions are in place for the three years following payment of annual bonus.	200% of base salary or such lower sum as determined by the Committee.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Share Matching Scheme	Incentivise the delivery of Group strategic targets Promote share ownership worldwide across the Imperial Tobacco management team	<p>It is intended that, subject to shareholder approval of the revised Remuneration Policy, there will be no further awards to Executive Directors under the SMS However, outstanding awards will vest or not in line with the performance conditions and other terms of the relevant award</p> <p>Awards granted February 2014</p> <p>Awards have a performance period of three financial years and the level of vesting is based on financial measures with underpins In respect of each performance element, performance below the threshold target results in zero vesting Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets</p> <p>There is no opportunity to re-test</p> <p>Claw back provisions are in place</p> <p>Dividends accrued on vested shares are paid at the time of vesting</p> <p>Awards granted February 2012 and February 2013</p> <p>Awards were based on an earnings per share (EPS) performance condition only</p>	<p>Subject to shareholder approval of the revised policy no future awards will be made to Executive Directors</p> <p>Maximum match 1:1 of shares invested Plus, in respect of the February 2014 award, shares equivalent to the value of the dividend roll-up</p>
Long Term Incentive Plan	Incentivise long-term Group financial performance in line with the Group's strategy and long-term shareholder returns Align Executive Directors' interests with those of long-term shareholders	<p>Awards to be granted during or after January 2015</p> <p>Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 20% on relative total shareholder return (TSR) vs a peer group and 80% on financial measures</p> <p>In respect of each performance element, performance below the threshold target results in zero vesting Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets</p> <p>There is no opportunity to re-test</p> <p>Claw back and malus provisions are in place</p> <p>Dividends accrued on vested shares are paid at the time of vesting</p> <p>Any awards which vest will be subject to a further two-year holding requirement</p> <p>Awards granted November 2013</p> <p>Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 50% on TSR vs a peer group and 50% on financial measures with underpins</p> <p>In respect of each performance element, performance below the threshold target results in zero vesting Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets</p> <p>There is no opportunity to re-test</p> <p>Claw back provisions are in place</p> <p>Dividends accrued on vested shares are paid at the time of vesting</p> <p>Awards granted before February 2013</p> <p>Prior to February 2013 awards were based 50% on an EPS performance condition and 50% on relative TSR performance conditions only</p> <p>It is intended that all awards will vest or not in line with the performance conditions and other terms of the relevant award</p>	<p>Chief Executive Officer 350% of base salary</p> <p>Other Executive Directors 250% of base salary or such lower sum as determined by the Committee</p> <p>Plus shares equivalent to the value of the dividend roll-up</p>

DIRECTORS' REMUNERATION REPORT continued

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Pensions	Attract and retain high-performing Executive Directors	<p>Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors who joined the Fund prior to 1 October 2010 are members of the defined benefit section whereas Executive Directors joining the Fund on or after this date are offered membership of the defined contribution section. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.</p> <p>Members of the defined benefit section of the Fund accrue pension at a rate between 1/47th and 1/60th of pensionable salary. Further detail is provided on page 56.</p> <p>The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service.</p> <p>The Committee may amend the form of any Executive Director's pension arrangements in response to changes in pensions legislation or similar developments, so long as any amendment does not increase the cost to the Company of an Executive Director's pension provision.</p>	<p>Current policy is for a defined contribution and cash supplement limit of 26% of salary.</p> <p>Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary.</p>

Committee Discretions Relating to Variable Pay Schemes

The Committee will operate each of the Company's incentive plans for which it has responsibility according to their respective rules and in accordance with the Listing Rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include, but are not limited to, the following:

- who participates in the plan,
- the timing of grant of an award and/or payment,
- the size of an award (subject to the maxima set out in plan rules and the policy table above),
- the choice of performance measures and targets for a new award under each incentive plan (in accordance with the policy set out above),
- the determination of vesting and confirmation that the calculation of performance is made in an appropriate manner, with due consideration of whether and, if so, how, adjustments should be made (subject to the provision that any adjustments to targets set should result in the revised target being no less challenging than the original target),
- discretion required when dealing with a change of control and any adjustments required in special circumstances (e.g. rights issues, corporate restructuring events and special dividends), and
- determination of a good/bad leaver for incentive plan purposes based on the rules of the plan and the appropriate treatment chosen.

In relation to the Annual Bonus, SMS and LTIP, the Committee retains the ability to adjust the targets set if events occur which cause the Committee to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy than was intended. Adjustment may also be made for any changes to accounting policy over the performance period. Any use of discretion beyond the normal operation of the plan would be justified in the Directors' Remuneration Report and, if appropriate, be the subject of consultation with the Company's major shareholders. The use of discretion in relation to the Company's SAYE plan will be as permitted under HMRC rules.

Payments from Existing Awards

Subject to the achievement of applicable performance conditions, Executive Directors are eligible to receive payment, and existing awards may vest, in accordance with the terms of any such award made prior to the approval and implementation of the Remuneration Policy detailed in this Report.

Performance Measure Selection

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives.

The Committee reviews the performance measures annually and considers the combination of measures in the LTIP, i.e. adjusted EPS, net revenue and relative TSR, remain the most appropriate measures of long-term performance for the Group. TSR aligns with the Company's focus on shareholder value creation and rewards management for outperformance of sector peers. EPS provides strong line-of-sight for Executive Directors and supports the Group's long-term strategy. Net revenue supports the Company's focus on organic growth.

Performance measures are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment.

Remuneration Policy for Other Employees

The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies

All managers are eligible to participate in an annual bonus plan with similar metrics to those used for the Executive Directors. Other employees are eligible to participate in performance-led annual bonus plans. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate

Senior executives are eligible to participate in the LTIP (c 50 individuals) and the majority of members of the Corporate Management Group are eligible to participate in the SMS (c 1,100 individuals)

Total remuneration of the Executive Directors for a minimum, target and maximum performance is presented in the chart below

The charts are indicative as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows

- Minimum: fixed remuneration only (ie salary, benefits and pension)
- Target: fixed remuneration plus half of maximum annual bonus opportunity plus 25 per cent vesting of LTIP awards. Note that Imperial Tobacco does not have a stated 'target' for either its financial measures or incentive pay-outs
- Maximum: fixed remuneration plus maximum annual bonus opportunity plus 100 per cent vesting of LTIP awards

Executive Directors' Service Agreements and Loss of Office Payments

The Company's policy is that Executive Directors' service agreements normally continue until the Executive Director's agreed retirement date or such other date as the parties agree, are terminable on no more than one year's notice and contain no liquidated damages provisions nor any other entitlement to the payment of a predetermined amount on termination of employment in any circumstances. In addition, in some limited cases career counselling may be provided after the cessation of employment for a defined period. Under the terms of our Articles of Association, all Executive Directors are subject to annual re-election by shareholders

Executive Directors' service agreements contain provisions for payment in lieu of notice in respect of base salary, pension contributions and 5 per cent of base salary in respect of other benefits but these are at the Company's sole discretion. The Company is unequivocally against rewards for failure. The circumstances of any termination (including the individual's performance) and an individual's duty and opportunity to mitigate losses would be 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 any such payments would be paid monthly in arrears

For Executive Directors leaving employment with Imperial Tobacco for specified reasons (including death, redundancy, retirement, ill health and disability, the business or company in which the participant is employed ceasing to be part of the Group or on a change of control) annual bonus awards will be based on performance, adjusted for time served, and paid at the same time as for other employees. The Remuneration Committee has discretion to adjust the timing and pro-rating to take account of any prevailing exceptional circumstances

Under the rules of both the SMS and LTIP, outstanding awards vest if an Executive Director leaves for specified reasons (as detailed above). In these circumstances an Executive Director's awards vest as the Committee determines having regard to the time the award has been held and the achievement of the performance criteria. The awards will vest either on termination of the Executive Director's employment with the Group or, for awards granted under the policy approved by shareholders in 2014 or later, at the normal vesting date, as the Committee determines in its absolute discretion. If 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, an Executive Director's awards lapse entirely

Executive Directors' Service Agreements

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Alison Cooper	1 July 2007	Terminable on 12 months' notice	No provisions
Oliver Tant	1 October 2013	Terminable on 12 months' notice	No provisions
Matthew Phillips	31 May 2012	Terminable on 12 months' notice	No provisions

DIRECTORS' REMUNERATION REPORT continued

Recruitment of Executive Directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment. The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and, therefore, shareholders. Any such buyout awards would be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash, shares, options), time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such awards at the time of appointment. The Committee may need to avail itself of the current Listing Rule 9.4.2 R if required in order to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual. The Committee confirms that this provision would only be used to compensate for remuneration lost.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following appointment.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the Remuneration Committee.

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.

Alison Cooper is a Non-Executive Director of Inchcape PLC and was permitted to retain the £55,000 fee received from this position in the financial year.

Policy for Non-Executive Directors

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders.	Reviewed, but not necessarily increased, annually by the Board (after recommendation by the Committee in respect of the Chairman). Fee increases, if applicable, are normally effective from 1 October. The Board and, where appropriate, the Committee consider pay data at comparator companies of similar scale. The Senior Independent Director and the chairmen of the Audit and Remuneration Committees receive additional fees. No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans.	No prescribed maximum annual increase. Aggregate annual fees limited to £2.0 million by Articles of Association.
Benefits	Travel to the Company's registered office.	Travel to the Company's registered office is recognised as a taxable benefit.	Grossed-up costs of travel.

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 4 February 2014. 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. Under the terms of our Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

Shareholding Guidelines

Whilst placing significant weight on our annual performance, our remuneration policy 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 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 expected to build a holding in the Group's shares to a minimum value broadly equivalent to three times their respective base salary. Other senior managers 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.

Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in shares which they are required to retain for the duration of their appointment.

Consultation with Employees

Although the Committee does not consult directly with employees on the Directors' Remuneration Policy, the Committee does consider the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors

Differences in Remuneration Policy for Executive Directors Compared with Other Employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Group. However, there are some differences in the structure of the remuneration policy for the Executive Directors and other senior employees, which the Remuneration Committee believes is necessary to reflect the different levels of responsibility. The key difference in policy is the increased emphasis on long-term performance related pay for Executive Directors

Consideration of Shareholder Views

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year at its first meeting following the AGM. This feedback, as well as any additional feedback received during any other meetings with shareholders, is then considered as part of the Company's annual remuneration policy review

The Remuneration Committee notes that shareholders do not speak with a single voice, but we engage with our largest shareholders to ensure we understand the range of views which exist on remuneration issues. When any material changes are made to the Remuneration Policy, for example the proposed changes to our policy detailed above, the Remuneration Committee chairman will inform major shareholders in advance, and will offer a meeting to discuss these changes

How the Committee implemented the Remuneration Policy for Financial Year Ended 30 September 2014

Linking Remuneration with Strategy

We focus on delivering high-quality sustainable sales growth whilst effectively managing our costs and cash flows. Ensuring that our sales growth drivers and key enablers are supported and their delivery incentivised by our remuneration policy is key to maximising long-term returns to shareholders

Alignment with our Strategy	<p>Sustainable sales growth is at the heart of our strategy. This is supported by the inclusion of the drivers of sales growth within our variable remuneration – both the annual bonus and LTIP. Stretching performance targets incentivise the delivery of sales and the creation of shareholder value.</p> <p>Managing our costs and cash flows are the other elements of our strategic focus. Profitability, mainly in the form of earnings per share, forms a major part of the measurement in both the annual bonus and LTIP.</p> <p>Cash conversion will be added as a measure for the annual bonus in the coming year.</p>
Alignment with our Shareholders	<p>To align their interest with shareholders, employees at all levels are encouraged to have an interest in the Company's shares through both direct shareholdings (supported by shareholding requirements for senior executives) and through our share plans with the value of the Corporate Management Group's overall remuneration being heavily dependent on the performance of our share price.</p>
Attracting and Retaining the Right People	<p>Our Remuneration Policy is designed to ensure a high-quality pool of talented employees at all levels who are incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks.</p> <p>We believe it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we neither pay more than necessary nor reward failure.</p> <p>Our policy is, therefore, significantly weighted towards performance-based elements.</p>

Implementing Executive Policy and Practice

In implementing the Company's Remuneration Policy (as detailed on pages 64 to 69 of the Company's Annual Report and Accounts 2013 available on our website), the Committee recognises that 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 are the scale of the challenges intrinsic to that individual's role, his or her ability, experience and performance.

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 more than 30 per cent of eligible employees participating in one or more plans.

DIRECTORS' REMUNERATION REPORT continued

Single Total Figure of Remuneration for each Director (Audited)

£ 000	2014 Salary and fees	2013 Salary and fees	2014 Taxable benefits ¹	2013 Taxable benefits	2014 Annual bonus ²	2013 Annual bonus	2014 Share plans vesting ³	2013 Share plans vesting	2014 Pension benefits ⁴	2013 Pension benefits	2014 Total	2013 Total
Executive Directors												
Alison Cooper, Chief Executive	920	920	16	16	1,270	626	151	–	293	449	2,650	2,011
Oliver Tant ⁵ , Chief Financial Officer	575	–	16	–	595	–	–	–	150	–	1,336	–
Robert Dyrbus ⁶ , Finance Director	63	665	2	27	66	339	–	–	58	233	189	1,264
Matthew Phillips, Corporate Affairs Director	435	435	22	11	375	185	26	–	134	215	992	846
	1,993	2,020	56	54	2,306	1,150	177	–	635	897	5,167	4,121
Non-Executive Directors												
Mark Williamson, Chairman ^{7 8}	338	116	3	2	–	–	–	–	–	–	341	118
Iain Napier, Chairman ⁷	156	450	2	2	–	–	–	–	–	–	158	452
Ken Burnett	73	73	28	29	–	–	–	–	–	–	101	102
David Haines ⁹	86	73	11	4	–	–	–	–	–	–	97	77
Michael Herlihy ⁹	96	93	3	2	–	–	–	–	–	–	99	95
Susan Murray	73	73	1	1	–	–	–	–	–	–	74	74
Berge Setrakian ⁹	25	73	16	38	–	–	–	–	–	–	41	111
Karen Witts ¹⁰	47	–	1	–	–	–	–	–	–	–	48	–
Malcolm Wyman ⁹	98	98	5	15	–	–	–	–	–	–	103	113
	992	1,049	70	93	–	–	–	–	–	–	1,062	1,142
Payments to former Executive Directors												
Robert Dyrbus ⁶	102	–	3	–	106	–	147	–	–	–	358	–

1 Taxable benefits principally include an allowance in lieu of or the provision of, a company car (£15,000 in respect of Alison Cooper and Oliver Tant and £20,227 in respect of Matthew Phillips), fuel and health insurance. Benefits in kind for the Non Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office

2 Annual bonus earned for performance over the financial year ending 30 September 2014

3 Share plans vesting represent the value of SMS and LTIP awards where the performance period ends in the year. Comparator figures represent the actual value of awards vesting

4 Further details are contained in the Executive Directors' pension section on page 56

5 Oliver Tant was appointed to the Board on 1 October 2013

6 Robert Dyrbus retired from the Board on 5 November 2013 but remained an employee until 31 December 2013

7 Mark Williamson succeeded Iain Napier as Chairman on 5 February 2014

8 Includes payment in respect of Senior Independent Director fee of £25,000 per annum and chairmanship of Board Committees at an annual rate of £20,000 in respect of the Remuneration Committee and £25,000 in respect of the Audit Committee. Mark Williamson's fee as Deputy Chairman was £100,000 per annum

9 Berge Setrakian retired from the Board on 5 February 2014

10 Karen Witts was appointed to the Board on 6 February 2014

All expense payments made to Directors were made on the basis of reimbursement of expenses incurred grossed up for tax where expenses represent a taxable benefit. No payments were made by way of taxable expenses allowances. No Directors waived their fees

Additional Notes to the Single Total Figure of Remuneration (Audited)

This section sets out supporting information for the single total figure columns relating to annual bonus, share plans and pension benefits. In particular, it provides information on the extent to which annual performance conditions have been satisfied for the annual bonus and the extent to which three-year performance conditions have been satisfied for each share plan, namely the SMS and LTIP

Determination of 2014 Annual Bonus

Despite a challenging external environment, management delivered a good performance in the year to 30 September 2014, strengthening our brands and market footprint, increasing cash conversion and considerably reducing net debt. As a result, we are a stronger business and delivered a 10 per cent increase in dividend

The annual bonus payment, determined with reference to performance over the financial year ending 30 September 2014, is calculated at 69 per cent of maximum opportunity. The Committee believes this to be an appropriate reflection of the performance and progress made through the year

Performance against individual measures is set out below

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency)	Performance is measured based on underlying EPS growth, adjusted to remove the impact of the stock optimisation programme, at constant currency. Increases in topline revenues together with a stronger focus on cost optimisation and cash conversion provided growth in underlying EPS of 6.8 per cent against a maximum target of 6 per cent.	50	50
Net revenue growth ¹	Performance is measured based on underlying net revenue growth, adjusted to remove the impact of the stock optimisation programme. A focus on portfolio management, pricing and innovation supported underlying growth of 1.6 per cent against a context of market volume declines of 4 per cent. Whilst a strong performance in relative terms, this was some way behind our maximum target of 4 per cent growth.	20	8
Volume growth in growth brands ¹	Performance is measured based on underlying volume growth of our Growth Brands relative to the market, adjusted to remove the impact of the stock optimisation programme. Underlying Growth Brands volumes increased by 10.9 per cent relative to the market, further building the strength of our key brand assets. This strong performance was against a maximum target of 11.8 per cent relative growth.	10	9
Non-financial ¹	Non-financial measures consisted of aggregate market share targets for Returns and Growth Markets. We showed resilience in Returns Markets, with good share performance in a number of markets. However, market size declines in some of our biggest markets impacted the aggregate measure and the threshold target was not met. In our Growth Markets, share was up by 0.1 per cent against a maximum target of 0.6 per cent.	20	2
Achievement of bonus for 2014		100	69

¹ Subject to an EPS underpin which was exceeded in all cases

No element of the annual bonus is guaranteed. 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 may 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.

Share Matching Scheme

SMS awards were made to the Chief Executive and Corporate Affairs Director in February 2012 which will vest in February 2015 based on an EPS performance condition measured over the three financial years to 30 September 2014 as set out below.

Performance target	Actual performance	Threshold vesting of award	Maximum level of vesting	Actual percentage vesting	
Adjusted EPS	3% – 6% average annual growth over UK inflation	0%	50%	100%	0

Long Term Incentive Plan

LTIP awards were made to the Chief Executive and Corporate Affairs Director in November 2011 which will vest in November 2014 based on performance conditions, measured over the three years, as set out below.

Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Actual percentage of award	
Adjusted EPS	3% – 10% average annual growth over UK inflation	0%	6.25	50	0
TSR against comparator group ¹	Threshold exceeds bottom 6 companies Maximum exceeds bottom 9 companies	3 companies exceeded	7.5	25	0
TSR against FTSE 100	Threshold exceeds 50% of companies Maximum when 75% of companies exceeded	50% of companies exceeded	7.5	25	7.5
Achievement of LTIP for 2014			100	7.5	

¹ The companies comprising the comparator group are

AB InBev	Altna Group Inc	British American Tobacco PLC	Carlsberg A/S
Diageo PLC	Heineken NV	Imperial Tobacco Group PLC	Japan Tobacco Inc
Philip Morris International Inc	Pernod Ricard SA	Reynolds American Inc	SABMiller PLC

DIRECTORS' REMUNERATION REPORT continued

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

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 of 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, for grants in 2013 and earlier, five years, and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2014, no Sharesave options vested in respect of Executive Directors.

Total Pension Entitlements (Audited)

The Executive Directors who served during the financial year are all members of the Imperial Tobacco Pension Fund (the Fund), which is the principal retirement benefit scheme operated by the Group in the UK.

Members who joined before 1 October 2010 are included in the defined benefit section of the Fund. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis, in the defined contribution section of the Fund.

Robert Dyrbus stepped down from the Board on 5 November 2013 and retired from the Company on 31 December 2013. Oliver Tant joined the Board as an Executive Director on 1 October 2013 and is a member of the defined contribution section of the Fund (and receives benefits in line with the Company's policy).

Robert Dyrbus opted out of Fund membership in respect of future service accrual from 2006, as a result of registering for enhanced protection with HMRC. Alison Cooper, Matthew Phillips and Oliver Tant have not opted out of future service accrual.

Robert Dyrbus was in receipt of a salary supplement of 35 per cent of salary, which was in lieu of future pensionable service accrual and arose because his accrued pension on 6 April 2006 was well below the maximum pension of two thirds of salary.

Alison Cooper and Matthew 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 1/60th 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 an unfunded unapproved retirement benefit scheme (UURBS), Alison Cooper and Matthew Phillips each receive a salary supplement of 12 per cent of this amount.

Oliver Tant is also in receipt of a salary supplement equal to 12 per cent of his basic salary. In addition, under the rules of the defined contribution section of the Fund, Oliver Tant has opted to limit total contributions (Member and Company) to the Fund to a level which should not result in him incurring an Annual Allowance charge. As a result, any additional Company contribution which would have been due to be paid to the Fund, had Oliver Tant not opted to cap contributions, is paid to him as a salary supplement and is included in the figures in the table below.

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.

Robert Dyrbus started to draw his pension on 13 November 2012, as is permitted under the Fund rules. The accrued pension figure at 30 September 2014 and the value of total pension benefits at 30 September 2014 represent the benefits accrued as at 13 November 2012 and are consistent with those disclosed at 30 September 2013. Between 13 November 2012 and the date when he left the Company, Robert Dyrbus was a "Flexible Benefits" member of the Fund. However, no additional pension was accrued over this period.

Matthew Phillips elected to use the Fund's scheme pays facility to settle his Annual Allowance charge for the 2012/13 tax year. His accrued pension was reduced by £4,538.19 a year to offset this tax payment. This reduction to pension is reflected in the above accrued pension figure as at 30 September 2014 (it is also reflected in the value of the benefits as at 30 September 2014).

The following table provides the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (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 normal retirement ages,
- the value of the pension benefits at the start and end of the year, as calculated in accordance with the Regulations,
- the value of the pension benefits earned over the year, excluding any Director's contributions and any increases for inflation, calculated in accordance with the Regulations, and
- any payments in lieu of retirement benefits.

None of the Executive Directors has made additional voluntary contributions.

Executive Directors' Pension Disclosures (Audited)

£ 000	Age at 30/09/2014	Pensionable service at 30/09/2014	Accrued pension		Single Figure numbers			Extra information to be disclosed under 2013 Directors Remuneration Regulations		
			01/10/2013	30/9/2014	Payment in lieu of retirement benefits (i.e. pension supplement) £ 000	Value x 20 over year (net of director's contributions) £ 000	Total pension benefits £ 000	Normal retirement age	Value x 20 at start of year £ 000	Value x 20 at end of year £ 000
Alison Cooper	48	15	152	168	86	207	293	60	3,040	3,360
Robert Dyrbus ¹	61	N/A	331	331	53	nil	53	60	6,620	6,620
Matthew Phillips	43	14	82	90	28	106	134	60	1,640	1,800
Oliver Tant ^{2,3}	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Retired as a Director on 5 November 2013. Therefore figures relate to the period between 1 October 2013 and 5 November 2013

2 Appointed as a Director on 1 October 2013

3 Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He received an employer pension contribution into the defined contribution section of £66,000 (made up of £26,000 Company contribution plus £40,000 in respect of a salary sacrifice by Mr Tant in lieu of his personal contribution) in addition a salary supplement of £69,000, representing 12 per cent of Mr Tant's basic salary was paid to him together with an additional supplement of £54,500 in lieu of Company pension contributions which were not made to the Imperial Tobacco Pension Fund in order to maintain Mr Tant's total contributions within the Annual Allowance for pensions savings

Payment for Director Retiring (Audited)

Robert Dyrbus stepped down from the Board on 5 November 2013 and retired from the Company on 31 December 2013. In accordance with the policy in force at the date of his retirement, Robert Dyrbus' bonus in respect of the 2013 financial year, as detailed in the single total figure of remuneration table, was paid on 16 December 2013. His bonus in respect of the proportion of the 2014 financial year prior to his retirement will, subject to satisfaction of the appropriate performance conditions, be paid on 16 December 2014.

In accordance with our policy at the time the awards were granted, vesting of his outstanding SMS and LTIP awards was based on performance measured to 30 September 2013 and pro-rated for time served to his date of retirement.

Iain Napier, Berge Setrakian and Susan Murray also retired from the Board during the 2014 financial year and were only paid to the date of their retirement as detailed in the single total figure of remuneration table and received no compensation etc for loss of office.

Recruitment of New Executive Director

Oliver Tant joined the Board as an Executive Director on 1 October 2013 and succeeded Robert Dyrbus as Chief Financial Officer on 5 November 2013. He joined the Board on a salary of £575,000, a maximum bonus opportunity of 150 per cent of salary with any payment above 100 per cent of salary deferred in shares for three years, the opportunity to participate in the SMS, an LTIP award of 150 per cent of salary, and a defined contribution pension of 26 per cent of salary. As with previous Executive Director appointments, his salary was set below the market and some way below that of his predecessor. Subject to continued strong performance and reflecting his increasing experience, the Committee will be increasing his salary towards market levels over time. Notwithstanding that this may result in future percentage salary increases being above Company and market norms, the Committee strongly believes this approach is in the best interests of both the Company and its shareholders.

Statement of Change in Pay of Chief Executive Compared With Other Employees

	Chief Executive		All Employees ¹
	to 30 September 2014	Percentage change (2014 vs 2013)	Percentage change (2014 vs 2013)
Salary	£920,000	0	1.5
Benefits	£16,000	0	0
Bonus	£1,269,600	103	57

1 Based on members of our Corporate Management Group

Relative Importance of Spend on Pay

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividend plus share buybacks.

£ million unless otherwise stated	2014	2013	Percentage change
Overall expenditure on pay ¹	902	1,004	-10.2
Dividend paid in the year	1,149	1,065	+7.9
Share buyback	341	500	-31.8

1 Excludes employers' social security costs

DIRECTORS' REMUNERATION REPORT continued

Share Interests and Incentives (Audited)

All Executive Directors who served in the financial year currently meet the Company's shareholding policy by either holding shares in excess of their requirement or being within five years of appointment. Current shareholdings are summarised in the following table.

	Shares held		Options held				Shareholding required (% salary)	Current shareholding (% salary) ¹	Requirement met ²
	Owned outright	Vested but subject to holding period	Unvested and subject to performance conditions	Unvested and subject to continued employment	Vested but not exercised				
Executive Directors									
Alison Cooper	161,708	403	325,150	440	–	300	468	Yes	
Oliver Tant	829	–	36,209	441	–	300	4	In role for less than five years	
Matthew Phillips	43,259	–	94,873	459	–	300	265	In role for less than five years	
Non-Executive Directors									
Mark Williamson	8,241	–	–	–	–	–	–	N/A	
Ken Burnett	2,591	–	–	–	–	–	–	N/A	
David Haines	647	–	–	–	–	–	–	N/A	
Michael Herlihy	4,624	–	–	–	–	–	–	N/A	
Susan Murray	3,473	–	–	–	–	–	–	N/A	
Karen Witts	131	–	–	–	–	–	–	N/A	
Malcolm Wyman	3,559	–	–	–	–	–	–	N/A	

1 Based on a share price of £26.64 being the closing price on 30 September 2014.

2 Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in Imperial Tobacco Group PLC shares which they are required to retain for the duration of their appointment.

Variable Award Grants Made During the Year (Audited)

Awards were made in the financial year ending 30 September 2014 under both the SMS and LTIP. Detail of these awards is provided below.

Share Matching Scheme

Executive Directors were provided the opportunity in February 2014 to invest in the SMS. The resulting SMS awards granted and the associated performance conditions are set out below.

	Number of shares	Face value ¹	Amount of eligible bonus	Threshold vesting	End of performance period	Performance conditions ²
Alison Cooper	40,000	£920,000	100%	50%	30 September 2016	50% – 3 year adjusted EPS growth 50% – 3 year net revenue growth
Matthew Phillips	16,076	£369,748	100%	50%	30 September 2016	50% – 3 year adjusted EPS growth 50% – 3 year net revenue growth

1 Valued using the share price at the date of grant (17 February 2014) being £23.00 per share.

2 Vesting occurs as per the vesting schedule below.

Note: Oliver Tant was appointed to the Board on 1 October 2013, received no eligible bonus and was, therefore, not eligible to participate.

Performance Criterion – Net Revenue Growth Element

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 applies in respect of the net revenue growth element for the Executive Directors. This requires a minimum level of adjusted EPS growth to be achieved in order for any awards under the net revenue growth element to vest (the EPS underpin).

Performance Criterion – EPS Element

Compound annual adjusted 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 adjusted 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 element 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 measure excludes the effect on goodwill and acquired intangibles of exchange rate movements and changes from amortisation and impairment. 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 (the ROIC underpin).

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

Long Term Incentive Plan

In line with the policy then in effect, Executive Directors were granted LTIP awards in November 2013. The resulting number of LTIP shares and the associated performance conditions are set out below.

	Number of nil cost options	Face value ¹	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance conditions ²
Alison Cooper	77,246	£1,840,000	200%	30 September 2016	25%	50%	TSR relative to bespoke comparator group
					25%	25%	3 year adjusted EPS growth
					25%	25%	3 year net revenue growth
Oliver Tant	36,209	£862,500	150%	30 September 2016	25%	50%	TSR relative to bespoke comparator group
					25%	25%	3 year adjusted EPS growth
					25%	25%	3 year net revenue growth
Matthew Phillips	22,827	£543,750	125%	30 September 2016	25%	50%	TSR relative to bespoke comparator group
					25%	25%	3 year adjusted EPS growth
					25%	25%	3 year net revenue growth

¹ Valued using the share price at the date of grant (6 November 2013) being £23.82 per share.

² Vesting occurs as per the vesting schedule below.

Performance Criterion – TSR Element

The performance criterion for the TSR element is based on a single comparator group of companies across a broadly defined consumer goods sector and is applied to 50 per cent of the LTIP.

The companies within the Comparator Group are currently:

Anheuser-Busch InBev NV	Atria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithKline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc	Kingfisher PLC
Lonlard Inc	Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc
Pernod Ricard SA	Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rexam PLC	Reynolds American Inc
Rolls-Royce PLC	SAB Miller PLC	J Sainsbury PLC	Smith & Nephew PLC	Shire PLC
Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC
WM Morrison Supermarkets PLC				

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

Relative TSR performance	Shares vesting (as percentage of element)
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%

DIRECTORS' REMUNERATION REPORT continued

Performance Criterion – Net Revenue Growth Element

This criterion is used for 25 per cent of the LTIP award. Vesting of awards on this element would occur as per the vesting schedule detailed for the SMS above.

Performance Criterion – EPS Element

This criterion is used for 25 per cent of the LTIP award. Vesting of awards on this element would occur as per the vesting schedule detailed for the SMS above.

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

Remuneration Decisions Taken in 2013/14

Salary

Each year the Committee sets base salaries for the next financial year after consideration of individual and Company performance and market data for each position based on several comparator groups which reflect the Company's size, sector and global reach. Consideration is given to the effect an amendment to an individual's base salary would have on his or her total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

This year's review is intended to bring our executives' salaries closer to the Committee's intended positioning and follows the approaches previously outlined to shareholders. As communicated on their appointment, both Alison Cooper's and Oliver Tant's salaries were set significantly below the market levels and their predecessors' with the intention to increase them over time and dependent on performance. For Alison Cooper we followed this approach in 2011 and 2012 but a salary freeze in 2013 means that after four years her salary remains below her predecessor. The Remuneration Committee believes that it is right to continue to correct this. Based on Oliver Tant's performance in his first year the Committee increased his salary to move him closer to his peers with the intention that a further increase next year, subject to his continued strong performance, would close the gap. Matthew Phillips has held the role of Corporate Affairs Director for two years. It is the view of the Committee that his current salary does not appropriately reflect the true breadth or contribution of either the role or the individual and the Committee, therefore, determined to increase his salary to reflect performance.

	Salary 2013/14	Salary 2014/15	Percentage Change
Alison Cooper	£920,000	£965,000	4.9
Oliver Tant	£575,000	£630,000	9.6
Matthew Phillips	£435,000	£455,000	4.6

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.

Following a review of the remuneration policy, the Committee is recommending to shareholders the following amendments to the maximum bonus potentials.

	Proposed maximum percentage of salary	Current maximum percentage of salary
Alison Cooper	200	200
Oliver Tant	200	150
Matthew Phillips	175	125

Half of any bonus paid will be in the form of shares deferred for a three-year period, the remaining half will be paid in cash.

For the next financial year the performance measures have been set out in the table below.

	Performance target	Maximum of bonus
Adjusted EPS growth	Commercially confidential	35%
Cash conversion	Commercially confidential	25%
Volume growth in Growth Brands	Outperformance of market growth	15%
Non-financial	Market share targets	15%
Individual objectives	Commercially confidential	10%

At this point, the above targets are considered commercially confidential but, to the extent that any bonuses are paid, further details will be provided retrospectively in the 2015 Annual Report. The Committee is not of the view that such targets will necessarily always be confidential but will review this on a year-by-year basis.

Share Plan Awards

It is intended that, subject to shareholder approval of the revised Remuneration Policy, there will be no further awards to Executive Directors under the SMS with the historic award levels being consolidated into the Group's LTIP. The Committee is recommending the following maximum LTIP awards

	Proposed maximum opportunity – percentage of salary	Current maximum opportunity – percentage of salary ¹
Alison Cooper	350	300
Oliver Tant	250	250
Matthew Phillips	210	210

¹ Includes the previous award level under the SMS

To allow for the changes to be considered by shareholders it is intended that the award which would normally have been granted in November 2014 will be delayed and granted in January or February 2015. Subject to shareholder approval of the revised policy these awards will be at the revised maximum levels.

The awards will be subject to performance conditions as summarised below

Performance conditions	Weighting in LTIP
Adjusted EPS growth	50%
TSR	20%
Net revenue growth	30%

When setting the performance criteria, the Committee takes account of the Group's long-term plans and analysts' forecasts. For both the adjusted EPS and net revenue targets, the performance criteria will use growth in absolute terms rather than relative to inflation and apply them to a three-year performance period.

Performance Criterion – EPS Element

This criterion will be used for 50 per cent of the LTIP awards. Vesting of awards on this element would occur in accordance with a vesting schedule agreed by the Committee on an annual basis. The proposed vesting schedule for the awards to be granted in January or February 2015 is set out below.

Compound annual adjusted EPS growth	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 8% per annum	Between 25% and 100% (pro rata)
8% per annum or higher	100%

Performance Criterion – TSR Element

The performance criterion for the TSR element will be based on a single comparator group including more than 40 companies across a broadly defined consumer goods sector and will be applied to 20 per cent of the LTIP.

The companies within the comparator group are currently

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithKline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc	Kingfisher PLC
Lonlind Inc	Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc
Pernod Ricard SA	Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rexam PLC	Reynolds American Inc
Rolls-Royce PLC	SAB Miller PLC	J Sainsbury PLC	Smith & Nephew PLC	Shire PLC
Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC
WM Morrison Supermarkets PLC				

DIRECTORS' REMUNERATION REPORT continued

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

Relative TSR performance	Shares vesting (as percentage of element)
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%

Performance Criterion – Net Revenue Growth Element

This criterion will be used for 30 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below

Compound annual growth in net revenue	Shares vesting (as a percentage of element)
Less than 1% per annum	nil
1% per annum	25%
1% to 4% per annum	Between 25% and 100% (pro rata)
4% per annum or higher	100%

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

Voting on the Remuneration Report at the 2014 AGM

At the 2014 AGM a small number of shareholders expressed concerns with various aspects of our remuneration policy. These concerns included the use of two long-term plans (i.e. the SMS and LTIP) and the potential, in limited circumstances, to make awards in excess of the Group's normal policy in order to recruit the best candidate. Prior to the AGM and following dialogue with our major shareholders and their representative bodies, the Committee issued a clarificatory statement on the Company's website in respect of Executive Director recruitment in December 2013.

At the AGM held in 2014, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld	Total votes cast including votes withheld
Directors' Remuneration Report	694,645,923	92.61	55,397,807	7.39	750,043,730	11,576,464	761,620,194
Directors' Remuneration Policy	664,057,447	88.04	90,242,108	11.96	754,299,555	7,320,638	761,620,193

Votes withheld are not included in the final figures as they are not recognised as a vote in law

Advice Provided to the Committee

New Bridge Street (NBS) is retained, having been appointed following a tendering process, by the Committee as its principal, and only material, external adviser. NBS advises on all aspects of our remuneration policy and practice and reviews our structures against corporate governance best practice. NBS also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Committee members up to date with new developments and evolving best practice.

NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. NBS' parent companies, Aon Hewitt Limited and Aon plc, provide other human resources and insurance services respectively to the Group. Having reviewed the structures in place to ensure the independence of NBS' advice to the Committee, it is satisfied that the other work provided by the wider Aon group does not impact on NBS' independence. During the year, NBS was paid fees of £292,856.

Other companies which provided advice to the Committee are as follows

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR-related matters. During the year, it was paid fees of £19,500. Alithos Limited provided no other services to the Group,
- Allen & Overy LLP is available to provide legal advice to the Committee as and when required. It was not used for remuneration-related advice during the financial year. Allen & Overy LLP also provided other legal services to the Group,
- Pinsent Masons LLP provided legal advice in respect of the operation of the Group's employee share plans,
- PricewaterhouseCoopers LLP (PwC), our Auditors, performs agreed upon procedures on earnings per share (EPS) calculations used in relation to our employee share plans' performance criteria. During the financial year, PwC was paid £1,750 in respect of services to the Committee, and
- Towers Watson provided market pay data to ensure the consistent application of our Remuneration Policy for executives. During the year, it was paid fees of £52,255 for these services. Towers Watson also provided actuarial services to the Group.

All of these advisers were appointed by the Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee.

Other Information

Our middle market share price at the close of business on 30 September 2014, being the last trading day of the financial year, was £26.64 and the range of the middle market price during the year was £21.74 to £27.74

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

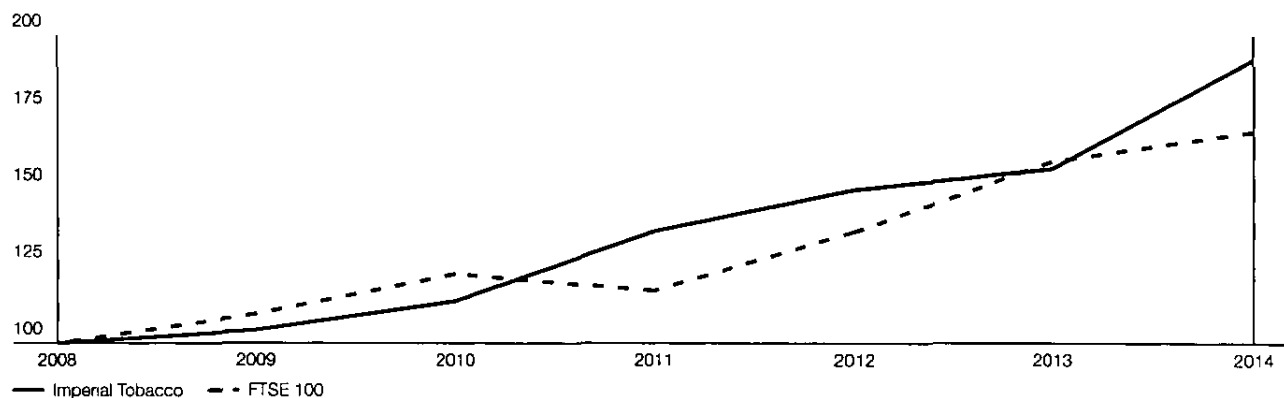
Award Dates

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

Review of Past Performance

The chart below shows the value of £100 invested in the Company on 1 October 2008 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year ends to 30 September 2014. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a six-year period

Total Return Indices – Imperial Tobacco and FTSE 100



Change in Chief Executive Remuneration

	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper ¹	2011 Alison Cooper ¹	2010 Alison Cooper ¹	2010 Gareth Davis ^{2,3}	2009 Gareth Davis
Total remuneration £'000	2,686	2,011	2,793	2,737	1,347	5,453	5,099
Annual Bonus as a percentage of maximum	69	34	51.2	33.1	84.7	84.7	85.2
Shares vesting as a percentage of maximum	5.8	nil	58.0	71.6	80.8	46.93	74.5

1 Total remuneration includes value of share plans vesting that were granted prior to appointment as Chief Executive

2 Total remuneration includes value of share plans vesting on retirement

3 Based on performance conditions applicable on date of retirement

Operating Executive (excluding Executive Directors)

£'000	2014	2013
Base salary	2,143	2,161
Benefits	160	190
Pension salary supplement	218	152
Bonus	1,291	716
LTI ¹ annual vesting	90	nil
SMS annual vesting ²	nil	nil
	3,902	3,219

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

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

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24 which includes National Insurance and similar charges was £11,073,194 (2013: £8,954,612)

DIRECTORS' REMUNERATION REPORT continued

Key Management* Compensation for the Year Ended 30 September 2014 (Audited)

£'000	2014	2013
Short-term employee benefits	9,575	7,431
Post-employment benefits	1,186	1,050
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment (in accordance with IAS 24)	833	(2,140)
	11,594	6,341

The credit in 2013 is principally due to the non-achievement during the year of performance conditions which were previously expected to be achieved

Key management includes Directors, members of the OPEX and the Company Secretary

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 2014, we held 78 909 137 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 01/10/2013	Acquired during year	Distributed during year	Balance at 30/09/2014	Ordinary shares under award at 30/09/2013	Surplus/ (shortfall)
Executive Trust	718,756	nil	(19,862)	698,894	740,632	(41,738)
2001 Trust	2,542,675	2,000,000	(1,084,456)	3,458,219	4,315,056	(856,837)

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 0.5 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 awards granted pursuant to all of the Company's employee share plans totals 3.6 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	0.9	0.2
5% in 10 years (executive plans)	1.3	0.1

For the Board



David Haines
Chairman of the Remuneration Committee

4 November 2014

FINANCIAL STATEMENTS AND NOTES – CONTENTS

Group Financial Statements

Independent Auditors' Report to the Members of Imperial Tobacco Group PLC	66
Consolidated Income Statement	72
Consolidated Statement of Comprehensive Income	73
Consolidated Balance Sheet	74
Consolidated Statement of Changes in Equity	75
Consolidated Cash Flow Statement	76

Notes to the Financial Statements

1	Accounting Policies	77
2	Critical Accounting Estimates and Judgements	82
3	Segment Information	83
4	Profit Before Taxation	85
5	Restructuring Costs	85
6	Directors and Employees	86
7	Net Finance Costs and Reconciliation to Adjusted Net Finance Costs	86
8	Taxation	87
9	Dividends	88
10	Earnings Per Share	88
11	Intangible Assets	89
12	Property, Plant and Equipment	91
13	Joint Ventures	92
14	Inventories	93
15	Trade and Other Receivables	94
16	Cash and Cash Equivalents	94
17	Trade and Other Payables	94
18	Borrowings	95
19	Financial Risk Factors	96
20	Derivative Financial Instruments	101
21	Deferred Tax Assets and Liabilities	104
22	Retirement Benefit Schemes	105
23	Provisions	109
24	Share Capital	110
25	Share Schemes	110
26	Treasury Shares	112
27	Commitments	112
28	Legal Proceedings	112
29	Acquisitions	113
30	Net Debt	113
31	Reconciliation of Cash Flow to Movement in Net Debt	114
32	Changes in Non-controlling Interests	114

Parent Company Financial Statements

Independent Auditors' Report to the Members of Imperial Tobacco Group PLC	115
Imperial Tobacco Group PLC Balance Sheet	116
Notes to the Financial Statements of Imperial Tobacco Group PLC	117
Principal Undertakings	120

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC

Report on the Group Financial Statements

Our Opinion

In our opinion, Imperial Tobacco Group PLC's group financial statements (the 'financial statements')

- Give a true and fair view of the state of the Group's affairs as at 30 September 2014 and of its profit and cash flows for the year then ended,
- Have been properly prepared in accordance with International Financial Reporting Standards ('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

What We Have Audited

Imperial Tobacco Group PLC's financial statements comprise

- The Consolidated Balance Sheet as at 30 September 2014,
- The Consolidated Income Statement for the year then ended,
- The Consolidated Statement of Comprehensive Income for the year then ended,
- The Consolidated Statement of Changes in Equity for the year then ended,
- The Consolidated Cash Flow Statement for the year then ended, and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts ("Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our Audit Approach

Overview

-
- Overall group materiality £110 million which represents 4.4 per cent of adjusted group profit before taxation
-
- Following our assessment of the risk of material misstatement to the Group financial statements we selected 18 reporting entities which represent the principal business units
 - We conducted full scope audit work at these 18 reporting entities, which included significant operations based in the UK, Germany, Spain, USA, Morocco, Australia, France and six other locations
 - We also conducted specific audit procedures in Russia and Ukraine based on our assessment of the risk of misstatement and the scale of operations at those business units
 - In addition certain central reporting entities and group functions, including those covering treasury, taxation and pensions, and the Parent Company were subject to a full scope audit
 - The full scope reporting entities and group functions where we performed audit work accounted for approximately 75 per cent of group revenues and in excess of 90 per cent of both group profit before taxation and adjusted group profit before taxation
 - As part of the supervision process site visits and video conferences were conducted
-
- Our assessment of the risk of material misstatement also informed our views on the areas of particular focus for our work which are listed below
- Goodwill and intangible assets impairment assessment
 - Risk of fraud in revenue recognition focused on revenue sold into distribution channels at year end
 - Tax accounting and the level of tax provisions held against risks
 - Accounting for restructuring provisions
-

The Scope of Our Audit and Our Areas of Focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)')

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Our observations on the areas below were based on the evidence obtained to support our opinion on the financial statements as a whole.

Area of focus

How our audit addressed the area of focus

Goodwill and intangible assets impairment assessment

See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, note 2 for judgements and estimates and note 11 for detailed Intangible assets disclosures.

We focused on this area because the determination of whether or not certain elements of goodwill and intangible assets were impaired involved complex and subjective judgements by the Directors about the future results of the relevant parts of the business.

At 30 September 2014 the Group had £10,568 million of goodwill and £5,291 million of intangible assets and reasonable headroom for the majority of the Group's cash-generating units (CGUs).

We focused on the valuation of the Growth Markets reporting segment (£4,106 million of goodwill and intangible assets). Growth Markets is made up of a number of operating segments and individual CGUs, including the Drive Growth operating segment and the Premium Cigar CGU. For both of these businesses goodwill is separately measured and management's assessment indicates lower headroom (£240 million and £170 million respectively).

For the Drive Growth operating segment we focused on the valuation of the Russian business, which is the most material CGU included in the segment. In particular we considered the key expectation that the Russian business will achieve a significant profit improvement (see note 11) in the short term.

For the Premium Cigar CGU the valuation is dependent on continuing profit growth in emerging markets and operational improvements (see note 11). As such, we focused on the assumptions the Directors made about the growth rates in these areas.

We challenged the Directors' analysis around the key business drivers of the cash flow forecasts supporting their impairment assessment, being pricing, market size, and market share. We also evaluated the appropriateness of the key assumptions including discount rates, short-term growth and long-term growth rates and performed a range of sensitivities across the reporting segments. In particular:

- For the Russian business, we considered the Directors' expectations about the impact of the Group's stock optimisation programme and the balance between the capacity for price increases and underlying volume declines. We also discussed the potential impact of duty and regulated pricing changes under consideration by the Russian parliament.
- For the Premium Cigar CGU, we evaluated the reasonableness of the Directors' forecast by challenging assumptions about growth strategies involving opportunities in new markets and planned operational improvements.

For both Russia and Premium Cigar CGU we reached the view that the planned level of profit growth appears achievable, but that there was sufficient uncertainty to require further sensitivity analysis around the key assumptions.

As a result of this we determined that the impairment assessments for both Drive Growth and Premium Cigar were acceptable based on the current business plans. However, for Drive Growth we consider that a deterioration of Russian economic conditions in excess of that reflected in the assumptions or an inability to achieve planned results could reasonably be expected to give rise to an impairment charge in the future.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC continued

Area of focus

Risk of fraud in revenue recognition focused on the occurrence of revenue sold into distribution channels at year end

See note 1 to the financial statements for the Directors' disclosures of the related accounting policies

We focused on the timing of revenue recognition because of the risk associated with the levels of inventory sold into, and held in, distribution channels and the contractual terms those goods were sold under

Revenue recognition is, under normal group terms and conditions, not complex with accounts receivable converted to cash in a timely manner. Returns have historically been immaterial and our testing did not identify any evidence of significant levels of returns

There is however a risk that sales made into distribution channels close to a period end could be overstated. If such sales were not legitimate then this could result in material amounts of revenue being recorded in the incorrect period and could affect management's incentive payments

How our audit addressed the area of focus

We tested the timing of revenue recognition, and whether the Group appropriately recorded revenue taking into account contractual terms and obligations with distributors and other customers. For certain key distributors we obtained details of the amount of inventory held by them in the channel and compared this to prior periods. We also used this information in our evaluation of the impact on the financial statements of the Group's stock optimisation programme. We noted no instances of inappropriate revenue recognition arising in our testing.

We evaluated contractual terms around the year end and tested accounts receivable balances through a combination of third party confirmations and subsequent remittances, with no exceptions noted from our testing. We evaluated evidence of the level of returns received after the year end and noted no material issues arising. We also used a combination of manual and computer assisted audit techniques in order to extract and test journal entries posted to revenue and other general ledger accounts, which did not identify unexplained unusual or irregular items.

Area of focus

Tax accounting and the level of tax provision held against risks

See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, note 2 for judgements and estimates and notes 8 and 21 for detailed taxation disclosures

There are a number of significant judgements involved in the determination of deferred tax balances, specifically in relation to the recognition of tax losses and the assessment of deferred taxation liabilities in certain jurisdictions where the probability of temporary differences reversing is uncertain.

Given the number of judgements involved and the complexities of dealing with tax rules and regulations in numerous jurisdictions, this was an area of focus for us.

How our audit addressed the area of focus

In the calculation of deferred taxes, we challenged management over the adequacy of tax loss recognition in the Netherlands and Spain. We also challenged whether a material deferred taxation provision established in an overseas business was still required. We concluded that the position adopted in the financial statements was reasonable based on our review of management's assessment of the recoverability of tax losses and the basis for their write back of the deferred taxation provision.

Area of focus

Accounting for restructuring provisions

See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, note 5 for restructuring costs disclosure and note 23 for detailed provisions disclosures

The Group has a significant restructuring programme underway. The programme is expected to last several years and as part of this programme the Group announced the proposed closures of major factories at Nantes and Nottingham during the year. In 2014 the charge in the Consolidated Income Statement relating to this programme was £305 million and there is a total restructuring provision held on the Consolidated Balance Sheet of £321 million. The recognition of restructuring costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the Group is externally committed. The presentation in the financial statements also requires consideration of whether the amounts included in the charge are exceptional in nature.

How our audit addressed the area of focus

We assessed the completeness of the restructuring amounts provided for using our knowledge of the business and prior period, inquiries of management, examination of restructuring plans and through consideration of expenses that typically are connected with exit and disposal activities. Based on this, we did not identify any material omissions.

We tested the valuation and calculations of the individual restructuring provisions that made up the total including redundancy, impairment and pension curtailment. We found no material exceptions in these tests.

We considered management's treatment of the restructuring costs as exceptional and agreed with their conclusion that the extensive scale and material cost of the project, together with the level of centralised group wide control and Board focus, indicated that it was exceptional in nature.

How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates

The Group is structured along two business lines being Tobacco and Logistics. The group financial statements are a consolidation of 349 legal entities represented by 223 reporting entities, comprising the Group's operating businesses and centralised functions

The Group's accounting process is structured around a local or regional finance function for each of the territories in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol UK through an integrated consolidation system. In our view, due to their significance and/or risk characteristics, 18 of the 223 reporting entities, including the Logistics sub-group, required an audit of their complete financial information and we used component auditors from other PwC network firms, and other firms operating under our instruction, who are familiar with the local laws and regulations in each of these territories to perform this audit work. We also conducted specific audit procedures in Russia and Ukraine based on our assessment of the risk of misstatement and the scale of operations at those business units

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole

The group engagement team visits the component teams on a rotational basis. In the current year the group team engagement leader visited the USA, Morocco, Taiwan, Laos, Spain and Germany, as well as in-scope UK reporting locations. Video conferences were held at least once with the component auditors and management of every in-scope reporting entity and those undertaking specific procedures

The group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team at the head office. These included derivative financial instruments, net investment hedge accounting, treasury, taxation and pensions. The Parent Company is also subject to a full scope audit

Taken together, the reporting entities and group functions where we performed audit work accounted for approximately 75 per cent of group revenues and in excess of 90 per cent of both group profit before tax and group adjusted profit before tax

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows

Overall group materiality	£110 million (2013: £114 million)
How we determined it	4.4 per cent of adjusted profit before taxation
Rationale for benchmark applied	In arriving at this benchmark we have had regard to adjusted profit before taxation as this metric is presented by the Directors as reflective of the business performance and because in our view this is the most relevant measure of results

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2013: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Going Concern

Under the Listing Rules we are required to review the Directors' statement in relation to going concern. We have nothing to report having performed our review

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC continued

Other Required Reporting

Consistency of Other Information

Companies Act 2006 Opinion

In our opinion

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

ISAs (UK and Ireland) Reporting

Under ISAs (UK and Ireland) we are required to report to you if, in our opinion

We have no exceptions to report arising from this responsibility

- Information in the Annual Report is
 - Materially inconsistent with the information in the audited financial statements, or
 - Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit, or
 - Otherwise misleading

-
- The statement given by the Directors, in accordance with Provision C 1 1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit

We have no exceptions to report arising from this responsibility

-
- The section of the Annual Report, as required by Provision C 3 8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility

Adequacy of Information and Explanations Received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' Remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the Financial Statements and the Audit

Our Responsibilities and Those of the Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (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.

What an Audit of Financial Statements Involves

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

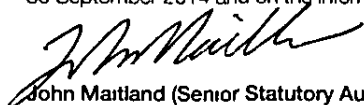
We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Other Matter

We have reported separately on the Parent Company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2014 and on the information in the Directors' Remuneration Report that is described as having been audited



John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

4 November 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 30 September

£ million unless otherwise indicated	Notes	2014	2013
Revenue	3	26,625	28,269
Duty and similar items		(12,928)	(13,681)
Other cost of sales		(8,422)	(9,059)
Cost of sales		(21,350)	(22,740)
Gross profit		5,275	5,529
Distribution, advertising and selling costs		(1,946)	(2,053)
Acquisition costs	29	(13)	-
Amortisation of acquired intangibles	11	(644)	(372)
Impairment of acquired intangibles	11	-	(580)
Restructuring costs	5	(305)	(270)
Other expenses		(303)	(296)
Administrative and other expenses		(1,265)	(1,518)
Operating profit	3	2,064	1,958
Investment income	7	517	724
Finance costs	7	(1,061)	(1,463)
Net finance costs	7	(544)	(739)
Profit before taxation	4	1,520	1,219
Taxation	8	(69)	(290)
Profit for the year		1,451	929
Attributable to			
Owners of the parent		1,422	905
Non-controlling interests		29	24
Earnings per ordinary share (pence)			
- Basic	10	148.5	92.9
- Diluted	10	148.1	92.7

Results and financial positions for 30 September 2013 have been restated on adoption of IAS 19 (Revised) - see note 1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

£ million	Notes	2014	2013
Profit for the year		1,451	929
Other comprehensive income			
Exchange movements		(581)	164
Current tax on exchange movements		-	40
Items that may be reclassified to profit and loss		(581)	204
Net actuarial gains on retirement benefits	22	45	43
Deferred tax relating to net actuarial gains on retirement benefits	21	(1)	(42)
Items that will not be reclassified to profit and loss		44	1
Other comprehensive income for the year, net of tax		(537)	205
Total comprehensive income for the year		914	1,134
Attributable to			
Owners of the parent		900	1,108
Non-controlling interests		14	26
Total comprehensive income for the year		914	1,134

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2014	2013
Operating profit		2,064	1,958
Acquisition costs	29	13	-
Amortisation of acquired intangibles	11	644	372
Impairment of acquired intangibles	11	-	580
Restructuring costs	5	305	270
Adjusted operating profit		3,026	3,180

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2014	2013
Net finance costs		(544)	(739)
Net fair value and exchange (gains)/losses on financial instruments	7	(12)	156
Post-employment benefits net financing cost	7	40	51
Adjusted net finance costs		(516)	(532)

CONSOLIDATED BALANCE SHEET

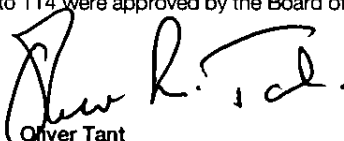
for the year ended 30 September

£ million	Notes	2014	2013
Non-current assets			
Intangible assets	11	15,859	17,382
Property, plant and equipment	12	1,862	2,080
Investments in associates		17	17
Retirement benefit assets	22	44	5
Trade and other receivables	15	75	85
Derivative financial instruments	20	605	312
Deferred tax assets	21	241	153
		18,703	20,034
Current assets			
Inventories	14	2,935	3,296
Trade and other receivables	15	2,806	2,966
Current tax assets	8	96	72
Cash and cash equivalents	16	1,431	1,809
Derivative financial instruments	20	38	245
		7,306	8,388
Total assets		26,009	28,422
Current liabilities			
Borrowings	18	(468)	(3,276)
Derivative financial instruments	20	(46)	(219)
Trade and other payables	17	(6,990)	(7,354)
Current tax liabilities	8	(133)	(141)
Provisions	23	(176)	(92)
		(7,813)	(11,082)
Non-current liabilities			
Borrowings	18	(9,464)	(7,858)
Derivative financial instruments	20	(645)	(531)
Trade and other payables	17	(21)	(17)
Deferred tax liabilities	21	(1,453)	(1,820)
Retirement benefit liabilities	22	(824)	(1,055)
Provisions	23	(312)	(407)
		(12,719)	(11,688)
Total liabilities		(20,532)	(22,770)
Net assets		5,477	5,652
Equity			
Share capital	24	104	107
Share premium and capital redemption		5,836	5,833
Retained earnings		(756)	(791)
Exchange translation reserve		(119)	447
Equity attributable to owners of the parent		5,065	5,596
Non-controlling interests	32	412	56
Total equity		5,477	5,652

The financial statements on pages 72 to 114 were approved by the Board of Directors on 4 November 2014 and signed on its behalf by



Mark Williamson
Chairman



Oliver Tant
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2013	107	5,833	(791)	447	5,596	56	5,652
Profit for the year	-	-	1,422	-	1,422	29	1,451
Exchange movements	-	-	-	(566)	(566)	(15)	(581)
Net actuarial gains on retirement benefits	-	-	45	-	45	-	45
Deferred tax relating to net actuarial gains on retirement benefits	-	-	(1)	-	(1)	-	(1)
Other comprehensive income	-	-	44	(566)	(522)	(15)	(537)
Total comprehensive income	-	-	1,466	(566)	900	14	914
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	-	-	6	-	6	-	6
Purchase of shares by Employee Share Ownership Trusts	-	-	(2)	-	(2)	-	(2)
Costs of employees' services compensated by share schemes	-	-	20	-	20	-	20
Current tax on share-based payments	-	-	3	-	3	-	3
Increase in own shares held as treasury shares	-	-	(341)	-	(341)	-	(341)
Cancellation of own shares held as treasury shares	(3)	3	-	-	-	-	-
Changes in non-controlling interests	-	-	(363)	-	(363)	363	-
Proceeds, net of fees, from the disposal of Logista IPO (see note 32)	-	-	395	-	395	-	395
Dividends paid	-	-	(1,149)	-	(1,149)	(21)	(1,170)
At 30 September 2014	104	5,836	(756)	(119)	5,065	412	5,477
At 1 October 2012	107	5,833	(150)	245	6,035	49	6,084
Profit for the year	-	-	905	-	905	24	929
Exchange movements	-	-	-	162	162	2	164
Current tax on exchange movements	-	-	-	40	40	-	40
Net actuarial gains on retirement benefits	-	-	43	-	43	-	43
Deferred tax relating to net actuarial gains on retirement benefits	-	-	(42)	-	(42)	-	(42)
Other comprehensive income	-	-	1	202	203	2	205
Total comprehensive income	-	-	906	202	1,108	26	1,134
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	-	-	6	-	6	-	6
Purchase of shares by Employee Share Ownership Trusts	-	-	(4)	-	(4)	-	(4)
Costs of employees' services compensated by share schemes	-	-	14	-	14	-	14
Current tax on share-based payments	-	-	2	-	2	-	2
Increase in own shares held as treasury shares	-	-	(500)	-	(500)	-	(500)
Dividends paid	-	-	(1,065)	-	(1,065)	(19)	(1,084)
At 30 September 2013	107	5,833	(791)	447	5,596	56	5,652

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September

£ million	2014	2013
Cash flows from operating activities		
Operating profit	2,064	1,958
Share of post-tax (profit)/loss of associates	(3)	1
Depreciation, amortisation and impairment	920	1,215
Loss/(profit) on disposal of property, plant and equipment	6	(5)
Loss on disposal of software	3	1
Loss on disposal of businesses	–	13
Post-employment benefits	(156)	(34)
Costs of employees' services compensated by share schemes	22	18
Movement in provisions	19	(47)
Operating cash flows before movement in working capital	2,875	3,120
Decrease/(increase) in inventories	119	(93)
(Increase)/decrease in trade and other receivables	(33)	151
Increase/(decrease) in trade and other payables	44	(140)
Movement in working capital	130	(82)
Taxation paid	(457)	(686)
Net cash flows generated by operating activities	2,548	2,352
Cash flows from investing activities		
Interest received	10	9
Purchase of property, plant and equipment	(256)	(269)
Proceeds from sale of property, plant and equipment	59	14
Purchase of intangible assets – software	(37)	(27)
Internally generated intellectual property rights	(4)	(9)
Purchase of intangible assets – intellectual property rights	(46)	–
Purchases of businesses – net of cash acquired	–	(35)
Proceeds from sale of businesses – net of cash disposed	–	1
Net cash used in investing activities	(274)	(316)
Cash flows from financing activities		
Interest paid	(550)	(522)
Cash from employees on maturity/exercise of share schemes	6	6
Purchase of shares by Employee Share Ownership Trusts	(2)	(6)
Increase in borrowings	2,324	4,884
Repayment of borrowings	(3,200)	(3,443)
Cash flows relating to derivative financial instruments	(121)	(28)
Finance lease payments	–	(20)
Purchase of treasury shares	(341)	(500)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 32)	395	–
Dividends paid to non-controlling interests	(21)	(19)
Dividends paid to owners of the parent	(1,149)	(1,065)
Net cash used in financing activities	(2,659)	(713)
Net (decrease)/increase in cash and cash equivalents	(385)	1,323
Cash and cash equivalents at start of year	1,809	631
Effect of foreign exchange rates on cash and cash equivalents	7	(145)
Cash and cash equivalents at end of year	1,431	1,809

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU 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.

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 those arising on financing transactions being 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, where they 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 and cost of sales. Payments due in the United States of America under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

NOTES TO THE FINANCIAL STATEMENTS continued

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, whereas 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, intellectual property, 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

With effect from 1 October 2013 we have revised the estimated lives over which certain brands, trademarks and supply agreements in the Tobacco business will be amortised. In line with our strategy to focus on Growth and Specialist Brands, we have reduced the estimated remaining useful lives for all other brands to a maximum of five years. Intellectual property (including trademarks), supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows

Intellectual property	5-30 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	2-15 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. 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 consolidated 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 twelve 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. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

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 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. When such shares are cancelled they are transferred to the capital redemption reserve.

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 costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains/losses on financial instruments, 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 Costs

Adjusted measures exclude costs associated with major acquisitions as they do not relate to the day to day operational performance of the Group.

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 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 and optimisation 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, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

Tax Matters

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. The recognition and utilisation of deferred tax assets relating to losses not historically generated as a result of the underlying business performance are excluded on the same basis.

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 performance of Tobacco operations.

Other Non-GAAP Measures Used by Management continued

Distribution Fees

Distribution fees comprises the Logistics segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Logistics operations.

Adjusted Net Debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and the fair value of derivative financial instruments providing commercial cash flow hedges.

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.

Pensions Accounting

Under IAS 19 (Revised), which became mandatory for the Group in its 2014 accounts, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. The impact on the Group's results and net assets is as follows.

£ million	Year ended 30 September 2013		
	Previously reported	Adjustment	Restated
Investment income	766	(42)	724
Finance costs	(1,463)	–	(1,463)
Net finance costs	(697)	(42)	(739)
Profit before taxation	1,261	(42)	1,219
Taxation	(300)	10	(290)
Profit for the period	961	(32)	929
EPS basic (pence)	96.2	(3.3)	92.9
EPS diluted (pence)	96.0	(3.3)	92.7
Retirement benefit assets	1	4	5
Retirement benefit liabilities	(1,055)	–	(1,055)
Net assets	5,648	4	5,652

The effect in the year ended 30 September 2014 has been to reduce reported investment income by £42 million and profit for the period by £32 million.

Valuation of Derivative Financial Instruments

IFRS 13 Fair Value Measurement, which is mandatory for this financial year, has clarified the measurement criteria for derivative financial instruments. The impact has not had a material effect on the results or net assets of the Group.

Joint Ventures

IFRS 11 will 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. See note 13 to the financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

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.

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.

Provisions

The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate.

3 Segment Information

Imperial Tobacco comprises two distinct businesses – Tobacco and Logistics. 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.

The Tobacco business is managed based on the strategic role of groups of markets rather than their geographic proximity, with divisions focused on prioritising growth or returns. Returns Markets are typically mature markets where we have relatively large market shares and our objective is to maximise returns over the long term by growing profits while actively managing market share. Growth Markets are mainly large profit or volume pools where we typically have market shares below 15 per cent and where our total tobacco approach provides many opportunities for share and profit growth both now and in the future.

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive. Our reportable segments are Returns Markets North, Returns Markets South, Growth Markets (which includes our Cuban joint ventures and Fontem Ventures) and Logistics. Prevailing market characteristics such as maturity, excise structure and the breadth of the distribution networks determine the allocation of Returns Markets between Returns Markets North and Returns Markets South.

The main tobacco business markets in each of the reportable segments are:

Returns Markets North – Australia, Belgium, Germany, Netherlands, Poland, United Kingdom,

Returns Markets South – France, Spain and our African markets including Algeria, Ivory Coast, Morocco,

Growth Markets – Iraq, Norway, Russia, Saudi Arabia, Taiwan, United States of America

Tobacco

£ million unless otherwise indicated

	2014	2013
Revenue	19,656	20,881
Net revenue	6,576	7,007
Operating profit	1,970	1,888
Adjusted operating profit	2,850	3,003
Adjusted operating margin %	43.3	42.9

Logistics

£ million unless otherwise indicated

	2014	2013
Revenue	7,784	8,288
Distribution fees	848	850
Operating profit	84	69
Adjusted operating profit	166	176
Adjusted distribution margin %	19.6	20.7

Revenue

£ million	2014		2013	
	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Returns Markets North	12,939	12,915	13,527	13,506
Returns Markets South	2,824	2,080	3,051	2,222
Growth Markets	3,893	3,846	4,303	4,253
Total Tobacco	19,656	18,841	20,881	19,981
Logistics	7,784	7,784	8,288	8,288
Eliminations	(815)	–	(900)	–
Total Group	26,625	26,625	28,269	28,269

Tobacco net revenue

£ million

	2014	2013
Returns Markets North	2,801	2,929
Returns Markets South	1,662	1,824
Growth Markets	2,113	2,254
Total Tobacco	6,576	7,007

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £152 million (2013: £193 million)

NOTES TO THE FINANCIAL STATEMENTS continued

3 Segment Information continued

Adjusted operating profit and reconciliation to profit before tax

£ million	2014	2013
Tobacco		
Returns Markets North	1,511	1,543
Returns Markets South	742	792
Growth Markets	597	668
Total Tobacco	2,850	3,003
Logistics	166	176
Eliminations	10	1
Adjusted operating profit	3,026	3,180
Acquisition costs – Tobacco	(13)	–
Amortisation of acquired intangibles – Tobacco	(562)	(288)
Amortisation of acquired intangibles – Logistics	(82)	(84)
Impairment of acquired intangibles – Tobacco	–	(580)
Restructuring costs – Tobacco	(305)	(247)
Restructuring costs – Logistics	–	(23)
Operating profit	2,064	1,958
Net finance costs	(544)	(739)
Profit before tax	1,520	1,219

Other information

£ million	2014		2013	
	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Returns Markets North	100	69	148	82
Returns Markets South	54	41	28	34
Growth Markets	86	43	70	34
Total Tobacco	240	153	246	150
Logistics	16	31	23	35
Total Group	256	184	269	185

Additional geographic analysis

External revenue and non-current assets are presented for the UK and for individually significant countries. ITG's products are sold in over 160 countries.

£ million	2014		2013	
	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,750	163	5,007	182
Germany	4,003	3,350	4,105	3,180
Spain	2,128	1,716	1,832	2,080
France	3,661	2,857	3,834	3,206
USA	1,024	2,727	1,147	2,874
Other	11,059	6,925	12,344	7,957
Total Group	26,625	17,738	28,269	19,479

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	2014	2013
Raw materials and consumables used	1,265	1,408
Changes in inventories of finished goods	6,938	7,438
Operating lease charges	56	60
Net foreign exchange (gains)/losses	(96)	47
Write down of inventories	26	55
Loss/(profit) on disposal of property, plant and equipment	6	(5)
Impairment of trade receivables	2	(1)

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2014	2013
Audit of Parent Company and consolidated financial statements	10	10
Audit of the Company's subsidiaries	37	36
Audit related assurance services	01	01
Other assurance services	–	–
	48	47
Tax advisory services	07	08
Tax compliance services	02	01
Other services	21	02
	78	58

5 Restructuring Costs

£ million	2014	2013
Employment related	149	107
Asset impairments	71	83
Other charges	85	80
	305	270

The net charge for the year of £305 million (2013: £270 million) included £9 million (2013: £24 million) of unused provisions reversed during the year, £193 million (2013: £163 million) of additional restructuring provisions and £71 million (2013: £83 million) impairment of tangible assets. The remaining charge of £50 million (2013: £48 million) was charged directly to the consolidated income statement as incurred. Restructuring cash flow in the year was approximately £120 million (2013: £200 million), mainly due to the cost optimisation programme.

In January 2013 we announced our cost optimisation programme, aligned to our strategy, with a target of generating annual savings of £300 million by 2018, and with an anticipated cash implementation cost in the region of £600 million. The programme includes major restructuring of a number of sales forces to align with our strategy, rationalisation of our manufacturing footprint, and aligning organisational structures, processes and resource levels with future requirements. A number of initiatives delivered savings of over £60 million in our 2014 results (2013: £30 million).

Asset impairments in 2014 relate mainly to the proposed closure of our manufacturing facilities in Nottingham and Nantes while in 2013 they were mainly due to the closure of our facility in Cadiz.

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

NOTES TO THE FINANCIAL STATEMENTS continued

6 Directors and Employees

Employment costs

£ million	2014	2013
Wages and salaries	901	907
Social security costs	177	191
Pension costs (note 22)	(21)	81
Share-based payments (note 25)	22	16
	1,079	1,195

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. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2014		2013	
	At 30 September	Average	At 30 September	Average
Tobacco	28,300	28,500	29,600	30,200
Logistics	5,600	5,700	5,700	5,800
	33,900	34,200	35,300	36,000

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

	2014		2013	
	At 30 September	Average	At 30 September	Average
European Union	16,200	16,200	16,100	16,600
Americas	7,500	7,700	8,200	8,200
Rest of the World	10,200	10,300	11,000	11,200
	33,900	34,200	35,300	36,000

7 Net Finance Costs and Reconciliation to Adjusted Net Finance Costs

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2014	2013
Reported net finance costs	544	739
Fair value gains on derivative financial instruments	271	479
Fair value losses on derivative financial instruments	(358)	(589)
Exchange gains/(losses) on financing activities	99	(46)
Net fair value and exchange gains/(losses) on financial instruments	12	(156)
Interest income on net defined benefit assets	138	126
Interest cost on net defined benefit liabilities	(174)	(168)
Unwind of discount on redundancy and other long-term provisions	(4)	(9)
Post-employment benefits net financing cost	(40)	(51)
Adjusted net finance costs	516	532
Comprising		
Interest credit on bank deposits	(9)	(8)
Interest charge on bank and other loans	525	540
Adjusted net finance costs	516	532

Amounts in 2013 have been reclassified from fair value gains/losses on derivative financial instruments to exchange gains/losses on financing activities, to better reflect the nature of the transactions and the way the Group manages its financial risks and to ensure comparable data from year to year.

8 Taxation

Analysis of charge in the year

£ million	2014	2013
Current tax		
UK corporation tax	7	6
Overseas taxation	412	472
Total current tax	419	478
Deferred tax		
Origination and reversal of temporary differences	(350)	(188)
Total tax charged to the consolidated income statement	69	290

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	2014	2013
Reported taxation	69	290
Deferred tax on amortisation of acquired intangibles	301	72
Deferred tax on impairment of acquired intangibles	-	107
Tax on net fair value and exchange losses on financial instruments	13	9
Tax on post-employment benefits net financing cost	12	15
Tax on restructuring costs	84	79
Tax on unrecognised losses	51	-
Adjusted tax charge	530	572

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 of the enacted UK corporation tax rates for the year of 22 per cent (2013 23.5 per cent) as follows

£ million	2014	2013
Profit before tax	1,520	1,219
Tax at the UK corporation tax rate	334	286
Tax effects of		
Differences in effective tax rates on overseas earnings	(105)	(156)
Remeasurement of deferred tax balances	(260)	44
Remeasurement of deferred tax balances arising from changes in tax rates	46	-
Permanent differences	71	51
Non-deductible goodwill impairment	-	67
Adjustments in respect of prior years	(17)	(2)
Total tax charged to the consolidated income statement	69	290

Movement on current tax account

£ million	2014	2013
At 1 October	(69)	(317)
Charged to the consolidated income statement	(419)	(478)
Credited to other comprehensive income	-	40
Credited to equity	3	2
Cash paid	457	686
Exchange movements	-	2
Other movements	(9)	(4)
At 30 September	(37)	(69)

Analysed as

£ million	2014	2013
Assets	96	72
Liabilities	(133)	(141)
	(37)	(69)

NOTES TO THE FINANCIAL STATEMENTS continued

9 Dividends

Dividend per share in respect of financial year

Pence	2014	2013	2012
Interim	38.8	35.2	31.7
Final	89.3	81.2	73.9
Total	128.1	116.4	105.6

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	2014	2013
Final dividend paid in the period in respect of previous financial year	779	724
Interim dividend	370	341
	1,149	1,065

The proposed final dividend for the year ended 30 September 2014 of 89.3p per share amounts to a proposed final dividend payment of £851 million based on the number of shares ranking for dividend at 30 September 2014, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2014 will be £1,221 million (2013: £1,120 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	2014	2013
Earnings basic and diluted – attributable to owners of the Parent Company	1,422	905

Millions of shares

Weighted average number of shares		
Shares for basic earnings per share	957.4	973.9
Potentially dilutive share options	2.5	2.6
Shares for diluted earnings per share	959.9	976.5

Pence

Basic earnings per share	148.5	92.9
Diluted earnings per share	148.1	92.7

Reconciliation from reported to adjusted earnings and earnings per share

£ million unless otherwise indicated	2014		2013	
	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	148.5	1,422	92.9	905
Acquisition costs	1.4	13	–	–
Amortisation of acquired intangibles	35.8	343	30.8	300
Impairment of acquired intangibles	–	–	48.6	473
Net fair value and exchange (gains)/losses on financial instruments	(2.5)	(25)	15.1	147
Post-employment benefits net financing cost	2.8	28	3.7	36
Restructuring costs	23.1	221	19.6	191
Tax on unrecognised losses	(5.3)	(51)	–	–
Adjustments above attributable to non-controlling interests	(0.4)	(4)	–	–
Adjusted	203.4	1,947	210.7	2,052
Adjusted diluted	202.8	1,947	210.1	2,052

11 Intangible Assets

£ million	2014				Total
	Goodwill	Intellectual property	Supply agreements	Software	
Cost					
At 1 October 2013	12,697	7,264	1,414	175	21,550
Additions	-	64	-	37	101
Reclassifications	-	-	-	7	7
Disposals	-	-	-	(4)	(4)
Exchange movements	(743)	(400)	(91)	(12)	(1,246)
At 30 September 2014	11,954	6,928	1,323	203	20,408
Amortisation and impairment					
At 1 October 2013	1,489	2,025	543	111	4,168
Amortisation charge for the year	-	540	104	24	668
Disposals	-	-	-	(1)	(1)
Exchange movements	(103)	(132)	(41)	(10)	(286)
Accumulated amortisation	-	2,078	606	124	2,808
Accumulated impairment	1,386	355	-	-	1,741
At 30 September 2014	1,386	2,433	606	124	4,549
Net book value					
At 30 September 2014	10,568	4,495	717	79	15,859

£ million	2013				Total
	Goodwill	Intellectual property	Supply agreements	Software	
Cost					
At 1 October 2012	12,178	7,019	1,354	151	20,702
Additions	-	9	-	27	36
Acquisitions	41	-	-	-	41
Disposals	-	-	-	(7)	(7)
Exchange movements	478	236	60	4	778
At 30 September 2013	12,697	7,264	1,414	175	21,550
Amortisation and impairment					
At 1 October 2012	1,208	1,366	428	91	3,093
Amortisation charge for the year	-	276	96	22	394
Impairment charge for the year	225	355	-	-	580
Disposals	-	-	-	(6)	(6)
Exchange movements	56	28	19	4	107
Accumulated amortisation	-	1,670	543	111	2,324
Accumulated impairment	1,489	355	-	-	1,844
At 30 September 2013	1,489	2,025	543	111	4,168
Net book value					
At 30 September 2013	11,208	5,239	871	64	17,382

Intellectual property mainly comprises brands acquired through the purchases of Altadis in 2008 and Commonwealth Brands in 2007

Supply agreements include Logistics customer relationships and exclusive supply arrangements in Cuba. All were acquired under the purchase of Altadis.

In November 2013, the Group acquired e-vapour intellectual property rights from the Hong Kong based company Dragonite for £46 million.

NOTES TO THE FINANCIAL STATEMENTS continued

11 Intangible Assets continued

With effect from 1 October 2013 we have revised the estimated useful lives over which certain brands, trademarks and supply agreements in the Tobacco business will be amortised. In line with our strategy to focus on Growth and Specialist Brands, we have reduced the estimated remaining useful lives for all other brands to a maximum of five years. This change in estimate is the main reason for the increase in the charge for amortisation of acquired intangibles for the year ended 30 September 2014.

Impairment charges in 2013 of £0.6 billion were in respect of goodwill and other intangible assets relating to the Spanish market.

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

Amortisation and impairment in respect of intangible assets other than software are treated as reconciling items between reported operating profit and adjusted operating profit.

Goodwill and intangible asset impairment review

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill and intangible assets have been reallocated from the previously reported geographically based CGU groupings. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

£ million	2014		2013	
	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	3,948	177	4,243	190
Returns Markets South	1,484	93	1,597	100
Growth Markets	3,611	495	3,728	507
Tobacco	9,043	765	9,568	797
Logistics	1,525	-	1,640	-
	10,568	765	11,208	797

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (Growth Markets) and Altadis in 2008 (all CGU groupings).

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, or group of CGUs as appropriate, 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.

%	2014		
	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Returns Markets North	8.9	1.9	1.8
Returns Markets South	11.6	(2.2)	1.8
Growth Markets	8.6-12.9	0.9-23.4	1.8-4.0
Logistics	9.6	7.8	1.8

Cash flows from the three year plan period are extrapolated out to year five using the growth rate implicit in the three year plan, shown in the table above as the initial growth rate. Estimated long-term weighted average compound annual growth rates of between 1.8 per cent and 4.0 per cent per annum are used beyond year five.

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.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs.

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

Growth Markets

Within our Growth Markets reporting segment, there are a number of CGU groupings based on our operating segments, including Drive Growth and Other Premium Cigar

The Drive Growth CGU grouping includes our markets in Russia, Italy and Japan, and has been affected in 2014 by destocking in Russia, the major market in this CGU grouping. Our impairment test for this CGU grouping indicated headroom of £240 million, and assumed a compound annual growth rate for Russia over the first five years of 23.4 per cent, reflecting maintenance of more consistent levels of trade inventory together with price increases achieved in 2014 and anticipated over the plan period. The test also assumed a discount rate for the Russian market of 12.9 per cent reflecting recent political uncertainty and a long-term growth rate of 3.0 per cent. A reduction of 24 per cent in overall forecast cash flows, or an increase in the discount rate by 290 basis points, or a reduction in the long-term growth rate of 300 basis points, or a further 24 per cent devaluation of the Russian rouble would cause the carrying value to equal the recoverable amount.

The impairment test for our Other Premium Cigar CGU grouping that includes our non-Cuban Premium Cigar business indicated headroom of £170 million. A reduction in overall forecast cash flows of 25 per cent, or an increase in the discount rate by 240 basis points from 9.9 per cent, or a reduction in the short-term growth rate of 630 basis points from 9.8 per cent, or a reduction in the long-term growth rate of 180 basis points from 2.3 per cent would cause the carrying value to equal the recoverable amount.

Other CGU groupings

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

£ million	2014			Total
	Property	Plant and equipment	Fixtures and motor vehicles	
Cost				
At 1 October 2013	1,152	1,859	444	3,455
Additions	38	176	42	256
Disposals	(135)	(44)	(17)	(196)
Reclassifications	1	16	(27)	(10)
Exchange movements	(66)	(134)	(29)	(229)
At 30 September 2014	990	1,873	413	3,276
Depreciation and impairment				
At 1 October 2013	260	860	255	1,375
Depreciation charge for the year	17	106	37	160
Impairment	30	54	8	92
Disposals	(76)	(39)	(16)	(131)
Reclassifications	1	(2)	(1)	(2)
Exchange movements	(18)	(46)	(16)	(80)
At 30 September 2014	214	933	267	1,414
Net book value				
At 30 September 2014	776	940	146	1,862

NOTES TO THE FINANCIAL STATEMENTS continued

12 Property, Plant and Equipment continued

£ million	2013			Total
	Property	Plant and equipment	Fixtures and motor vehicles	
Cost				
At 1 October 2012	1,086	1,683	429	3,198
Additions	21	201	47	269
Disposals	-	(29)	(27)	(56)
Disposals of businesses	(7)	(16)	(4)	(27)
Reclassifications	7	2	(14)	(5)
Exchange movements	45	18	13	76
At 30 September 2013	1,152	1,859	444	3,455
Depreciation and impairment				
At 1 October 2012	184	752	237	1,173
Depreciation charge for the year	16	106	41	163
Impairment	54	22	2	78
Disposals	(3)	(18)	(26)	(47)
Disposals of businesses	-	(14)	(3)	(17)
Exchange movements	9	12	4	25
At 30 September 2013	260	860	255	1,375
Net book value				
At 30 September 2013	892	999	189	2,080

The impairment charges in 2013 were mainly due to the closure of our facility in Cadiz under our cost optimisation programme

The impairment charges in 2014 are mainly due to the proposed closure of our Nottingham and Nantes manufacturing facilities, as announced in April 2014

13 Joint Ventures

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

£ million	2014			Total
	Corporación Habanos	Altabana	Others	
Revenue	35	106	24	165
Profit after taxation	9	19	1	29
Non-current assets	173	12	7	192
Current assets	30	70	22	122
Total assets	203	82	29	314
Current liabilities	(35)	(23)	(19)	(77)
Non-current liabilities	(5)	(1)	-	(6)
Total liabilities	(40)	(24)	(19)	(83)
Net assets	163	58	10	231

£ million	2013			Total
	Corporación Habanos	Atabana	Others	
Revenue	51	111	14	176
Profit after taxation	15	19	3	37
Non-current assets	178	8	3	189
Current assets	35	71	9	115
Total assets	213	79	12	304
Current liabilities	(17)	(20)	(3)	(40)
Non-current liabilities	(9)	(2)	-	(11)
Total liabilities	(26)	(22)	(3)	(51)
Net assets	187	57	9	253

Transactions and balances with joint ventures

£ million	2014	2013
Sales to	61	68
Purchases from	63	80
Accounts receivable from	10	9
Current loans to	8	53
Accounts payable to	(11)	(10)

A new accounting standard, IFRS 11 Joint Arrangements, comes into effect for the Group from 1 October 2014. For future results, equity accounting will be compulsory for joint arrangements, and our current policy of proportionately consolidating joint ventures' results and assets and liabilities will no longer be permitted.

If the standard had been in effect in FY14, the revenue and profit after taxation figures above for 2014 would not have been included in revenue and profit after taxation in the Group's consolidated income statement. Instead, the profit and loss items would have been shown in the consolidated income statement below net finance costs as "post-tax share of investments accounted for using the equity method".

Similarly, the asset and liability amounts would not have been included in the corresponding line items in the Group's consolidated balance sheet, but would have been reclassified as "Investments accounted for using the equity method".

14 Inventories

£ million	2014	2013
Raw materials	1,004	1,119
Work in progress	54	55
Finished inventories	1,741	1,922
Other inventories	136	200
	2,935	3,296

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 £250 million (2013: £262 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS continued

15 Trade and Other Receivables

£ million	2014		2013	
	Current	Non-current	Current	Non-current
Trade receivables	2,648	-	2,809	-
Less provision for impairment of receivables	(55)	-	(51)	-
Net trade receivables	2,593	-	2,758	-
Other receivables	86	63	88	73
Prepayments and accrued income	127	12	120	12
	2,806	75	2,966	85

Trade receivables may be analysed as follows

£ million	2014		2013	
	Current	Non-current	Current	Non-current
Within credit terms	2,501	-	2,645	-
Past due by less than 3 months	42	-	68	-
Past due by more than 3 months	50	-	45	-
Amounts that are impaired	55	-	51	-
	2,648	-	2,809	-

16 Cash and Cash Equivalents

£ million	2014	2013
Cash at bank and in hand	1,422	1,677
Short-term deposits and other liquid assets	9	132
	1,431	1,809

Cash at 30 September 2014 and 2013 was held partly in preparation for repayments of borrowings due in the early part of the new financial year

£153 million (2013 £169 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time

17 Trade and Other Payables

£ million	2014		2013	
	Current	Non-current	Current	Non-current
Trade payables	1,014	-	1,055	-
Other taxes, duties and social security contributions	5,245	-	5,679	-
Other payables	210	-	165	-
Accruals and deferred income	521	21	455	17
	6,990	21	7,354	17

18 Borrowings

The Group's borrowings at amortised cost at the balance sheet date were as follows

£ million	2014	2013
Current borrowings		
Bank loans and overdrafts	147	24
Capital market issuance		
European commercial paper (ECP)	321	1,143
€500m 5 125% notes due October 2013	–	439
€1,200m 4 375% notes due November 2013	–	1,041
€750m 7 25% notes due September 2014	–	629
Total current borrowings	468	3,276
Non-current borrowings		
Bank loans	2	1
Capital market issuance		
€500m 4 0% notes due December 2015	394	409
€1,500m 8 375% notes due February 2016	1,226	1,318
£450m 5 5% notes due November 2016	471	471
\$1,250m 2 05% notes due February 2018	773	773
€850m 4 5% notes due July 2018	667	717
£200m 6 25% notes due December 2018	210	210
€500m 7 75% notes due June 2019	510	510
€750m 5 0% notes due December 2019	606	652
€1,000m 2 25% notes due February 2021	785	–
£1,000m 9 0% notes due February 2022	1,054	1,054
\$1,000m 3 5% notes due February 2023	618	619
£600m 8 125% notes due March 2024	626	625
€650m 3 375% notes due February 2026	514	–
£500m 5 5% notes due September 2026	499	499
£500m 4 875% notes due June 2032	509	–
Total non-current borrowings	9,464	7,858
Total borrowings	9,932	11,134
Analysed as		
Capital market issuance	9,783	11,109
Bank loans and overdrafts	149	25

Current borrowings and non-current borrowings at 30 September 2014 include interest payable of £1 million (2013 £64 million) and £291 million (2013 £257 million) respectively

During the year, €2,450 million notes were repaid, and in February 2014 the Group issued three tranches of debt in the capital markets for €1,000 million, €650 million and £500 million at fixed rates of 2.25 per cent, 3.375 per cent and 4.875 per cent respectively with an average maturity of 12 years

The bank loans and overdrafts are floating rate liabilities. The capital market issuances in place at the balance sheet date 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 during the year (2013 no defaults)

All borrowings are unsecured

NOTES TO THE FINANCIAL STATEMENTS continued

18 Borrowings continued

Undrawn borrowing facilities

In July 2014 the Group entered into term loan facilities of £4.4 billion equivalent to fund the purchase of certain US assets announced in July 2014. At the same time, the Group refinanced its core bank facility and entered into an additional revolving credit facility to provide working capital headroom in respect of the US acquisition.

All of these facilities were undrawn at 30 September 2014.

£ million	2014	2013
Amounts maturing		
Between one and two years	3,310	251
Between two and five years	3,631	3,474
In five years or more	927	-
	7,868	3,725

Non-current financial liabilities

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

£ million	2014			2013		
	Borrowings	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities	Total
Amounts maturing						
Between one and two years	1,622	(47)	1,575	1	72	73
Between two and five years	2,631	26	2,657	3,688	24	3,712
In five years or more	5,211	61	5,272	4,169	123	4,292
	9,464	40	9,504	7,858	219	8,077

19 Financial Risk Factors

Financial risk management

Overview

In the normal course of business, the Group is exposed to financial risks including market, liquidity and credit 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 which is responsible for managing external and internal funding requirements and financial risks in support of the Group's strategic objectives, specifically its exposure to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. Imperial Tobacco operates on a global basis and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity.

The Group's treasury activities are monitored by the Group Treasury Committee (GTC), which meets regularly throughout the year and comprises the Chief Financial Officer, the Company Secretary and other senior management from Group Finance, Manufacturing and Group Treasury. The GTC operates in accordance with the terms of reference set out by the Board and a framework which sets out the expectations and boundaries to assist in the effective oversight of Group Treasury activities. The Group Treasurer reports on a regular basis to the Board, and to the GTC on a monthly basis.

The Board reviews and approves all major treasury decisions and Group Treasury does not operate as a profit centre, nor does it enter into speculative transactions.

Market risk

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.

Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions denominated in foreign currencies, as well as cash investments, borrowings and derivatives in non-functional currencies. The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates.

Foreign currency transaction exposures arising on internal and external trade flows are not hedged. The Group minimises the transaction risk associated with overseas operating subsidiaries by matching local currency flows where possible.

Translation risk

In order to reduce foreign currency translation exposure, the Group seeks to match borrowings to the currency of underlying net assets which are primarily euros and US dollars. The Group has a policy of issuing debt in the most appropriate market or markets at the time of raising new finance and to subsequently enter into derivative financial instruments to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investment in overseas assets are treated as a hedge against the net investment wherever possible.

Transaction risk

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including 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.

The Group's sterling dividend to external shareholders is sourced from foreign subsidiary earnings. Cash flows are managed using liquidity swaps in line with the Group's daily cash management processes, and the timing of internal and external dividend flows as appropriate.

Foreign exchange sensitivity analysis

The tables below illustrate on an indicative basis, the Group's sensitivity to foreign exchange rates on monetary items held by Group companies in currencies other than their functional currencies. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2014. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements.

The effect in the consolidated 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. 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 2014, after the effect of derivative financial instruments, approximately 17 per cent (2013: 25 per cent) of reported net debt was denominated in sterling, 73 per cent in euro (2013: 69 per cent) and 10 per cent in US dollars (2013: 6 per cent).

£ million	2014	2013
	Increase/ (decrease) in income	Increase/ (decrease) in income
Income statement impact of non-functional currency foreign exchange exposures		
10% appreciation of euro (2013: 10%)	251	(172)
10% appreciation of US dollar (2013: 10%)	22	2
10% appreciation of sterling (2013: 10%)	3	18

An equivalent depreciation in the above currencies would cause a decrease in income of £307 million, £26 million and £3 million for euro, US dollar and sterling exchange rates respectively (2013: £211 million, -£3 million and -£22 million).

Movements in equity in the table below relate to hedging instruments designated as net investment hedges in hedging the Group's euro denominated assets.

£ million	2014	2013
	Change in equity	Change in equity
Equity impact of non-functional currency foreign exchange exposures		
10% appreciation of euro (2013: 10%)	923	1,124
10% appreciation of US dollar (2013: 10%)	-	-
10% appreciation of sterling (2013: 10%)	-	-

An equivalent depreciation in the above currencies would result in a change in equity of -£1,129 million, £0 million and £0 million for euro, US dollar and sterling exchange rates respectively (2013: -£1,374 million, £0 million and £0 million).

Interest rate risk

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 subsequently entering into derivative financial instruments to change the currency and interest rate mix in line with the GTC framework. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and fair value of derivative financial instruments. The Group's debt maturity profile is detailed in the contractual cash flows table below.

At 30 September 2014, including the effect of derivative financial instruments detailed in note 20, 71 per cent (2013: 49 per cent) of reported net debt was at floating rates of interest and 29 per cent (2013: 51 per cent) was at fixed rates of interest.

NOTES TO THE FINANCIAL STATEMENTS continued

19 Financial Risk Factors continued

Interest rate sensitivity analysis

The tables below illustrate on an indicative basis the Group's sensitivity to interest rates on its euro, US dollar and sterling monetary items which are primarily external borrowings, cash and cash equivalents

The impact in the consolidated income statement due to changes in interest rates reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2014, and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements

The sensitivity analysis has been prepared on the basis that the net debt and derivatives portfolio remain constant and that there is no net impact on other comprehensive income

The movement in interest rates is considered reasonable for the purposes of this analysis and the estimated effect assumes a lower limit of zero for interest rates where relevant

£ million	2014	2013
	Change in net income	Change in net income
Income statement impact of interest rate movements		
1% increase in euro interest rates (2013 1%)	32	20
1% increase in US dollar interest rates (2013 1%)	13	9
1% increase in sterling interest rates (2013 1%)	12	22

Liquidity risk

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs. 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, commercial paper and capital market issuance. Counterparty credit risk associated with the Group's investment and derivative portfolio is discussed in the credit risk section below

The Group borrows centrally in order to meet forecast funding requirements, and Group Treasury is in regular dialogue with subsidiaries 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, and in very limited cases through external local borrowings. Cash pooling structures are used to centralise cash and minimise external borrowings as appropriate and cash flow forecasts and funding requirements are reviewed by Group Treasury on a regular basis. Management periodically performs stress tests and sensitivity analysis on forecasts, which are subsequently reviewed by the Audit Committee

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 of exchange at the relevant balance sheet date. Net derivative financial instruments' contractual cash flows are as detailed in note 20

£ million	2014					
	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	149	149	147	2	-	-
Capital market issuance	9,783	12,677	834	1,994	3,621	6,228
Trade and other payables	1,014	1,014	1,014	-	-	-
Total non-derivative financial liabilities	10,946	13,840	1,995	1,996	3,621	6,228

£ million	2013					
	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	25	25	24	1	-	-
Capital market issuance	11,109	13,851	3,096	1,514	4,725	4,516
Trade and other payables	1,055	1,055	1,055	-	-	-
Total non-derivative financial liabilities	12,189	14,931	4,175	1,515	4,725	4,516

Capital management

The Group manages the capital structure through an appropriate mix of debt and equity in order to minimise the cost of capital whilst ensuring ongoing access to the external markets at an appropriate rate of interest. The Group defines capital as adjusted net debt and equity attributable to the owners of the Company. Besides the minimum capitalisation rules that may apply to subsidiaries in different countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within external debt facilities, within which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group seeks to maintain an investment grade credit rating which it monitors by reference to a number of key financial ratios. The framework within which the Group's capital base is managed includes the return of capital to shareholders through an appropriate mix of share buy backs and dividends.

In order to accelerate the pace of debt repayment associated with the acquisition of certain US assets as announced in July 2014, the Group has suspended its share buy-back programme. As at 30 September 2014 c14.2 million shares had been repurchased during the financial year at a cost of approximately £341 million (2013: £500 million).

The Group is currently rated Baa3/negative outlook by Moody's Investors Service Limited, BBB/stable outlook by Standard & Poor's Credit Market Services Europe Limited and BBB/negative outlook by Fitch Ratings Limited. The Group's investment grade credit rating is not expected to be impacted by the US acquisition.

Credit risk

The Group is exposed to credit risk arising from trade receivables due from its customers, cash deposits and financial instruments held with external counterparties.

Trade and other receivables

The Group has some significant concentrations of customer credit risk. However, policies have been implemented to ensure that sales of products are made to customers with an appropriate credit history and credit support or guarantees are obtained where appropriate. Analysis of trade and other receivables is provided in note 15.

Financial instruments

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with GTC approved limits. Utilisation of counterparty credit limits is regularly monitored by Group Treasury and to reduce credit exposures, the Group has ISDA Agreements in place with most of its counterparties which permit net settlement of assets and liabilities in certain circumstances. In very limited cases, collateral is deposited against derivative financial liabilities which are all supported by an ISDA Credit Support Annex.

The Group considers its maximum aggregate credit risk to be £4,722 million at 30 September 2014 (2013: £5,175 million), which includes trade receivables, derivative financial assets and cash and cash equivalents.

The table below summarises the Group's five largest financial institution counterparties, based on maximum exposure to credit risk, by credit rating and balances at 30 September 2014. As at the balance sheet date, management does not expect these counterparties to default on their current obligations.

The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

Counterparty exposure	2014		2013	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A	179	A	113
2nd highest	A	134	A	112
3rd highest	A+	129	A+	112
4th highest	A	112	A	112
5th highest	A+	111	A	111

NOTES TO THE FINANCIAL STATEMENTS continued

19 Financial Risk Factors continued

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. All derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7)

With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered to approximate to their carrying amount. Set out below is a comparison of carrying amount and fair value of the Group's capital market issuance (as detailed in note 18) by currency. The fair value of these bonds has been determined by reference to market prices as at the balance sheet date

£ million	2014		2013	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	3,879	4,576	3,369	4,047
EUR	4,192	4,505	5,205	5,516
USD	1,391	1,377	1,392	1,348
Total capital market issuance	9,462	10,458	9,966	10,911

Netting arrangements of financial instruments

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements

Financial assets and liabilities that are subject to set off arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments

Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA Agreements where each party has the option to settle amounts on a net basis in the event of default of the other party

£ million	2014				
	Gross financial assets/ (liabilities)	Gross amounts offset	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	745	(102)	643	(451)	192
Cash and cash equivalents	3,454	(2,023)	1,431	-	1,431
	4,199	(2,125)	2,074	(451)	1,623
Liabilities					
Derivative financial instruments	(793)	102	(691)	451	(240)
Bank loans and overdrafts	(2,170)	2,023	(147)	-	(147)
	(2,963)	2,125	(838)	451	(387)

£ million	2013				
	Gross financial assets/ (liabilities)	Gross amounts offset	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	667	(110)	557	(426)	131
Cash and cash equivalents	1,898	(89)	1,809	-	1,809
	2,565	(199)	2,366	(426)	1,940
Liabilities					
Derivative financial instruments	(860)	110	(750)	426	(324)
Bank loans and overdrafts	(113)	89	(24)	-	(24)
	(973)	199	(774)	426	(348)

20 Derivative Financial Instruments

The following table presents the Group's derivative financial instruments that are measured at fair value in accordance with the Level 2 IFRS 7 classification hierarchy. Level 2 instruments are not traded in an active market, but the fair values are based on inputs other than quoted market prices that are observable either directly (that is, as prices) or indirectly (that is, other observable values).

There were no changes to the valuation methods or transfers between hierarchies during the year.

£ million	2014			2013		
	Assets	Liabilities	Net fair value	Assets	Liabilities	Net fair value
Current derivative financial instruments						
Interest rate swaps and swaptions	27	(41)	(14)	203	(158)	45
Forward foreign currency contracts	7	(7)	-	3	(50)	(47)
Cross currency swaps	4	-	4	39	(17)	22
Total current derivatives	38	(48)	(10)	245	(225)	20
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex						
	-	2	2	-	6	6
	38	(46)	(8)	245	(219)	26
Non-current derivative financial instruments						
Interest rate swaps and swaptions	521	(692)	(171)	312	(470)	(158)
Cross currency swaps	84	(53)	31	-	(165)	(165)
Total non-current derivatives	605	(745)	(140)	312	(635)	(323)
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex						
	-	100	100	-	104	104
	605	(645)	(40)	312	(531)	(219)
Total carrying value of derivative financial instruments	643	(691)	(48)	557	(750)	(193)

Maternity 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 at the balance sheet date. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below shows all contractual cash flows (interest and exchange of principals) for all derivative financial instruments held at the balance sheet date.

£ million	2014					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(149)	271	51	24	25	171
Gross settled derivatives	101					
- receipts		4,036	1,194	48	812	1,982
- payments		(4,507)	(1,222)	(76)	(866)	(2,343)
	(48)	(200)	23	(4)	(29)	(190)

£ million	2013					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(76)	62	42	18	1	1
Gross settled derivatives	(117)					
- receipts		6,491	3,445	1,145	640	1,261
- payments		(6,534)	(3,444)	(1,103)	(616)	(1,371)
	(193)	19	43	60	25	(109)

NOTES TO THE FINANCIAL STATEMENTS continued

20 Derivative Financial Instruments continued

Derivatives as hedging instruments

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.

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.

Interest rate swaps

As outlined 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 to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the GTC framework where necessary.

Interest rate swaps entered into to change fixed rate borrowings into floating rate borrowings are as follows:

£ million unless otherwise indicated	2014			
	Notional	Fair value	Receiving rates	Paying rates
GBP	3,670	281	3.7% to 8.7%	LIBOR plus 212bps to 511bps
EUR	4,081	255	2.2% to 8.0%	EURIBOR plus 109bps to 503bps
USD	1,390	(12)	2.0% to 3.4%	LIBOR plus 94bps to 126bps
	9,141	524		

£ million unless otherwise indicated	2013			
	Notional	Fair value	Receiving rates	Paying rates
GBP	1,166	268	5.4% to 8.7%	LIBOR plus 269bps to 511bps
EUR	4,954	238	3.9% to 8.0%	EURIBOR plus 55bps to 503bps
USD	452	(24)	2.0% to 3.4%	LIBOR plus 94bps to 126bps
	6,572	482		

Interest rate swaps entered into to manage the Group's exposure to interest rate risk are as follows:

£ million unless otherwise indicated	2014			
	Notional	Fair value	Paying rates	Receiving
GBP	1,266	(96)	2.7% to 4.4%	LIBOR
EUR	5,193	(558)	0.8% to 5.2%	EURIBOR
USD	1,483	(18)	1.4% to 4.1%	LIBOR
	7,942	(672)		

£ million unless otherwise indicated	2013			
	Notional	Fair value	Paying rates	Receiving
GBP	2,600	(125)	3.0% to 4.4%	LIBOR
EUR	5,166	(436)	1.5% to 5.2%	EURIBOR
USD	1,452	(23)	1.4% to 4.1%	LIBOR
	9,218	(584)		

A small number of the interest rate swaps used to hedge interest rate risk have embedded options. Assumptions have been made based on market information and from counterparties' expectations at 30 September 2014 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 depending upon future market conditions and a cancellation would not result in a cash flow other than in respect of interest outstanding at the cancellation date. The effect of the cancellation of any of these interest rate swaps would be to reduce the proportion of the Group's borrowings that were at a fixed rate, increasing the Group's exposure to cash flow interest rate risk.

Included in the above are forward starting interest rate swaps with a total notional amount of £2,729 million equivalent (2013: £1,266 million equivalent) with tenors extending between 5 and 10 years, starting between October 2015 and May 2017. The fair value of these swaps was a net liability of £115 million (2013: net liability of £43 million) as at the balance sheet date.

Forward foreign currency contracts

The Group has entered into forward currency contracts to manage short-term foreign currency exposures. As at 30 September 2014 the notional amount of these contracts was £1,146 million equivalent (2013: £3,011 million equivalent) and the fair value of these contracts was a net asset of £nil (2013: £47 million net liability).

Cross currency swaps

The Group enters into cross currency swaps to change the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. As at 30 September 2014, the notional amount of cross currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was £650 million (2013 £650 million) and the fair value liability of these swaps was £30 million (2013 £73 million net liability).

As at 30 September 2014, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,000 million (2013 £1,000 million) and the fair value asset of these swaps was £71 million (2013 £1 million net liability).

Hedges of net investments in foreign operations

As at 30 September 2014 external debt with a carrying value of €5,165 million (2013 €6,507 million) and cross currency swaps with a notional value of €2,461 million (2013 €2,835 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 in 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 €5,440 million (2013 €5,608 million) as at the balance sheet date have been treated as a reduction in investments in the Group's foreign operations, in line with IAS 21.

During the year, as a result of net investment hedging, foreign exchange gains amounting to £831 million (2013 £662 million losses) were transferred to reserves through other comprehensive income.

Reconciliation of fair value of derivative financial instruments

The movements in the carrying value of derivative financial instruments in the year were as follows:

£ million	2014			Total
	Fair value attributable to currency movements recognised in		Fair value attributable to interest rate movements recognised in	
	Comprehensive income	Income statement	Income statement	
Derivative financial instruments				
Gains arising on derivative instruments (note 7)	-	62	271	333
Losses arising on derivative instruments (note 7)	-	(81)	(358)	(439)
Gains arising on instruments designated as net investment hedges	150	-	-	150
Accretion of accrued interest	-	-	(20)	(20)
Net fair value gains/(losses) on derivative financial instruments	150	(19)	(107)	24
Net fair value of derivatives at 30 September 2013				(193)
Cash flows relating to derivative financial instruments				121
Net fair value of derivatives at 30 September 2014				(48)

£ million	2013			Total
	Fair value attributable to currency movements recognised in		Fair value attributable to interest rate movements recognised in	
	Comprehensive income	Income statement	Income statement	
Derivative financial instruments				
Gains arising on derivative instruments (note 7)	-	111	479	590
Losses arising on derivative instruments (note 7)	-	(99)	(589)	(688)
Losses arising on instruments designated as net investment hedges	(114)	-	-	(114)
Net fair value gains/(losses) on derivative financial instruments	(114)	12	(110)	(212)
Net fair value of derivatives at 30 September 2012				(9)
Cash flows relating to derivative financial instruments				28
Net fair value of derivatives at 30 September 2013				(193)

NOTES TO THE FINANCIAL STATEMENTS continued

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.

Deferred tax assets

£ million	2014				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2013	(52)	156	2	47	153
Credited/(charged) to consolidated income statement	7	(12)	(1)	94	88
Transfers	20	(48)	–	5	(23)
Exchange movements	26	5	–	(8)	23
At 30 September 2014	1	101	1	138	241

£ million	2013				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2012	(67)	158	3	48	142
Credited/(charged) to consolidated income statement	31	12	(1)	10	52
Charged to other comprehensive income	–	(36)	–	–	(36)
Transfers	–	7	–	(9)	(2)
Exchange movements	(16)	15	–	(2)	(3)
At 30 September 2013	(52)	156	2	47	153

Deferred tax liabilities

£ million	2014				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2013	(2,008)	58	–	130	(1,820)
Credited/(charged) to consolidated income statement	337	(33)	–	(42)	262
Charged to other comprehensive income	–	(1)	–	–	(1)
Transfers	(54)	32	–	47	25
Exchange movements	103	(4)	–	(18)	81
At 30 September 2014	(1,622)	52	–	117	(1,453)

£ million	2013				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2012	(2,123)	63	–	183	(1,877)
Credited/(charged) to consolidated income statement	198	(1)	–	(61)	136
Charged to other comprehensive income	–	(6)	–	–	(6)
Transfers	–	(3)	–	5	2
Exchange movements	(83)	5	–	3	(75)
At 30 September 2013	(2,008)	58	–	130	(1,820)

Deferred tax expected to be recovered within 12 months

£ million	2014	2013
Deferred tax assets	59	65
Deferred tax liabilities	(233)	(121)
	(174)	(56)

Deferred tax expected to be recovered in more than 12 months

£ million	2014	2013
Deferred tax assets	182	88
Deferred tax liabilities	(1,220)	(1,699)
	(1,038)	(1,611)

Within Other temporary differences, deferred tax assets of £92 million (2013: £25 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.

As at the balance sheet date, deferred tax assets of £373 million (2013: £598 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, £332 million (2013: £486 million) losses are expected to expire at approximately £50 million (2013: £60 million) per annum between 2015 and 2021, £11 million (2013: £12 million) are expected to expire within 5 years and £27 million are expected to expire between 2022 and 2026.

Also within Other temporary differences, deferred tax assets of £10 million (2013: £22 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £229 million (2013: £131 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 2021 and 2027.

We have reviewed the recoverability of deferred tax assets in an overseas territory in the light of forecast business performance. Consequently, we have increased deferred tax assets of £90 million (2013: £76 million reduction) previously de-recognised on the basis that it is more likely than not that these are recoverable.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £7 billion (2013: £7 billion). A provision of £4 million (2013: £6 million) has been made for taxation expected to arise on a planned future dividend payment of £54 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.

A deferred tax liability of £48 million arising on an internal disposal has not been recognised as the Group is in a position to control the timing of the reversal of the temporary difference, and it is probable that the liability will not crystallise in the foreseeable future. In addition, the liability is less than current unrecognised deferred tax assets which will be available to reduce the liability to nil.

The rate of UK corporation tax was reduced by 2 per cent from 23 per cent to 21 per cent from 1 April 2014. A further reduction to 20 per cent from 1 April 2015 was enacted at the balance sheet date and is reflected in the deferred tax balances.

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 defined benefit schemes and are operated by Imperial Tobacco Limited in the UK and Reemtsma Cigarettenfabriken GmbH in Germany, these schemes represent 71 per cent and 12 per cent of the Group's total retirement benefit obligations and 61 per cent and 15 per cent of the current service cost respectively.

During the year ITG has adopted IAS 19 (Revised) with effects as described in note 1, Accounting Policies, and also resulting in the revised presentation formats set out below.

Imperial Tobacco Pension Fund

The UK scheme – the Imperial Tobacco Pension Fund or ITPF – is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF is offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 16 years. The population comprises 59 per cent in respect of pensioners, 37 per cent in respect of deferred members and 4 per cent in respect of active employees. New employees in the UK are now offered a defined contribution scheme. Should surplus funds arise in the defined benefit section they may be used to finance defined contribution section contributions with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases) and the actual longevity of the membership.

NOTES TO THE FINANCIAL STATEMENTS continued

22 Retirement Benefit Schemes continued

Imperial Tobacco Pension Fund continued

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by Imperial Tobacco Limited, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the fund were to be discontinued.

The latest valuation of the ITPF was carried out as at 31 March 2013 when the market value of the invested assets was £2,957 million. Based on the ongoing funding target 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 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, Imperial Tobacco Limited and the Trustee agreed a scheme-specific funding target, statement of funding principles and a schedule of contributions accordingly.

Following the valuation, the level of employer's contributions to the scheme was increased from £31 million per year. The Company paid £47.5 million on 31 March 2014 and agreed to pay £52.5 million in the year to 31 March 2015, £57.5 million in the year to 31 March 2016 and £65 million each year for the subsequent 12 years. Further contributions were agreed to be paid by the Company in the event of a downgrade in the credit rating of Imperial Tobacco Group's senior unsecured long-term debt. In addition, surety guarantees with a total value of £400 million and a parental guarantee with ITG have been put in place. The contributions agreed, plus the surety guarantees, cover the expected discontinuance cost as at the valuation date.

The Scheme Actuary prepares an annual update of the funding position as at 31 March each year. The latest annual update on an ongoing basis was carried out as at 31 March 2014 and showed a surplus of £196 million in relation to past service accrued benefits.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be influenced by the factors noted above). The level of equity returns will be a key determinant of overall investment return. The investment portfolio is also subject to a range of other risks typical of the asset classes held, in particular credit risk on bonds and exposure to the property market.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a significant proportion of the assets invested in equities and other return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 17 years. The scheme population comprises 53 per cent in respect of pensioners, 16 per cent in respect of deferred members and 31 per cent in respect of active employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £20 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the defined benefit obligation and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

Other plans

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local environments. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2014 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

Defined benefit plans

£ million	2014			2013 (restated)		
	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(4,400)	3,350	(1,050)	(4,138)	3,095	(1,043)
Consolidated income statement expense						
Current service cost	(49)	-	(49)	(55)	-	(55)
Past service credit - Spanish free tobacco settlement	52	-	52	2	-	2
Past service credit - curtailment	69	-	69	3	-	3
Settlement	-	-	-	1	-	1
Cost of termination benefits	(32)	-	(32)	(15)	-	(15)
Net interest (expense)/income on net defined benefit (liability)/asset	(174)	138	(36)	(167)	128	(39)
Administration costs paid from plan assets	-	(3)	(3)	-	(2)	(2)
Cost recognised in the income statement			1			(105)
Remeasurements						
Actuarial gain/(loss) due to liability experience	38	-	38	(5)	-	(5)
Actuarial loss due to financial assumption changes	(202)	-	(202)	(188)	-	(188)
Actuarial gain/(loss) due to demographic assumption changes	22	-	22	(1)	-	(1)
Return on plan assets excluding amounts included in net interest (expense)/income above	-	187	187	-	237	237
Remeasurement effects recognised in OCI			45			43
Cash						
Employer contributions	-	116	116	-	98	98
Employee contributions	(2)	2	-	(2)	2	-
Benefits paid directly by the company	46	(46)	-	47	(47)	-
Benefits paid from plan assets	181	(181)	-	171	(171)	-
Net cash			116			98
Other						
Spanish free tobacco settlement	48	-	48	-	-	-
Exchange movements	88	(28)	60	(53)	10	(43)
Total other			108			(43)
At 30 September	(4,315)	3,535	(780)	(4,400)	3,350	(1,050)

During the year, there have been some special events that have impacted the liabilities and the cost of the Group's retirement benefit schemes:

The announcement of the proposed closure of the Nottingham factory has given rise to a curtailment gain of £55 million and termination costs of £25 million. Other redundancies in the United Kingdom and Germany gave rise to termination costs of £7 million.

We reached an agreement in Spain with around 70 per cent of pensioners who had previously received payments in respect of former entitlements to free cigarettes to accept a one-off cash payment in full settlement. This has given rise to a past service credit of £52 million. The cash settlement of £48 million was paid at the beginning of October 2014 and the liability was recognised in the balance sheet at 30 September 2014 in other liabilities.

In The Netherlands the defined benefit scheme has been replaced by a multi-employer scheme for most employees (which is accounted for as a defined contribution scheme under IAS 19, because it is not possible to determine the Group's share of the plan assets) and by a defined contribution plan for some employees. As a consequence of these changes a curtailment gain of £14 million has been recognised.

NOTES TO THE FINANCIAL STATEMENTS continued

22 Retirement Benefit Schemes continued

Retirement benefit scheme costs charged to operating profit

£ million	2014	2013
Defined benefit (credit)/costs in operating profit	(37)	66
Defined contribution costs in operating profit	19	17
Total retirement benefit scheme (credit)/costs in operating profit	(18)	83

Split as follows in the consolidated income statement

£ million	2014	2013
Cost of sales	31	35
Distribution, advertising and selling costs	15	28
Administrative and other expenses	(64)	20
Total retirement benefit scheme (credit)/costs in operating profit	(18)	83

Assets and liabilities recognised in the consolidated balance sheet

£ million	2014	2013 (restated)
Retirement benefit assets	44	5
Retirement benefit liabilities	(824)	(1,055)
Net retirement benefit liability	(780)	(1,050)

Key figures and assumptions used for major plans

£ million unless otherwise indicated	2014		2013	
	ITPF	RCPP	ITPF	RCPP
Benefit obligation (DBO)	3,066	502	3,086	459
Fair value of scheme assets	(3,094)	–	(2,924)	–
Net defined benefit (asset)/liability	(28)	502	162	459
Current service cost	30	7	32	7
Employer contributions	48	21	31	22
Principal actuarial assumptions used (% per annum)				
Discount rate	4.0	2.5	4.3	3.5
Future salary increases	3.7	3.1	4.8	3.1
Future pension increases	3.2	2.0	3.3	2.0
Inflation	3.2	1.9	3.3	2.0

	2014			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years				
Member currently aged 65	21.5	22.9	18.9	22.9
Member currently aged 50	22.8	24.4	20.9	24.8

	2013			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years				
Member currently aged 65	21.1	23.0	18.7	22.8
Member currently aged 50	22.1	24.2	20.7	24.7

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS All Pensioner Male Amounts table with a 109.8 per cent multiplier. An allowance for improvements in longevity is made using the continuous mortality investigation improvement rates with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for key assumption at the end of the reporting period

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant

% increase in DBO	2014		2013	
	ITPF	RCP	ITPF	RCP
Discount rate 0.5% decrease	8.1	8.8	7.6	8.0
Rate of inflation 0.5% decrease	(6.6)	(5.4)	(6.1)	(5.0)
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.5	3.2	4.2

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate

We estimate that a 0.5 per cent decrease/(increase) in the discount rate at the start of the reporting period would have increased/(decreased) the consolidated income statement pension expense by approximately £15 million

An approximate split of the major categories of ITPF scheme assets is as follows

£ million unless otherwise indicated	2014		2013 (restated)	
	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	1,361	44	1,345	46
Bonds – index linked government	650	21	556	19
Bonds – corporate and other	495	16	409	14
Property	402	13	322	11
Absolute return pooled funds	155	5	263	9
Other – including derivatives, commodities and cash	31	1	29	1
	3,094	100	2,924	100

The majority of the assets are quoted. Absolute return pooled funds are in overseas, non-quoted assets

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco PLC amounted to £3 million (2013: £3 million)

The Group has applied amendments made to IAS 19 in November 2013 that relate to the treatment of member contributions to the results presented in these financial statements

23 Provisions

£ million	2014		
	Restructuring	Other	Total
At 1 October 2013	222	277	499
Additional provisions charged to the consolidated income statement	193	34	227
Unwind of discount on redundancy and other long-term provisions	3	1	4
Amounts used	(70)	(50)	(120)
Unused amounts reversed	(9)	(79)	(88)
Exchange movements	(18)	(16)	(34)
At 30 September 2014	321	167	488
Analysed as			
£ million		2014	2013
Current		176	92
Non-current		312	407
		488	499

Restructuring provisions relate mainly to our cost optimisation programme (see note 5) and to projects arising from the integration of Imperial Tobacco and Altadis, purchased in 2008. These provisions include employee social plans arising from restructuring activity and are expected to be used over the next ten years

Other provisions principally relate to commercial legal claims and disputes and are expected to be used over a period of up to ten years

NOTES TO THE FINANCIAL STATEMENTS continued

24 Share Capital

£ million	2014	2013
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2013 1,067,942,881)	104	107

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve

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 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

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

Analysis of charge to the consolidated income statement

£ million	2014	2013
Share Matching Scheme	19	16
Long Term Incentive Plan	1	(2)
Sharesave Plan	2	2
	22	16

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2014 was £2 million (2013 £2 million)

Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated	2014			Sharesave weighted average exercise price £
	Share matching awards	LTIP awards	Sharesave options	
Outstanding at 1 October 2013	2,723	936	1,737	18.12
Granted	1,120	320	453	20.40
Lapsed/cancelled	(274)	(484)	(133)	18.44
Exercised	(861)	(3)	(479)	16.10
Outstanding at 30 September 2014	2,708	769	1,578	19.36
Exercisable at 30 September 2014	-	-	46	16.60

Thousands of shares unless otherwise indicated	2013			Sharesave weighted average exercise price £
	Share matching awards	LTIP awards	Sharesave options	
Outstanding at 1 October 2012	2,738	929	1,799	17.31
Granted	1,119	333	666	18.40
Lapsed/cancelled	(175)	(266)	(259)	18.21
Exercised	(959)	(60)	(469)	15.36
Outstanding at 30 September 2013	2,723	936	1,737	18.12
Exercisable at 30 September 2013	-	22	72	15.67

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £23.60 (2013 £23.27). The weighted average fair value of sharesave options granted during the year was £4.28 (2013 £2.68).

Summary of awards/options outstanding at 30 September 2014

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2012	661	4	n/a
2013	949	16	n/a
2014	1,098	28	n/a
Total awards outstanding	2,708		
Long Term Incentive Plan			
2012	214	1	n/a
2013	239	14	n/a
2014	316	25	n/a
Total awards outstanding	769		
Sharesave Plan			
2009	10	-	12.54
2010	39	10	15.63
2011	73	1	17.80
2012	404	16	20.45
2013	604	24	18.40
2014	448	34	20.40
Total options outstanding	1,578		

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.

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 2014 and 2013 is as follows:

	2014		2013	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	1.5	0.4-1.5	0.5	0.6-1.2
Volatility (based on 3 or 5 year history) %	22	22.5-23.0	18.0	10.1-23.0
Expected lives of options granted years	3	3	3	3-5
Dividend yield %	5.1	5.1	4.4	4.4
Fair value £	21.88	4.18-4.52	20.32	2.22-4.61
Share price used to determine exercise price £	25.50	25.50	23.18	23.00
Exercise price £	n/a	20.40	n/a	18.40

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2014 and 2013 are given in the following table:

%	2014	2013
Future Imperial Tobacco Group share price volatility	18	18
Future Imperial Tobacco Group dividend yield	5.1	4.4
Share price volatility of the tobacco and alcohol comparator group	14-37	14-29
Share price volatility of the FTSE 100 comparator group	n/a	15-50
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	35	40
Correlation between Imperial Tobacco and the FTSE 100 comparator group	n/a	40

NOTES TO THE FINANCIAL STATEMENTS continued

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 (2013: £19.2 million) and an interest free loan of £181.9 million (2013: £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 2014. 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	2014	2013
At 1 October	3.3	4.1
Distribution of shares held by Employee Share Ownership Trusts	(1.1)	(1.2)
Gift of treasury shares	2.0	0.4
At 30 September	4.2	3.3

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.3 million (2013: 0.8 million) shares acquired in the open market at a cost of £7.8 million (2013: £16.7 million) and 3.9 million (2013: 2.5 million) treasury shares gifted to the Trusts by the Group, of which 2.0 million were gifted in this financial year (2013: 0.4 million).

26 Treasury Shares

In 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 retained in issue and represent a deduction from equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During 2014 the Group purchased 14,163,000 shares under the programme (2013: 21,287,000) at a cost of £341 million (2013: £500 million) and cancelled 31,942,881 shares. The share buyback programme was suspended on 15 July 2014.

Millions of shares	2014	2013
At 1 October	98.7	77.8
Gift to Employee Share Ownership Trusts	(2.0)	(0.4)
Purchase of treasury shares	14.1	21.3
Cancellation of treasury shares	(31.9)	-
At 30 September	78.9	98.7
Percentage of issued share capital	7.6	9.2

27 Commitments

Capital commitments

£ million	2014	2013
Contracted but not provided for		
Property, plant and equipment and software	177	159

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due

£ million	2014	2013
Property		
Within one year	37	35
Between one and five years	86	78
Beyond five years	29	18
	152	131

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 financial statements.

29 Acquisitions

In July 2013, the Group purchased the sales and distribution business of our former agent in Cambodia, for a total consideration £41 million, of which £6 million was deferred until 2014. This gave rise to goodwill of £41 million, largely representing the value of the sales force in place.

In July 2014, the Group entered into a purchase agreement with Reynolds American Inc. for the acquisition of assets, including a portfolio of US brands, plus the national sales force, offices and production facilities currently owned by Lorillard Inc. The transaction is subject to the acquisition of Lorillard by Reynolds and requires US anti-trust and shareholder approvals. The approval processes are likely to take a minimum of six to nine months. If approved, the assets are to be acquired for cash consideration of \$7.1 billion.

Costs of £13 million were incurred in 2014 in relation to the transaction, and have been excluded from our adjusted results in line with our accounting policy.

30 Net Debt

The movements in cash and cash equivalents, borrowings, and derivative financial instruments in the year were as follows:

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2013	1,809	(3,276)	(7,858)	(193)	(9,518)
Cash flow	(385)	2,706	(1,830)	121	612
Accretion of interest	-	31	(39)	-	(8)
Change in fair values	-	-	-	24	24
Exchange movements	7	71	263	-	341
At 30 September 2014	1,431	(468)	(9,464)	(48)	(8,549)

Analysis by denomination currency

£ million	2014				Total
	GBP	EUR	USD	Other	
Cash and cash equivalents	247	414	342	428	1,431
Total borrowings	(3,870)	(4,666)	(1,396)	-	(9,932)
	(3,623)	(4,252)	(1,054)	428	(8,501)
Effect of cross currency swaps	2,691	(2,661)	-	-	30
	(932)	(6,913)	(1,054)	428	(8,471)
Derivative financial instruments					(78)
Net debt					(8,549)

£ million	2013				Total
	GBP	EUR	USD	Other	
Cash and cash equivalents	153	1,114	26	516	1,809
Total borrowings	(3,450)	(6,275)	(1,399)	(10)	(11,134)
	(3,297)	(5,161)	(1,373)	506	(9,325)
Effect of cross currency swaps	1,650	(1,650)	-	-	-
	(1,647)	(6,811)	(1,373)	506	(9,325)
Derivative financial instruments					(193)
Net debt					(9,518)

Adjusted net debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and the fair value of derivative financial instruments providing commercial cash flow hedges.

£ million	2014	2013
Reported net debt	(8,549)	(9,518)
Accrued interest	280	321
Fair value of derivatives providing commercial hedges	134	99
Adjusted net debt	(8,135)	(9,098)

NOTES TO THE FINANCIAL STATEMENTS continued

31 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2014	2013
(Decrease)/increase in cash and cash equivalents	(385)	1,323
Cash flows relating to derivative financial instruments	121	28
Increase in borrowings	(2,324)	(4,884)
Repayment of borrowings	3,200	3,443
Repayment of finance leases	-	20
Change in net debt resulting from cash flows	612	(70)
Other non-cash movements including revaluation of derivative financial instruments	16	(246)
Exchange movements	341	(237)
Movement in net debt during the year	969	(553)
Opening net debt	(9,518)	(8,965)
Closing net debt	(8,549)	(9,518)

32 Changes in Non-controlling Interests

In July 2014 the Group completed the IPO of the Logistics business, with 30% of the shares of Compañía de Distribución Integral Logista Holdings SA being listed on Spanish stock exchanges. This increased non-controlling interest by £363 million. Sales proceeds were €518 million. Net proceeds after fees and costs were £395 million and were used to reduce the Group's debt. A gain of £32 million was recognised in equity.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC

Report on the Parent Company Financial Statements

Our Opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2014,
- 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

What We Have Audited

The Parent Company financial statements (the "financial statements"), which are prepared by Imperial Tobacco Group PLC, comprise

- the Balance Sheet as at 30 September 2014, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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)

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts ("Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited

What an Audit of Financial Statements Involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Other Matters on Which We are Required to Report by Exception

Adequacy of Accounting Records and Information and Explanations Received

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

- we have not received all the information and explanations we require for our audit, or
- 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 financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' Remuneration

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. We have no exceptions to report arising from this responsibility

Other Information in the Annual Report

Under ISAs (UK and Ireland) we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit, or
- otherwise misleading

We have no exceptions to report arising from this responsibility

Responsibilities for the Financial Statements and the Audit

Our Responsibilities and Those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out in the Directors' Report, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (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

Other Matter

We have reported separately on the group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2014



John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

4 November 2014

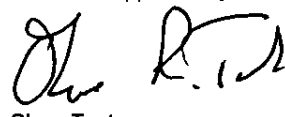
IMPERIAL TOBACCO GROUP PLC BALANCE SHEET

at 30 September

£ million	Notes	2014	2013
Fixed assets			
Investments	III	7,968	7,968
Current liabilities			
Cash at bank and in hand		(1)	(1)
Creditors amounts falling due within one year	IV	(163)	(107)
Net current liabilities		(164)	(108)
Net assets		7,804	7,860
Capital and reserves			
Called up share capital	V	104	107
Capital redemption reserve	VI	3	-
Share premium account	VI	5,833	5,833
Profit and loss account	VI	1,864	1,920
Total shareholders' funds		7,804	7,860

The financial statements on pages 116 to 119 were approved by the Board of Directors on 4 November 2014 and signed on its behalf by


Mark Williamson
 Chairman


Oliver Tant
 Director

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL TOBACCO GROUP PLC

1 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 whereas interim dividends payable are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

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.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method.

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 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. When such shares are cancelled they are transferred to the capital redemption reserve.

11 Dividends

Dividend per share in respect of financial year

Pence	2014	2013	2012
Interim	38.8	35.2	31.7
Final	89.3	81.2	73.9
Total	128.1	116.4	105.6

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	2014	2013
Final dividend paid in the period in respect of previous financial year	779	724
Interim dividend	370	341
	1,149	1,065

The proposed final dividend for the year ended 30 September 2014 of 89.3p per share amounts to a proposed final dividend payment of £851 million based on the number of shares ranking for dividend at 30 September 2014, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2014 will be £1,221 million (2013: £1,120 million).

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL TOBACCO GROUP PLC continued

iii Investments

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2014	2013
At 1 October	7,968	4,225
Additions	–	3,743
At 30 September	7,968	7,968

During 2013 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 120 to 122

iv Creditors Amounts Falling Due Within One Year

£ million	2014	2013
Amounts owed to Group undertakings	163	107

Amounts owed to Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand

v Called Up Share Capital

£ million	2014	2013
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2013 1,067,942,881)	104	107

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve

vi Reserves

£ million	Share premium account	Capital redemption reserve	Profit and loss account
At 1 October 2013	5,833	–	1,920
Profit for the year	–	–	1,434
Dividends	–	–	(1,149)
Purchase of own shares	–	–	(341)
Cancellation of treasury shares	–	3	–
At 30 September 2014	5,833	3	1,864

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 £1,434 million (2013 £1,718 million). This is after charging an audit fee of £1.0 million (2013 £1.0 million).

Treasury shares

In 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 retained in issue and represent a deduction from shareholders' funds. During 2014 the Company purchased 14,163,000 shares under the programme (2013 21,287,000) at a cost of £341 million (2013 £500 million), and on 6 March 2014 31,942,881 shares held in Treasury were cancelled, creating a capital redemption reserve. The share buyback programme was suspended on 15 July 2014.

Millions of shares	2014	2013
At 1 October	98.7	77.8
Gift to Employee Share Ownership Trusts	(2.0)	(0.4)
Purchase of treasury shares	14.1	21.3
Cancellation of treasury shares	(31.9)	–
At 30 September	78.9	98.7
Percentage of issued share capital	7.6	9.2

vii Reconciliation of Movements in Shareholders' Funds

£ million	2014	2013
Profit for the year	1,434	1,718
Dividends	(1,149)	(1,065)
Purchase of own shares	(341)	(500)
Movements in total shareholders' funds	(56)	153
Opening total shareholders' funds	7,860	7,707
Closing total shareholders' funds	7,804	7,860

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 2014, the contingent liability totalled £9,965 million (2013: £11,238 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2014 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 2014. 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. These disclosures form part of the financial statements.

PRINCIPAL UNDERTAKINGS

The principal subsidiaries and joint ventures of the Group which principally affect the figures shown, 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 Canarias SAU	Spain	Marketing and sale of tobacco products in the Canary Islands
Altadis Emisiones Financieras SAU	Spain	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
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 Finance France SAS	France	Finance company
Imperial Tobacco Finland Oy	Finland	Marketing and sale of tobacco products in Finland
Imperial Tobacco Hellas SA	Greece	Marketing and sale of tobacco products in Greece
Imperial Tobacco Italia Srl	Italy	Marketing and sale of tobacco products in Italy
Imperial Tobacco Magyarorszag Dohanyforgalmazo Kft	Hungary	Marketing and sale of tobacco products in Hungary
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 Tutunculuk 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

Incorporated overseas, wholly owned continued

Name	Country of incorporation	Principal activity
Imperial Tobacco Tutun Urunleri Satis ve Pazarlama AS	Turkey	Marketing and sale of tobacco products in Turkey
Imperial Tobacco Ukraine	Ukraine	Marketing and sale of tobacco products in Ukraine
OOO Imperial Tobacco Volga LLC	Russia	Manufacture of tobacco products in Russia
ZAO Imperial Tobacco Yaroslavl CJSC	Russia	Manufacture of tobacco products in Russia
John Player & Sons Limited	Republic of Ireland	Marketing and sale of tobacco products in the Republic of Ireland
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 Marocaine des Tabacs SA	Morocco	Manufacture, marketing, sale and distribution of tobacco products in Morocco
Societe 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
Compañía de Distribucion Integral Logista Holdings SA	Spain	Holding investments in subsidiary undertakings	70.0
Compañía de Distribucion Integral Logista SAU	Spain	Distribution of tobacco products and related services in Spain	70.0
Logista France SAS	France	Distribution of tobacco products in France	70.0
Logista Italia SpA	Italy	Distribution of tobacco products in Italy	70.0
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
Altavana 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

PRINCIPAL UNDERTAKINGS continued

Partnerships

The Group also owns the following partnerships

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
Imperial Tobacco Kazakhstan LLP	Kazakhstan	Marketing and sale of tobacco products in Kazakhstan Principal place of business Tole bi 101, corner of str. Baitursynova Business center "Dalich", 9th floor, block C and D, 050012 Almaty, Kazakhstan

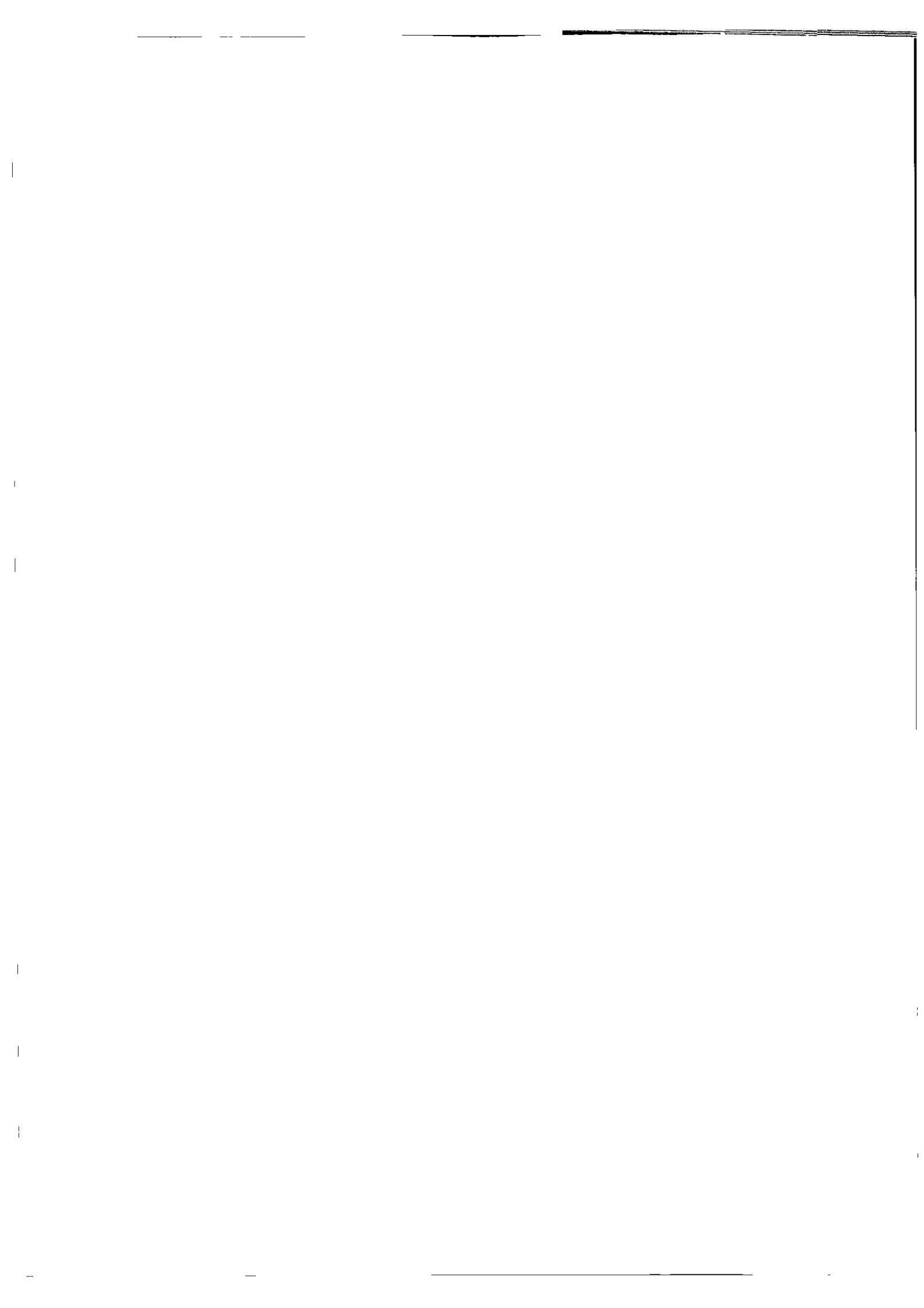
The subsidiaries listed above were held throughout the year

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, and Compañía de Distribución Integral Logista SAU, Logista France SAS, and Logista Italia SpA are 100 per cent owned subsidiaries of Compañía de Distribución Integral Logista Holdings SA, which is itself 70 per cent owned by Altadis SAU.

Société Ivoirienne des Tabacs SA is listed on the Stock Exchange of the Ivory Coast.

Compañía de Distribución Integral Logista Holdings SA is listed on Spanish stock exchanges.



SHAREHOLDER INFORMATION

Registered Office

121 Winterstoke Road
Bristol BS3 2LL
+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 plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday excluding UK public holidays.

ADR Depository

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

Credit Suisse Securities (Europe) Limited
One Cabot Square
Canary Wharf
London E14 4QJ
+44 (0)20 7888 8000

Morgan Stanley & Co International Limited
20 Bank Street
Canary Wharf
London E14 4AD
+44 (0)20 7425 8000

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

SHAREHOLDER INFORMATION continued

Financial Calendar and Dividends

Half year results are expected to be announced in May 2015 and the full year's results in November 2015

The Annual General Meeting of the Company will be held on Wednesday 28 January 2015 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 2014 final dividend, if approved, will be on 17 February 2015 to shareholders on the Register of Members at the close of business on 16 January 2015. The associated ex dividend date will be 15 January 2015.

We are moving to quarterly dividend payments with effect from financial year 2015. The first two quarters will be announced with our half year results in May 2015 and will be paid in June and September. The third and fourth dividends will be announced in November 2015 and paid in December and, subject to shareholder approval at the AGM, in March 2016.

Shareholders who do not currently mandate their dividends and who wish to do so should complete a mandate instruction form obtainable from our Registrars, Equiniti Limited, at the address shown.

Share Dealing Service

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Tobacco Group PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 08456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Tobacco Group PLC ordinary shares, you will need your shareholder reference number which you can find on your share certificate.

Individual Savings Account

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 £12.50 and £1.75 respectively for the sale and purchase of 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

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 on 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 plus network extras.

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.



Printed by Park Communications on FSC® certified paper

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001

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 Print Speed, a paper sourced from well-managed, responsible FSC® certified forests. The pulp used in this product is bleached using an Elemental Chlorine Free (ECF) process.

Designed and produced by Black Sun Plc

Registered Office
Imperial Tobacco Group PLC
121 Winterstoke Road
Bristol BS3 2LL
UK
www.imperial-tobacco.com