Imperial Tobacco

Focused on Sustainable Growth

Imperial Tobacco Group PLC
Annual Report and Accounts 2013

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Who We Are

We are an international fast moving consumer goods company with a long track record of creating value for our shareholders.

We focus on generating quality sustainable growth in our core tobacco business, whilst exploring new areas for long-term revenue growth.

Our portfolio spans the entire tobacco spectrum and our brands and products are enjoyed by millions of consumers around the world.

Our people take pride in what they do, bringing our values to life every day to ensure we make the most of our opportunities for growth.

2013 Results in Brief

Dividends Per Share	Adjusted Earnings Per Share[1]	Adjusted Operating Profit[1]
+10%	+6%	+1%
116.4p	210.7p	£3,180m

Tobacco Net Revenue[1]	Growth Brand Volumes
-1%	-2%
£7,007m	129bn

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

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Strategy

Our strategy creates value by maximising sales, cost and cash opportunities.

Realising the potential of our total tobacco portfolio, market footprint and people is critical to delivering our strategy.

We apply consumer insights and our sales growth driver expertise to generate quality growth across our portfolio, whilst developing opportunities for additional long-term revenue growth through our new standalone business, Fontem Ventures.

Effective cost and cash management supports our strategy, and we ensure that our focus on shaping our environment, developing our people and managing our business responsibly is aligned with our growth priorities.

The consistent application of our strategy has delivered significant returns to shareholders over the years and we're focused on building on this track record of value creation as we continue to transition the business.

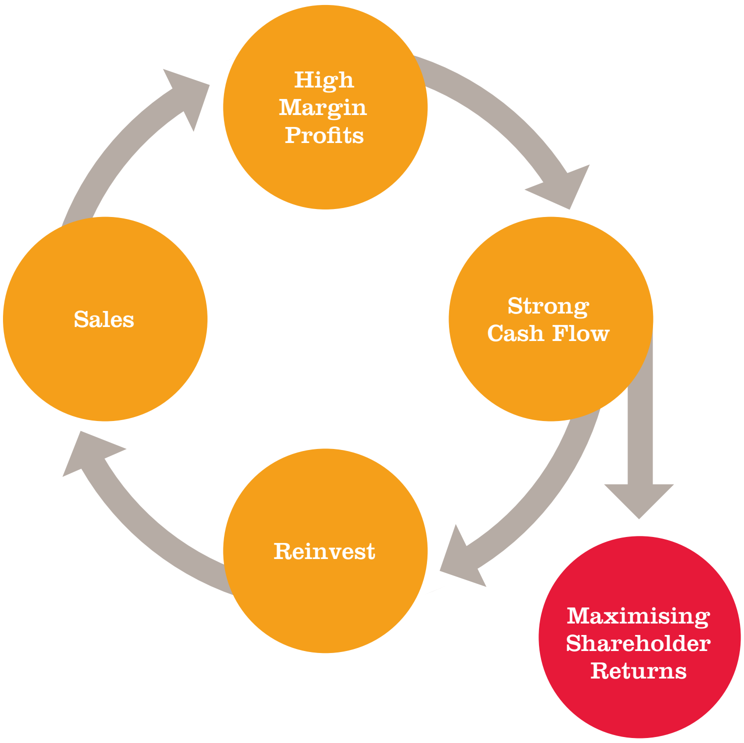
Business Model

Our business model illustrates in simple terms how we create value through our strategic focus on sales, cost and cash.

Our focus on quality sustainable sales growth, combined with the efficient way in which we manage costs throughout our operations, drives high operating margins.

This generates the strong cash flows which we use to reward our shareholders and to reinvest in the business.

Our strategy and business model are underpinned by strong governance and high standards of responsibility, and will continue to drive our sustainable development.



Chairman's Statement

> "I'm pleased to introduce this report which provides an overview of our performance and the actions we're taking to strengthen the sustainability of our business."

Iain Napier
Chairman

In 2013 we created further value for shareholders in what was a difficult operating environment for many fast moving consumer goods companies.

We achieved this through the consistent application of our strategy and also made significant progress in transitioning the business to strengthen our future growth potential.

Growing Returns for Shareholders[1]

We grew total adjusted operating profits by 1 per cent and delivered 6 per cent adjusted earnings per share growth to 210.7 pence. Reported earnings per share were 96.2 pence.

The Board is recommending a final dividend[2] of 81.2 pence, bringing the total dividend this year to 116.4 pence, up by 10 per cent and increasing our dividend payout ratio to 55.2 per cent of adjusted earnings per share. Our intention is to grow dividends ahead of adjusted earnings and by at least 10 per cent per year over the medium term.

A Responsible Business

We run our business responsibly and take pride in the positive contributions we make in many countries across our international footprint, providing employment for 35,000 people, respecting the natural resources we use and contributing around £20 billion every year to governments in taxes. Our corporate responsibility priorities are clearly set out in our responsibility framework and an update on the progress we're making in key areas can be found on pages 28 to 34 of this report.

Governance and Board

Strong governance is integral to the long-term success of Imperial Tobacco and the Board is committed to ensuring that the business continues to be governed and managed with openness, honesty and transparency. Our Governance Report on page 42 sets out the approach we take and highlights the key focus areas of the Board in 2013.

In January Mark Williamson, Senior Independent Non-Executive Director, was appointed Deputy Chairman of the Board and will succeed me as Chairman following our AGM in January 2014. It's been a pleasure working alongside Mark since he joined the Board in 2007 and I wish him every success in the future.

In addition, having served for nine years since his appointment to the Board of Altadis, Berge Setrakian will step down from the Board at the 2014 AGM. The AGM will mark the ninth year of Susan Murray's service and she will step down from the Board at the end of September 2014.

On 1 October we were delighted to welcome Oliver Tant to the Board in advance of his appointment as Finance Director on 5 November. Oliver joined us from KPMG where he held a number of senior positions during a highly successful career. He has extensive corporate finance and financial management expertise and is a very strong addition to the business.

Oliver succeeds Bob Dyrbus who will retire at the end of 2013 after an illustrious 25-year career with the Company. I'd like to thank Bob for his tremendous contribution and wish him all the very best for the future.

Sustainable Value Creation

Over the last year we've created further value for shareholders in challenging conditions and I'd like to thank our people across the globe for all their hard work. I'd also like to thank my Board colleagues for their friendship and support during my 13 years with Imperial Tobacco.

It's been a privilege to serve as Chairman for seven of those years and I'm confident that the Group's continued focus on the transition of the business and the drive for quality sales growth will reward shareholders with sustainable returns for many more years to come.

Iain Napier
Chairman

1 Throughout the annual report percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.
2 This will be paid on 17 February 2014 to those shareholders on the register on 17 January 2014.

Chief Executive's Review

> We're focused on continuing the transition of the business and building momentum behind our quality growth agenda.

Alison Cooper
Chief Executive

I'm pleased with the robust performance we've delivered in a challenging operating environment and I'd like to thank our people for their tremendous support over the year. Their relentless drive and commitment has ensured that we delivered earnings growth and made significant progress with our strategic transition.

I've been particularly encouraged with the results we're generating from our Growth Brands, which are outperforming market trends. These are quality brands, delivering quality growth and we'll continue to drive their development.

Our strategic transition remains on track and we will be building on the considerable achievements we've made in recent years.

Our initial transition focus revolved around consumers, putting consumers at the centre of everything we do to better understand their evolving choices. Our consumer insight work is essential to our focus on driving quality growth. It has supported the successes we've achieved with our key strategic brands over the last two years and continues to shape the development of our brands.

In 2013, our transition focus has been on realigning our market footprint and optimising our portfolio and cost base. We'll be enhancing momentum behind all three areas in 2014, which is an important year of transition that's focused on maximising our long-term growth potential.

Creating Shareholder Value

We created further value for our shareholders in 2013 against a backdrop of deteriorating industry volumes in the EU as a result of austerity measures, unemployment and illicit trade. There has also been industry weakness in some of our other main markets, notably Russia.

We responded swiftly to these external pressures and accelerated a number of initiatives in line with our strategy to improve our second half performance. This strengthened our delivery and resulted in our 2013 tobacco net revenue declining 1 per cent, adjusted operating profit increasing by 1 per cent and growth in adjusted earnings per share of 6 per cent. We also improved our return on invested capital to 15.1 per cent.

We will continue adding to our track record of value creation over the long term and I'm confident that our transition focus will strengthen our ability to capitalise on sales, cost and cash opportunities.

Transition on Track

We're on track with our transition plans and made significant progress in the year.

We've realigned our footprint into Growth Markets and Returns Markets and now manage markets based on the strategic role they play, rather than their geographic proximity. This new approach enables us to better target resource and is improving the clarity of our growth focus across markets.

We've aligned our sales teams around the world to this new market reclassification and now report our performance on this basis. To aid understanding of this year's performance we've also reported our results on the previous regional basis. Details are on page 100.

In optimising our portfolio we're enhancing our ability to deliver quality growth from our most important brands and products. We now classify these brands as Growth Brands and Specialist Brands; together they account for more than 50 per cent of our tobacco net revenue. Each set of brands has its own distinct strengths, which we leverage to build sustainable sales. The rest of our portfolio consists of local and regional brands that fulfil a variety of roles. Some of these brands have the capacity to continue adding to our revenue momentum; others will add greater value by being migrated into Growth Brands and we will be progressing a number of brand migrations in the coming year.

Portfolio optimisation drives product cost and complexity reductions which is a core element of our cost optimisation programme, along with the refinements we're making to our operating model. The programme was initiated in 2013 and delivered savings of £30 million in the year, which will build to savings of £300 million a year in 2018.

Growth Brands

Our key strategic and focus brands have been grouped together and are now managed as Growth Brands. They are: Davidoff, Gauloises Blondes, JPS, West, Fine, News, USA Gold, Bastos, Lambert & Butler and Parker & Simpson.

These are high quality brands with strong consumer appeal and, with the exception of the recently launched Parker & Simpson, established positions in key markets. We have successfully developed a number of these brands into total tobacco offerings, providing consumers with both cigarette and fine cut tobacco options.

We're managing these brands to collectively drive quality volume, share and revenue growth over the long term. We measure the performance of our Growth Brands against volume, share and revenue metrics.

Specialist Brands

Our Specialist Brands consist of a range of cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. We are world leader in fine cut tobacco, premium cigars and papers and hold a strong position in Scandinavian snus.

Specialist Brands have strong positions in their own categories and appeal to specific consumer groups. They are: 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 generate strong returns and we measure their performance against revenue metrics.

Growth Markets

Growth Markets are characterised by large profit and/or volume pools. We tend to have shares below 15 per cent and see considerable opportunities for share and profit growth over the long term.

Our main Growth Markets include the USA and selected markets in the EU, Eastern Europe, Asia and the Middle East.

We measure the performance of our Growth Markets against share, volume and revenue metrics and our quality of growth by the progress our Growth and Specialist Brands are making.

Returns Markets

In Returns Markets we have relatively large shares, mostly above 15 per cent. Our objective is to maximise profit, whilst actively managing our market share.

Our main Returns Markets include the UK, Germany, and other markets in the EU, Australia, Eastern Europe and Africa.

We measure the performance of our Returns Markets against share and revenue metrics and our quality of growth by the progress our Growth and Specialist Brands are making.

We evaluate the success of our performance by measuring results against a number of Key Performance Indicators (KPIs) and other metrics. On pages 8 and 9 of this report you can see how we have evolved our business measures in line with our strategy.

Growth Brands Outperforming

Our robust performance was reflected in a number of good results from our Growth Brands which outperformed the market. Excluding China, volumes declined just 2 per cent compared to market declines of 4 per cent.

Overall we increased the market share of our Growth Brands and grew revenues by 2 per cent, which further reflects the quality of growth we're generating.

The development of our Growth Brands is being supported by a number of portfolio initiatives that are focused on building our presence in high growth segments such as queen size, slims and additive free.

JPS was our star performing brand, making volume gains in many markets including several in the EU against a backdrop of weak industry volumes. This highlights the total tobacco strength of JPS and its growing popularity with value-seeking consumers.

Davidoff and Gauloises Blondes delivered some good results in a broad spread of markets, including Russia, Turkey, Greece, Germany and Algeria.

West is generating good growth in Asia and I'm pleased with the initial results from our new value international brand Parker & Simpson, which was launched in a number of markets during the year.

We're driving the performance of USA Gold to strengthen results in the USA and in Vietnam we continue to build quality volume with Bastos. We further added to our volume, share and revenue development through our other Growth Brands, Lambert & Butler, Fine and News.

Our total Group tobacco volumes for the year were 317 billion, compared to 341 billion last year. Growth Brands accounted for 41 per cent of total volumes, an increase of 200 basis points, and 39 per cent of our tobacco net revenue, an increase of 100 basis points.

Specialist Brands Increasing Revenues

Our Specialist Brands provide opportunities for growth across the tobacco spectrum.

In cigarette, Style is performing well in Russia and Ukraine, and Gitanes is delivering strong growth in Iraq. In fine cut tobacco and papers, contributions from Golden Virginia, Drum, Route 66 and Rizla in a number of markets continued to underpin our world leadership in these categories.

Our premium cigars, led by Cohiba, Montecristo and Romeo Y Julieta, performed particularly well in Growth Markets and our cigar brand Backwoods generated significant revenue growth. Further gains from Skruf were behind another successful year for our dynamic snus business.

These performances contributed to a 5 per cent increase in Specialist Brands net revenue, with these brands accounting for 12 per cent of our tobacco net revenue.

Good Performance in Growth Markets

Economic pressures persist in a number of Growth Markets but market volumes have been resilient in the year, with the exception of Russia which has been impacted by adverse regulatory and excise changes.

We made good progress in a broad spread of markets including Taiwan, Turkey, Italy, Greece, Scandinavia, Cambodia and Kazakhstan.

The USA and Russia have posed challenges, which we're addressing to improve our performance. The USA is a highly attractive market where we're strengthening our position by focusing on pricing and customer engagement initiatives to build our presence in key states. In Russia a number of portfolio initiatives are strengthening our share in the high price and value segments. In both markets we considerably improved our results in the second half of the year.

Our share position in Growth Markets was down slightly at 5.8 per cent and we grew net revenue by 2 per cent and adjusted operating profit by 7 per cent. Excluding Russia, our share was up.

Resilient Results in Returns Markets

We divide our Returns Markets into Returns Markets South and Returns Markets North in order to better manage these significant profit pools.

Economic conditions are challenging in many Returns Markets, which have suffered market volume declines as a result of austerity measures, rising unemployment and increasing levels of illicit trade.

In Returns Markets North we achieved strong results in Germany, the UK and Australia which mitigated the impact of weakness in Morocco, France and Spain in Returns Markets South. The trading environment has been particularly difficult in Spain and as a result we have taken a further non-cash impairment charge, which is explained more fully on page 26. We're focused on strengthening our delivery in all three of these important markets.

We'll also be building on a number of good portfolio gains in other territories in Returns Markets South including Portugal, Hungary, Austria, Algeria and Senegal.

Our share across our Returns Markets was 27.3 per cent compared to 27.7 per cent last year, impacted by significant market volumes declines in large markets, such as the UK and Spain, where our share is higher than the Returns Markets average.

We grew net revenue per thousand stick equivalents by 6 per cent and adjusted operating profit declined by only 1 per cent, a robust result given the pressures in Returns Markets South. Growth Brands generated 40 per cent of tobacco net revenue in Returns Markets, up by 200 basis points.

Fontem Ventures

Whilst strengthening the sustainability of our core tobacco business, we're also pursuing opportunities for growth in other areas through our new standalone subsidiary, Fontem Ventures.

Fontem Ventures has initially been focused on our entry into the fast growing e-vapour sector and will be launching its own products in 2014. Fontem Ventures has also acquired further e-vapour assets and expertise from Dragonite International, a company founded by one of the pioneers of e-cigarette technologies, which has further enhanced our sector potential.

Logistics

Our logistics business is one of the largest of its kind in Europe, with a unique network that is difficult to replicate. The business focuses on providing excellent service to tobacco and non-tobacco customers, making around 40 million deliveries every year, and has consistently delivered a robust performance in challenging economic conditions.

Against a backdrop of weak industry tobacco volumes, distribution fees declined by 5 per cent to £850 million and adjusted operating profit was down by 2 per cent to £176 million. Excluding the impact of the timing of a VAT increase in Italy, adjusted operating profit increased by 2 per cent.

This is a pleasing result given the environment and one that reflects the expertise of the logistics management team and their diligent focus on generating new growth opportunities and managing costs.

Effective Cost and Cash Management

Effective cost and cash management supports our sales growth strategy and is a key driver for maximising returns on invested capital.

We announced a five-year cost optimisation programme at the beginning of the year aligned with our strategic transition agenda and will achieve savings of £300 million per annum from September 2018. £30 million was realised in 2013 and we're making good progress on key cost initiatives for the current financial year. These include further optimising product costs, refining our operating model, driving operational efficiencies and realising global procurement benefits.

Our cost programme is complemented by our focus on reducing our days of stock in trade to improve our supply efficiency, and the effectiveness of our portfolio, innovation, pricing and trade engagement initiatives.

Our focus on cash generation and effective management of our working capital increased cash conversion to 86 per cent, from 71 per cent last year. Excluding the impact of restructuring related cash outflows, cash conversion was 93 per cent.

Maximising Returns

We delivered another strong dividend increase of 10 per cent, in line with our commitment to grow dividends ahead of adjusted earnings by a minimum of 10 per cent a year over the medium term.

We further enhanced returns to shareholders through our share buyback programme, spending £500 million to acquire 21.3 million shares.

Maximising returns to shareholders drives everything we do and since 2010 we've more than doubled annual cash returns to shareholders to £1.6 billion by growing dividends and through share buybacks.

Strengthening Senior Management

In recent months I was delighted to welcome two new members to the executive team: Peter Corijn as Group Marketing Director and Oliver Tant as Finance Director.

Peter came from Procter & Gamble, where he managed a wide range of consumer goods in mature and emerging markets; Oliver joined us from KPMG, where his industry focus included consumer and industrial markets, retail and insurance. They both have a wealth of international experience and are proving to be great additions to the business.

Oliver takes over from Bob Dyrbus on 5 November; Bob is retiring at the end of 2013 and I'd like to add my thanks for the huge contribution he's made to our success over the years.

Responsibility and People

Managing our business responsibly is critical for sustainable value creation and we continue to focus on improving our performance in the key areas set out in our responsibility framework outlined in the Corporate Responsibility Review.

Our unique values provide everyone at Imperial with a common bond driving responsible behaviour and instilling a sense of pride in what we do. Our business thrives on the energy of our people and their positive mindset reinforces my confidence in our ability to continue improving performance and achieving our transition objectives.

2014 Priorities

Transitioning the business and building momentum behind our quality growth agenda are my priorities for the coming year. Further embedding our new footprint structure and optimising our portfolio will strengthen our ability to capitalise on growth opportunities.

We're making excellent progress in realigning our cost base and we'll be driving further cost initiatives to strengthen our sustainability and release funds to increase investment behind our portfolio and markets.

Our stock optimisation programme, whereby we will be reducing our days of stock in trade, will improve our supply effectiveness and enable us to maximise the impact of our sales growth driver initiatives.

Our actions in 2013 and over the coming year will result in stronger brands, a stronger footprint and a stronger platform for driving quality growth and quality returns to shareholders in 2015 and beyond.

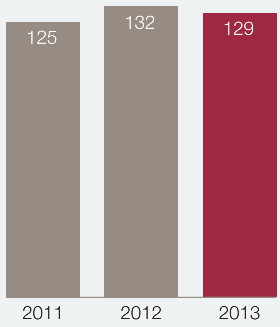
Alison Cooper
Chief Executive

Measuring Our Performance

We use the following key performance indicators (KPIs) and supporting metrics to measure our progress in delivering our sustainable sales growth strategy. These measures reflect the priorities of the business and are used to monitor and drive performance.

KEY PERFORMANCE INDICATORS

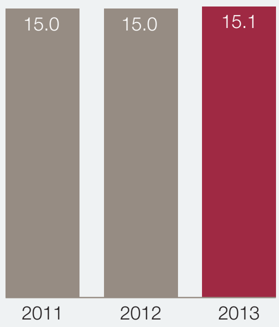
Growth Brand Volumes (bn)



Performance
Our Growth Brands are outperforming market trends, declining just 2 per cent compared to market declines of 4 per cent.

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

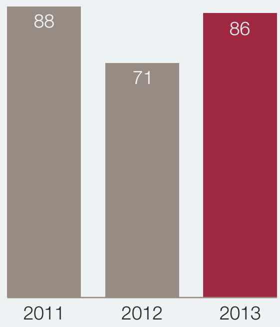
Return on Invested Capital (%)



Performance
During the year we improved our return on invested capital (ROIC) to 15.1 per cent.

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

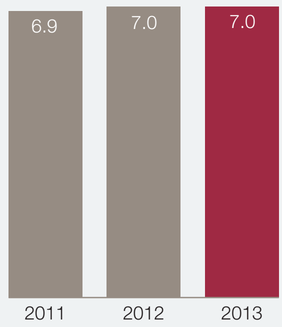
Cash Conversion Rate (%)



Performance
Our focus on cash generation and effective working capital management increased cash conversion to 86 per cent. Excluding the impact of restructuring related cash outflows, cash conversion was 93 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.

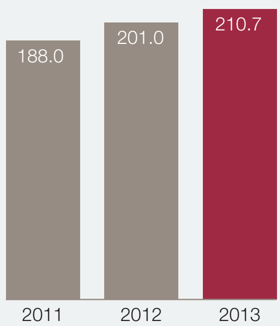
Tobacco Net Revenue (£bn)



Performance
Tobacco net revenue declined by 1 per cent as some strong results in Growth Markets and Returns Markets North were undermined by challenging trading conditions in our key Returns Markets South territories.

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

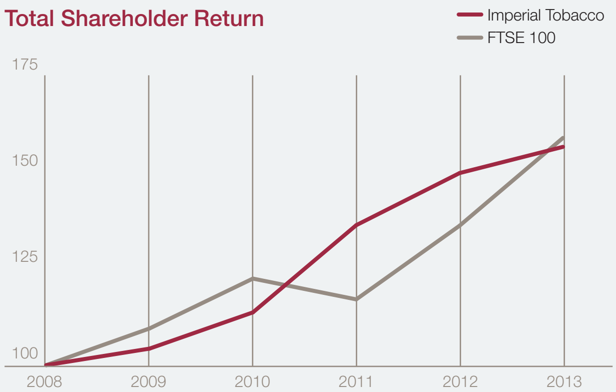
Adjusted Earnings Per Share (pence)



Performance
Our focus on sales growth, cost optimisation and effective cash management has delivered adjusted earnings per share growth of 6 per cent.

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

Total Shareholder Return



Performance
In 2013, we underperformed the FTSE 100 Index by 11 percentage points. Over five years our performance has been broadly aligned.

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.

METRICS

	2013	2012	Constant Currency Change
Growth Brands			
Market Share Weighted aggregate market share of Growth Brands in markets where sold	**5.4%**	5.1%	+30 bps
Net Revenue (£m) Net revenue of our Growth Brands	**2,729**	2,647	+2%
Percentage of Group Volumes Growth Brands volumes as a percentage of total Group volumes	**41%**	39%	+200 bps
Percentage of Tobacco Net Revenue Growth Brands net revenue as a percentage of tobacco net revenue	**39%**	38%	+100 bps
Specialist Brands			
Net Revenue (£m) Net revenue of our Specialist Brands	**866**	817	+5%
Percentage of Tobacco Net Revenue Specialist Brands net revenue as a percentage of tobacco net revenue	**12%**	12%	–
Growth Markets			
Market Share Weighted aggregate market share	**5.8%**	5.9%	–10 bps
Net Revenue (£m) Net revenue in Growth Markets	**2,254**	2,192	+2%
Growth Brands Net Revenue as a Percentage of Tobacco Net Revenue Growth Brands net revenue as a percentage of tobacco net revenue in Growth Markets	**37%**	36%	–
Growth Brands Volumes (bn) Growth Brands stick equivalents sold	**53**	54	-2%
Returns Markets			
Market Share Weighted aggregate market share	**27.3%**	27.7%	-40 bps
Net Revenue Per 1,000 Stick Equivalents (£) Net revenue per 1,000 stick equivalents in Returns Markets	**23**	22	+6%
Growth Brands Net Revenue as a Percentage of Tobacco Net Revenue Growth Brands net revenue as a percentage of tobacco net revenue in Returns Markets	**40%**	38%	+200 bps

Optimising Our Portfolio

> "We're focused on driving a global portfolio of consumer inspired brands."

Peter Corijn
Group Marketing Director

We're proud to have developed a comprehensive total tobacco portfolio, with strong positions in all the main tobacco categories. It's a global portfolio of brands that are inspired by consumers and have huge potential for future growth.

Our cigarette brands are among the most popular in the world and we have established ourselves as the global leader in fine cut tobacco and papers. We also have exclusive rights to sell all luxury Cuban cigars and have a dynamic range of smokeless tobacco brands.

The work we're doing to optimise our portfolio is designed to allow the very best of these brands to flourish. We've identified the brands with the most potential for quality sustainable growth and elevated their status within the portfolio to ensure they receive the right level of investment and support.

Growth Brands Outperforming

For our Growth Brands this means grouping together high quality cigarette brands that have a presence in key markets and resonate strongly with a broad range of consumers.

They account for 41 per cent of our total volumes and include internationally renowned brands such as Davidoff, Gauloises Blondes, West and JPS. A number of our Growth Brands are total tobacco offerings, providing consumers with the choice of a cigarette or fine cut tobacco smoking experience.

We're managing our Growth Brands to collectively deliver quality volume, share and revenue growth and I'm particularly excited about the opportunities we have for further expanding their total tobacco credentials.

I'm also focused on initiatives that will fuel future growth; our Growth Brands outperformed market trends in 2013 and I'll be ensuring that the marketing investments we make to support growth really connect with consumers and strengthen brand equity.

Strong Specialist Brands

Our Specialist Brands cover the entire tobacco spectrum – cigarettes, fine cut tobaccos, cigars, snus and papers – and as the name implies, they appeal to more specific consumer groups.

Each brand has strength, if not leadership, in its own category and a track record of delivering good returns. Collectively, Specialist Brands account for 12 per cent of our tobacco net revenues and the aim is to increase this contribution going forward.

Quality Sustainable Growth

Our Growth and Specialist Brands are our key portfolio assets and therefore vital to our future success.

Our remaining brands tend to have a more local market focus and fulfil a variety of roles. Some have the capacity to continue adding to our volume and revenue momentum; others will add greater value by being migrated into Growth Brands.

The optimisation of our portfolio, combined with our realigned footprint, is creating a renewed focus on quality sustainable growth and we're very excited about making the most of the many opportunities that lie ahead.

Growth Brands
JPS

JPS is an excellent example of how we're leveraging brand equity to drive quality growth. JPS resonates strongly with value-seeking consumers and is performing well in cigarette and fine cut tobacco in the EU and Australia.

Growth Brands
Fine

Fine is a cigarette brand that has a great track record of growth in Africa and Asia. The brand's sold in 20 markets across these territories and is performing particularly well in the Ivory Coast, Chad and Cambodia.

Specialist Brands
Rizla

Rizla is the world's number one papers brand and complements our global leadership in fine cut tobacco. A recent pack rejuvenation added a taste intensity scale to help consumers choose the brand variant that best suits their smoking preference.

Specialist Brands
Premium Cigars

Montecristo, Cohiba and Romeo Y Julieta are our most prestigious Cuban cigars. Limited editions continue to support sales growth and through an expanding 'mini' range we're capitalising on the growing demand for smaller luxury cigars.

A Realigned Footprint

“Our new approach provides a strong platform for driving quality growth.”

Arthur van Benthem
Group Sales Director

We sell our brands in a diverse spread of international markets which we previously managed on a geographic basis. During the year we transitioned to a new approach and now manage our footprint based on the strategic role of each market rather than its geographic location, with markets prioritising Growth or Returns.

Growth Markets have large profit and/or volume pools. In these markets we typically have shares below 15 per cent and see real potential for long-term share and profit growth.

In Returns Markets, which tend to have declining volumes, most of our shares are above 15 per cent and we focus on managing these strong positions, whilst driving sustainable profit growth.

Enhancing Resource Allocation

This new classification is enhancing the way we allocate resource to markets to support their growth plans and is also improving the consistency of our sustainable growth focus across our footprint. This includes the way we implement our sales growth drivers: portfolio management, innovation, customer engagement and pricing.

It's an exciting way forward and I've been delighted with the initial results and the response from our market teams around the world.

Sharpening our Quality Growth Focus

Aligning our people to the new structure brings fresh clarity to our sales agenda and is sharpening our growth focus. I've also seen even greater collaboration between markets, which is improving creativity and the sharing of ideas.

In the coming year we'll be further embedding this new strategic approach in the business. It's a key element of our transition and provides a strong platform for driving quality sustainable growth.

Some of our most important Growth and Returns Markets are highlighted below and on the next page you can get further insights into the benefits of the new market clustering from two of our General Managers.

Key Growth Markets

Cambodia	Saudi Arabia
Greece	Taiwan
Italy	Turkey
Laos	USA
Russia	Vietnam

Key Returns Markets

Algeria	Morocco
Australia	Senegal
France	Spain
Germany	Ukraine
Hungary	United Kingdom

Returns Market Germany

Marcus Schmidt
General Manager

We've had another very good year in Germany, growing share, volume, profit and revenue, and we're geared up to add to this growth record in the coming year.

The key to our success is our total tobacco focus; we've got the right brands in the right segments, which means we can provide consumers with a wide range of quality offerings. Davidoff, Gauloises Blondes, West and JPS are at the core of our portfolio and represent a very powerful combination of brands.

Playing to our total tobacco strengths is critical for driving growth in Returns Markets and one of the real benefits of the new structure is the way it facilitates the sharing of expertise.

The previous structure clustered markets geographically, grouping together different markets with different priorities. Now we all have the same priorities, the same goals and the same challenges and opportunities; this commonality is driving greater collaboration, often with colleagues I'd previously not speak with on a regular basis.

Australia's a good example; we were separate entities in the old regional structure, yet our markets have many similarities, so now we talk regularly about how to create and maintain a winning agenda.

Other companies don't have this level of alignment and I believe that over time it's going to give us a real competitive advantage.

Growth Market Turkey

Gurhan Pasinli
General Manager

Turkey is the seventh largest cigarette market in the world; more than 90 billion cigarettes are sold here every year, and this presents us with huge opportunities for growth. We've done well over the years to establish a presence and get our share moving in the right direction; now we can really build on this with the new structure.

One of the benefits is the new mindset it's created; all Growth Markets have the same goals and this allows markets to connect with each other like never before.

For instance, our portfolio is built around two of our important Growth Brands, Davidoff and West, and my marketing team recently met with colleagues in Russia to share ideas on how we can maximise the growth of Davidoff. The structure's opened up a whole new way of working; it's very motivating and a lot of fun, and the team here in Turkey is very excited about the future.

Over the coming year we'll be building the skills and capabilities of our people to further ensure they're fully equipped to put our sales agenda into action. We'll also be strengthening our foundations for growth by developing a total tobacco approach; we're doing very well in cigarette, particularly in the growing superslims segment, and we have some great initiatives planned to expand our portfolio into other growth areas.

Shaping Our Environment

"We work with our partners to combat illicit trade and encourage constructive dialogue on regulatory issues."

Matthew Phillips
Corporate Affairs Director

The work we do to shape our external environment supports our sustainable sales growth strategy and focuses on regulatory and excise engagement and combating illicit trade.

We take a responsible, proactive approach in both areas, seeking dialogue and partnerships with a broad range of stakeholders including consumers, retailers, governments and law enforcement agencies.

Focus on Reasonable Regulation

We advocate reasonable regulation that's based on sound evidence and respects the rights of people who choose to enjoy our brands. We also think it's important that regulation is developed in an open and transparent manner.

Too often tobacco isn't regulated in this way resulting in disproportionate measures, such as display bans and excessive excise increases, which can have dangerous unintended consequences, particularly in terms of illicit trade.

Illicit trade, or smuggling and counterfeiting, is common across many fast moving consumer goods sectors and tobacco is no exception.

Regrettably, the problem is growing and excessive regulation and excise increases only serve to further fuel the trade in illegal tobacco.

This adversely affects us all: children can more easily obtain tobacco, adult consumers are exposed to products that have no quality controls, retailers and tobacco companies lose legitimate sales and governments are deprived of valuable tax revenues.

The only beneficiaries are the hardened criminal gangs, often with links to terrorist organisations, who orchestrate and profit from the illegal trade in tobacco.

Raising awareness of the relationship between regulation, excise and illicit trade continues to be a focal point of our regulatory engagement.

The Importance of Evidence

We champion the need for regulation to be underpinned by sound evidence and it was encouraging to see the UK Government recognise the importance of this in relation to the issue of plain packaging.

The Government has currently halted plans for plain packs, recognising there's insufficient evidence to support the notion that removing branding from tobacco products will reduce smoking.

This has long been our view and it's one that's shared by a broad range of stakeholders, including a number of countries who have filed legal complaints with the World Trade Organisation against plain packaging legislation in Australia.

The packaging debate will continue and we'll stay actively involved to protect our valuable intellectual property rights and defend further attempts to denormalise smoking and our consumers.

Tackling Illicit Trade

Our engagement activities are supported by the considerable investments we make in initiatives to tackle illicit trade.

These include the stringent controls we apply to our global network of distributors, including track and trace technology, and further building our dedicated team of specialists who partner with governments and customs and excise authorities internationally to disrupt the supply and sale of illicit product.

We have a number of anti-illicit trade agreements in place around the world that set out clear frameworks for how we can best work together to combat these criminal activities.

Some notable successes were achieved in the year, including the seizure of a prolific cigarette counterfeiting machine believed to be responsible for producing seven billion illegal cigarettes, most of which were sold in Western Europe. The machine was operated by a major criminal network and was seized in Hungary following a joint international surveillance operation, reinforcing the importance of taking a partnership approach.

Balanced Debate

In the coming year we'll be focused on continuing to work with our partners in the fight against illicit trade, whilst seeking further constructive dialogue on key regulatory issues.

We will continue to resist attempts by some non-governmental organisations to exclude us from discussions. Their misplaced efforts threaten to undermine the calibre of debate that's seriously needed for the effective long-term regulation of tobacco.

It's vital that debates are balanced and transparent and that all relevant stakeholders have the opportunity to share their views. Only by working together can we best serve the interests of governments, retailers and consumers by developing reasonable regulatory solutions that bring order to markets and keep the criminals at bay.

Regulating e-vapour products

The global market for e-vapour products is expanding rapidly and this is one area where we'll soon be launching our own exciting offerings through our new standalone business, Fontem Ventures.

E-cigarettes are the most common e-vapour products, but there are many others including e-cigars, e-cigarillos and e-shishas.

The e-vapour sector will continue to grow and requires a clear regulatory framework to govern the way these products are made and sold.

A priority for us over the coming year is to continue engaging with stakeholders to support the development of effective regulations.

We believe e-vapour products that make smoking cessation claims should be covered by pharmaceutical legislation so they're regulated in the same way as other nicotine replacement therapy products.

All other types of e-vapour products should fall under an independent uniform regulatory framework on the basis of scientific product evaluations.

fontem ventures

Developing Our People

> Our success is driven by the ideas, energy and dedication of our talented people.

Andrew Newall
Group HR Director

We focus on recruiting, developing and retaining a diverse, high calibre pool of employees who are motivated to do their best work. This is crucial to our future success; it's our people who make things happen to bring our sustainable growth strategy to life.

Our energetic people not only thrive on challenge, they thrive on turning challenge into opportunity. Sometimes this is achieved by collaborative teamwork; on other occasions it will be strong individual contributions that unlock solutions.

The importance of both approaches is reinforced in our values, which capture the essence of what it's like to work for Imperial Tobacco. The combination of the 'We' values and the 'I' values reflect the way we operate, providing a common bond that guides the way we do business and influences the way we behave.

Recruiting the Right People

Our values underpin everything we do. Recruitment success for Imperial Tobacco means welcoming people into the business who embody our values and have the right skills and capabilities.

Skills and capabilities on their own are not enough. We're not looking for people who want a job; we're looking for people who want a career and who are willing to work hard to make their aspirations come alive. In return we offer competitive remuneration, a vibrant, dynamic working environment and every encouragement to grow and develop.

We attract talent into the business through our graduate recruitment programme. Over a two-year period, our graduates will get first-hand experience of working in demanding roles in locations around the world and will receive development and mentoring support from senior managers.

Our Values

I own

See it, seize it, make it happen

We can

Everything is possible, together we can

I am

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

Talent Development

Building the capabilities and leadership skills of our people is aligned with the strategic transition of the business and is critical to our long-term success.

On a day-to-day basis employees are set stretching objectives and have opportunities to work on projects that are often cross-functional. We also offer a wide range of formal training programmes.

I'm particularly pleased with the success of our in-house Manufacturing Academy, which is honing the skills and expertise of a talented pool of young manufacturing employees. Further academies are being set up to provide training and development opportunities in other functions.

Our annual performance management process evaluates the contribution of each employee and drives individual development plans. In addition, our talent review process identifies the very best performers and drives succession planning.

In the coming year we'll be enhancing our talent pipeline with the launch of a new leadership programme that will strengthen our focus on identifying candidates for the most senior positions in the business.

Engagement Focus

Engaged employees take pride in doing their best work and developing careers with the same company, so it's important for us to keep building our engagement activities. Central to this is our global engagement survey, which gives employees the opportunity to have their say and drives local and global initiatives based on their feedback.

The feedback from last year's survey was instrumental in helping us progress a new e-learning system. This provides employees with quick and easy access to a broad range of learning and development resources and is currently being rolled out across our markets.

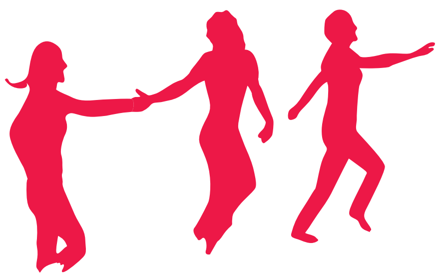
Maximising Potential

The actions we're taking to maximise the potential of our people are just as important as the actions we're taking to maximise the potential of our portfolio and market footprint.

Enhancing our commercial performance and continuing to successfully manage the transition of the business relies on the ideas, energy and dedication of our people. They are critical to our sustainable growth strategy and we will continue to invest in our people agenda to create an environment where talent can flourish and people are motivated to do their best.

We surprise

New thinking, new actions, exceed what's possible



I engage

Listen, share, make connections

We enjoy

Thrive on challenge, make it fun

Our Responsible Approach

> Our reputation for acting responsibly supports our sustainable growth aspirations.

John Downing
Company Secretary

Operating responsibly is integral to the way we do business; it's what our stakeholders rightly expect of us and it supports our long-term success.

Our people are central to the success of our responsibility agenda and take great pride in doing things the right way, living our values and respecting our Code of Conduct to drive responsible performance.

Code of Conduct

Our Code of Conduct sits at the core of our governance practices, which includes the policies, internal controls and risk management processes that underpin our sales growth strategy.

The Code sets out the high standards of responsible behaviour that employees are expected to follow and provides practical guidance on how to deal with important ethical and legal issues.

The Code applies to everyone in Imperial Tobacco, as well as our business partners, and is published in full on our corporate website. We have a rolling training programme to ensure ongoing engagement with the Code throughout the business, including e-learning courses and face-to-face sessions.

Responsibility Framework

Our values embody the individual and collective behaviours we expect from everyone who works for us and, like the Code of Conduct and other governance practices, they're embedded in the business and support our responsibility framework.

This framework focuses on four key areas: being responsible with products, creating a rewarding workplace, respecting natural resources and reinvesting in society.

Marketing our brands responsibly, supporting our consumers and taking action on important issues, such as illicit trade, are central to the responsible approach we take to managing our products.

A rewarding workplace is one where employees are inspired to do their best work. That doesn't just mean creating a safe and pleasant working environment; it's about engaging with our people, building their capabilities and providing exciting opportunities for career progression.

In respecting natural resources we're minimising our environmental impact by reducing waste and water consumption and improving energy efficiency, which includes addressing carbon emissions. By reinvesting in society we're making positive contributions to the communities in which we operate.

These priorities are aligned with our sustainable growth strategy and each year we set new objectives to improve our performance. Engaging with stakeholders, including employees, consumers and our community and environmental partners, is embedded in the way we develop our responsibility agenda.

Our Values, Our Responsibility

This year we launched 'Our Values, Our Responsibility', an internal drive to further enhance employee engagement around responsibility issues.

The initiative was launched by the Chief Executive, supported by the Operating Executive, the senior management team that implements our sales growth strategy.

Each member of the Operating Executive champions specific responsibility activities in the business, including environmental sustainability, employee well-being and eliminating child labour.

Not only does this reinforce the importance of responsibility across the business, it's also enhancing employee engagement on responsibility issues, which is something that our people have told us they want to see more of.

An increasing number of employees are volunteering to get involved in projects that are linked with our responsibility framework, ranging from helping the homeless in Belgium, giving blood in Slovenia, river maintenance in the Philippines and reforestation initiatives in Vietnam and Greece.

External Recognition

We're proud of the contributions that our people make and we're delighted that our responsibility credentials continue to be recognised externally.

Business in the Community has again awarded us Gold status in the 2013 Corporate Responsibility Index and we achieved our highest ever score of 79 per cent in the RobecoSAM assessment for the Dow Jones Sustainability Index.

You can learn more about our achievements in the Corporate Responsibility Review section of this report, which also sets out our priorities for the future.

Our Values, Our Responsibility

Operating Review

	2013	2012	Constant Currency Change
Growth Markets			
Market Share Weighted aggregate market share	**5.8%**	5.9%	–10 bps
Net Revenue (£m) Net revenue in Growth Markets	**2,254**	2,192	+2%
Growth Brands Net Revenue as a Percentage of Tobacco Net Revenue Growth Brands net revenue as a percentage of tobacco net revenue in Growth Markets	**37%**	36%	–
Growth Brands Volumes (bn) Growth Brands stick equivalents sold	**53**	54	-2%
Returns Markets			
Market Share Weighted aggregate market share	**27.3%**	27.7%	-40 bps
Net Revenue Per 1,000 Stick Equivalents (£) Net revenue per 1,000 stick equivalents in Returns Markets	**23**	22	+6%
Growth Brands Net Revenue as a Percentage of Tobacco Net Revenue Growth Brands net revenue as a percentage of tobacco net revenue in Returns Markets	**40%**	38%	+200 bps

Strategic Market Focus

We manage our market footprint based on the strategic role that each market plays rather than its geographic location, with markets prioritising Growth or Returns.

Our Growth Markets have large profit and/or volume pools and 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 and focus on driving long-term share and profit growth.

In contrast we tend to have large shares above 15 per cent in our Returns Markets, which include Australia and markets in the EU, Eastern Europe and Africa.

In many of these markets, particularly the EU, market volumes are declining and we focus on generating sustainable profit growth and actively managing our strong share positions.

Returns Markets are split into two divisions, Returns Markets North and Returns Markets South, and include a number of our larger profit pools such as Australia, Germany, Spain and the UK.

Our Growth Brands are outperforming market trends

Prevailing market characteristics determine how markets are allocated to each of these divisions and so Australia, for example, is in Returns Markets North due to its similarity to markets like the UK and Germany in terms of its maturity, excise structures and multi-channel distribution network.

Returns Markets South includes markets like France, Spain and Morocco which have narrower distribution channels and often different excise structures.

This new approach to managing our footprint improves the effectiveness of our sales growth drivers and encourages greater collaboration across markets, providing a strong platform for driving higher quality sustainable growth.

Growth Brands Outperforming

Our Growth Brands account for a significant amount of our volume and revenue generation and our aim is to increase this over time to further enhance the quality and sustainability of our business.

These brands outperformed the market in the year, with volumes down less than the rate of market declines. Seven of our 10 Growth Brands grew share and on an aggregate basis, we grew the share of Growth Brands from 5.1 to 5.4 per cent and increased net revenue by 2 per cent.

Growth Brands now account for 41 per cent of our total volumes, up from 39 per cent last year, and 39 per cent of tobacco net revenues, up from 38 per cent last year.

Growth Markets

Industry volumes declined by 3 per cent in our Growth Markets during the year. We're building good momentum across these markets, although significant market weakness in Russia is masking the true extent of the positive progress we're making.

We grew net revenue by 2 per cent and delivered strong profit growth of 7 per cent. Our share position declined slightly but, excluding Russia, it was up to 5 per cent. Our Growth Brands performed well in a broad spread of markets, reflecting the quality of growth we're driving.

In **Russia** industry volumes have declined considerably following adverse excise and regulatory developments and we've been actively managing our portfolio to strengthen our position. A robust performance from Davidoff was supported by West, as it continued to build momentum in the growing queen size segment. We also achieved gains from Style, which is benefiting from the success of a new kingsize superslim offering.

Reversing the fortunes of Maxim is a priority and we're making good progress in strengthening the brand's share with the launch of new formats, including packs of 25 cigarettes, and a focus on driving growth in key cities.

These decisive portfolio actions, combined with pricing initiatives, considerably improved our profit delivery in the second half, providing a strong platform for us to build on in the coming year.

Elsewhere in Eastern Europe we're rapidly gaining a solid foothold in **Kazakhstan** and made further excellent progress in the year, with share and volume gains from Davidoff and West.

In **Turkey** our new route to market strategy, focused on targeting major cities, continues to strengthen our position and we grew our cigarette share from 3.7 per cent to 4.5 per cent, driven by gains from Davidoff and West.

In Asia we're driving cigarette share and volume gains with West in **Taiwan**. We're also encouraged by the presence we're building with West in **Japan**, which is being supported by our focus on customer engagement activities.

In **Cambodia** we acquired our local distributor, giving us scope to further extend our operations, and continued to make good share and volume gains with Fine. Elsewhere in Asia we grew volumes of Bastos in **Vietnam** and improved our cigarette share in **Laos**.

In the Middle East we grew our cigarette share in **Saudi Arabia** and **Lebanon** and achieved particularly good volume growth in **Iraq**, driven by strong performances from West and Gitanes, supported by good initial gains from Parker & Simpson.

We continued to gain share in **Greece**, driven by Davidoff, and during the year we enhanced our leading position in the growing slims category with the launch of a new JPS Slims variant.

Our Growth Brands account for 41% of our total volumes

In June we strengthened our portfolio in **Italy** by relaunching JPS cigarette and fine cut tobacco brands and by September JPS had already captured one per cent of the cigarette market. We're also focused on further enhancing the growth trajectory of Rizla, which made good volume gains in the year.

We have a clear plan to turnaround our performance in the **USA**, which is focused on growth in key states with USA Gold, building partnerships with major retailers and implementing a number of pricing initiatives. This focus has strengthened our key account relationships and grown our cigarette share in key states by 20 basis points. We also increased our fine cut tobacco share, achieved good results in premium cigars and made gains in mass market cigars with Backwoods as we continued to leverage our total tobacco portfolio to capitalise on other growth opportunities. Overall we significantly improved profit delivery in the second half, providing a strong platform for us to build on in 2014.

In premium cigar we increased revenue, with Cohiba, Montecristo and Romeo Y Julieta performing particularly well in Asia and the Middle East. Special limited editions of these luxury brands resonate strongly with cigar connoisseurs and will continue to support growth going forward. We're also generating strong sales in Montecristo Minis, which we launched in eight new markets during the year.

In Scandinavia we further built on our long track record of growth in snus; our share, volume, revenue and profits were all up, driven by another sterling performance from Skruf.

Returns Markets

Industry volumes declined by 5.3 per cent in Returns Markets. Trading has been tough in much of Returns Markets South due to a number of factors that have affected our performance and profit delivery.

However, some strong results in Returns Markets North mitigated this impact such that adjusted operating profit across our Returns Markets declined just 1 per cent. We grew net revenue per thousand stick equivalents by 6 per cent and our market share was 27.3 per cent compared to 27.7 per cent last year.

We increased the revenue contribution from our Growth Brands; these brands generated 40 per cent of tobacco net revenue in Returns Markets, 200 basis points higher than last year.

Returns Markets North

We achieved robust results in Returns Markets North, with net revenue per thousand stick equivalents increasing by 10 per cent and adjusted operating profit increasing by 3 per cent.

Our Growth Brands delivered 44 per cent of tobacco net revenue, up from 42 per cent, and our market share was 25.5 per cent, against 26.0 per cent last year.

In the **UK** industry volumes weakened in the year but pricing was strong, enabling us to maintain profit delivery. We increased our cigarette share and implemented a number of portfolio initiatives to reinforce our market leading positions in cigarette and fine cut tobacco, including new Lambert & Butler packs and a rejuvenation of the Golden Virginia brand family.

We achieved excellent results in **Germany**, increasing our cigarette and fine cut tobacco shares, as well as growing revenue and profits. Our success was driven by our total tobacco approach which delivered further gains from Davidoff, Gauloises Blondes and JPS, supported by Route 66. The volume gains we're making with additive free variants of Gauloises Blondes and JPS have been particularly impressive, reflecting our ability to capitalise on profitable high growth segments.

In **Benelux** we're leveraging our world leadership in fine cut tobacco to drive volume and share growth with JPS performing strongly, supported by Golden Virginia. In addition West is growing in cigarette and fine cut tobacco in **Belgium**.

Style and West are growing in **Ukraine**, although our overall position has been under pressure due to low-priced competitor activity. We have responded with a number of portfolio initiatives including the launch of Davidoff queen size. In **Azerbaijan** we launched Parker & Simpson to complement Davidoff and West.

We increased net revenue from our Specialist Brands by 5%

In **Australia** we were well prepared for the introduction of plain packaging last December and have continued to grow our business in this restrictive environment. Revenue and profit were up, as were both our cigarette and fine cut tobacco shares. This reflects our total tobacco expertise and another outstanding performance from JPS.

Returns Markets South

We're focused on improving results in Returns Markets South, where challenging economic conditions have impacted our financial delivery. Net revenue per thousand stick equivalents was flat and adjusted operating profit declined by 8 per cent.

Against this backdrop our market share was resilient at 29.9 per cent compared to 30.3 per cent last year and our focus on improving the quality of our growth was highlighted by further progress from our Growth Brands. These brands accounted for 34 per cent of tobacco net revenue, up from 32 per cent last year.

In **Spain** economic conditions are difficult for many businesses as a result of austerity measures and rising unemployment. Declining industry volumes and increasing levels of illicit trade pose additional challenges for tobacco companies.

These factors impacted our profit and revenue delivery but our total tobacco focus generated encouraging portfolio gains for us to build on in the coming year, particularly in make-your-own fine cut tobacco with JPS and Ducados Rubio and Nobel.

Profit and revenue in **France** were also undermined by declining industry volumes and rising illicit trade but we continue to make the right portfolio choices to address these headwinds. Our brands performed robustly including Gauloises Blondes, which ended the year with a stable cigarette share, and News, which gained share in fine cut tobacco.

Our excellent progress in **Portugal** was driven by JPS, reflecting a number of successful portfolio initiatives including Glide-Tec packs and the launch of JPS Duo, a crushball variant.

Elsewhere we increased our fine cut tobacco share in **Austria** and **Hungary** and strengthened our cigarette portfolio in the **Czech Republic**, **Slovenia** and **Slovakia** with the launch of Parker & Simpson.

In **Morocco** excise-driven price increases, regulation, illicit trade and increased competitor activity have impacted our performance. Securing our leading position in this important market is a priority for 2014; we will be building on the gains that Gauloises Blondes is making in the growing queen size segment and implementing further portfolio and sales growth driver initiatives.

Elsewhere in Africa we increased our cigarette share in **Senegal** and delivered excellent results in **Algeria**, where a superb performance from Gauloises Blondes was the driver of significant volume gains and growth in our cigarette share.

Our Specialist Brands highlight our total tobacco strength

Logistics

"We're focused on new services and effective cost management to strengthen our performance in a challenging environment."

Logistics Overview

We have one of the largest logistics businesses in Europe, with operations extending across Spain, France, Italy, Portugal and Poland.

There are two key aspects to our business: tobacco and non-tobacco logistics.

Through tobacco logistics we deliver products for domestic and international tobacco companies, including Imperial Tobacco. Non-tobacco logistics provides specialised services in a number of sectors including telecommunications, transportation, pharmaceutical, publishing and lottery.

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

We make more than 40 million deliveries every year to 300,000 points of sale, including tobacconists, convenience stores, grocery stores, kiosks and bookshops, pharmacies, hospitals and petrol stations.

Logistics Performance

Our logistics business continues to show resilience, delivering a robust performance in a challenging operating environment.

Distribution fees declined by 5 per cent to £850 million and adjusted operating profit was down by 2 per cent to £176 million. However, excluding the impact of the timing of a VAT increase in Italy, adjusted operating profit increased by 2 per cent.

The stability of our profit delivery over recent years, against a backdrop of deteriorating economic conditions and declining cigarette market volumes, reflects the expertise of our logistics management team and their diligent focus on generating new growth opportunities and managing costs.

In **tobacco logistics**, cost saving initiatives and fee increases helped mitigate the impact of tobacco declines.

In **non-tobacco logistics** we continue growing sales in our direct delivery pharma business and lottery business, and made further efficiency gains in our transport business. Our wholesale business also performed well and our publications business is benefiting from a restructuring in Spain and divestment in Portugal.

Our focus on customer service excellence, identifying and developing new growth opportunities and efficiently managing costs throughout our unique logistics network, will continue to drive the profitable development of the business.

Financial Review

> "Effective cost and cash management underpinned our robust operational performance."

Robert Dyrbus
Finance Director

The analysis of our financial results below focuses on our adjusted measures. This reflects the way in which we manage the business, and provides a useful comparison of business performance. The basis of our non-GAAP or adjusted measures is explained in our accounting policies accompanying our financial statements.

Percentage growth figures for our 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.

Revenue Performance

£ million	2013	2012
Tobacco revenue	**20,881**	21,161
Logistics revenue	**8,288**	8,368
Eliminations	**(900)**	(955)
Group revenue	**28,269**	28,574
Tobacco net revenue	**7,007**	7,005
Logistics distribution fees	**850**	872

Tobacco net revenue was down by 1 per cent (on a constant currency basis), as volume declines of 7 per cent more than offset price and mix gains. In a difficult operating environment Logistics distribution fees were 5 per cent lower, as economic headwinds persisted in Europe.

Group Earnings Performance

£ million unless otherwise indicated	Adjusted 2013	Adjusted 2012	Reported 2013	Reported 2012
Operating profit				
Tobacco	**3,003**	2,989	**1,888**	1,447
Logistics	**176**	176	**69**	75
Eliminations	**1**	(4)	**1**	(4)
Group operating profit	**3,180**	3,161	**1,958**	1,518
Net finance costs	**(532)**	(535)	**(697)**	(437)
Profit before taxation	**2,648**	2,626	**1,261**	1,081
Taxation	**(572)**	(604)	**(300)**	(382)
Profit for the year	**2,076**	2,022	**961**	699
Earnings per ordinary share (pence)	**210.7**	201.0	**96.2**	68.1

Adjusted operating profit grew by 1 per cent reflecting good performances in Growth Markets, with gains in Russia and the USA, and Returns Markets North. Our performance in Returns Markets South was impacted by continued volume and net revenue declines in Spain due to duty increases and illicit trade, and by market deregulation and duty changes in Morocco.

Tobacco adjusted operating profit was up 1 per cent while Logistics adjusted operating profit declined by 2 per cent, a robust performance in the context of market volume declines in parts of Europe, and impacted by the recent increase in VAT in Italy.

After tax at an effective rate of 22 per cent (2012: 23 per cent), adjusted earnings per share grew by 6 per cent to 210.7 pence.

Reported earnings per share were 96.2 pence (2012: 68.1 pence) additionally reflecting fair value and exchange movements on derivative financial instruments, amortisation of acquired intangibles, an impairment of Spanish intangible assets of £0.6 billion and restructuring costs.

Group Results – Constant Currency Analysis

£ million unless otherwise indicated	2012	Foreign exchange	Constant currency growth	2013	Change	Constant currency change
Tobacco net revenue	7,005	86	(84)	7,007	–	-1%
Growth Markets net revenue	2,192	26	36	2,254	+3%	+2%
Returns Markets North net revenue	2,924	23	(18)	2,929	–	-1%
Returns Markets South net revenue	1,889	37	(102)	1,824	-3%	-5%
Tobacco adjusted operating profit	2,989	(17)	31	3,003	–	+1%
Growth Markets adjusted operating profit	633	(10)	45	668	+6%	+7%
Returns Markets North adjusted operating profit	1,502	(11)	52	1,543	+3%	+3%
Returns Markets South adjusted operating profit	854	4	(66)	792	-7%	-8%
Logistics distribution fees	872	18	(40)	850	-3%	-5%
Logistics adjusted operating profit	176	4	(4)	176	–	-2%
Adjusted operating profit	3,161	(13)	32	3,180	+1%	+1%
Adjusted net finance costs	(535)	(8)	11	(532)	+1%	+2%
Adjusted EPS	201.0p	(1.6)p	11.3p	210.7p	+5%	+6%

Reconciliation of Adjusted Performance Measures

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	2013	2012	2013	2012	2013	2012
Reported	1,958	1,518	(697)	(437)	96.2	68.1
Acquisition accounting adjustments	–	(10)	–	–	–	(0.9)
Amortisation and impairment of acquired intangibles	952	1,552	–	–	79.4	149.0
Fair value and exchange losses/(gains) on financial instruments providing commercial hedges	–	–	156	(125)	15.1	(10.4)
Post-employment benefits net financing cost	–	–	9	27	0.4	1.8
Restructuring costs	270	101	–	–	19.6	7.2
Tax provisions released	–	–	–	–	–	(13.8)
Adjusted	3,180	3,161	(532)	(535)	210.7	201.0

Adjusting Items

Amortisation and impairment of acquired intangibles was £952 million (2012: £1,522 million) including a non-cash impairment charge of £580 million in respect of Spanish intangibles. Net fair value and exchange losses on financial instruments providing commercial hedges included in reported net finance costs were £156 million (2012: gains of £125 million).

Restructuring costs increased from £101 million in 2012 to £270 million as we invested in our cost optimisation programme, with a number of initiatives already completed, delivering savings of over £30 million in our 2013 results. In addition, we expect to deliver incremental savings of around £60 million in 2014. The 2013 charge includes around £80 million for non-cash impairments, mainly in respect of surplus property following factory closures.

The release of tax provisions of £137 million in 2012 was due to the resolution of certain prior year tax matters outside of changes in estimates in the normal course of business.

Spanish Intangibles

Economic conditions in Spain have remained difficult in 2013, and higher levels of illicit trade and increases in duty during the year have reduced legitimate consumption. Our impairment testing last year assumed no duty increases during 2013 and a lower rate of fall in consumption than has occurred in 2013. We have consequently written down our Spanish assets by a further £580 million at the end of 2013, following impairment testing as required under International Financial Reporting Standards. Further details are included in our financial statements.

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

Net Finance Costs

Adjusted net finance costs were slightly lower at £532 million (2012: £535 million) despite adverse exchange rate movements during the year. Reported net finance costs were £697 million (2012: £437 million). Our all in cost of debt was improved at 5.1 per cent (2012: 5.5 per cent) and our interest cover was 6.0 times (2012: 5.9 times).

Cash Flows and Financing

Our reported net debt was £9.5 billion, up from £9.0 billion at 30 September 2012 mainly due to fair value and exchange movements.

Eliminating accrued interest, the fair value of derivatives providing commercial cash flow hedges and finance lease liabilities, our adjusted net debt was £9.1 billion (2012: £8.8 billion), with most of the increase due to foreign exchange.

Cash conversion improved from 71 per cent in 2012 to 86 per cent as the effects of Logistics timing differences and the impact of our strategic step up in working capital in 2012 were not repeated. The overall working capital flow in 2013 was improved by £0.4 billion compared to 2012, as active cash management remained a priority for us.

During the year we again increased returns to our shareholders, to £1.6 billion (2012: £1.5 billion), comprising £0.5 billion of share buybacks (2012: £0.5 billion) and dividend payments of £1.1 billion (2012: £1.0 billion).

The denomination of our closing adjusted net debt was 53 per cent euro, 14 per cent US dollar and 33 per cent sterling. As at 30 September 2013 we had committed financing facilities in place of around £14.7 billion. Some 25 per cent was bank facilities and 8 per cent was commercial paper, with the balance raised through capital markets. We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Share Buyback Programme and Dividends

We continued our share buyback programme and in the year we spent £0.5 billion, acquiring 21.3 million shares which are held as treasury shares. The average price paid was £23.35. At 30 September 2013, we held 98.7 million shares representing 9.2 per cent of our issued share capital. We intend to maintain the buyback programme at around £500 million per annum.

The Board has declared a final dividend of 81.2 pence per share. This brings the total dividend for the year to 116.4 pence, an increase of 10 per cent over 2012, ahead of the growth in adjusted earnings per share and in line with our dividend policy.

Liquidity and Going Concern

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

In order to satisfy ourselves that we have adequate resources for the future, the Board has reviewed the Group's committed funding and liquidity positions, its ability to generate cash from trading activities and its ability to meet the need to raise external funding in the future. The Board has also reviewed our future plans, our strategy and the principal risks we face, as described on pages 35 to 41.

In performing its review the Board acknowledged the current level of uncertainty in the financial markets and considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group in the context of the maturity profile of the Group's facilities set out in note 19 to the accounts. The Group has approximately £1.0 billion of bonds maturing in November 2013 and has already arranged committed financing to repay these at maturity; and has a further £0.6 billion maturing in September 2014. The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available.

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

Corporate Responsibility

The responsible way we run our business supports our sales strategy and is fundamental to our long-term sustainability.

Our priorities are clearly set out in our responsibility framework and highlight the areas that matter most to us and to our stakeholders.

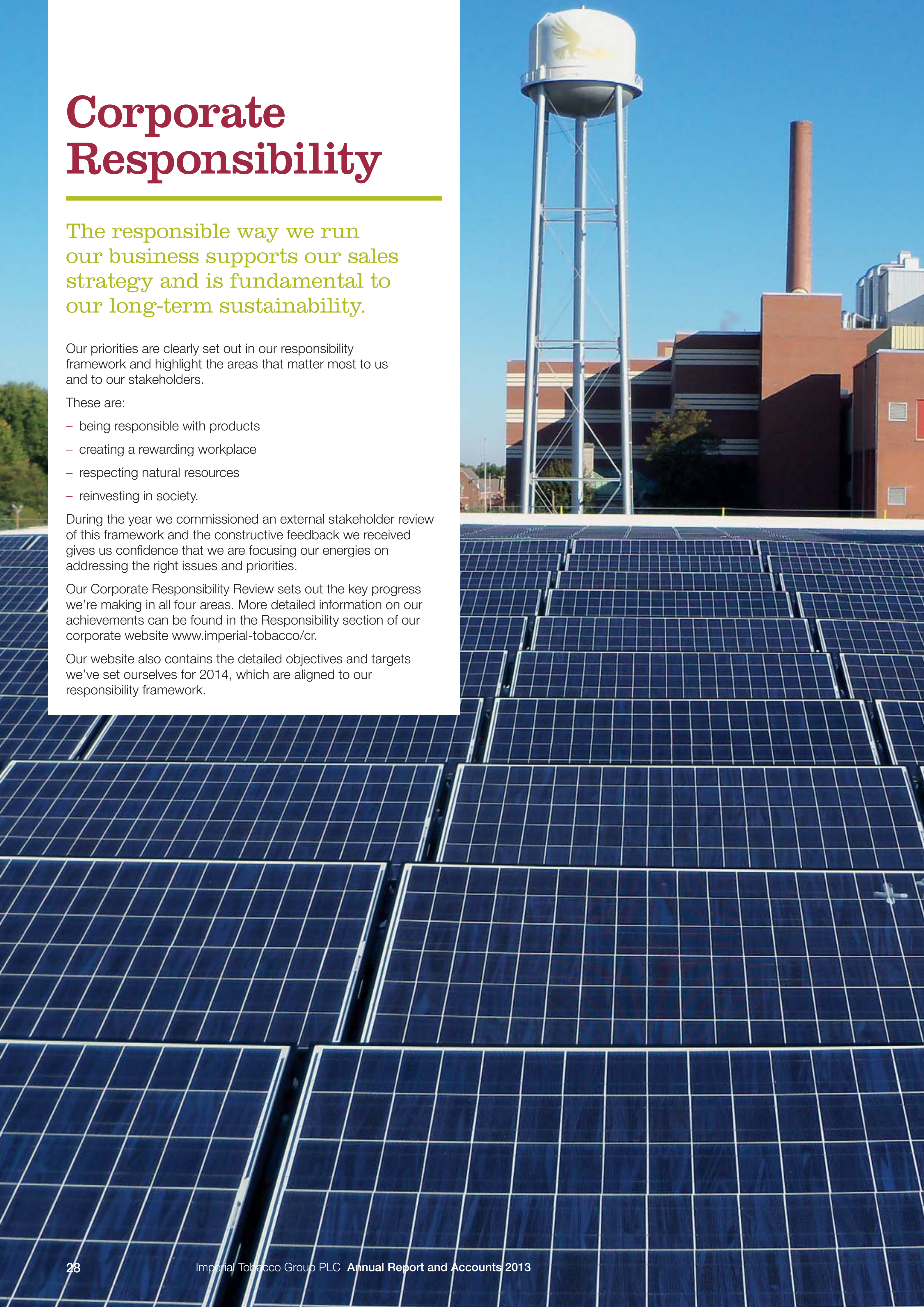
These are:

- being responsible with products
- creating a rewarding workplace
- respecting natural resources
- reinvesting in society.

During the year we commissioned an external stakeholder review of this framework and the constructive feedback we received gives us confidence that we are focusing our energies on addressing the right issues and priorities.

Our Corporate Responsibility Review sets out the key progress we're making in all four areas. More detailed information on our achievements can be found in the Responsibility section of our corporate website www.imperial-tobacco/cr.

Our website also contains the detailed objectives and targets we've set ourselves for 2014, which are aligned to our responsibility framework.



Responsible With Products

We manufacture, market and sell our products responsibly and take great pride in the fact that millions of people around the world enjoy our brands every day. Our consumers are of paramount importance to us and we will continue to stand up for their right to enjoy tobacco.

Product Standards

We take a rigorous approach to testing and analysing our products. It's important that we understand our products in order to fulfil our duty of care to consumers and meet legal requirements for scientific disclosures and submissions.

The range of smoke constituents measured in our products adheres to the testing requirements and guidelines provided by regulatory authorities. This year we've made good progress in enhancing our testing and scientific analysis of e-vapour and smokeless tobacco products.

We're transparent about what we do and continue to engage with the scientific community. We've also increased the number of scientific papers and presentations that are publicly available on our scientific website http://www.imperialtobaccoscience.com/

We apply a product quality rating system across all our factories. Consumer research about our brands and products undertaken in the year has provided us with valuable information to support our drive for further quality improvements. We were pleased to see a six per cent rise in our Global Quality Index rating, which measures the annual average quality performance across our factories.

Engaging with Regulators

We work hard to ensure our voice is heard in the many debates that are ongoing about tobacco regulation. We have extensive knowledge and experience to share and it's incumbent on us to represent our own interests and those of our stakeholders.

The key drivers of regulation are the World Health Organisation (WHO, through the Framework Convention on Tobacco Control, the FCTC), the European Commission (through the EUTPD, the European Union Tobacco Products Directive), and the FDA, the Food and Drug Administration in the USA.

During the year we took part in a number of workshops and meetings involving the FDA to discuss a range of issues, including illicit trade and cigarette testing and reporting. Regrettably, the WHO continues to block our efforts for similar constructive engagement on the development of the FCTC. Nevertheless, we attended the biennial Conference of Parties in Seoul last November to gain more insight into how the FCTC is progressing and will keep championing our right to be part of the debate.

A significant engagement focus for us in 2013 was the revision of the EUTPD, which includes a number of proposals that would standardise the appearance and taste of cigarettes and fine cut tobacco products. This would affect our portfolio, our consumers and the level of illicit trade, which already accounts for well over 10 per cent of all cigarette consumption in the EU.

We've been discussing the implications of what are clearly disproportionate and unreasonable measures with all EU member states and expect the final EUTPD text to be published at the end of 2013.

Fighting Illicit Trade

We continue to highlight how this type of extreme regulation drives illicit trade. Standardising tobacco products impacts consumer choice and inevitably makes counterfeiting easier, a point we've been making to regulators, governments and other authorities for many years.

Our partnership approach to tackling illicit trade has resulted in a number of successes in the year, particularly in the EU where the intelligence we supplied to authorities resulted in the seizure of 85 million illegal cigarettes.

In the UK, we were pleased to recently sign an enhanced Memorandum of Understanding (MoU) with HM Revenue and Customs, which reiterates our joint commitment to drive down illicit trade.

We have a total of 22 MoUs with authorities around the world and continue to invest in our long-term anti-illicit trade partnership agreement with the European Commission.

Strong Retailer Partnerships

We have long-standing partnerships with retailers around the world, from large multinational supermarkets to small independent shops. This focus on retailer engagement supports our sales strategy and our responsibility framework.

Tobacco products are for adults; we do not want children to use tobacco and actively encourage retailers to sell responsibly. Our International Marketing Standards reinforce these points and are published on our corporate website. We also support youth access prevention initiatives, including campaigns that highlight the minimum age at the point of sale.

Our efforts to build partnerships and improve collaboration with retailers continue to be recognised. During the year we were delighted to receive awards for excellent retailer service in a number of markets, including Germany, Finland and Greece.

Counterfeit Rizla Stamped Out

Collaborating with authorities and law enforcement agencies to rid Senegal of a serious counterfeit problem was a major success in the year.

Rogue importers of fake Rizla papers had been increasingly targeting Senegal. The counterfeit booklets, originating from China and priced considerably lower than genuine Rizla products, had become widely available in major towns and cities.

However, a string of raids on illegal Chinese operations, coupled with tough and consistent enforcement action against rogue retailers, have virtually eliminated the problem.

This reinforces the importance of our partnership approach in combating illicit trade.

Rewarding Workplace

A rewarding workplace inspires people to excel at what they do and we strive to create a safe and pleasant environment that lets talent flourish. We embrace diversity, encourage development and take time to listen to our people.

Engaging a Diverse Workforce

We benefit enormously from our diverse workforce; our people come from different backgrounds and cultures, creating a vibrant working environment that thrives on new ideas and fresh thinking.

The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct and underpinned by our values, which guide the respectful way we behave towards each other.

We employ 35,000 people in over 60 countries. Around 40 per cent of our workforce is female with some 14,100 women employed. At a senior leadership level 22 per cent (two out of nine) of the Operating Executive and 18 per cent (two out of 11) of the Board are female, as of 30 September 2013.

Engagement encourages people to do their best work. This year we were pleased to complete a global engagement survey and were delighted with the 85 per cent response rate. This level of employee feedback is vital for shaping initiatives to address key issues and support the strategic development of the business. We look forward to even more people sharing their views in our 2014 survey.

Employee Health and Safety

Keeping our people safe is of paramount importance to us. Although we were pleased to have further reduced lost time injuries in the year, we regret that an employee died in a car accident in Russia and a contract cleaner suffered a fatal fall in Morocco. We are deeply saddened by these events and have assisted the relevant authorities with their investigations. Our local management teams have also undertaken their own investigations and are assessing what additional safety measures should be put in place. No enforcement actions have been taken against the Company.

We are committed to reducing road safety risks and continue to provide enhanced driver training. We've also developed a new initiative called S-factor to promote a world class safety and well-being culture within our global sales team, which will be launched in Eastern Europe.

In manufacturing, our Global Safety Pin challenge, which tests employees on their safety, quality, environmental and product knowledge, continues to go from strength to strength. This year's final was won by a team from our Manisa factory in Turkey. In total, more than 2,200 employees from manufacturing locations around the world took part in the competition.

We're also installing world class management systems that are aligned to the international occupational health and safety management standard OHSAS 18001 across our manufacturing operations. A further two factories were independently certified to have reached this standard during the year.

Developing our People

Encouraging our people to achieve their highest potential supports our sales strategy.

We've enhanced the breadth of face-to-face and e-learning training courses to further embed our Code of Conduct and to help support the development of our people. Development courses are designed to build capabilities and range from improving negotiating skills to effective change management.

We've also been improving our annual performance management process, which has included the launch of a new online appraisal system. The system supports our robust approach to talent calibration, enabling us to identify high performers and their development needs.

We're pleased to see how our graduate recruitment programme continues to attract talented people into the business. We ensure all graduates are given stretching opportunities to make their mark in demanding roles around the world.

Global Corporate Challenge

We were pleased to take part in the 2013 Global Corporate Challenge (GCC), a 16-week initiative that encourages people to form teams and complete a personal activity that's equivalent to 10,000 steps a day.

Our involvement was supported by Helen Clatworthy, Group Supply Chain Director, and our champion for employee well-being. Helen also took part, along with almost 1,000 of our employees including these graduates.

The GCC website converts step counts into kilometre/mile distance and is able to plot each team's progression along a virtual tour of the world.

As well as promoting physical fitness, the GCC encourages people to interact and have fun, and many of our participating employees enjoyed getting involved in additional local activities, including charity events.

Reinvesting in Society

We're a leading international business and take pride in being part of many different communities around the world. We're particularly focused on supporting our supply chain stakeholders to address issues of joint concern such as leaf sustainability and child labour.

Human Rights

Over the past year there has been continued external attention and debate on the role of business and human rights. We welcome this focus as respect, fairness and integrity are an important part of the responsible way we run our business. We're committed to doing things the right way and this is reflected in our values and our Code of Conduct, which is available on our website.

A respect for human rights is implicit in our employment practices and within the high standards we expect from our suppliers. We continue to be guided by the International Labour Organization (ILO) core conventions and the recommendations of Professor John Ruggie, the UN Special Representative for Human Rights. In some areas, such as the elimination of child labour, our direct influence can be limited and in these situations our focus on partnerships is of critical importance.

Farmer Livelihoods and Child Labour

Child labour is a risk in agricultural supply chains where communities are subject to a greater prevalence of poverty, the impacts of infectious diseases and lower levels of public infrastructure.

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

We also increased our focus on improving farmer livelihoods through a number of new supplier partnership projects in Africa, which are designed to promote improved ways of working in farming communities.

The objective is to increase farmers' yields and their income, so they can afford to send their children to school. Improving income and providing access to labour saving equipment tackles the root cause of child labour.

We're also actively involved in ECLT initiatives outside of Africa, including in Kyrgyzstan where there is a focus on raising the living standards of farmers by setting up credit unions and providing direct financial support to the poorest families.

Supplier Standards

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

Our leaf suppliers are required to participate in our Social Responsibility in Tobacco Production (SRiTP) Programme. This provides specific guidance for improvement against a variety of criteria covering good agricultural practices, environmental management, health and safety, employment and social issues. SRiTP is supported by external consultants who undertake assessment visits, provide training and help to share good practice.

SRiTP performance is a key feature of the supplier visits undertaken by our leaf sustainability managers and leaf buyers. Pleasingly, our overall leaf supplier performance against the demanding SRiTP criteria has increased from 68 per cent to 71 per cent.

We have a separate supplier qualification programme for non-tobacco suppliers who provide us with materials such as papers, filters and packaging. During the year we enhanced training for our internal auditors and improved the guidance materials we provide to non-tobacco suppliers.

Supporting Community Livelihoods

We make a positive economic contribution through wealth creation and employment opportunities throughout our supply chain. We also choose to fund projects that are connected to the communities in which we operate, with a particular 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 and our Leaf Partnership Committee supports tobacco farming communities.

A wide range of community initiatives receive support from local markets across our footprint and this is complemented by the funding we provide centrally, which increased to £3.2 million in 2013.

The voluntary support our employees give to enhancing community livelihoods is additional to the funding we provide and we were delighted to see many of our people once again give their time to help important local initiatives in the year, ranging from working on reforestation projects to litter picking and helping the homeless.

Literacy in the Dominican Republic

We're pleased to be supporting a project in La Romana in the Dominican Republic, home to one of our cigar factories, which is helping to enhance people's prospects and quality of life.

The project aims to improve adult literacy by funding specialist teachers and associated community activities.

This initiative is being funded by the Altadis Foundation and is supported by our Premium Cigar Director, Fernando Dominguez, who is also chairman of the foundation.

Respecting Natural Resources

Respecting natural resources is vital for ensuring a sustainable supply of materials and we remain committed to reducing our environmental impact, minimising waste and improving energy efficiency. Good environmental management strongly aligns with our focus on cost optimisation and operational excellence.

Resource Efficiency

Our approach is to reduce, re-use and recycle. Getting the most from the materials and natural resources we use makes sound environmental and business sense.

In manufacturing we use environmental management systems that are independently certified to the environmental management standard ISO 14001.

In 2013 we were pleased to have delivered an overall 3 per cent reduction in the amount of waste sent to landfill. Our recycling activities are helping us make progress towards our target of a 10 per cent reduction in waste to landfill by 2020, as measured against our 2009 baseline.

We also commissioned a global environmental impact study of our operations and supply chain so we can better direct our efforts to minimise environmental impacts.

The operations of our suppliers have more impact on the environment than our own and we will continue partnering with suppliers to help them minimise waste and to reduce their environmental impact.

Climate Change and Energy

We're committed to further reducing our carbon footprint and continue to work towards reducing our energy usage by 20 per cent by 2020.

As original members of the Carbon Disclosure Project (CDP) we have long encouraged our suppliers to make their own commitments to reduce carbon emissions.

During the year we were pleased to see the level of supplier involvement in the CDP Supply Chain project increase. The project assesses the performance of suppliers and enables us to more effectively work with them in developing and prioritising consistent goals.

The initiative has highlighted that our suppliers are performing above average in terms of the actions they're taking to reduce carbon emissions and we will be encouraging them to make further progress over the coming year. We're delighted with our own progress and during the year we achieved our highest ever CDP score of 83 per cent.

Independent energy audits at all our main manufacturing facilities have helped us to prioritise further opportunities for energy reduction. In 2013 we achieved new certifications of energy management systems to the international standard ISO 50001 at our factories in Nottingham in the UK and Tarnowo and Radom in Poland.

We're particularly pleased with the performance of our Radom facility; an energy efficiency pilot scheme at the site exceeded the target savings by 20 per cent and is now being rolled out to other factories.

Addressing Reforestation

We're helping to protect forests, which are critical for supporting the supply of water, timber, agricultural products and good quality tobacco.

Tobacco growing may use wood either as a fuel for curing tobacco or as construction material for barns. This year we enhanced our approach to forestry preservation by launching a tree growing initiative with our suppliers, with the aim of achieving wood sustainability in Africa by 2020.

In Malawi, Madagascar and Laos we've been enhancing fuel efficiency by reducing the level of wood use. This has been achieved by supporting improvements to curing barns, furnace design and curing technology. We are pleased with the progress we're making and are now focused on delivering similar results in Tanzania.

Water Management

We also further reduced our water consumption by 5 per cent and aim to build on this good progress over the next year.

As tobacco is an agricultural product, the main water impacts are in our supply chain. In our factories we apply environmental management systems under the international standard ISO 14001 to reduce water use and manage waste water.

We were pleased to take part in the CDP water disclosure project, which has provided additional insight into measuring our water use. It's also helped us to identify further risks and opportunities in water management within our own operations and across our supply chain.

Eco-friendly Corporate Centre

Our new energy efficient global head office opened in Bristol during the year.

As well as providing a safe and inspiring workplace for around 550 of our employees, the building was designed to meet the BREEAM 'excellent rating' and features a number of sustainability measures, including solar panels, a biomass boiler and rain harvesting.

Andrew Newall, Group HR Director and our sustainability champion, has been encouraging employees to further enhance the environmental credentials of the new head office by cycling to work and supporting car-share schemes.

Environmental Reporting

We have adapted our environmental reporting to reflect the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013. With only three months to respond, we have addressed our Greenhouse Gas (GHG) reporting to the extent reasonably practical.

We have used the GHG Protocol Corporate Accounting and Reporting Standard methodology to identify our greenhouse gas inventory of Scope 1 (direct) and Scope 2 (indirect) CO_2 emissions. We have considered the six main GHGs and report in CO_2 equivalent.

Scope 1 covers our own emissions from the fuels we use in our factories and main contributing office buildings. Scope 2 relates to the indirect emissions resulting from the generation of electricity, heat, steam and cooling that we purchase to supply our factories and offices.

Our data for GHG emissions and energy consumption shown in the graphs below includes all manufacturing sites and main offices over which we have operational control as guided by the methodology. We include Scope 1 and Scope 2 emissions, leakage of refrigerant gases, process emissions from expansion plants in Cadiz and Reidsville and our offices in Bristol, Hamburg, Paris, Spain and Casablanca. We have added the emissions arising from our fleet fuel consumption (Scope 1) based on the data from 2012, which represented 92 per cent of our global sales cars fleet. We have extrapolated the 2013 fuel consumption and for completeness have restated our baseline to 2009.

Whilst reporting unverified data in the latest financial year, we report verified data 12 months in arrears. This is to allow for the internal checking, validation and then external assurance process. Our disclosures are focused on CO_2 equivalent emissions arising from combustion of fossil fuels and refrigerant gases. Emissions associated with other greenhouse gases and with landfill waste were considered immaterial to our total emissions. We do not currently include immaterial emissions associated with the JR 800 Cigar US retail outlets and small sales offices or our Habanos joint venture and the recently acquired Cambodian distribution operation, which are beyond our current reporting capabilities.

For a total Group perspective we also provide separate information on Logista, the logistics part of our business. Due to commercial sensitivities this entity is managed remotely and does not report wholly into Group data. For Logista we also disclose Scope 3 emissions. This covers the other indirect emissions such as transport related activities in vehicles not owned or controlled by our business.

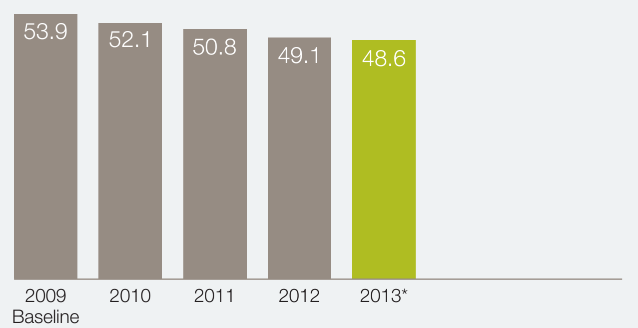
In the table below we state the unverified absolute Scope 1, 2 and 3 emissions associated with Logista. The relative CO_2 emissions figure for Logista Scopes 1 and 2 is 132.1 tonnes of CO_2 equivalent emissions per million pounds of logistics distribution fees. Whilst some routes and return shipments are operated directly, Logista also uses third party hauliers. We have classified all third party haulier emissions as Scope 3. The Logista data is unverified for the financial year 2012. We are working to improve reporting capabilities to enable more timely data in future. Currently the CO_2 equivalent emissions relate to the combustion of fossil fuels and landfill waste. Refrigerant gases are not included due to current reporting capabilities. We plan to include these in future when we've conducted a review of our reporting boundaries.

Logista

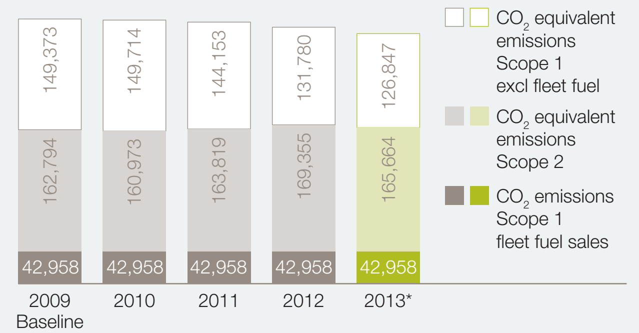
FY12	Scope 1	Scope 2	Scope 3
CO_2 equivalent emissions (Tonnes)	95,157	20,042	185,688

ENVIRONMENTAL PERFORMANCE INDICATORS

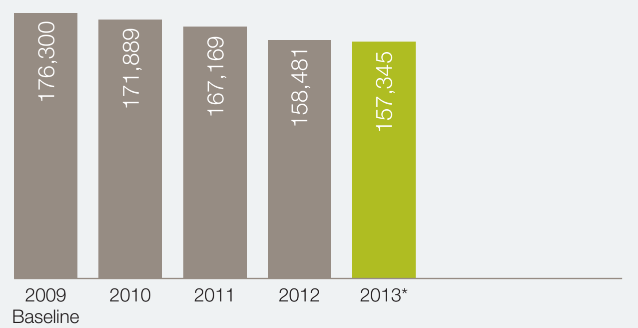
CO_2 Equivalent Emissions (Tonnes/£ million)[1]



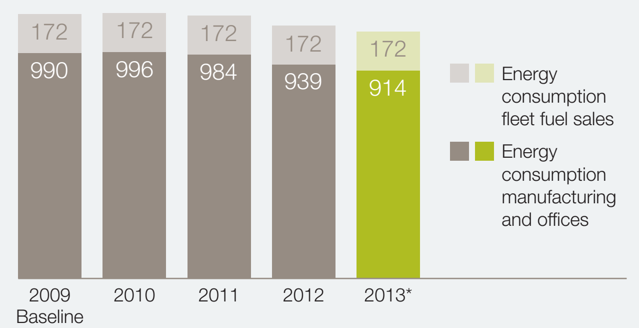
Absolute CO_2 Equivalent Emissions (Tonnes)[1]



Energy Consumption (kWh/£ million)[1]



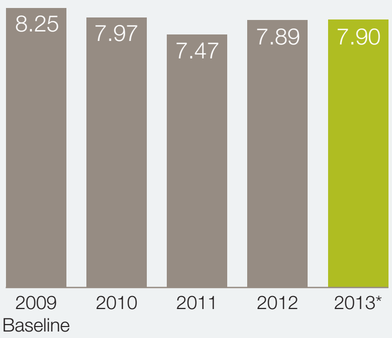
Absolute Energy Consumption (GWh)[1]



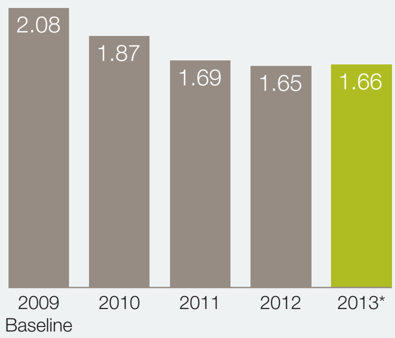
1* See footnotes on page 34.

ENVIRONMENTAL PERFORMANCE INDICATORS (CONTINUED)

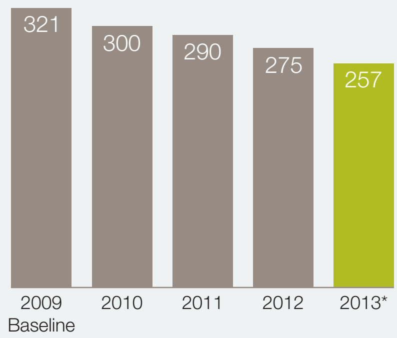
Waste (Tonnes/£ million)[1]



Waste to Landfill (Tonnes/£ million)[1]

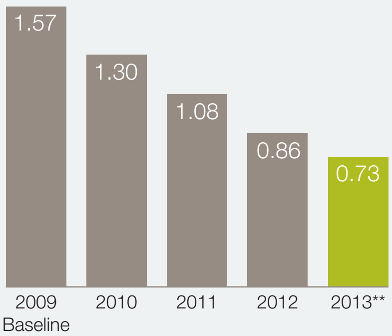


Water Consumption (m^3/£ million)[1]

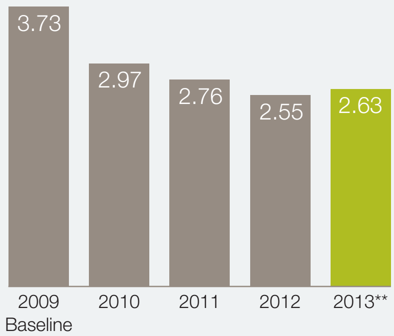


SOCIAL PERFORMANCE INDICATORS

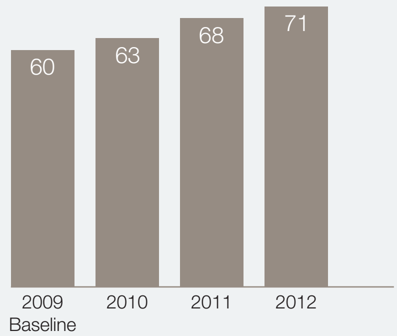
Lost Time Accident Frequency Rate (per 200,000 hours)[2]



Sickness Absence Rate (% of days worked)[2]



Social Responsibility in Tobacco Production Progress: Total Weighted Mean (%)[3]



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. FY12 data has been assured by PwC; please see website for more information.

* Unverified FY13 data is estimated based on data from the last six months of FY12 and the first six months of FY13. Verified data for FY13 will be published next year.

2 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. FY12 data has been assured by PwC; please see website for more information.

** Provisional unverified FY13 data is provided. Verified data for FY13 will be published next year.

3 All our tobacco suppliers participated in the SRiTP programme in 2012, which provides specific guidance for improvement against a variety of criteria. See our website for more information. We report 12 months in arrears to allow for the reporting and analysis of data.

pwc

Key data reported in the annual report and accounts for the year to 30 September 2013 has been independently assured under the limited assurance requirements of the ISAE3000 standard by PwC. They have also been engaged to look at our alignment with AA1000AS (2008) principles of inclusiveness, materiality and responsiveness. Some of the selected data covered by this assurance is clearly highlighted within the Corporate Responsibility section of the annual report and all of the selected data is included in the Corporate Responsibility section of the website www.imperial-tobacco.com/cr where their limited assurance statement can be found. PwC has provided Imperial Tobacco with CR assurance services from FY10. Earlier data was assured by another provider.

Risk Management

Effectively Managing The Risks We Face

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

OUR APPROACH

Managing the risks that could prevent the achievement of the Group's strategic objectives or reduce our ability to identify and capitalise on growth opportunities is a core element of our business activity. This is undertaken using a practical and flexible framework which provides a consistent and sustained approach to risk evaluation.

RISK MANAGEMENT

The Board and Audit Committee

The Board has ultimate responsibility for the Group's risk appetite as well as reviewing the effectiveness of the systems and processes of risk management and internal control.

The Audit Committee is responsible for assisting the Board in discharging its responsibilities for reviewing the effectiveness of the risk management system and internal financial controls. The risk management system is designed 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. The Audit Committee 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.

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 in order to consider major financial disclosures including the Group's key periodic external reports, including the consolidated and parent company financial statements.

To support the Board, the key risks facing our business are regularly reviewed through processes facilitated by Corporate Assurance. This ensures a consistent top-down approach in how we identify, assess and prioritise risks, as well as assessing our existing measures to manage and mitigate those risks. This top-down approach is complemented by an annual bottom-up review by local management of principal areas of risk and uncertainty across each part of the business and an assessment of the mitigating controls in place to manage these risks. The Group's key risks are individually owned by a member of the Operating Executive.

The Operating Executive

The Group's Operating Executive members and their functional and divisional management teams are responsible for the implementation of Group strategies, plans and policies, 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

Operational management is responsible for the implementation and monitoring of the operation of the processes and systems of control across the business.

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.

OVERSIGHT

The Group has a number of other "assurance providers" operating within the business. These departments offer expert advice in the management of specific risks and are responsible for the design of effective control frameworks on which operational management can rely, as well as monitoring the effectiveness with which these controls have been implemented.

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, ASSURANCE AND COMPLIANCE

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 aligned to our governance (and compliance) framework with three areas of responsibility: governance, assurance and compliance.

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

- our Company Secretary is responsible for maintaining and developing the Group's framework of governance, including our Code of Conduct, Group policies and Speaking Up (whistleblowing) process;
- our Chief Legal and Compliance Officer acts to ensure that the Group meets its legal obligations and follows our Code of Conduct and policies; 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 eg: OHSE and product quality.

OUR 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, and is further enhanced by the following key components of the Group's risk management processes;

- Group statements on strategic direction, ethics and values (including our Code of Conduct) and business principles are communicated to our people and relevant training provided;
- Group policies and standards exist in relation to our key risks and business processes, along with training for our people to ensure that key areas of our policies are understood;
- 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;
- process controls relating to the Group's key risks are communicated to operational management and, where necessary, training is provided;
- clearly defined lines of accountability and delegation of authority exist at all levels throughout the Group;
- 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 www.imperial-tobacco.com; and
- 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.

Principal Risks and Uncertainties

Risk Management Overview

We outline the principal risks specific to our business and how we manage and mitigate them. Not all these factors are within our direct control and the list is not exhaustive. There may be other risks and uncertainties that are unknown to us and the list may change as something that seems immaterial now assumes greater importance in the future, and vice versa.

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

RISK – REDUCTION IN SIZE OF THE LEGITIMATE TOBACCO MARKET

Principal risk to strategy – impact on sales volume and profitability

Impact – Long-term

Cause	Action
Changes in regulation In many of the countries in which we operate there are already a wide variety of regulatory restrictions in place which impact our consumers by influencing availability, demand and freedom to use our products. Excessive and disproportionate regulation, both present and future, could have an adverse effect on our consumers and, therefore, the demand for our products, as well as the cost of continuing to comply with such increasing regulation.	The Group engages with key internal and external stakeholders as part of its "rational regulator" strategy to ensure that regulatory proposals are proportionate and do not lead to excessive regulation. This engagement includes: – prioritising the Group's expertise and resources according to the relevant key regulatory issues; – cross-market liaison to ensure best practice from markets already impacted; – engagement, where possible, with regulators; – consulting with external experts to provide advice and guidance; – 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.

Cause	Action
Increases in excise duty The use of tobacco excise rates as a perceived means of raising additional public funding and/or the satisfaction 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 e.g. widening the price differential between tobacco products in neighbouring countries can increase the attractiveness to the consumer of purchasing non-domestic duty paid product, particularly in markets where economic pressures are impacting consumers' disposable income. We monitor and compile ongoing analysis to ensure strategic price and product offerings exist in the context of the excise duty structures in each market, enabling our portfolio to meet consumer preferences across different price points.
Illicit trade The legitimate tobacco industry continues to be subject to the significant threat and impact 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.	Specialist teams are employed in order to provide effective support to the business and governments in the combating of illicit trade, including market analysis and intelligence to provide appropriate and targeted solutions to the problem. This forms a key part of our continuing support of the EU in its anti-illicit trade initiatives, and our work alongside the European Commission's Anti-Fraud Office (OLAF) and law enforcement agencies both in the EU and elsewhere. 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 may change their consumption patterns, including the purchase of illicit products.	We monitor and analyse economic indicators and consumer consumption patterns, which in turn influences our portfolio and pricing decisions, as well as our engagement focus and our investment in combating illicit trade in those markets most affected and relevant to our business.

RISK – MARKET PLACE

Principal risk to strategy – impact on sales, cost and revenue
Impact – Long-term

Cause	Action
Ongoing uncertainty regarding the future of the euro, or the exit of one or more Eurozone countries may impact consumer spending patterns and/or cause disruption to the business as a whole, including our Group and in-market financing arrangements and our manufacturing and supply chain operations. 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.	Our international footprint and total tobacco portfolio provides an increasingly balanced exposure to both EU and non-EU markets. This is supported by our divisional structure aligning key strategic drivers to our geographic footprint. A significant proportion of our revenue is from our sales in Eurozone countries. Consequently, we continuously monitor our exposure and review our total tobacco 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 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.

RISK – FINANCING

Principal risk to strategy – impact on costs and cash
Impact – Medium-term

Cause	Action
We have a significant level of committed debt which is financed primarily in the debt capital markets and in the bank loan markets. We expect to rely on these markets to refinance this debt when it matures and rely on the availability of committed funds from our bank counterparties to be available when required to be drawn. As approximately half of the Group's debt is currently at fixed levels of interest, the Group is exposed to movements in interest rates which could result in higher cash outflows on the remainder.	The Group Treasury Committee (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 oversees the operation of Group Treasury in accordance with the terms of reference set out by the Board. Cash flows and financing requirements are regularly forecast and developments in debt capital and bank loan markets are monitored to ensure we are well placed to meet the future financing needs of the Group.

RISK – LEGAL & REGULATORY COMPLIANCE

Principal risk to strategy – financial loss, reputational damage
Impact – Long-term

Cause	Action
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.	We monitor closely developments in international sanctions and ensure that we are fully 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. Steering groups exist for key areas of legal compliance to provide expert advice in the development of policy, process, training and monitoring of compliance. E-learning courses are provided to management and relevant staff to ensure understanding of key regulatory and compliance requirements. Senior management certify the compliance of their area of the business with the Code of Conduct as part of an annual certification process.
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.	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.

RISK – DELIVERY OF MATERIAL INITIATIVES

Principal risk to strategy – impact on delivery of financial objectives
Impact – Medium-term

Cause	Action
In order to achieve our strategic objectives, the Group may be required to undertake material initiatives. The Group operates within a regulatory environment that can require the implementation of material initiatives to address changing legal requirements.	The Group operates a formal project approval process. This ensures 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. Regular reporting on the progress of key projects is presented to the OPEX to ensure appropriate milestone tracking, the 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.

GOVERNANCE

Chairman's Introduction

> "The strategic transition of the business and delivery in a tough environment have been a key focus this year."

Iain Napier
Chairman

At a time when breaches of corporate trust and integrity regularly appear in the headlines and result in all companies facing increased regulation and scrutiny, it is fundamental that the Group is managed with openness, honesty and transparency. This can only be achieved by maintaining high standards of corporate governance. The Board is ultimately responsible to shareholders for all the Group's activities, its strategy and financial performance, for the efficient use of the Group's resources and for social, environmental and ethical matters. With the assistance of the Audit Committee the Board, therefore, approves the Group's governance framework and reviews its risk management and internal control processes.

We do not see governance as a box-ticking exercise or simply related to processes and controls but rather as a guide to ensure we do the right things in the right way.

Our governance framework, which includes our Code of Conduct together with our values, 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.

During the year our governance framework has been enhanced to take into account the changes introduced by the September 2012 edition of the UK Corporate Governance Code (the Code) and the commencement of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). We are one of the first companies required to report under these Regulations.

The strength of our embedded governance framework and our underlying processes resulted in only minor enhancements to this framework being required; the main change being how we report these activities within the Annual Report and Accounts.

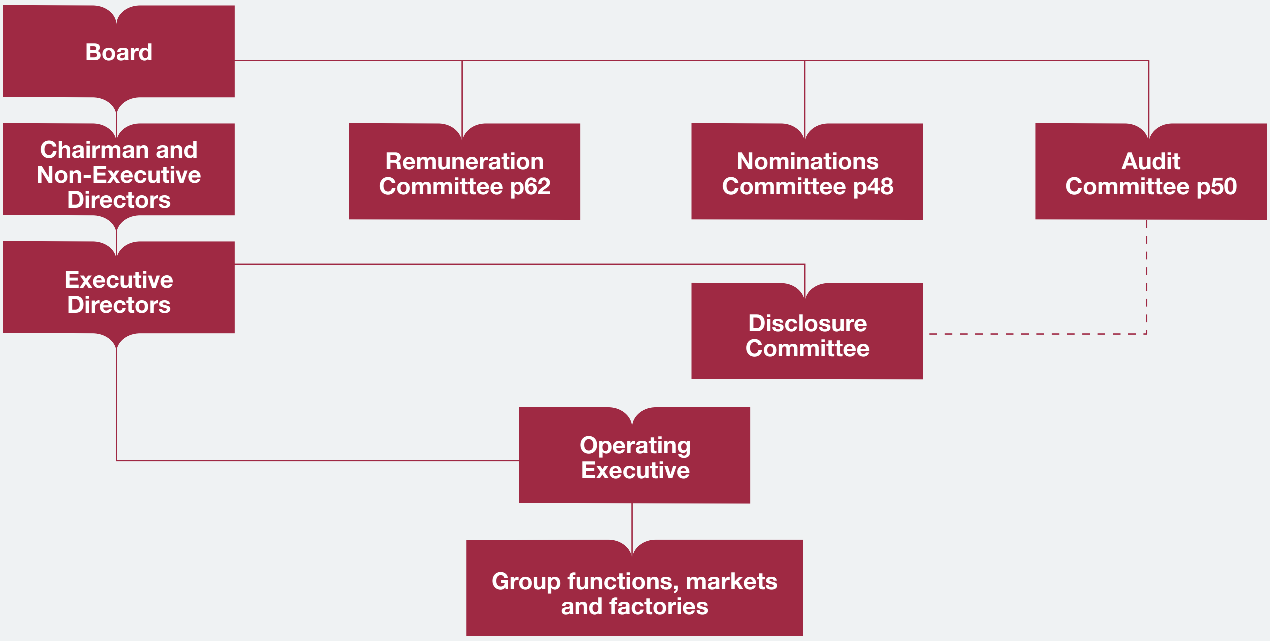
The most significant reporting changes have been to our Directors' Remuneration Report together with the introduction of the binding vote on our remuneration policy. The Regulations have changed the way in which we are required to report some elements of remuneration. For example, in the single total figure of remuneration table, we now report the value of share plans where the performance period ended within the financial year rather than those vesting in the financial year. This change has resulted in some of the historic figures not being directly comparable with those reported in previous years.

This additional reporting also includes the statement made by the Directors on page 60 that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable. The processes which underpin and support the Directors' confidence in making this statement are long established and embedded into our business and include the review of the narrative sections of the Annual Report and Accounts by our Internal Audit Department who verify its accuracy and consider the tonality and balance of approach. In line with its terms of reference, the Disclosure Committee also reviews the Annual Report and Accounts to ensure it contains all necessary disclosures to fairly present the Company's financial condition and results of operations. Both our internal and external legal advisers support these processes and our external Auditors review the narrative sections of the Annual Report and Accounts to identify any material inconsistences with the financial statements. Our Board members also receive drafts of the Annual Report and Accounts in sufficient time to facilitate their review and input.

Additional disclosures in respect of how our Audit Committee addresses the key issues it has considered during the year can be found on pages 51 and 52.

Ensuring we do the right things in the right way 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 fully contribute to and, where appropriate, effectively challenge decision making. During the year we appointed Mark Williamson to the role of Deputy Chairman and welcomed Oliver Tant who was appointed to the Board on 1 October 2013 and succeeded Robert Dyrbus as Finance Director on 5 November 2013.

MANAGEMENT AND CORPORATE STRUCTURE



On 5 November 2013 we announced that Berge Setrakian and I will retire at the conclusion of the Company's AGM in 2014 and that Susan Murray will retire on 30 September 2014. Subject to his re-election as a Director, Mark Williamson will succeed me as Chairman.

In managing our business risks and operating our internal controls, we have to strike a careful balance to ensure that we appropriately protect our shareholders and other stakeholders whilst providing an environment that fosters employees' entrepreneurial spirit and allows them both to deliver against our growth strategy and to optimise our total tobacco portfolio to maximise future growth opportunities to create long-term sustainable value. Our approach, therefore, needs to enable us to clearly focus on the key risks facing our business and be flexible enough to accommodate changes resulting from developments in our strategy and/or changes to both the macro-economic and tobacco operating environments. To be fully effective it must also be practical in all the jurisdictions in which we operate.

The Board has established a number of corporate documents with which all employees are expected to comply. These documents define the standards of behaviour we strive to achieve, such standards often being more stringent than local regulations. The documents cover key issues such as acceptable business practices, ethical and legal compliance matters, physical and data security as well as regulatory, governance and occupational health, safety and environmental issues.

We have set out in the following sections, and in the discussion on effectively managing the risks we face, more details in respect of our governance framework and explain how our sound and effective corporate governance practices support our strategy.

Our strong governance framework will remain integral to our business model during the 2014 financial year as we continue to transition the business in line with our sales growth strategy. Without compromising our risk management and internal control environment, we will also continue to focus on our cost optimisation programme, which we expect to deliver significant savings to support this long-term value creation.

Iain Napier
Chairman

Board of Directors

1. Iain Napier, FCMA, CGMA
Chairman

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

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

External appointments Non-Executive Chairman of McBride PLC and John Menzies plc, and a Non-Executive Director of Molson Coors Brewing Company and William Grant & Sons Holdings Limited.

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. Robert Dyrbus, BSC, FCA
Finance Director

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

Appointment Appointed Finance Director on demerger in 1996 and stepped down from the Board on 5 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 Company Secretary, General Counsel and Group Corporate and Legal Affairs Director prior to his appointment to the Board as Corporate Affairs Director.

Appointment Appointed Corporate Affairs Director, June 2012.

External appointments No external Director appointments.

E

5. Oliver Tant, BSc, CA (Scotland)

Executive Director

Skills and experience Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director of the 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 Finance Director on 5 November 2013.

External appointments No external Director appointments.

E

6. Mark Williamson, CA (SA)

Deputy Chairman of the Board and Senior Independent Non-Executive Director

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

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

External appointments Senior Independent Non-Executive Director of National Grid plc and Non-Executive Director of Alent plc.

D A N R

7. 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

8. David Haines

Non-Executive Director

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

Appointment Appointed Non-Executive Director in February 2012.

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

D A N R

9. Michael Herlihy, MA (Oxon), Solicitor

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 and Chairman of the Remuneration Committee in February 2011.

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

D A N R *Chairman*

10. Susan Murray, CCMI

Non-Executive Director

Skills and experience Susan brings to the Board a wealth of international general management, strategy and marketing experience, as a former Chief Executive of Littlewoods Stores Limited and worldwide President and Chief Executive of The Pierre Smirnoff Company. Susan has considerable experience as a Non-Executive Director. She is a former Non-Executive Director of SSL International plc, Aberdeen Asset Management PLC, WM Morrison Supermarkets plc and a former council member of the Advertising Standards Authority.

Appointment Appointed Non-Executive Director in December 2004.

External appointments Non-Executive Chairman of Farrow & Ball and Non-Executive Director of Pernod Ricard SA, Compass Group PLC and Enterprise Inns Plc. Susan is also a fellow of the Royal Society of Arts.

D A N R

11. Berge Setrakian

Non-Executive Director

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

Appointment Appointed Non-Executive Director in June 2008.

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

D N R

12. 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 of Nedbank Group Limited and a Non-Executive Director of Tsogo Sun Holdings Limited, both listed on the Johannesburg Stock Exchange. Malcolm is also the Senior Independent Non-Executive Director of Serco Group plc.

D A *Chairman* N R

13. John Downing, 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. He played a leading role in the Altadis acquisition and has considerable experience in managing key corporate projects related to financing, business development and other commercial matters.

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

Our values and code of conduct

As a Board we are responsible for ensuring high standards of behaviour, supported by Our Values and Code of Conduct, which are embedded throughout the business.

Skills and experience of our Board

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

Board

Iain Napier
Chairman

"We continue to transition the business in line with our sales growth strategy to create sustainable value for shareholders."

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 and direction to management and ensure appropriate resources are available to achieve the Group's objectives as we continue to transition the business in line with our sales growth strategy.

The Board has a key role in ensuring that in achieving these objectives 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 and having regard also 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 thresholds defined in our finance manual.

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

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

Members

Iain Napier
Chairman

Ken Burnett

Alison Cooper

Robert Dyrbus (to 5 November 2013)

David Haines

Michael Herlihy

Susan Murray

Matthew Phillips

Berge Setrakian

Oliver Tant (from 1 October 2013)

Mark Williamson

Malcolm Wyman

John Downing
Secretary

Achievements for 2013

- Significant progress with the strategic transition of the business, which is strengthening our sustainable sales growth capabilities and optimising our cost base.
- Continued focus on people with the appointment of Oliver Tant to succeed Robert Dyrbus as Finance Director, the appointment of Mark Williamson to the position of Deputy Chairman and the appointment of our new Group Marketing Director.
- Strategic review of cigarette and fine cut tobacco brands, focusing on optimising the growth potential of our portfolio and strengthening our market positions.
- Overseeing the continued evolution and improvement of the Group's risk management and assurance processes.

2014 objectives

- Back growth through:
  - investment prioritisation in our total tobacco portfolio – by both brand and market;
  - continuing to support our standalone subsidiary Fontem Ventures to create future growth opportunities for the Group, including e-vapour; and
  - maintaining focus on building capabilities and leadership, including Board succession planning.
- Build resilience through:
  - realigning our cost base through our cost optimisation programme;
  - ensuring regulatory engagement and preparedness; and
  - focusing on employee engagement during the on-going transition agenda.

MATTERS CONSIDERED BY THE BOARD IN 2013

2012	
October	– Overall business review. – Board succession. – Review of updated business plan. – Receiving reports from the Board's Committees, including recommendations from the Audit Committee in respect of the effectiveness of the Company's risk management and internal control statement, the adoption of the going concern statement, impairment and reappointment of the Auditors and the subsequent agreement to such recommendations. – Review of the 2012 financial results and approval of the Annual Report and Accounts. – Consideration of final dividend. – Consideration of the performance, contribution and effectiveness of each Director and recommendation for his or her re-election at the 2013 AGM.
2013	
January	– Overall business review. – Review of external operating environment. – Manufacturing and supply chain reviews. – Consideration of merger and acquisitions strategy. – Receiving reports from the Board's Committees. – Feedback on investor audit. – AGM preparation including consideration of the associated interim management statement.
April	– Overall business review. – Finance review including consideration of the Half Year results. – Consideration of interim dividend. – Receiving reports from the Board's Committees. – Updates in respect of Group insurance and treasury matters.
June	– Overall business review. – Finance review including consideration of future financing. – Review of future business plan. – Divisional sales presentations and reviews.
September	– Overall business review including business plan. – Finance review. – Consideration of merger and acquisitions strategy. – Consideration of Chairman and Non-Executive Directors' fees. – Consideration of independence of Non-Executive Directors. – Board succession. – Feedback from Board evaluation.

Nominations Committee

Iain Napier
Chairman

"The Nominations Committee has an important role to play in ensuring the Board has the right balance of experience and skills to support our strategy."

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 ensure their continued effectiveness. Appropriate succession plans for the Non-Executive Directors, Executive Directors and the Group's senior management are also kept under review.

The Nominations Committee's full terms of reference can be found within the investor relations/corporate governance section of our website www.imperial-tobacco.com.

Composition

The Nominations Committee, which meets on an ad hoc basis when required, comprises all the Non-Executive Directors and is chaired by the Group Chairman unless the Committee is dealing with the matter of succession to the Chairmanship of the Company. The Chief Executive is invited to attend when appropriate.

Boardroom Diversity

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. To maintain the appropriate balance of skills, knowledge and experience we appoint individuals from diverse professional and geographic backgrounds. 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, currently make up 17 per cent of our Board. On the retirement of Robert Dyrbus, Iain Napier and Berge Setrakian we expect this to increase to 22 per cent. We also currently have 20 per cent women on our Operating Executive. Further details on our workforce diversity are set out on page 30.

Members

Iain Napier
Chairman

Ken Burnett

David Haines

Michael Herlihy

Susan Murray

Berge Setrakian

Mark Williamson

Malcolm Wyman

John Downing
Secretary

Achievements for 2013

- In line with the Group's on-going 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 Deputy Chairman.
- Active involvement in the appointment of the Group Marketing Director.

2014 objectives

- Maintain on-going succession plans, especially in respect of Non-Executive Directors approaching retirement by virtue of their length of service. Identify the skill set required for a new Non-Executive Director and instruct search agencies to identify appropriate candidates to allow the Committee to recommend appointments to the Board.

NOMINATIONS COMMITTEE IN 2013

ELECTION AND RE-ELECTION OF DIRECTORS

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

The performance of each Director is considered as part of the Board evaluation process. Following the 2013 evaluation, a review of the independence of each Non-Executive Director, especially in respect of those who have served six years or more, and consideration of the attendance of each Director at Board and Committee meetings considered below, the Board recommends the re-election of all Directors who are standing for re-election at our 2014 AGM.

BOARD SUCCESSION

During the year the Nominations Committee identified the profile and skill set required for Robert Dyrbus' successor, carried out a review of potential internal candidates and instructed Russell Reynolds Associates (who do not have any other connection with the Company) to identify appropriate external candidates. Having reviewed the list of potential candidates, and subsequent to meetings with shortlisted candidates, the Committee identified Oliver Tant as a suitable successor and recommended to the Board his appointment as Finance Director.

At its September 2013 meeting the Board accepted this recommendation and Oliver Tant was appointed to the Board with effect from 1 October 2013 and succeeded Robert Dyrbus as Finance Director on 5 November 2013. The Board recommends his election at our 2014 AGM.

As part of the Board's on-going succession plans, Iain Napier and Berge Setrakian will retire at the conclusion of the Company's AGM in 2014, following which, subject to his re-election as a Director, Mark Williamson will become Chairman. To assist with the smooth transition Susan Murray will remain on the Board until September 2014 but will step down from its Audit and Remuneration Committees following the 2014 AGM at which time she will have been a Director for nine years and will no longer be considered independent.

The Board's succession plans also include the on-going review of the skills required for Board members and the identification of appropriate candidates to replace those Directors approaching retirement, together with the overall balance and skill set of the Board.

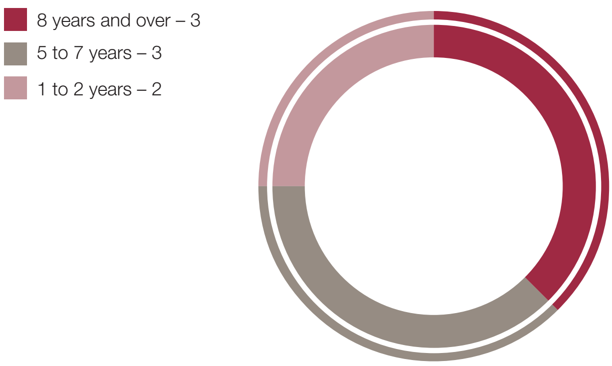
MEETINGS OF THE BOARD, BOARD COMMITTEES AND AGM

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

1 Due to prior commitments, Berge Setrakian and David Haines were unable to attend one Remuneration Committee meeting. Malcolm Wyman was unable to attend two Board meetings held on the same day and the associated Committee meetings. Malcolm Wyman had informed the Board that he would be unable to attend these meetings prior to his appointment to the Board.

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

Tenure of Non-Executive Directors



Audit Committee

Malcolm Wyman
Chairman

"Our Audit Committee has a key role in ensuring the integrity of our financial statements and the effectiveness of our risk management processes and internal controls."

Members

Malcolm Wyman
Chairman

Ken Burnett

David Haines

Michael Herlihy

Susan Murray

Mark Williamson

John Downing
Secretary

OVERVIEW

Role

The responsibilities of the Audit Committee include assisting the Board in ensuring the integrity of our Annual Report and Accounts and in ensuring that the Annual Report and Accounts, 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. The Audit Committee oversees the internal control, risk management and speaking-up processes together with ensuring that we meet high standards of governance, reporting and compliance. The Committee also assesses the effectiveness of the Internal Audit department and that of the external Auditors. Following reviews of the performance and independence of our external Auditors, the Committee decides whether to recommend to the Board their annual reappointment.

The Audit Committee's full terms of reference can be found within the investor relations/corporate governance section of our website www.imperial-tobacco.com.

Composition

Our Audit Committee comprises six Non-Executive Directors and is chaired by Malcolm Wyman. Both Malcolm Wyman and Mark Williamson 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 Chairman, Chief Executive, Finance Director, Director of Finance and Planning, Group Financial Controller, Director of Corporate Assurance, Deputy Company Secretary, appropriate financial managers and our external Auditors are invited to attend Audit Committee meetings. At each meeting both the Director of Corporate Assurance and the external Auditors have the opportunity to meet separately with the Committee without management being present.

Meetings

Four Audit Committee meetings were held in the financial year, at key times within our reporting and audit calendar.

KEY MATTERS CONSIDERED BY THE AUDIT COMMITTEE IN 2013

2012	
October	– Review of the Group's preliminary results including consideration of the going concern statement and tax risk provisions. – Foreign exchange management, including net investment hedging and related foreign exchange exposure. – Consideration of goodwill impairment. – Review of the external Auditors' independence, including the level of non-audit services. – Consideration of the report from the external Auditors regarding their audit findings in respect of the annual results. – Consideration of the reappointment of our external Auditors. – Review the effectiveness of and reports from the Group's Corporate Assurance function including reviewing the internal control environment, the risk management and the whistleblowing report. – Consideration of the external lawyers' letter in respect of tobacco related litigation. – Private review meetings with the external Auditors and Director of Corporate Assurance.
2013	
January	– Consideration of the policy and processes relating to restructuring costs. – Annual review of the Committee's terms of reference. – Foreign exchange management, including net investment hedging and related foreign exchange exposure. – Consideration of the external audit plan. – Assessment of external Auditors' effectiveness and consideration of external audit tendering. – Review effectiveness of and reports from the Group's Corporate Assurance function including updates on whistleblowing reports and the Bribery Act.
April	– Review of the Group's Half Year results including consideration of the going concern statement. – Foreign exchange management, including net investment hedging and related foreign exchange exposure. – Consideration of any potential indicators of goodwill impairment. – Six-monthly review of restructuring costs. – Consideration of the report from the external Auditors in respect of their review of the Half Year report. – Review of Auditor independence including the level of non-audit services during the first six months. – Review the effectiveness of and reports from the Group's Corporate Assurance function including an update on whistleblowing reports. – Consideration of the external lawyers' letter in respect of tobacco related litigation. – Private review meetings with the external Auditors and Director of Corporate Assurance.
September	– Foreign exchange management, including net investment hedging and related foreign exchange exposure. – Review of consistency of application of accounting policies. – Reviews of segmental reporting, distributable reserves and Treasury policies. – Confirmation of Committee members' independence and recent and relevant financial experience. – Consideration of the report from the external Auditors, including IT controls. – Consideration and approval of the Group's Corporate Assurance function's 2014 audit plan. – Review effectiveness of and reports from the Group's Corporate Assurance function including risk management and whistleblowing.

The Audit Committee met in October 2013 and considered matters in line with those considered at its October 2012 meeting, detailed above, specifically including the content of this Annual Report and Accounts.

Significant Financial Judgements and Financial Reporting for 2013	How the Committee Addressed these Judgements
– 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.	– Detailed reports from management were considered by the Committee which also reviewed the methodology applied including ensuring the discount rates used are within an acceptable range. In addition, the Committee constructively challenged underlying assumptions used within short and long-term growth projections, including consideration of different scenarios. The Committee also considers detailed reporting from, and holds discussions with, the external Auditors. Following consideration of these reports, the Committee reviewed and agreed the impairment of £1.2 billion in Spain. Further detail on impairment can be found in note 11 on page 105. The Committee concluded that the intangible assets of our US business were not impaired and approved disclosures in our financial statements.
– The treatment of restructuring costs and their presentation within the Group's financial statements.	– The Committee reviewed a paper prepared by management detailing enhanced internal guidance on classification of costs as restructuring and considered the views of our external Auditors on our policy. The Committee requested a number of clarifications to the internal guidance and 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.
– Going concern.	– In order to satisfy itself that the Company has adequate resources for the future and to underpin the use of the going concern assumption in preparing our financial statements, the Committee regularly reviews the Group's committed funding and liquidity positions, its ability to generate cash from trading activities, its ability to raise external funding and its historic record in respect of raising external funds. The Committee challenged management's funding projections and sensitivity analysis and possible combinations of adverse events and considered mitigating actions available to management. The Committee considers detailed reporting from, and holds discussions with, the external Auditors. The Committee subsequently recommended to the Board the adoption of the going concern statement for inclusion in the Annual Report and Accounts.
– The key judgements relating to tax risk provisions and the resulting tax charge.	– A review and discussions of provisions with management was undertaken by the Committee, including new provisions, the utilisation or release of existing provisions and the status of discussions with relevant tax authorities. The Committee considered detailed reports from, and had discussions with, the external Auditors in respect of such provisions.
– Change of segment reporting where judgement is required to ensure disclosure meets technical requirements and the needs of the users of our financial statements.	– The Committee discussed a proposal from management to change the Group's segmental disclosure to align with the Group strategy and changes to how the business is managed. The Committee reviewed management's paper on the technical requirements for segmental disclosure, considering both the spirit and the letter of the relevant standard, and considered the views of our external Auditors and subsequently agreed with the proposed changes.

Other Significant Matters Considered by the Committee	How the Committee Addressed these Matters
– 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.	– Local business unit management express clear awareness of their authority limits that are in place to control changes in credit limits and prices. They receive reports from our external Auditors regarding their examination of revenue recognition and volume trends in all major markets, sales timings and volumes close to the year end, and perceiving historic sales trends. Following these reviews the Committee was satisfied that the Group's criteria for revenue recognition were met.
– Tobacco related litigation – the Group is exposed to litigation arising from claimants alleging smoking related health effects.	– Internal reports are provided to the Committee as appropriate and at its half year and full year results meetings. The Committee considered a report 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 59.
– The Group's foreign exchange management.	– The Committee regularly considers reports from management, covering foreign exchange exposures, and gains and losses, together with the accounting treatments applied including net investment hedging.
– Retirement benefits.	– The costs, assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the appropriateness of the assumptions used and discussions are held with the external Auditors.

INDEPENDENCE OF OUR EXTERNAL AUDITORS

PricewaterhouseCoopers (PwC) have been the Company's Auditors since its demerger in 1996.

In order to ensure the independence and objectivity of our Auditors we maintain and regularly review our Auditor Independence Policy. This policy provides clear definitions of services that our external Auditors can and cannot provide. Our external Auditors may only provide non-audit services where those services do not conflict with their independence, for example tax compliance work. The policy also establishes a formal authorisation process, including the tendering for non-audit services expected to generate fees in excess of £250,000, and pre-approval by the Audit Committee for allowable non-audit work that they may perform. Our policy also establishes guidelines for the recruitment of employees or former employees of our external Auditors and for the recruitment of our employees by them. Further details can be found in our Auditor Independence Policy which can be found within the investor relations/corporate governance section of our website www.imperial-tobacco.com.

To ensure compliance with this policy, during the year our Audit Committee carried out two reviews of the remuneration received by our external Auditors for audit services, audit-related services and non-audit work. The Audit Committee also considered reports by both management and the external Auditors which did not raise any concerns in respect of the Auditors' independence. The outcome of these reviews was that performance of the relevant non-audit work by our external Auditors, as detailed in note 4 on page 101, was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work which principally related to tax advisory work. The Audit Committee confirms that the Company continues to receive an independent audit service.

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). Accordingly, David Charles rotated off the engagement after the 2013 Annual General Meeting and was succeeded by John Maitland; an agreed succession plan was in place well in advance of this handover.

AUDIT QUALITY AND APPROACH TO AUDIT TENDER

As part of a formal review process, audit effectiveness questionnaires are completed by members of the Audit Committee and certain executives and finance employees from across the Group. Based on the responses to the questionnaires, management produce a report for detailed consideration by the Audit Committee.

Based on its consideration of the report, together with its own on-going assessment, for example through the quality of the external Auditors' reports to, and the audit partner's interaction with, the Committee, the Audit Committee remains satisfied with the efficiency and effectiveness of the audit. It has not, therefore, considered it necessary to require the audit to be put out to tender. Following the introduction of the audit tendering provisions in the Code, the Audit Committee will annually consider if the audit should be put 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.

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

STATEMENT OF AUDITORS' RESPONSIBILITIES

Our statutory Auditors are responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Tobacco Group PLC as presented by the Directors. In addition, they also report on other elements of the Annual Report and Accounts as required by legislation or regulation and report their opinion to members. Their opinions are included on pages 84 and 131.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

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

The Board accepted at its October 2013 meeting the Committee's recommendation to put a resolution to reappoint PwC as Auditors to the Company to shareholders at the forthcoming AGM.

Directors' Governance 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.

APPLICATION OF THE UK CORPORATE GOVERNANCE CODE

In September 2012 the Financial Reporting Council published the 2012 edition of the UK Corporate Governance Code (the Code) which contains broad principles and specific provisions to help boards operate in the best interests of their companies. This Code applied to Imperial Tobacco throughout the financial year ended 30 September 2013.

The Company has applied the main principles of the Code and complied with its detailed provisions throughout this financial year. We detail below how, in practice, the Company has applied these principles and complied with the detailed provisions.

MATTERS RESERVED FOR THE BOARD

There is a schedule of matters which are dealt with exclusively by the Board and on which it must make the final decision. These include approval of 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.

BOARD AND ITS COMMITTEES

Each standing Board Committee 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 orally on the proceedings of their Committees at the next meeting of the Board. Where appropriate the Committee chairmen also make recommendations to the Board in respect of appropriate matters, for example the fairness, balance and understandability of the Annual Report and Accounts. In addition the minutes of the Committee meetings are included in the papers distributed to all Board members in advance of the next Board meeting.

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 Non-Executive Directors also play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee are considered on pages 48, 50 and 62. The open atmosphere at our Committee meetings enables our Non-Executive Directors to use their judgement, experience and independence to critically review and, where appropriate, constructively challenge strategies proposed by management. This ensures the further development of our business, effective use of our resources and that we maintain our high standards of conduct.

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.

The Role of our Chairman

In running our Board the Chairman is responsible for creating an environment which facilitates direct, robust and constructive challenge and debate. In creating this environment the Chairman encourages frank communications and seeks to ensure that the Executive Directors are open to constructive challenge by the Non-Executive Directors and are willing to consider suggestions dispassionately and on their merits.

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

The Role of our Chief Executive

Supported by the Executive Directors and the Operating Executive, our Chief Executive, within the authority delegated by the Board, has day to day management responsibility for implementing the Group's strategy and running the Group.

In addition, the Chief Executive promotes the Group's values, culture and high standards of conduct and behaviour which underpin our reputation and support the delivery of our sustainable sales growth.

The Role of our Senior Independent Director

Our Senior Independent Director is responsible for assisting the Chairman with effective communications to our shareholders and is available to them should they have any concerns which have not been resolved through the normal channels of the Chairman, Executive Directors or our Investor Relations Department or if these channels are not appropriate.

He is also available to our Non-Executive Directors should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman.

Non-Executive Directors
We believe it is vital to our ongoing success that our Directors have the right mix and diversity of backgrounds and experiences. Our Non-Executive Directors bring a diverse range of business and financial expertise to the Board, which complements and supplements the experiences of the Executive Directors. This broad range of expertise and experience enables them to evaluate information provided and constructively challenge management's viewpoints, assumptions and performance.

Following the annual Board performance evaluation on page 56, the Board concluded at its meeting in September 2013 that all our Non-Executive Directors continue to contribute effectively and constructively to Board debate, to demonstrate commitment to their role, to objectively challenge and robustly question management and at all times to have the best interests of our shareholders in mind.

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

Executive Directors
Our Executive Directors' duties extend to overseeing the operations of the entire Group, in addition to specific responsibility for managing their own areas of the business.

Conflicts of Interest
The Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. In accordance with the Companies Act 2006 (the Act), 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 their own conflicts.

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

As part of our annual review process, during the Board meeting in September 2013 we reviewed and reconsidered all situations entered in the Conflicts Register.

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

In order to underpin his independence, we entered into an agreement with Berge Setrakian, Non-Executive Director, in July 2012 to minimise the risk of any conflict of interest between DLA Piper LLP (US), where he is a partner, and the Company. This agreement remains in full force and effect. The Board confirms Berge Setrakian's compliance with the terms of this agreement and, therefore, his continued independence.

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

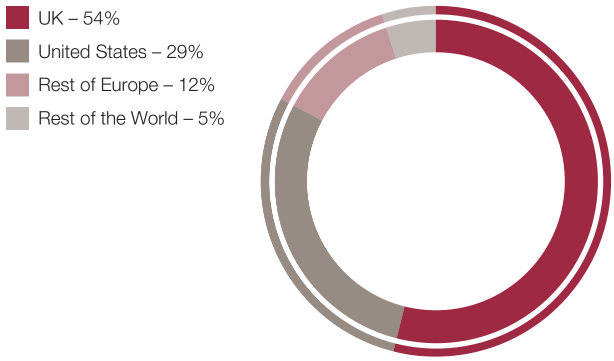
The Board believes, in principle, in Executive Directors and members of the Operating Executive accepting non-executive directorships of other companies in order to widen their experience and knowledge for the benefit of the Company. Accordingly, subject to the agreement of the Board, Executive Directors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

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

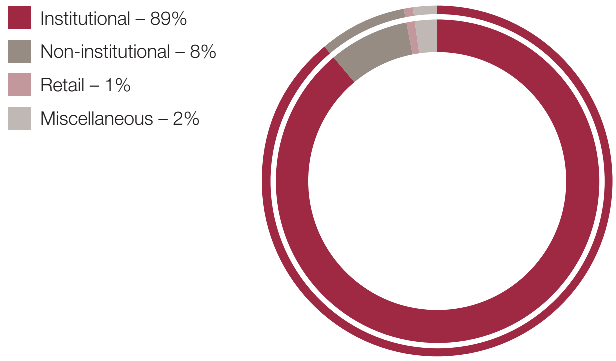
The Company Secretary is responsible for advising the Board, through the Chairman, on matters of corporate governance. The Board and its Committees are supplied with full and timely information, including detailed financial information, to enable Directors to discharge their responsibilities, and the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

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

Geographical analysis of shareholders
(as at 30 September 2013)



Shareholder composition
(as at 30 September 2013)



Members of our Audit and Remuneration Committees received briefings from our external Auditors and remuneration advisor respectively to ensure they remain up-to-date with current regulations and developments. No other training needs were identified in 2013, although ongoing training is available to all Directors to meet their individual needs. We provide regular briefings to Directors on relevant issues such as legislation and regulation changes and corporate governance developments.

Performance Evaluation

During the year the Board reviewed, through detailed questionnaires, 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 and used as the basis for one-to-one development discussions between the Chairman and each Director.

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

The evaluation also showed that the Board and its Committees continue to operate effectively. Areas identified for further consideration were the ongoing succession plans for both Executive and Non-Executive Directors approaching retirement, the future balance of Executive and Non-Executive Directors, and the continuing enhancement of the Group's internal control and risk management processes.

We have addressed the issues identified in the 2012 external Board evaluation and, in line with the Board's succession plans, we announced in September 2013 the appointment of Oliver Tant to succeed Robert Dyrbus as Finance Director.

Insurance

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

DIALOGUE WITH OUR INVESTORS

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

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

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, Asia, Canada and the US.

Non-Executive Directors are 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.

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 either electronically or in paper format. We also offer them the facility to abstain.

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

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

At our 2013 AGM we received votes representing approximately 77 per cent of our issued share capital (excluding shares held in treasury).

Our next AGM will be held on Wednesday 5 February 2014.

Full details are contained in the Notice of Meeting available on our website and, where applicable, posted with this Report.

SHARE CAPITAL

Details of our share capital are shown in note 24 to the Financial Statements (page 126). All shares other than those held in treasury are freely transferable and rank pari passu for voting and dividend rights.

At our AGM on 1 February 2013 shareholder authority for the buyback of up to 106,794,000 ordinary shares of 10 pence each was obtained.

As at 30 September 2013 we held 98,688,532 of our ordinary shares in treasury, which represent 9.24 per cent of issued share capital and have an aggregate nominal value of £9,868,853.

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 2013 we had been notified of the following interests in 3 per cent or more of our ordinary shares and there have been no changes to this information up to the date of this Report.

	Number of ordinary shares (millions)	Percentage of issued share capital
Invesco Limited	61	6.32[1]
BlackRock	53	5.51[2]
Morgan Stanley Investment Management Limited	42	4.38[1]
Franklin Resources Inc	41	4.24[2]

1 Direct holding.
2 Indirect holding.

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

The share interests of the Directors, their families and any connected persons are shown on page 74. Other than as disclosed on page 67, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

Information concerning employees and their remuneration is given in note 6 to the Financial Statements (page 102) 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 £937 million, as shown in our consolidated income statement on page 87. Note 3 to the Financial Statements gives an analysis of revenue and profit from operations (page 98).

An analysis of net assets is provided in the Consolidated Balance Sheet on page 89 and the related Notes to the Financial Statements.

In our Interim Management Statement made on 30 January 2013 we stated that we expected around 55 per cent of adjusted operating profits to be delivered in the second half of our financial year. On the basis of our actual results to 30 September 2013, 55 per cent of adjusted operating profits were delivered in the second half.

The Directors have declared and proposed dividends as follows:

£ million	2013	2012
Ordinary Shares		
Interim paid, 35.1p per share (2012: 31.7p)	**341**	314
Proposed final, 81.2p per share (2012: 73.9p)	**783**	729
Total ordinary dividends, 116.4p per share (2012: 105.6p)	**1,124**	1,043

The final dividend, if approved, will be paid on 17 February 2014 to our shareholders on the Register of Members at the close of business on 17 January 2014. The associated ex dividend date will be 15 January 2014. We paid an interim dividend on 16 August 2013 to shareholders on the Register of Members at the close of business on 19 July 2013.

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 allocating £3.2 million (2012: £3.1 million) to partnership and community investment. From this figure, we have donated £0.2 million (2012: £0.2 million) to UK registered charities operating in the UK, £0.2 million (2012: £0.3 million) to UK registered charities operating abroad, £1.6 million (2012: £1.6 million) through the UK Charities Aid Foundation to charities based overseas and £0.2 million (2012: Nil) to charities registered and operating abroad. We have donated the remaining amount of £1.0 million (2012: Nil) to leaf partnership projects abroad. These partnerships have charitable aims under contract but are not registered charities. More detailed information on our approach to supporting community livelihoods can be found in the Responsibility section of our corporate 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 (2012: Nil).

Creditor Payment Policy

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

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

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

The amount of trade creditors outstanding as at 30 September 2013 was equivalent to 38 days (2012: 37 days) of trade purchases.

Pension Fund

Our main pension fund, the Imperial Tobacco Pension Fund, is not controlled by the Board but by a trustee company, the board of which consists of five directors nominated by the Company, one director chosen by employees and two by current and deferred pensioners. This trustee company looks after the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose. Further details are contained in our Remuneration Report on pages 72 and 73.

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

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

The Group has eight 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 immediately cancelled.

The eight credit agreements are:

- a credit facilities agreement dated 16 December 2010 under which certain banks and financial institutions make available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited committed credit facilities across three tranches of $632 million, £600 million and €1,785 million and uncommitted credit facilities in a maximum amount of £800 million, for a period of five years;
- a letter of credit facility agreement dated 2 March 2011 under which certain banks and financial institutions make available to Imperial Tobacco Limited a Letter of Credit in a maximum amount of £232.8 million until 31 August 2016;
- a credit facility agreement dated 16 November 2011 under which certain banks and financial institutions make available to Imperial Tobacco Finance PLC a committed credit facility of €300 million for a period of two years (which in November 2012 was subsequently extended for one further year); and
- five bilateral credit facility agreements each dated 1 August 2013 and linked by an overall agreement also dated 1 August 2013, under which the respective lenders each make available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited a committed credit facility of €237 million (therefore €1,185 million collectively) for a period of two years from 22 November 2013.

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.

The bonds issued in such manner are as follows:

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

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, 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

In the Republic of Ireland, the number of tobacco related claims has fallen from 307 in 1997, to five. In late July 2013, six claimants agreed to withdraw their claims. Of the remaining five cases (i) in four of these cases, two are deceased and the claimants' solicitors have been unsuccessful in their efforts to contact each claimant's family and in the other two cases the claimants' solicitors have been unsuccessful in their efforts to contact the claimant (if still alive) or his or her family; and (ii) the final remaining 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.

Following our acquisition of Altadis in January 2008, we are currently facing a claim in Spain brought in the Administrative Court (the CADAN) on behalf of the Regional Government of Andalucia (the Junta) for reimbursement of hospitalisation expenses allegedly incurred in treating smokers. The claim was served on Altadis in July 2009. In May 2010, preliminary objections were filed by Altadis and the other tobacco company defendants. These were rejected by the CADAN in May 2011. The CADAN issued a further decision in July 2012 ordering the Junta to provide the co-defendants with a full set of the documentation which was attached to the claim. In May 2013, the CADAN notified the parties that the documentation was available for collection at the court and in June 2013 Altadis filed its defence and supporting expert's report. In July 2013 the CADAN ordered that the evidentiary period in this case would not be opened due to deficiencies in the claimant's pleadings. Altadis is waiting to hear whether the Junta will appeal this decision.

We are currently facing one claim in Italy 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.

Following our acquisition of Commonwealth Brands in April 2007, we are currently facing one claim brought by an individual in the United States. In February 2012, this claim was administratively dismissed without prejudice in an order designated as "final". Ohio Counsel indicate that there is some chance that the defendant could attempt to revive the claim. A further claim was filed in September 2013 against Commonwealth Brands in Florida in respect of alleged injuries caused by second hand smoke from a brand of cigarettes not sold by Commonwealth Brands. On 17 October 2013 the court dismissed the claim. The claimant has 30 days from this date to appeal the decision. Alternatively, the claimant may choose to re-file the claim in different terms.

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

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

STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

As required by the Code, the Directors confirm that they consider that 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 a number of processes including the following:

- 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 Report are undertaken by members of the Operating Executive and other senior management;
- an advanced draft is considered and reviewed by the Company's Disclosure Committee, legal advisers and brokers; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

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 pages 44 and 45, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the 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.

By order of the Board

John Downing
5 November 2013

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

Remuneration Committee

Michael Herlihy
Chairman

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

DEAR SHAREHOLDER

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

Last year I referred to the overall review of remuneration policy which the Remuneration Committee had undertaken, as a result of which we amended performance criteria in a number of areas to better align these with our organic growth strategy. The external environment since then has been very challenging.

Remuneration outcomes linked to performance with respect to 2013 have reflected this. There will be no vesting of LTIP awards made in November 2010, or SMS awards made in February 2011. With regard to the annual incentives, performance on market share was achieved in some, but not all, markets; but overall targets for volume and revenue were not met. However, a continued focus on cost management ensured that profit targets were partly met. This resulted in an annual incentive payout for Executive Directors of 34 per cent of the maximum opportunity.

We remain committed to our strategy but are also looking to free up additional funds to invest behind it and to 'right size' the business in the face of declining demand, particularly in Western Europe. At a time when the associated restructuring programmes are affecting many of our staff, the Executive Directors and senior management have taken the view that it would be inappropriate for them to receive salary increases; there will, therefore, be no change in base salaries or performance related pay opportunities for this population in 2014. There were also no base pay increases for the wider management population.

This year shareholders will be asked to vote separately on our Remuneration Policy and our Annual Report on Remuneration. Our current Remuneration Policy is set out on pages 64 and 68. We set out on page 69 in the Annual Report on Remuneration how the policy was implemented in 2013 and how we plan to implement it in 2014.

Members

Michael Herlihy
Chairman

Ken Burnett

David Haines

Susan Murray

Berge Setrakian

Mark Williamson

Malcolm Wyman

Trevor Williams
Secretary

Decisions for 2013

- Approving management's proposed salary freeze in 2014.
- 2013 annual bonus payment calculated to be 34 per cent of the maximum opportunity.
- LTIP shares granted in November 2010 lapsed in November 2013.
- SMS shares granted in February 2011 will lapse in February 2014.
- In relation to the retirement of Robert Dyrbus, confirming all elements of remuneration will be actioned in line with policy with no discretions exercised in his favour.
- Agreement of new Finance Director's remuneration package in line with the Group's policy and with no 'buyout' of existing awards.
- No discretions exercised in favour of management other than those customary, for example those in respect of early exercisable leavers within the share plans.

Material changes for 2014

- Implementation of new SMS and LTIP schemes which were approved at our 2013 AGM.
- No other substantial changes: all maximum opportunities will remain the same in 2014 as in 2013.

During the course of the year, the Committee considered the retirement of the current Finance Director, Robert Dyrbus, and the recruitment arrangements for our new Finance Director, Oliver Tant. The payments made to both Robert Dyrbus and Oliver Tant are in line with our policy and reflect best market practice. Details of these arrangements are set out on page 73.

In the course of the year we also received feedback and views from shareholders on a number of matters related to remuneration, referred to in more detail on page 69 below. Shareholders do not speak with a single voice and, as a Committee, we have to balance individual 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.

We consider carefully all the feedback we receive from shareholders and look forward to continued dialogue on these matters.

M H C Herlihy
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 supported by the Company's overall remuneration policy, as 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 five 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 advisors 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), Alison Cooper (Chief Executive), Robert Dyrbus (Finance Director) 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 Head of Compensation and Benefits also attended and provided internal support and advice on market and regulatory developments in remuneration practice and our employee share plans. 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 their 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 (the Code), are applied in practice. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.

The Regulations require our Auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The Auditors' opinion is set out on page 84 and we have clearly marked the audited sections of the Report.

POLICY REPORT

Our policy is to attract, motivate and retain individuals of the calibre necessary to run a group of the scale and complexity of Imperial Tobacco. Furthermore, we offer packages that are significantly weighted towards performance based elements with measures that reflect individual, functional and corporate performance. The aim is to set targets that are both stretching and achievable.

Whilst our incentive plans provide for the Committee to exercise discretion in the determination of vesting, this discretion is only used in exceptional circumstances and any such discretion which is 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, if approved, will, for the purposes of section 226D(6)(b) of the Act, take effect after the AGM on 5 February 2014.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Salary and Fees	Attract and retain high performing individuals reflecting market value of role and the Director's skills, experience and performance.	Reviewed annually by the Committee taking into account each Director's performance together with changes in role and responsibility. Salary and fee increases are generally effective from 1 October. The Committee considers pay data against two comparator groups, one being companies from FTSE size peers, the other international sector peers, with secondary reference to companies in the FTSE 30 and FTSE 50 excluding financial sector companies. These comparisons 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 the scale of the challenges intrinsic to that individual's role; their ability and experience and their performance.	No prescribed maximum annual increase. The Committee also takes into account each Director's performance, together with changes in role and responsibility; it also considers general increases for the UK management population.
Benefits	Competitive benefits taking into account market value of 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	Incentivise delivery of Group strategic objectives and enhance performance.	At least two thirds of the bonus will be linked to key financial metrics. All non-financial metrics will be subject to financial underpins. 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. Bonus up to 100% of salary or such lower sum as determined by the Committee is paid in cash (Cash Element). Amounts over this level will be paid in deferred shares to be held for a minimum of three years. Claw back provisions are in place for the three years following payment of annual bonus.	Chief Executive: 200% of base salary. Other Executive Directors: 150% 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 which has been an integral part of remuneration for over 10 years.	Executives may elect to invest some or all of the equivalent of the gross Cash Element of their annual bonus in shares. *Awards granted from February 2013* 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. There is no opportunity to re-test. Claw back provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. *Awards granted before February 2013* Awards based on an earnings per share (EPS) performance condition only. It is intended that these awards will vest or not in line with the performance condition and other rules of the share matching scheme (SMS) prevailing at the date of grant.	Maximum match 1:1 of shares invested plus shares equivalent to the value of the dividend roll-up.
Long Term Incentive Plan	Incentivise long-term Group financial performance in line with the Group's strategy and long-term shareholder returns. Align Executive interests with those of long-term shareholders.	*Awards granted from February 2013* 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 relative total shareholder return (TSR) vs a peer group and 50% 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. There is no opportunity to re-test. Claw back provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. *Awards granted before February 2013* Prior to February 2013 awards were based 50% on an EPS performance condition and 50% on relative TSR performance conditions only. It is intended that these awards will vest or not in line with the performance conditions and other rules of the LTIP prevailing at the date of grant.	Chief Executive: 200% of base salary in shares. Other Executive Directors: 150% of base salary in shares or such lower sum as determined by the Committee. For all Executive Directors shares equivalent to the value of the dividend roll-up.
Pensions	Attract and retain high performing Executive Directors.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK. 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. 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 in the Annual Report on Remuneration on page 72. The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service. 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 a Director's pension provision.	Current policy is for a defined contribution and cash supplement limit of 26% of salary. Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary.

Payments from Existing Awards

Subject to the achievement of the applicable performance conditions, Executive Directors are eligible to receive payment from any 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 considers the combination of measures in the SMS and 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 out performance of sector peers. EPS provides strong line-of-sight for executives and supports the Group's long-term strategy. Net revenue supports the Company's focus on organic growth.

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

Remuneration Policy for Other Employees

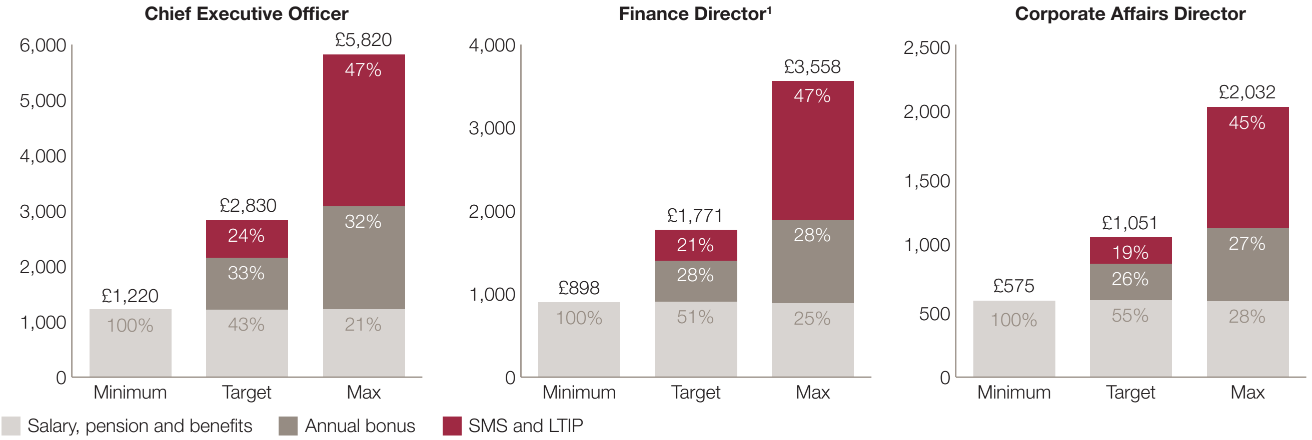
The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

All managers are eligible to participate in an annual bonus scheme 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 most members of the Corporate Management Group are eligible to participate in the SMS (c.1,000 individuals), with the performance criteria for the SMS applying only to our most senior managers.

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

Total remuneration by performance scenario for 2013/14 financial year (£'000)



1 Figures relate to Robert Dyrbus who served as Finance Director at the commencement of the financial year.

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 (i.e. latest known salary, benefits and pension).
- Target: fixed remuneration plus half of maximum annual bonus opportunity plus 25% vesting of awards under the SMS and LTIP. Note that Imperial Tobacco does not have a stated 'target' for its financial measures or incentive payouts.
- Maximum: fixed remuneration plus maximum annual bonus opportunity plus 100% vesting of SMS and LTIP.

Executive Directors' Service Agreements and Loss of Office Payments

The Company's policy is that Executive Directors' service agreements normally continue until the Director's agreed retirement date or such other date as the parties agree, are terminable on no more than one year's notice and provide no 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.

There are no liquidated damages provisions for compensation on termination within Executive Directors' service agreements, except for those set out in the table below. The Executive Directors' service agreements 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 the termination (including the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account in every case; our policy is to stop or reduce compensatory payments to former Executive Directors to the extent that they receive remuneration from other employment during the compensation period and any such payments would be paid monthly in arrears. The service agreement for Robert Dyrbus was, however, entered into at the time of the demerger of the Company from the Hanson Group in 1996 and the provisions dealing with compensation on termination following a change of control in his service agreement were agreed at that time.

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 and with the usual deferral requirement; however, the Remuneration Committee has discretion to adjust the timing and pro-rating to take account of any prevailing exceptional circumstances.

Under the rules of the SMS and LTIP, outstanding awards vest if a participant leaves 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. In these circumstances a participant'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's employment with the Group or 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, a participant's awards lapse entirely.

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

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 payments 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 payments 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. However, the Committee has the discretion in unforeseen and exceptional circumstances to offer awards of variable remuneration in excess of the maximums stated in the policy table if judged necessary to procure the services of the most appropriate candidate. If it were to do so, any such arrangements would be put to shareholders at the following AGM.

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 their 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.

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 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 considers 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 bonuses, 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 31 January 2013. Under the terms of our Articles of Association, all Directors are subject to annual re-election by shareholders. There are no provisions regarding notice periods in their letters of appointment which state that the Chairman and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination.

Shareholding Guidelines

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

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

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.

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 to 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 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 review of remuneration policy.

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, the Remuneration Committee chairman will inform major shareholders in advance, and will offer a meeting to discuss these.

HOW THE COMMITTEE IMPLEMENTED THE REMUNERATION POLICY FOR FINANCIAL YEAR ENDED 30 SEPTEMBER 2013

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	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 our share plans. Stretching performance targets incentivise the delivery of sales and the creation of shareholder value. 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 the share plans.
Alignment with our Shareholders	Employees at all levels are encouraged to have an interest in the Company's shares through both direct share holdings and through our share plans, with more senior employees subject to shareholding requirements, thus aligning their interest to shareholders. The value of their overall remuneration is, therefore, heavily dependent on the performance of our share price.
Attracting and Retaining the Right People	Our Remuneration Policy is designed to attract, retain and motivate a high quality pool of talented employees at all levels who are incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks. 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. Our policy is, therefore, significantly weighted towards performance based elements.

Implementing Executive Policy and Practice

In implementing the Company's Remuneration Policy, 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, their ability and experience and their 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 over 30 per cent of eligible employees participating in one or more plans.

Single Total Figure of Remuneration for Each Director (Audited)

£'000	2013 Salary and fees	2012 Salary and fees	2013 Taxable benefits[1]	2012 Taxable benefits	2013 Annual bonus[2]	2012 Annual bonus	2013 Share plans vesting[3]	2012 Share plans vesting	2013 Pension benefits[4]	2012 Pension benefits	2013 Total	2012 Total
Executive Directors												
Mrs A J Cooper, Chief Executive	**920**	860	**16**	16	**626**	881	**–**	678	**449**	348	**2,011**	2,783
Mr R Dyrbus, Finance Director	**665**	655	**27**	27	**339**	503	**–**	1,100	**233**	229	**1,264**	2,514
Mr M R Phillips[5], Corporate Affairs Director	**435**	145	**11**	4	**185**	93	**–**	291	**215**	163	**846**	696
	2,020	1,660	**54**	47	**1,150**	1,477	**–**	2,069	**897**	740	**4,121**	5,993
Non-Executive Directors												
Mr I J G Napier, Chairman	**450**	450	**2**	1	**–**	–	**–**	–	**–**	–	**452**	451
Dr K M Burnett	**73**	73	**29**	23	**–**	–	**–**	–	**–**	–	**102**	96
Mr D J Haines[6]	**73**	48	**4**	2	**–**	–	**–**	–	**–**	–	**77**	50
Mr M H C Herlihy[7]	**93**	88	**2**	2	**–**	–	**–**	–	**–**	–	**95**	90
Ms S E Murray	**73**	73	**1**	1	**–**	–	**–**	–	**–**	–	**74**	74
Mr B Setrakian	**73**	73	**38**	25	**–**	–	**–**	–	**–**	–	**111**	98
Mr M D Williamson[7]	**116**	96	**2**	1	**–**	–	**–**	–	**–**	–	**118**	97
Mr M I Wyman[7,8]	**98**	86	**15**	1	**–**	–	**–**	–	**–**	–	**113**	87
	1,049	987	**93**	56	**–**	–	**–**	–	**–**	–	**1,142**	1,043

1 Taxable benefits principally include the provision of a company car (£15,000 in respect of Alison Cooper, £19,000 in respect of Robert Dyrbus and £11,000 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 paid for performance over the financial year ending 30 September 2013.
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 or options granted, except for Robert Dyrbus who has yet to exercise and the value is based on the share price at date of vesting.
4 Further details are contained in the Executive Directors' pension section on page 73.
5 Matthew Phillips was appointed to the Board on 1 June 2012.
6 David Haines was appointed to the Board on 2 February 2012.
7 Includes payment in respect of Senior Independent Director fee of £25,000 per annum and chairmanship of Board Committees at an annual rate of £20,000 in respect of the Remuneration Committee and £25,000 in respect of the Audit Committee. Mark Williamson's fee as Deputy Chairman is £100,000 per annum.
8 Malcolm Wyman was appointed to the Board on 3 October 2011.

Alison Cooper is a Non-Executive Director of Inchcape PLC and was permitted to retain the £52,000 fees received from this position in the financial year.

All expense payments made to Directors were made on the basis of reimbursement of expenses incurred. 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 schemes.

Determination of 2013 Annual Bonus

Annual bonus payments were determined with reference to performance over the financial year ending 30 September 2013. The performance measures and targets are set out below:

	Performance target	Actual performance	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency)	3% – 9%	6%	50	25
Net revenue growth[1]	Threshold performance target not achieved[2]	–	20	nil
Volume growth[1]	Threshold performance target not achieved[2]	–	15	nil
Non-financial[1]	Market share targets in five specific major markets	3 out of 5	15	9
Achievement of bonus for 2013			100	34

1 Subject to an EPS underpin.
2 This information, including the underpin, is considered commercially confidential and, therefore, will not be disclosed.

In accordance with our policy, any annual bonus earned up to 100 per cent (85 per cent for the Corporate Affairs Director) of base salary is paid in cash and is eligible for investment in our SMS. Any bonus payable in excess of this level is used to purchase shares in the Company which the Director is required to retain for a minimum of three years. These shares are not eligible for investment in the SMS.

For annual bonus payments paid with respect to the financial year ending 30 September 2013, no bonuses were deferred in shares.

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 would be applied in the event of gross misconduct by the employee or misstatement of results where this had the effect of increasing the level of bonus that would otherwise have been paid.

Share Matching Scheme

SMS awards were made to the Chief Executive, Finance Director and Corporate Affairs Director in February 2011 which will vest in February 2014 based on an EPS performance condition measured over the three financial years to 30 September 2013 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	2%	50%	100%	nil

Long Term Incentive Plan

LTIP awards were made to the Chief Executive, Finance Director and Corporate Affairs Director in November 2010 which will vest in November 2013 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	2%	6.25	50	nil
TSR against comparator group[1]	Threshold exceeds bottom 6 companies				
	Maximum exceeds bottom 9 companies	1 company exceeded	7.5	25	nil
TSR against FTSE 100	Threshold exceeds 50% of companies				
	Maximum when 75% of companies exceeded	43% of companies exceeded	7.5	25	nil
Achievement of LTIP for 2013				100%	nil

1 The companies comprising the comparator group are:

AB InBev	Altria 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

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 perform 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 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 2013, Sharesave awards vested for Robert Dyrbus and Matthew Phillips as set out on page 80.

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 defined benefit scheme operated by the Group in the UK. For members who joined prior to 1 April 2002, the Fund is largely non-contributory with a normal retirement age of 60.

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

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

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.

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 during the course of the year (on 13 November 2012), as is permitted under the Fund rules. The accrued pension figure at 30 September 2013 and the value of total pension benefits at 30 September 2013 represent the benefits accrued as at 13 November 2012 and are consistent with those disclosed at 30 September 2012. Between 13 November 2012 and 30 September 2013, 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 of £45,219.00 for the 2011/12 tax year. His accrued pension was reduced by £4,176.89 a year to offset this tax payment. This reduction to pension is reflected in the accrued pension figure as at 30 September 2013 (it is also reflected in the value of the benefits as at 30 September 2013).

Oliver Tant joined the Company on 16 September 2013 and the Board on 1 October 2013. He is a member of the Fund's defined contribution section and receives benefits in line with the Company's policy.

The following table provides the information required by both the Listing Rules and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and gives details for each Executive Director of:

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

	Age at 30/09/2013	Pensionable service at 30/09/2013	Accrued pension £'000 01/10/2012	Accrued pension £'000 30/9/2013	Listing Rules: Increase in accrued pension (net of inflation) during the year £'000	Listing Rules: Transfer value of increase (net of inflation and employee contributions) £'000	Single Figure numbers: Payment in lieu of retirement benefits (i.e. pension supplement) £'000	Single Figure numbers: Value x 20 over year (net of director's contributions) £'000	Single Figure numbers: Total pension benefits £'000	Extra information to be disclosed under 2013 Directors Remuneration Regulations: Normal retirement age	Extra information: Value x 20 at start of year £'000	Extra information: Value x 20 at end of year £'000
Mrs A J Cooper	47	14	129	152	19	227	86	363	449	60	2,580	3,040
Mr R Dyrbus	60	31	330	331	nil	nil	233	nil	233	60	6,600	6,620
Mr M R Phillips	42	13	74	82	5	53	28	187	215	60	1,480	1,640

Payment for Director Retiring (Audited)

Robert Dyrbus will step down from the Board on 5 November 2013 and will retire from the Company on 31 December 2013. In accordance with our policy, Robert Dyrbus' bonus in respect of the 2013 financial year, as detailed in the single total figure of remuneration table, will be 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 will be based on performance measured to 30 September 2013 and be pro-rated for time served to his date of retirement, 31 December 2013. The awards expected to vest and their illustrative values are shown on page 79.

Recruitment of New Executive Directors

Oliver Tant joined the Board as an Executive Director on 1 October 2013 and will succeed Robert Dyrbus as Finance Director 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.

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

	Chief Executive: to 30 September 2013	Chief Executive: Percentage change (2013 vs 2012)	All Employees: Percentage change (2013 vs 2012)
Salary	£920,000	7%	3.5%
Benefits	£16,000	0%	3.5%
Bonus	£625,600	(29%)	5.7%

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	2013	2012	Percentage change
Overall expenditure on pay[1]	**1,004**	996	+0.8
Dividend paid in the year	**1,065**	983	+8.3
Share buyback	**500**	528	-5.3

1 Excludes employer's social security costs.

Share Interests and Incentives (Audited)

All Executive Directors who served in the financial year, with the exception of Matthew Phillips who was appointed to the Board on 1 June 2012, currently own shares outright, at a level exceeding their required shareholding as described in the section on Shareholding Guidelines on page 68 based on a share price of £22.87 (being the closing price on 30 September 2013). Current shareholdings are summarised in the following table:

	Shares held		Options held					
	Owned outright	Vested but subject to holding period	Unvested and subject to performance conditions	Unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary)	Current shareholding (% salary)	Requirement met[1]
Executive Directors								
Mrs A J Cooper	158,084	4,027	318,134	440	–	300	403	Yes
Mr R Dyrbus	416,903	3,097	197,430	264	14,541	300	1,446	Yes
Mr M R Phillips	42,619	640	80,535	459	–	300	227	No
Non-Executive Directors								
Mr I J G Napier	19,799	–	–	–	–	–	–	N/A
Dr K M Burnett	2,373	–	–	–	–	–	–	N/A
Mr D J Haines	409	–	–	–	–	–	–	N/A
Mr M H C Herlihy	4,218	–	–	–	–	–	–	N/A
Mrs S E Murray	3,255	–	–	–	–	–	–	N/A
Mr B Setrakian	1,515	–	–	–	–	–	–	N/A
Mr M D Williamson	3,448	–	–	–	–	–	–	N/A
Mr M I Wyman	3,316	–	–	–	–	–	–	N/A

1 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.

Variable Award Grants Made During the Year (Audited)

Awards were made in the financial year ending 30 September 2013 under both the SMS and LTIP. Detail of these awards is provided below, and is summarised in the tables on pages 78 and 79.

Share Matching Scheme

Executive Directors were provided the opportunity in February 2013 to invest their prior year cash bonus 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 condition
Mrs A J Cooper	37,197	£860,000	100%	50%	30 September 2015	3 year adjusted EPS growth[2]
Mr R Dyrbus	21,741	£502,650	100%	50%	30 September 2015	3 year adjusted EPS growth[2]
Mr M R Phillips	10,914	£252,330	100%	50%	30 September 2015	3 year adjusted EPS growth[2]

1 Valued using the share price at the date of grant (15 February 2013) being £23.12 per share.
2 Vesting occurs as per the vesting schedule below.

Adjusted EPS growth	Awards vesting
Below UK inflation plus 3 per cent per annum	Zero
At UK inflation plus 3 per cent per annum	50%
At UK inflation plus 6 per cent or more per annum	100%

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

Long Term Incentive Plan

In line with our policy, Executive Directors were granted LTIP awards in November 2012. 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 condition
Mrs A J Cooper	73,688	£1,840,000	200%	30 September 2015	12.5%	50%	3 year adjusted EPS growth[2]
					30.0%	25%	TSR relative to FTSE 100[3]
					30.0%	25%	TSR relative to bespoke comparator group[3]
Mr R Dyrbus	39,917	£996,750	150%	30 September 2015	12.5%	50%	3 year adjusted EPS growth[2]
					30.0%	25%	TSR relative to FTSE 100[3]
					30.0%	25%	TSR relative to bespoke comparator group[3]
Mr M R Phillips	21,776	£543,750	125%	30 September 2015	12.5%	50%	3 year adjusted EPS growth[2]
					30.0%	25%	TSR relative to FTSE 100[3]
					30.0%	25%	TSR relative to bespoke comparator group[3]

1 Valued using the share price at the date of grant (3 December 2012) being £24.97 per share.
2 Adjusted EPS vesting occurs as per the vesting schedule below.
Sliding scales applies for performance between minimum and maximum vesting levels.

Adjusted EPS growth	Awards vesting
Below UK inflation plus 3 per cent per annum	Zero
At UK inflation plus 3 per cent per annum	50%
At UK inflation plus 6 per cent or more per annum	100%

3 TSR relative to the FTSE 100 and TSR relative to the bespoke comparator group vesting occurs as per the vesting schedule below.

Relative TSR performance	Shares vesting (as percentage of number relating to relative TSR performance condition)
Below median of peer group	nil
At median of peer group	30%
Between median and upper quartile	Between 30% and 100% (pro rata)
Above upper quartile	100%

Companies Comprising the Bespoke Comparator Group

AB InBev	Altria 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

REMUNERATION DECISIONS TAKEN IN 2012/13

Salary

Each year the Committee sets base salaries for the next financial year after consideration of 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 their total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

This year's review was again conducted in the context of the need to apply appropriate restraint in pay levels whilst also being cognisant of what is a highly competitive international market for executive talent. The Committee accepted the Executive Directors' request not to receive an increase in remuneration.

	Salary 2012/13	Salary 2013/14	Change
Mrs A J Cooper	£920,000	£920,000	0%
Mr R Dyrbus	£664,500	£664,500	0%
Mr M R Phillips	£435,000	£435,000	0%

Annual Bonus Performance Targets

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

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

	Performance target	Maximum of bonus
Adjusted EPS growth	Commercially confidential	50%
Net revenue growth	Commercially confidential	20%
Volume growth in growth brands	Out-performance of market growth	10%
Non-financial	Market share targets	20%

At this point, the above targets (which will be impacted by the Group's de-stocking programme) are considered commercially confidential but, to the extent that any bonuses are paid, they will be disclosed retrospectively in the 2014 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

In line with our policy, Executive Directors are allowed to invest the cash element of their annual bonus in the SMS and receive annual awards under the LTIP. As in prior years, awards are expected to be granted under these schemes over the next financial year, and all awards will be subject to performance conditions as summarised below.

Performance condition	Weighting in SMS	Weighting in LTIP
TSR	–	50%
Net revenue growth	50%	25%
Adjusted EPS growth	50%	25%

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 use growth in absolute terms rather than relative to inflation and apply to a three year performance period.

Performance Criterion – TSR Element

The performance criterion for the TSR element will be based on a single comparator group including over 40 companies across a broadly defined consumer goods sector and will be applied to 50 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	Intercontinenal Hotels Group	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Lorillard 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 number relating to relative TSR performance condition)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Performance Criterion – Net Revenue Growth Element

This criterion will be used for 50 per cent of the SMS and 25 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 3% per annum	nil
3% per annum	25%
3% to 7% per annum	Between 25% and 100% (pro rata)
7% per annum or higher	100%

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

Performance Criterion – EPS Element

This criterion will be used for 50 per cent of the SMS and 25 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

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 elements for the Executive Directors. ROIC is a measure of profitability versus the Company's total utilised capital including goodwill and so is particularly useful to incentivise an appropriate approach towards acquisitions. The ROIC measure excludes the effect on goodwill and acquired intangibles of exchange rates 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 and 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 2013 AGM

At the 2013 AGM a small number of shareholders expressed concerns with various aspects of our remuneration. These concerns included the size of the Chief Executive's salary increase, the range of EPS performance in the LTIP, and the use of two long-term plans (i.e. the SMS and LTIP). The Committee noted that its approach to the Chief Executive's salary, which was to recruit at a more conservative salary level and increase over time as performance merits, had been communicated to investors at the time of appointment and subsequently reiterated; it remains of the view that this approach is in shareholders' best interests. The SMS promotes investment in our shares and long-term ownership among a large group of senior managers, and overall levels of long-term incentives (i.e. SMS and LTIP combined) for Executive Directors are well within market norms. The Committee also noted that the setting of financial targets reflects prevailing economic conditions and is aligned with the Group's strategic aims.

At the AGM held in 2013, 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
Approval of Directors' Remuneration Report	674,938,111	89.6	78,711,855	10.4	753,649,966	4,315,837	757,965,803
Share Matching Scheme renewal	659,012,506	88.3	87,187,958	11.7	746,200,464	11,765,339	757,965,803
Long Term Incentive Plan renewal	704,089,334	94.4	42,107,229	5.6	746,196,563	11,769,240	757,965,803

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

Since the AGM one shareholder has adopted a public policy which seeks a minimum holding period of five years between the date of grant of any shares and the sale of those shares. Given our substantial shareholding requirements and the fact that our Executive Directors normally retain their vested shares, the Committee is not currently persuaded that such a rule is necessary for Imperial Tobacco. We shall, however, continue to follow discussions on this point and keep the matter under review.

Advice Provided to the Committee

New Bridge Street (NBS) was reappointed by the Committee as its principal external adviser (but with a new advisory team) following a tendering process in 2011. 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 and remuneration 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. Appropriate structures are in place to ensure the independence of NBS' advice to the Committee. During the year NBS was paid fees of £181,832.

Other companies which provided advice to the Committee are as follows:

- 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 £55,000 for these services. Towers Watson also provided actuarial services to the Group;
- Allen & Overy LLP is available to provide legal advice to the Committee as and when required. It was not used during the financial year. Allen & Overy LLP also provided other legal services to the Group;
- 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;
- PricewaterhouseCoopers LLP (PwC), our Auditors, perform agreed upon procedures on earnings per share (EPS) calculations used in relation to our employee share plans' performance criteria. During the financial year PwC were paid £1,575 in respect of services to the Committee.

All of these advisors were appointed by the Committee which remains satisfied that the provision of those other services in no way compromises their independence.

OTHER INFORMATION

This section sets out the interests of Directors in all the Company's share plans, information on our Employee Benefit Trusts, and share plan flow rates.

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

	Balance at 01/10/2012	Contingent rights arising	Prevailing share price at date of grant £	Vested during year 15/02/2013	Market price at date of vesting £	Amount realised on vesting £'000	**Balance at 30/09/2013**	Actual/expected vesting date
Mrs A J Cooper	20,644	–	20.57[1]	(20,644)	23.12	477	**–**	February 2013
	31,606	–	19.79[2]	–	–	–	**31,606**	February 2014
	21,415	–	24.73[3]	–	–	–	**21,415**	February 2015
	–	37,197	23.12[4]	–	–	–	**37,197**	February 2016
	73,665	37,197	–	(20,644)	–	477	**90,218**	
Mr R Dyrbus	32,255	–	20.57[1]	(32,255)	23.12	746	**–**	February 2013
	32,424	–	19.79[2]	–	–	–	**32,424**	February 2014
	12,896	–	24.73[3]	–	–	–	**12,896**	February 2015
	–	21,741	23.12[4]	–	–	–	**21,741**	February 2016
	77,575	21,741	–	(32,255)	–	746	**67,061**	
Mr M R Phillips	8,902	–	20.57[1]	(8,902)	23.12	206	**–**	February 2013
	10,929	–	19.79[2]	–	–	–	**10,929**	February 2014
	10,473	–	24.73[3]	–	–	–	**10,473**	February 2015
	–	10,914	23.12[4]	–	–	–	**10,914**	February 2016
	30,304	10,914	–	(8,902)	–	206	**32,316**	

1 Award granted 15 February 2010.
2 Award granted 15 February 2011.
3 Award granted 15 February 2012.
4 Award granted 15 February 2013.

There have been no changes in any Executive Directors' contingent rights since 30 September 2013.

During February 2013 the SMS relating to annual bonuses earned in the financial year to 30 September 2009 matured. The performance criterion was met in full. In respect of annual bonuses earned in the financial year to 30 September 2012, our Executive Directors elected to invest the equivalent of their entire SMS Eligible Bonus in the form of our shares under the scheme. These matched shares are shown within contingent rights arising above. It is currently anticipated that in February 2014 the Executive Directors will again invest the equivalent of their entire SMS Eligible Bonus in the scheme.

In respect of the February 2011 award, based on adjusted EPS to the end of the financial year the award will lapse in full.

Interim measurement calculations prepared as at 30 September 2013 indicate that, in the event that only this level of performance were maintained over the relevant performance periods, 51.8 per cent of the February 2012 would vest and the February 2013 awards would lapse.

Executive Directors' Conditional Share Awards Under the Long Term Incentive Plan

	Balance at 01/10/2012	Granted during year	Date of grant	Market price at date of grant £	Vested during year (11/11/2012)	Market price at date of vesting £	Market price at date of exercise £	Lapsed during year	Amount realised on exercise £'000	**Balance at 30/09/2013**	Performance period
Mrs A J Cooper	29,192	–	11/11/09	18.70	(8,247)	24.34	24.47	(20,945)	202	**–**	2009-2012[2]
	78,624	–	03/11/10	20.35	–	–	–	–	–	**78,624**	2010-2013[3]
	75,604	–	02/11/11	22.75	–	–	–	–	–	**75,604**	2011-2014[4]
	–	73,688	03/12/12	24.97	–	–	–	–	–	**73,688**	2012-2015[5]
	183,420	73,688	–	–	(8,247)	–	–	(20,945)	202	**227,916**	
Mr R Dyrbus	51,472	–	11/11/09	18.70	(14,541)[1]	24.34	–	(36,931)	–	**–**	2009-2012[2]
	47,299	–	03/11/10	20.35	–	–	–	–	–	**47,299**	2010-2013[3]
	43,153	–	02/11/11	22.75	–	–	–	–	–	**43,153**	2011-2014[4]
	–	39,917	03/12/12	24.97	–	–	–	–	–	**39,917**	2012-2015[5]
	141,924	39,917	–	–	(14,541)	–	–	(36,931)	–	**130,369**	
Mr M R Phillips	12,393	–	11/11/09	18.70	(3,500)	24.34	24.47	(8,893)	86	**–**	2009-2012[2]
	13,636	–	03/11/10	20.35	–	–	–	–	–	**13,636**	2010-2013[3]
	12,807	–	02/11/11	22.75	–	–	–	–	–	**12,807**	2011-2014[4]
	–	21,776	03/12/12	24.97	–	–	–	–	–	**21,776**	2012-2015[5]
	38,836	21,776	–	–	(3,500)	–	–	(8,893)	86	**48,219**	

1 Award vested but not yet exercised. Award will lapse if not exercised on or before 10 November 2019.
2 Exercisable, upon the payment of the option exercise price of 1 penny, between 11 November 2012 and 10 November 2019.
3 Exercisable, upon the payment of the option exercise price of 1 penny, between 3 November 2013 and 2 November 2020.
4 Exercisable, upon the payment of the option exercise price of 1 penny, between 2 November 2014 and 1 November 2021.
5 Exercisable, upon the payment of the option exercise price of 1 penny, between 3 December 2015 and 2 December 2022.

There have been no changes in any Executive Directors' awards since 30 September 2013.

During the year, the November 2009 – November 2012 award vested partially on 11 November 2012. Based on adjusted EPS and TSR performance to the end of the financial year, approximately 19.6 per cent of the adjusted EPS element vested, approximately 73.8 per cent of the TSR relative to the FTSE 100 element vested and none of the TSR relative to the comparator group element vested. The remaining shares under award lapsed.

In respect of the November 2010 – November 2013 award, based on adjusted EPS and TSR performance to the end of the financial year the entire award will lapse.

Interim measurement calculations prepared as at 30 September 2013 indicate that, in the event that only this level of performance were maintained over the relevant performance periods, 13.8 per cent of the adjusted EPS element of the November 2011 – November 2014 would vest and the other elements would lapse and the entire November 2012 – November 2015 awards would lapse.

The illustrative values based on the average share price for the three months to 30 September 2013 (£22.23) and performance criteria are as follows:

	November 2014		November 2015	
	Number of shares	Illustrative value £'000	Number of shares	Illustrative value £'000
Mrs A J Cooper	5,220	116	–	–
Mr R Dyrbus[1]	2,150	48	–	–
Mr M R Phillips	884	20	–	–

1 Pro-rata to expected date of retirement.

Executive Directors' Share Options Under the Sharesave Plan

	Balance at 01/10/2012	Granted during the year	Lapsed during the year	Exercised during the year	Market price at date of exercise £	Balance at 30/09/2013	Exercise price £	Range of exercisable dates of options held at 30/09/2013[1]	Gains on exercise[2] During the year £'000	Gains on exercise[2] 2012 £'000
Mrs A J Cooper	440	–	–	–	–	440	20.45	01/8/15-31/1/16	–	–
	440	–	–	–	–	440	–	–	–	9
Mr R Dyrbus	232	–	–	(232)	22.06	–	15.63	01/8/13-31/1/14	5	–
	264	–	–	–	–	264	20.45	01/8/15-31/1/16	–	–
	496	–	–	(232)	–	264	–	–	5	5
Mr M R Phillips	232	–	–	(232)	22.06	–	15.63	01/8/13-31/1/14	5	–
	264	–	–	–	–	264	20.45	01/8/15-31/1/16	–	–
	–	195	–	–	–	195	18.40	01/8/16-31/1/17	–	–
	496	195	–	(232)	–	459	–	–	5	5

1 Any option not exercised by the end of the range of exercisable dates will lapse.
2 Gains made on exercise are calculated as the difference between the option price and the market price on the date of exercise. Aggregate gains during the year were £10,236 (2012: £19,925).

There have been no changes in any Executive Directors' share options since 30 September 2013.

Our middle market share price at the close of business on 30 September 2013, being the last trading day of the financial year, was £22.87 and the range of the middle market price during the year was £21.20 to £25.34.

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.

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

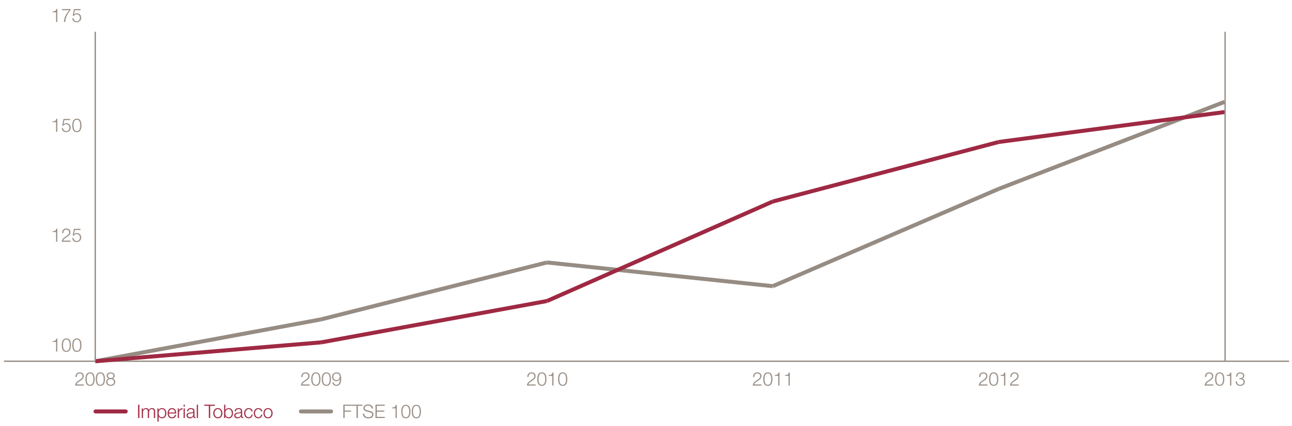
	Ordinary Shares		Sharesave Options		Contingent Rights to Ordinary Shares (LTIP and SMS Shares)		Total Interests	
	01/10/2012	30/09/2013	01/10/2012	30/09/2013	01/10/2012	30/09/2013	01/10/2012	30/09/2013
Executive Directors								
Mrs A J Cooper	147,917	162,111	440	440	257,085	318,134	405,442	480,685
Mr R Dyrbus	410,000	420,000	496	264	219,499	211,971	629,995	632,235
Mr M R Phillips	37,108	43,259	496	459	69,140	80,535	106,744	124,253
Non-Executive Directors								
Mr I J G Napier	18,457	19,799	–	–	–	–	18,457	19,799
Dr K M Burnett	2,109	2,373	–	–	–	–	2,109	2,373
Mr D J Haines	139	409	–	–	–	–	139	409
Mr M H C Herlihy	3,810	4,218	–	–	–	–	3,810	4,218
Ms S E Murray	2,991	3,255	–	–	–	–	2,991	3,255
Mr B Setrakian	1,251	1,515	–	–	–	–	1,251	1,515
Mr M D Williamson	3,151	3,448	–	–	–	–	3,151	3,448
Mr M I Wyman	3,041	3,316	–	–	–	–	3,041	3,316

There have been no changes in these interests since 30 September 2013.

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 2013. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a five year period.

Total Return Indices – Imperial Tobacco and FTSE 100



Change in Chief Executive Remuneration

	2013 Alison Cooper	2012 Alison Cooper[1]	2011 Alison Cooper[1]	2010 Alison Cooper[1]	2010 Gareth Davis[2]	2009 Gareth Davis
Total remuneration £'000	**2,011**	2,793	2,737	1,347	5,453	5,099
Annual Bonus as a percentage of maximum	**34**	51.2	33.1	84.7	84.7	85.2
Shares vesting as a percentage of maximum	**nil**	58.0	71.6	80.8	46.9[3]	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	**2013**	2012
Base salary	**2,161**	2,154
Benefits	**190**	155
Pension salary supplement	**152**	137
Bonus	**716**	1,346
LTIP annual vesting[1]	**nil**	2,025
SMS annual vesting[2]	**nil**	662
	3,219	6,479

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

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges, was £8,954,612 (2012: £15,173,257).

KEY MANAGEMENT COMPENSATION FOR THE YEAR ENDED 30 SEPTEMBER 2013 (AUDITED)

£'000	2013	2012
Short-term employee benefits	**7,431**	7,910
Post employment benefits	**1,050**	934
Other long-term benefits	**–**	–
Termination benefits	**–**	–
Share-based payment (in accordance with IAS 24)	**(2,140)**	5,864
	6,341	14,708

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

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 2013, we held 98,688,532 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 01/10/2012	Acquired during year	Distributed during year	Balance at 30/09/2012	Ordinary shares under award at 30/09/2013	Surplus/(shortfall)
Executive Trust	813,127	nil	(94,371)	718,756	841,917	(123,161)
2001 Trust	3,236,274	400,000	(1,093,599)	2,542,675	4,532,527	(1,989,852)

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 3.3 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

M H C Herlihy
Chairman of the Remuneration Committee

5 November 2013

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PARENT COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report

to the Members of Imperial Tobacco Group PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our Opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2013 and of the Group's 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.

This opinion is to be read in the context of what we say below.

What We Have Audited

The Group financial statements, which are prepared by Imperial Tobacco Group PLC, comprise:

- the Group Consolidated Balance Sheet as at 30 September 2013;
- the Group Consolidated Income Statement for the year then ended;
- the Group Consolidated Statement of Comprehensive Income for the year then ended;
- the Group Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended; and
- the notes to the Group 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 comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 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 & 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 Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group 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.

Overview of Our Audit Approach

Materiality

We set certain thresholds for materiality. These helped us to determine 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 Group financial statements as a whole to be £114 million.

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

Overview of the Scope of our Audit

The Group is structured along two business lines, being Tobacco and Logistics. The Group financial statements are a consolidation of 352 legal entities represented by 230 reporting entities, comprising the Group's operating businesses and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at reporting entities by us, as the Group engagement team, or component auditors from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting entities 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.

Our Group audit scope focused on eighteen Imperial Tobacco reporting entities, which included entities with significant Group operations based in the UK, Germany, Spain, USA, Morocco, Australia, and six other locations, as well as the Logistics sub-group, all of which were subject to a full scope audit. These operations accounted for approximately 75 per cent of Group turnover and in excess of 90 per cent of Group profit before tax. 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. Taken collectively these reporting entities represent the principal business units of the Group.

The Group audit team follows a programme of planned site visits that is designed so that senior team members visit the full scope audit reporting entities regularly on a rotational basis. In addition to these visits, video conferences are held with each full scope reporting entity's management and component auditors at least once a year.

For the year ended 30 September 2013 nine reporting entities were visited, a Group planning meeting was held in the UK for full scope audit component teams and video conferences held with an additional nine reporting entities.

Areas of Particular Audit Focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 51.

Area of focus	How the scope of our audit addressed the area of focus
Impairment assessment We focused on this area because the determination of whether or not an impairment charge for goodwill and intangible assets was necessary involved complex and subjective judgements by the Directors about the future results of the relevant parts of the business. Goodwill has arisen principally on the acquisitions of Reemtsma, Commonwealth Brands and Altadis. Intangible assets principally represent acquired trademarks and supply agreements. The Directors booked an impairment charge of £580 million. We needed to obtain evidence for the remaining £11,208 million of goodwill and £6,174 million of intangible assets. (Refer to note 11 to the financial statements.)	We evaluated the Directors' future cash flow forecasts, including comparing them to the latest Board approved budgets and testing the underlying calculations. We challenged the Directors' key assumptions regarding discount, initial and long-term growth rates by comparing them to historical results and the prospects for the business and industry. We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being pricing, market size, market shares and cost inflation. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, we considered the likelihood of such a movement in those key assumptions arising.
Revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We focused on the timing of revenue recognition and its presentation in the consolidated income statement, because of the risk associated with such fast moving consumer goods and the levels of inventory sold into, and held in, distribution channels, as well as the contractual terms those goods were sold under. (Refer to note 1 to the financial statements.)	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. We evaluated any changes to contractual terms around the year end and tested accounts receivable balances through a combination of third party confirmations and subsequent remittances. We also tested journal entries posted to revenue to identify unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We tested manual journal entries, including material consolidation journals. We also examined the significant accounting estimates for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 60, 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 Group's 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 and the Parent Company's ability to continue as a going concern.

Opinions on Matter 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 Group financial statements are prepared is consistent with the Group financial statements.

Other Matters on Which We are Required to Report by Exception
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 if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

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

On page 60 of the Annual Report, as required by the Code Provision C.1.1, the Directors state 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. On page 51, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report 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.

Other Information in the Annual Report
Under ISAs (UK & 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 Group 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
- is 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 Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK & 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 Parent Company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2013 and on the information in the Directors' Remuneration Report described as having been audited.

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

5 November 2013

Consolidated Income Statement

for the year ended 30 September

£ million unless otherwise indicated	Notes	2013	2012
Revenue	3	**28,269**	28,574
Duty and similar items		**(13,681)**	(13,902)
Other cost of sales		**(9,059)**	(9,178)
Cost of sales		**(22,740)**	(23,080)
Gross profit		**5,529**	5,494
Distribution, advertising and selling costs		**(2,053)**	(2,005)
Impairment of acquired intangibles	11	**(580)**	(1,187)
Other expenses		**(938)**	(784)
Administrative and other expenses		**(1,518)**	(1,971)
Operating profit	3	**1,958**	1,518
Investment income	7	**766**	1,036
Finance costs	7	**(1,463)**	(1,473)
Net finance costs	7	**(697)**	(437)
Profit before taxation	4	**1,261**	1,081
Taxation	8	**(300)**	(382)
Profit for the year		**961**	699
Attributable to:			
Owners of the parent		**937**	678
Non-controlling interests		**24**	21
Earnings per ordinary share (pence)			
– Basic	10	**96.2**	68.1
– Diluted	10	**96.0**	67.9

Consolidated Statement of Comprehensive Income

for the year ended 30 September

£ million	Notes	2013	2012
Profit for the year		**961**	699
Other comprehensive income			
Exchange movements		**164**	(523)
Current tax on exchange movements		**40**	6
Items that may be reclassified to profit and loss		**204**	(517)
Net actuarial losses on retirement benefits	22	**(3)**	(404)
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	21	**(32)**	96
Items that will not be reclassified to profit and loss		**(35)**	(308)
Other comprehensive income for the year, net of tax		**169**	(825)
Total comprehensive income for the year		**1,130**	(126)
Attributable to:			
Owners of the parent		**1,104**	(144)
Non-controlling interests		**26**	18
Total comprehensive income for the year		**1,130**	(126)

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2013	2012
Operating profit		**1,958**	1,518
Acquisition accounting adjustments		**–**	(10)
Amortisation of acquired intangibles	11	**372**	365
Impairment of acquired intangibles	11	**580**	1,187
Restructuring costs	5	**270**	101
Adjusted operating profit		**3,180**	3,161

RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	2013	2012
Net finance costs		**(697)**	(437)
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	7	**156**	(125)
Post-employment benefits net financing cost	7	**9**	27
Adjusted net finance costs		**(532)**	(535)

Consolidated Balance Sheet

at 30 September

£ million	Notes	2013	2012
Non-current assets			
Intangible assets	11	**17,382**	17,609
Property, plant and equipment	12	**2,080**	2,025
Investments in associates		**17**	16
Retirement benefit assets	22	**1**	–
Trade and other receivables	15	**85**	98
Derivative financial instruments	20	**312**	636
Deferred tax assets	21	**153**	142
		20,030	20,526
Current assets			
Inventories	14	**3,296**	3,132
Trade and other receivables	15	**2,966**	3,029
Current tax assets	8	**72**	55
Cash and cash equivalents	16	**1,809**	631
Derivative financial instruments	20	**245**	266
		8,388	7,113
Total assets		**28,418**	27,639
Current liabilities			
Borrowings	18	**(3,276)**	(1,254)
Derivative financial instruments	20	**(219)**	(182)
Trade and other payables	17	**(7,354)**	(7,231)
Current tax liabilities	8	**(141)**	(372)
Provisions	23	**(92)**	(103)
		(11,082)	(9,142)
Non-current liabilities			
Borrowings	18	**(7,858)**	(8,333)
Derivative financial instruments	20	**(531)**	(729)
Trade and other payables	17	**(17)**	(18)
Deferred tax liabilities	21	**(1,820)**	(1,877)
Retirement benefit liabilities	22	**(1,055)**	(1,046)
Provisions	23	**(407)**	(410)
		(11,688)	(12,413)
Total liabilities		**(22,770)**	(21,555)
Net assets		**5,648**	6,084
Equity			
Share capital	24	**107**	107
Share premium		**5,833**	5,833
Retained earnings		**(795)**	(150)
Exchange translation reserve		**447**	245
Equity attributable to owners of the parent		**5,592**	6,035
Non-controlling interests		**56**	49
Total equity		**5,648**	6,084

The financial statements on pages 87 to 130 were approved by the Board of Directors on 5 November 2013 and signed on its behalf by:

Iain Napier
Chairman

Robert Dyrbus
Director

Consolidated Statement of Changes in Equity

for the year ended 30 September

£ million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2012	**107**	**5,833**	**(150)**	**245**	**6,035**	**49**	**6,084**
Profit for the year	**–**	**–**	**937**	**–**	**937**	**24**	**961**
Exchange movements	**–**	**–**	**–**	**162**	**162**	**2**	**164**
Current tax on exchange movements	**–**	**–**	**–**	**40**	**40**	**–**	**40**
Net actuarial losses on retirement benefits	**–**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Deferred tax relating to net actuarial losses on retirement benefits	**–**	**–**	**(32)**	**–**	**(32)**	**–**	**(32)**
Other comprehensive income	**–**	**–**	**(35)**	**202**	**167**	**2**	**169**
Total comprehensive income	**–**	**–**	**902**	**202**	**1,104**	**26**	**1,130**
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**	**(795)**	**447**	**5,592**	**56**	**5,648**

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

Consolidated Cash Flow Statement

for the year ended 30 September

£ million	2013	2012
Cash flows from operating activities		
Operating profit	**1,958**	1,518
Share of post-tax loss of associates	**1**	–
Depreciation, amortisation and impairment	**1,215**	1,762
Profit on disposal of property, plant and equipment	**(5)**	–
Loss on disposal of software	**1**	1
Loss on disposal of businesses	**13**	–
Post-employment benefits	**(34)**	(74)
Costs of employees' services compensated by share schemes	**18**	20
Movement in provisions	**(47)**	(161)
Operating cash flows before movement in working capital	**3,120**	3,066
Increase in inventories	**(93)**	(305)
Decrease/(increase) in trade and other receivables	**151**	(285)
(Decrease)/increase in trade and other payables	**(140)**	85
Movement in working capital	**(82)**	(505)
Taxation paid	**(686)**	(442)
Net cash flows generated by operating activities	**2,352**	2,119
Cash flows from investing activities		
Interest received	**9**	15
Purchase of property, plant and equipment	**(269)**	(300)
Proceeds from sale of property, plant and equipment	**14**	21
Purchase of intangible assets – software	**(27)**	(24)
Purchase of intangible assets – intellectual property rights	**(9)**	–
Purchases of businesses – net of cash acquired	**(35)**	–
Proceeds from sale of businesses – net of cash disposed	**1**	–
Net cash used in investing activities	**(316)**	(288)
Cash flows from financing activities		
Interest paid	**(522)**	(515)
Cash from employees on maturity/exercise of share schemes	**6**	8
Purchase of shares by Employee Share Ownership Trusts	**(6)**	–
Increase in borrowings	**4,884**	1,335
Repayment of borrowings	**(3,443)**	(1,486)
Cash flows relating to derivative financial instruments	**(28)**	(79)
Finance lease payments	**(20)**	(2)
Purchase of treasury shares	**(500)**	(528)
Dividends paid to non-controlling interests	**(19)**	(19)
Dividends paid to owners of the parent	**(1,065)**	(983)
Net cash used in financing activities	**(713)**	(2,269)
Net increase/(decrease) in cash and cash equivalents	**1,323**	(438)
Cash and cash equivalents at start of year	**631**	1,171
Effect of foreign exchange rates on cash and cash equivalents	**(145)**	(102)
Cash and cash equivalents at end of year	**1,809**	631

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 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.

Change of Segments

During 2013 we reorganised the Tobacco business to manage our footprint based on the strategic role of groups of markets rather than their geographic proximity, with divisions focused on prioritising growth or returns. Following this reorganisation we have revised our segment reporting as required under IFRS 8. This change of segments does not affect the results or financial position of the Group. For details of the change, and to see our results on the new and former segments, refer to note 3.

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

Basis of Consolidation

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

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

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

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. A list of the principal undertakings is included on pages 137 and 138.

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. Payments due in the United States under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

Taxes

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

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

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

Tax is recognised in the 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. Other trademarks, intellectual property, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Trademarks and 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.

1 ACCOUNTING POLICIES CONTINUED

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.

A credit representing the expected return on plan assets of the retirement benefit schemes during the year is included within net finance costs. This is based on the market value of the assets of the schemes at the start of the financial year. A charge is also made within net finance costs for the expected increase in the present value of the liabilities of the retirement benefit schemes during the year arising from the schemes being one year closer to payment.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

Share-Based Payments

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

Treasury Shares

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent.

Use of Adjusted Measures

Management believes that non-GAAP or adjusted measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, acquisition accounting adjustments, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value gains and losses on derivative financial instruments in respect of commercially effective hedges, exchange gains and losses on borrowings in respect of commercially effective hedges, and related taxation effects and significant one-off tax provision charges or credits arising from the resolution of prior year tax matters. Reconciliations between adjusted and reported operating profit are included within note 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported taxation in note 8, and adjusted and reported earnings per share in note 10.

The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted results are those which are one-off in nature or which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

The principal adjustments made to reported profits are as follows:

Acquisition Accounting Adjustments

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

Amortisation and Impairment of Acquired Intangibles

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. We exclude from our adjusted measures the amortisation and impairment of acquired intangibles, other than software, and the deferred tax associated with amortisation of acquired intangibles and tax deductible goodwill. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

1 ACCOUNTING POLICIES CONTINUED

Fair Value Gains and Losses on Derivative Financial Instruments and Exchange Gains and Losses on Borrowings

IAS 39 requires that all derivative financial instruments are recognised in the consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IAS 39, in order to minimise income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings providing commercial hedges from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as they will reverse over time or are matched in future periods by interest charges. Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the commercially hedged item are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

Restructuring Costs

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation 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 Provisions

Significant one-off tax charges or credits arising from the resolution of prior year tax matters (outside of changes in estimates in the normal course of business) are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

Other Non-GAAP Measures Used by Management

Net Revenue

Net revenue comprises the Tobacco business revenue less associated duty and similar items less revenue from the sale of peripheral and non-tobacco-related products. Management considers this an important measure in assessing the performance of Tobacco operations.

Distribution Fees

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

Adjusted Net Debt

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

New Accounting Standards and Interpretations

New standards or interpretations which came into effect for the current reporting period did not have a material impact on the net assets or results of the Group.

Under IAS 19 (Revised) which becomes mandatory for the Group in its 2014 accounts, the interest charge on retirement benefit liabilities and the expected return on pension plan assets will be replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. We are monitoring the potential impact, which we expect to be an increase of around £40 million in our reported net finance costs. While the volatility of reported net finance costs is expected to increase, adjusted net finance costs will be unaffected. We do not expect the effect on the net assets of the Group to be material.

IFRS 11 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.

Other standards and interpretations issued, but not yet effective, are not expected to have a material effect on the Group's net assets or results.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed below.

Legal Proceedings and Disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

A summary of significant legal cases in which the Group is currently involved is disclosed in note 28.

Property, Plant and Equipment and Intangible Assets

Intangible assets (other than goodwill, the Davidoff cigarette trademark and certain premium cigar trademarks) and property, plant and equipment are amortised or depreciated over their useful lives which are based on management's estimates of the period over which the assets will generate revenue, and are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of property, plant and equipment and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, goodwill arising on acquisitions and indefinite lived assets are subject to impairment review. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review of property, plant and equipment and/or intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to property, plant and equipment and intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements.

See notes 11 and 12 to these financial statements.

Retirement Benefits

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Group are determined using methods relying on actuarial estimates and assumptions. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements. Details of the key assumptions are set out in note 22.

Income Taxes

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

3 SEGMENT INFORMATION

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

During 2013 we reorganised the Tobacco business to manage our footprint 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.

Following the introduction of these changes we have revised our segmental reporting as required under IFRS 8.

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 new 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.

To aid the transition from our former to our new segments we present information below for the current year on both bases, including prior year comparatives. Commencing with our half year results in 2014 we will provide our segment results on the revised basis only.

Tobacco

£ million unless otherwise indicated	2013	2012
Revenue	20,881	21,161
Net revenue	7,007	7,005
Operating profit	1,888	1,447
Adjusted operating profit	3,003	2,989
Adjusted operating margin %	42.9	42.7

Logistics

£ million unless otherwise indicated	2013	2012
Revenue	8,288	8,368
Distribution fees	850	872
Operating profit	69	75
Adjusted operating profit	176	176
Adjusted distribution margin %	20.7	20.2

New segments – revenue

	2013		2012	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Returns Markets North	13,527	13,506	13,836	13,834
Returns Markets South	3,051	2,222	3,174	2,286
Growth Markets	4,303	4,253	4,151	4,086
Total Tobacco	20,881	19,981	21,161	20,206
Logistics	8,288	8,288	8,368	8,368
Eliminations	(900)	–	(955)	–
Total Group	28,269	28,269	28,574	28,574

New segments – tobacco net revenue

£ million	2013	2012
Returns Markets North	2,929	2,924
Returns Markets South	1,824	1,889
Growth Markets	2,254	2,192
Total Tobacco	7,007	7,005

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £193 million (2012: £254 million).

New segments – adjusted operating profit and reconciliation to profit before tax

£ million	2013	2012
Tobacco		
Returns Markets North	1,543	1,502
Returns Markets South	792	854
Growth Markets	668	633
Total Tobacco	3,003	2,989
Logistics	176	176
Eliminations	1	(4)
Adjusted operating profit	3,180	3,161
Acquisition accounting adjustments – Tobacco	–	10
Amortisation of acquired intangibles – Tobacco	(288)	(283)
Amortisation of acquired intangibles – Logistics	(84)	(82)
Impairment of acquired intangibles – Tobacco	(580)	(1,187)
Restructuring costs – Tobacco	(247)	(82)
Restructuring costs – Logistics	(23)	(19)
Operating profit	1,958	1,518
Net finance costs	(697)	(437)
Profit before tax	1,261	1,081

New segments – other information

	2013		2012	
£ million	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Returns Markets North	148	82	225	69
Returns Markets South	28	34	25	35
Growth Markets	70	34	33	32
Total Tobacco	246	150	283	136
Logistics	23	35	17	35
Total Group	269	185	300	171

Additional geographic analysis

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

	2013		2012	
£ million	External revenue	Non-current assets	External revenue	Non-current assets
UK	5,007	182	5,390	166
Germany	4,105	3,180	3,931	3,064
Spain	1,832	2,080	1,849	2,691
France	3,834	3,206	3,814	3,160
USA	1,147	2,874	1,211	2,908
Other	12,344	7,957	12,379	7,661
Total Group	28,269	19,479	28,574	19,650

Revenue is allocated to countries and tobacco segments based on the location of the customer.

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

3 SEGMENT INFORMATION CONTINUED

Former segments – revenue

£ million	2013 Total revenue	2013 External revenue	2012 Total revenue	2012 External revenue
Tobacco				
UK	**5,007**	**5,007**	5,390	5,390
Germany	**4,105**	**4,105**	3,931	3,931
Spain	**435**	**35**	470	32
Rest of European Union	**4,933**	**4,433**	5,015	4,498
Americas	**1,162**	**1,162**	1,223	1,223
Rest of the World	**5,239**	**5,239**	5,132	5,132
Total Tobacco	**20,881**	**19,981**	21,161	20,206
Logistics	**8,288**	**8,288**	8,368	8,368
Eliminations	**(900)**	**–**	(955)	–
Total Group	**28,269**	**28,269**	28,574	28,574

Former segments – tobacco net revenue

£ million	2013	2012
UK	**915**	936
Germany	**907**	861
Spain	**435**	470
Rest of European Union	**1,515**	1,534
Americas	**653**	660
Rest of the World	**2,582**	2,544
Total Tobacco	**7,007**	7,005

Former segments – adjusted operating profit

£ million	2013	2012
Tobacco		
UK	**623**	627
Germany	**475**	448
Spain	**178**	202
Rest of European Union	**625**	626
Americas	**219**	214
Rest of the World	**883**	872
Total Tobacco	**3,003**	2,989
Logistics	**176**	176
Eliminations	**1**	(4)
Adjusted operating profit	**3,180**	3,161

For the purposes of the analysis above on our former segment basis, Rest of European Union comprises the EU member states plus Norway, Iceland, Liechtenstein and Switzerland. The Cuban joint ventures are included in the Rest of the World. All of the Logistics business is located in the European Union.

4 PROFIT BEFORE TAXATION

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

£ million	2013	2012
Raw materials and consumables used	**1,408**	1,467
Operating lease charges	**60**	62
Net foreign exchange losses/(gains)	**47**	(86)
Write down of inventories	**55**	27
Profit on disposal of property, plant and equipment	**(5)**	–
Impairment of trade receivables	**(1)**	1

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2013	2012
Audit of parent company and consolidated financial statements	**1.0**	0.4
Audit of the company's subsidiaries	**3.6**	4.0
Audit related assurance services	**0.1**	0.3
Other assurance services	**–**	0.1
	4.7	4.8
Tax advisory services	**0.8**	0.9
Tax compliance services	**0.1**	0.2
Other services	**0.2**	0.3
	5.8	6.2

5 RESTRUCTURING COSTS

£ million	2013	2012
Employment related	**107**	28
Asset impairments	**83**	43
Other charges	**80**	30
	270	101

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 restructurings of a number of sales forces to align with our strategy, rationalisation of our manufacturing footprint, and aligning organisational structures and resource levels with future requirements. A number of initiatives have been delivered or are underway, already delivering savings of over £30 million in our 2013 results, mostly in the second half, and we expect this figure to rise significantly in 2014. Cash outflows in 2013 for the programme were around £100 million. We additionally incurred non-cash charges of around £75 million for asset impairments mainly due to the closure of our facility in Cadiz, and charged provisions of around £50 million for actions taken which will result in cash outflows in future years. The overall charge for the year for restructuring costs under our cost optimisation programme was consequently around £225 million.

We made additional charges of around £45 million due to other restructuring activity which does not fall under our cost optimisation programme, mainly due to legacy projects and non-material disposals of non-core businesses, bringing our total restructuring costs for 2013 to £270 million (2012: £101 million).

The net charge for the year of £270 million (2012: £101 million) included £24 million (2012: £29 million) of unused provisions reversed during the year, £163 million (2012: £33 million) of additional restructuring provisions and £83 million (2012: £43 million) impairment of tangible assets. The remaining charge of £48 million (2012: £54 million) was charged directly to the consolidated income statement as incurred.

Restructuring costs of £101 million in 2012 included impairments of surplus properties in Spain, integration of our American businesses, manufacturing rationalisation in Europe and the streamlining of parts of our Logistics operations.

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

6 DIRECTORS AND EMPLOYEES

Employment costs

£ million	2013	2012
Wages and salaries	907	929
Social security costs	191	189
Pension costs (note 22)	81	45
Share-based payments (note 25)	16	22
	1,195	1,185

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report on pages 62 to 82. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2013		2012	
	At 30 September	Average	At 30 September	Average
Tobacco	29,600	30,200	31,000	30,900
Logistics	5,700	5,800	6,200	6,400
	35,300	36,000	37,200	37,300

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

	2013		2012	
	At 30 September	Average	At 30 September	Average
European Union	16,100	16,600	17,000	17,100
Americas	8,200	8,200	8,600	8,600
Rest of the World	11,000	11,200	11,600	11,600
	35,300	36,000	37,200	37,300

7 NET FINANCE COSTS

£ million	2013	2012
Interest on bank deposits	(8)	(15)
Expected return on retirement benefit assets	(168)	(168)
Fair value gains on derivative financial instruments providing commercial hedges	(578)	(761)
Fair value gains on derivative financial instruments hedging underlying borrowings	(12)	–
Exchange gains on financing activities	–	(92)
Investment income	(766)	(1,036)
Interest on bank and other loans	540	550
Interest on retirement benefit liabilities	168	187
Unwind of discount on redundancy and other long-term provisions	9	8
Fair value losses on derivative financial instruments providing commercial hedges	688	723
Fair value losses on derivative financial instruments hedging underlying borrowings	–	5
Exchange losses on financing activities	58	–
Finance costs	1,463	1,473
Net finance costs	697	437

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2013	2012
Reported net finance costs	697	437
Fair value gains on derivative financial instruments providing commercial hedges	578	761
Fair value losses on derivative financial instruments providing commercial hedges	(688)	(723)
Exchange (losses)/gains on financing activities	(58)	92
Fair value gains/(losses) on derivative financial instruments hedging underlying borrowings	12	(5)
Net fair value and exchange (losses)/gains on financial instruments providing commercial hedges	(156)	125
Expected return on retirement benefit assets	168	168
Interest on retirement benefit liabilities	(168)	(187)
Unwind of discount on redundancy and other long-term provisions	(9)	(8)
Post-employment benefits net financing cost	(9)	(27)
Adjusted net finance costs	532	535

8 TAXATION

Analysis of charge in the year

£ million	2013	2012
Current tax		
UK corporation tax at 23.5% (2012: 25%) being the average rate for the year	6	(112)
Overseas taxation	472	490
Total current tax	478	378
Deferred tax		
Origination and reversal of temporary differences	(178)	4
Total tax charged to the consolidated income statement	300	382

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

Reconciliation from reported taxation to adjusted taxation

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2013	2012
Reported taxation	300	382
Tax on acquisition accounting adjustments	–	(1)
Deferred tax on amortisation of acquired intangibles	72	69
Deferred tax on impairment of acquired intangibles	107	–
Tax on net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	9	(21)
Tax on post-employment benefits net financing cost	5	9
Tax on restructuring costs	79	29
Tax provisions released	–	137
Adjusted tax charge	572	604

8 TAXATION CONTINUED

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate for the year of 23.5 per cent (2012: 25 per cent) as follows:

£ million	2013	2012
Profit before tax	1,261	1,081
Tax at the UK corporation tax rate of 23.5% (2012: 25%)	296	270
Tax effects of:		
Differences in effective tax rates on overseas earnings	(156)	(145)
Remeasurement of deferred tax balances	44	55
Permanent differences	51	45
Non-deductible goodwill impairment	67	296
Tax provisions released	–	(137)
Adjustments in respect of prior years	(2)	(2)
Total tax charged to the consolidated income statement	300	382

Movement on current tax account

£ million	2013	2012
At 1 October	(317)	(392)
Charged to the consolidated income statement	(478)	(378)
Credited to other comprehensive income	40	6
Credited to equity	2	1
Cash paid	686	442
Exchange movements	2	8
Other movements	(4)	(4)
At 30 September	(69)	(317)
Analysed as:		
Assets	72	55
Liabilities	(141)	(372)
	(69)	(317)

9 DIVIDENDS

Dividend per share in respect of financial year

Pence	2013	2012	2011
Interim	35.2	31.7	28.1
Final	81.2	73.9	67.0
Total	116.4	105.6	95.1

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	2013	2012
Final dividend paid in the period in respect of previous financial year	724	669
Interim dividend	341	314
	1,065	983

The proposed final dividend for the year ended 30 September 2013 of 81.2p per share amounts to a proposed final dividend payment of £783 million based on the number of shares ranking for dividend at 30 September 2013, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2013 will be £1,124 million (2012: £1,038 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	2013	2012
Earnings: basic and diluted	937	678

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	973.9	995.4
Potentially dilutive share options	2.6	2.9
Shares for diluted earnings per share	976.5	998.3

Pence		
Basic earnings per share	96.2	68.1
Diluted earnings per share	96.0	67.9

Reconciliation from reported to adjusted earnings and earnings per share

	2013		2012	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	96.2	937	68.1	678
Acquisition accounting adjustments	–	–	(0.9)	(9)
Amortisation of acquired intangibles	30.8	300	29.7	296
Impairment of acquired intangibles	48.6	473	119.3	1,187
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	15.1	147	(10.4)	(104)
Post-employment benefits net financing cost	0.4	4	1.8	18
Restructuring costs	19.6	191	7.2	72
Tax provisions released	–	–	(13.8)	(137)
Adjusted	210.7	2,052	201.0	2,001
Adjusted diluted	210.1	2,052	200.4	2,001

11 INTANGIBLE ASSETS

	2013				
£ million	Goodwill	Trademarks	Supply agreements	Software	Total
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

11 INTANGIBLE ASSETS CONTINUED

£ million	Goodwill	Trademarks	Supply agreements	Software	Total
	2012				
Cost					
At 1 October 2011	13,035	7,485	1,456	142	22,118
Additions	–	–	–	24	24
Disposals	–	–	–	(6)	(6)
Exchange movements	(857)	(466)	(102)	(9)	(1,434)
At 30 September 2012	12,178	7,019	1,354	151	20,702
Amortisation and impairment					
At 1 October 2011	21	1,165	363	82	1,631
Amortisation charge for the year	–	271	94	21	386
Impairment charge for the year	1,187	–	–	–	1,187
Disposals	–	–	–	(5)	(5)
Exchange movements	–	(70)	(29)	(7)	(106)
Accumulated amortisation	–	1,366	428	91	1,885
Accumulated impairment	1,208	–	–	–	1,208
At 30 September 2012	1,208	1,366	428	91	3,093
Net book value					
At 30 September 2012	10,970	5,653	926	60	17,609

Trademarks mainly comprises brands acquired through the purchases of Altadis in 2008 and Commonwealth Brands in 2007, and also includes intellectual property. During the year the Group purchased £9 million of intellectual property rights.

Supply agreements include Logistics customer relationships and exclusive supply arrangements in Cuba. All were acquired under the purchase of Altadis.

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

Amortisation and impairment in respect of intangible assets other than software are treated as reconciling items between reported operating profit and adjusted operating profit.

Impairment charges include £0.6 billion (2012: £1.2 billion) in respect of goodwill and other intangible assets relating to the Spanish market, which are explained in more detail below.

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 the groups of CGUs are based on the geographic areas in which the Group operates. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

£ million	**2013** Goodwill	**2013** Intangible assets with indefinite lives	2012 Goodwill	2012 Intangible assets with indefinite lives
Spain	**–**	**–**	218	–
Other European Union	**4,663**	**122**	4,466	117
Americas	**1,780**	**102**	1,776	102
Cuban cigar joint ventures	**281**	**243**	281	242
Rest of the World	**2,844**	**330**	2,663	315
Tobacco	**9,568**	**797**	9,404	776
Logistics	**1,640**	**–**	1,566	–
	11,208	**797**	10,970	776

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (mainly Other European Union and Rest of the World), Commonwealth Brands in 2007 (Americas) and Altadis in 2008 (all CGUs).

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGU, 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.

%	2013 Initial growth rate	2013 Long-term rate	2012 Initial growth rate	2012 Long-term rate
Spain	**(6.5)**	**1.5**	1.7	1.5
Other European Union	**0.7**	**1.8**	5.8	1.8
Americas	**3.4**	**2.5**	5.0	2.5
Cuban cigar joint ventures	**7.1**	**4.0**	9.7	4.0
Rest of the World	**6.9**	**4.0**	12.0	4.0
Logistics	**6.3**	**1.7**	7.4	1.7

Cash flows from the three year plan period are extrapolated out to year five using the growth rate implicit in the three year plan. Estimated long-term weighted average compound annual growth rates of between 1.5 per cent and 4.0 per cent per annum are used beyond year five. In addition to the initial growth rates shown above applied to cash flows arising in existing markets, the valuation of the Cuban cigar joint ventures includes assumptions about the timing and extent of cash flows from entry to new markets.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Pre-tax discount rates in 2013 ranged from 8.4 per cent to 13.5 per cent (2012: 8.5 per cent to 13.1 per cent).

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

Spain

We have reviewed our forecasts for Spain and the carrying value of our Spanish intangible assets in the light of continued economic weakness and duty increases which have led to further legitimate market decline in Spain. Based on a revised short-term growth rate of -6.5 per cent, our review indicated a further impairment of £580 million this year. This has reduced our Spanish goodwill by £225 million to nil, and our brand intangibles by £355 million to £815 million.

Further impairment of our Spanish intangible assets could result in the event of an increase in the discount rate, or a reduction in the initial or long-term growth rates, or a reduction in the value of overall cash flows. An increase of 50 basis points in the discount rate from 13.5 per cent would result in a further impairment of £40 million, a reduction in the initial growth rate of 50 basis points in a further impairment of £23 million, and a reduction of 50 basis points in the long-term growth rate in a further impairment of £25 million. A reduction of 5 per cent in overall cash flows as compared to those used in our impairment test would result in a further impairment of £58 million.

Other CGUs

The impairment test for Americas indicated headroom of £268 million, and that an impairment would result in the event of either an increase in the discount rate of 80 basis points from 9.9 per cent, or a 200 basis point reduction in the short-term growth rate, or a 100 basis point reduction in the long-term growth rate, or an 8 per cent reduction in overall cash flows as compared to those used in our impairment test.

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

Effect of segment changes

We have performed the 2013 impairment tests as described above and as required by IAS 36 on the basis of our existing CGUs and groups of CGUs established for this purpose in accordance with our accounting policy. Following our change of segments to align with our strategy and the way we manage the business (see note 3), we will in future monitor our goodwill and other intangibles on the basis of CGUs and groups of CGUs consistent with our new segments.

12 PROPERTY, PLANT AND EQUIPMENT

£ million	2013 Property	2013 Plant and equipment	2013 Fixtures and motor vehicles	2013 Total
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**

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

The impairment charge in 2013 is mainly due to the closure of our facility in Cadiz under our cost optimisation programme. The 2012 charge related mainly to reductions in the carrying value of surplus property, acquired through the Altadis acquisition, to reflect current property market conditions, and idle machinery.

13 JOINT VENTURES

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

£ million	2013 Corporación Habanos	2013 Altabana	2013 Others	2013 Total
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

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

Transactions and balances with joint ventures

£ million	2013	2012
Sales to	68	73
Purchases from	80	97
Accounts receivable from	9	11
Current loans to	53	3
Accounts payable to	(10)	(13)

14 INVENTORIES

£ million	2013	2012
Raw materials	1,119	1,006
Work in progress	55	65
Finished inventories	1,922	1,913
Other inventories	200	148
	3,296	3,132

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 £262 million (2012: £120 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

15 TRADE AND OTHER RECEIVABLES

	2013		2012	
£ million	Current	Non-current	Current	Non-current
Trade receivables	2,809	–	2,910	–
Less: provision for impairment of receivables	(51)	–	(58)	–
Net trade receivables	2,758	–	2,852	–
Other receivables	88	73	73	80
Prepayments and accrued income	120	12	104	18
	2,966	85	3,029	98

Trade receivables may be analysed as follows:

	2013		2012	
£ million	Current	Non-current	Current	Non-current
Within credit terms	2,645	–	2,759	–
Past due by less than 3 months	68	–	57	–
Past due by more than 3 months	45	–	36	–
Amounts that are impaired	51	–	58	–
	2,809	–	2,910	–

16 CASH AND CASH EQUIVALENTS

£ million	2013	2012
Cash at bank and in hand	1,677	608
Short-term deposits and other liquid assets	132	23
	1,809	631

Cash at 30 September 2013 was held partly in preparation for repayments of borrowings due in the early part of the new financial year.

£169 million (2012: £183 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

	2013		2012	
£ million	Current	Non-current	Current	Non-current
Trade payables	1,055	–	1,036	–
Other taxes, duties and social security contributions	5,679	–	5,594	–
Other payables	165	–	151	–
Accruals and deferred income	455	17	450	18
	7,354	17	7,231	18

18 BORROWINGS

The Group's borrowings at amortised cost at the balance sheet date were as follows:

£ million	2013	2012
Current borrowings		
Finance lease liabilities	–	20
Bank loans and overdrafts	24	84
Capital market issuance:		
European commercial paper (ECP)	1,143	1,150
€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	3,276	1,254
Non-current borrowings		
Bank loans	1	–
Capital market issuance:		
€500m 5.125% notes due October 2013	–	418
€1,200m 4.375% notes due November 2013	–	993
€750m 7.25% notes due September 2014	–	600
€500m 4.0% notes due December 2015	409	389
€1,500m 8.375% notes due February 2016	1,318	1,258
£450m 5.5% notes due November 2016	471	471
$1,250m 2.05% notes due February 2018	773	–
€850m 4.5% notes due July 2018	717	682
£200m 6.25% notes due December 2018	210	212
£500m 7.75% notes due June 2019	510	509
€750m 5.0% notes due December 2019	652	623
£1,000m 9.0% notes due February 2022	1,054	1,054
$1,000m 3.5% notes due February 2023	619	–
£600m 8.125% notes due March 2024	625	625
£500m 5.5% notes due September 2026	499	499
Total non-current borrowings	7,858	8,333
Total borrowings	11,134	9,587
Analysed as:		
Capital market issuance	11,109	9,483
Finance lease liabilities	–	20
Bank loans and overdrafts	25	84

Current borrowings and non-current borrowings at 30 September 2013 include interest payable of £64 million (2012: £2 million) and £257 million (2012: £285 million) respectively.

On 2 October 2013, the €500 million 5.125% notes were repaid.

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 derivative financial instruments which are detailed in note 20) at a fixed rate throughout their life. The Group has not defaulted on any borrowings during the year (2012: no defaults).

All borrowings except finance leases are unsecured.

18 BORROWINGS CONTINUED

Undrawn borrowing facilities

At 30 September the Group had the following undrawn committed facilities in respect of which all conditions precedent had been met at that date:

£ million	2013	2012
Amounts maturing:		
Between one and two years	251	639
Between two and five years	3,474	2,415
	3,725	3,054

Included within the amount of £3,474 million maturing between two and five years is a facility of £990 million which was contractually agreed as at the year end but is not available to be drawn down until 22 November 2013.

Non-current financial liabilities

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

	2013			2012		
£ million	Borrowings	Net derivative financial liabilities	Total	Borrowings	Net derivative financial liabilities	Total
Amounts maturing:						
Between one and two years	1	72	73	2,011	(29)	1,982
Between two and five years	3,688	24	3,712	2,118	34	2,152
In five years or more	4,169	123	4,292	4,204	88	4,292
	7,858	219	8,077	8,333	93	8,426

19 FINANCIAL RISK FACTORS

Financial risk management

Overview

In the normal course of business, the Group is exposed to (amongst other risks) 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, Group Treasury, which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. It does not operate as a profit centre, nor does it enter into speculative transactions. The Group Treasury Committee (GTC) oversees the operation of Group Treasury in accordance with terms of reference set out by the Board. The Board reviews and approves all major treasury decisions. The GTC currently comprises the Group Finance Director, the Company Secretary and other senior management from Group Finance, Manufacturing and Group Treasury.

The GTC agrees a framework which sets out the current expectations and boundaries to assist in the effective oversight of Group Treasury activities, covering all key areas within Group Treasury. The Group Treasurer reports on a regular basis to the Board, including the provision of a monthly treasury report which is also provided to the GTC.

Market risk

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, foreign currency cash deposits, borrowings and non-sterling derivatives. Currently, the Group's financial results are principally exposed to gains or losses arising from fluctuations in sterling-euro and sterling-US dollar exchange rates.

Translation risk

The Group has a policy of managing its balance sheet translation risk by funding material acquisitions and the underlying material business assets with borrowings (post cross currency swaps, where necessary) in the currency of the underlying net assets. This also results in foreign currency operating profits being partially offset by foreign currency interest costs thereby minimising the translation exposure on foreign currency profits after tax.

The Group issues debt in the market or markets that are most appropriate at the time of raising new finance and has a policy of using derivative financial instruments, such as cross currency swaps and foreign exchange swaps where necessary, to change the debt into the desired currency.

Transaction risk

Material costs denominated in currencies other than the functional currencies of subsidiaries include the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. After taking into account other US dollar inflows the Group currently does not consider this foreign exchange cash flow risk to be material enough to hedge.

The Group's sterling dividend to shareholders is partly sourced from foreign subsidiary earnings. In order to manage the foreign exchange cash flow risk, and to provide greater certainty as to the amount of sterling available to pay expected future dividends, the Group has entered into transactional cross currency swaps maturing between now and 2015 that will convert expected euro dividends from subsidiaries into sterling.

Foreign currency sensitivity analysis

The tables below illustrate the Group's currency exposures arising on financial assets and liabilities held by Group companies in currencies other than their functional currencies and resulting in exchange movements in the income statement and balance sheet.

	2013			
£ million	GBP	EUR	USD	Other
Financial assets				
Trade and other receivables	14	4	103	6
Derivative financial instruments principal amounts	–	1,432	802	392
Cash and cash equivalents	–	913	12	7
Intra-Group assets	4	3,834	1,046	219
	18	6,183	1,963	624
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency value	(1)	(562)	(178)	(57)
10% decrease in functional currency value	2	687	218	69
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	–	–	–
10% decrease in functional currency value	–	–	–	–
Financial liabilities				
Trade and other payables	2	42	114	5
Derivative financial instruments principal amounts	–	293	–	305
Borrowings	8	5,435	1,396	23
Intra-Group liabilities	204	10,885	477	76
	214	16,655	1,987	409
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency value	19	390	180	37
10% decrease in functional currency value	(24)	(476)	(221)	(45)
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	1,124	–	–
10% decrease in functional currency value	–	(1,374)	–	–

19 FINANCIAL RISK FACTORS CONTINUED

	2012			
£ million	GBP	EUR	USD	Other
Financial assets				
Trade and other receivables	5	–	79	2
Derivative financial instruments principal amounts	–	1,978	564	350
Cash and cash equivalents	58	19	127	4
Intra-Group assets	–	4,475	1,518	58
	63	6,472	2,288	414
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency value	(6)	(588)	(208)	(38)
10% decrease in functional currency value	7	719	254	46
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	–	–	–
10% decrease in functional currency value	–	–	–	–
Financial liabilities				
Trade and other payables	1	4	21	–
Derivative financial instruments principal amounts	–	4,363	1,184	113
Borrowings	–	5,404	113	27
Intra-Group liabilities	–	10,638	718	206
	1	20,409	2,036	346
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency	–	684	185	29
10% decrease in functional currency	–	(837)	(226)	(35)
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency	–	1,171	–	2
10% decrease in functional currency	–	(1,431)	–	(3)

The above movements in foreign exchange rates are considered to represent reasonably possible changes. Other larger or smaller changes are also possible. The sensitivity analysis has been prepared on the basis that the amount of net debt and the proportion of financial instruments in foreign currencies are all constant and on the basis of the designated net investment hedges in place at 30 September. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates and ignores any 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 although commercially effective (see note 20 for hedge accounting). This value is expected to be substantially offset by related movements through other comprehensive income and, accordingly, any residual gain or loss is excluded from our adjusted performance measures.

At 30 September 2013, approximately 16 per cent (2012: 24 per cent) of reported net debt was denominated in sterling, 70 per cent in euro (2012: 56 per cent) and 14 per cent in US dollars (2012: 20 per cent).

Cash flow and fair value interest rate risk
The Group's interest rate risk arises from borrowings net of cash and cash equivalents. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and finance lease liabilities.

The Group transacts interest rate swaps to achieve an appropriate balance of fixed and floating interest rates within limits set out in the interest rate risk section of the framework, approved by the GTC.

At 30 September 2013, including the effect of derivative financial instruments detailed in note 20, 49 per cent (2012: 31 per cent) of reported net debt was at floating rates of interest and 51 per cent (2012: 69 per cent) was at fixed rates of interest.

Interest rate sensitivity analysis

The table below illustrates the effect on the income statement of movements in interest rates related to the Group's net variable rate debt. These movements have no net impact on other comprehensive income.

	2013				
£ million	**Total**	**GBP**	**EUR**	**USD**	**Other**
Borrowings	**(11,134)**	**(3,450)**	**(6,275)**	**(1,399)**	**(10)**
Cash	**1,809**	**153**	**1,114**	**26**	**516**
Net debt	**(9,325)**	**(3,297)**	**(5,161)**	**(1,373)**	**506**
Fixed rate debt	**9,966**	**3,369**	**5,205**	**1,392**	**–**
Adjust for the effect of derivative financial instruments	**(5,181)**	**(2,241)**	**(2,046)**	**(894)**	**–**
Net variable rate debt exposure	**(4,540)**	**(2,169)**	**(2,002)**	**(875)**	**506**
Potential impact on consolidated income statement – (loss)/gain					
100bps increase applied to variable rate debt	**(46)**	**(22)**	**(20)**	**(9)**	**5**
Up to 100bps decrease applied to variable rate debt	**15**	**11**	**5**	**2**	**(3)**

	2012				
£ million	Total	GBP	EUR	USD	Other
Borrowings	(9,587)	(3,420)	(6,093)	–	(74)
Cash	631	–	221	20	390
Net debt	(8,956)	(3,420)	(5,872)	20	316
Fixed rate debt	8,353	3,390	4,963	–	–
Adjust for the effect of derivative financial instruments	(2,151)	(597)	(1,461)	(140)	47
Net variable rate debt exposure	(2,754)	(627)	(2,370)	(120)	363
Potential impact on consolidated income statement – (loss)/gain					
100bps increase applied to variable rate debt	(27)	(6)	(24)	(1)	4
Up to 100bps decrease applied to variable rate debt	7	4	5	–	(2)

The impact of a decrease in market interest rates has been curtailed by the low rates prevailing at the balance sheet date, such that a reduction of 100 basis points is not reasonably foreseeable; therefore this sensitivity reduces the relevant benchmark rate for each currency to zero per cent.

The above movements in interest rates are considered to represent reasonably possible changes. Other larger or smaller changes are also possible. The sensitivity analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives portfolio are all constant.

The impact in the consolidated income statement due to changes in interest rates reflects the effect on net finance costs in respect of the Group's floating rate debt at 30 September, and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements.

Interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments where necessary to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the interest rate risk management section of the framework. Interest rate swaps entered into in order to change fixed rate debt into floating rate debt match the maturity profile of the underlying debt. The Group is therefore exposed to the risk that interest rates will increase over time which will increase the cost of the floating rate portion of the debt portfolio. The maturity profile of the Group's borrowings is detailed in the contractual cash flows table below, which also includes the net contractual cash flows on derivative financial instruments (as detailed in note 20), as part of the Group's liquidity risk.

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, credit facilities, commercial paper and corporate bonds. Management periodically performs stress tests and sensitivity analyses on these forecasts, which are subsequently reviewed by the Audit Committee. The Group is exposed to liquidity risk as a result of credit risk on undrawn committed borrowing facilities or when drawn committed facilities are due to be rolled over; that is to say if a counterparty was unable to provide credit as it was required to do so, the Group would have increased liquidity risk. Undrawn committed borrowing facilities are detailed in note 18. Credit risk for financial counterparties is discussed below in the credit risk section.

19 FINANCIAL RISK FACTORS CONTINUED

As well as forecasting and monitoring the Group's core liquidity needs, the Group Treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, loans from central finance companies on commercial terms, or in some limited cases through local borrowings by the subsidiaries in the required currencies. Available liquidity from subsidiary companies is remitted to Group Treasury where practical and possible on a regular basis.

The table below summarises the Group's non-derivative 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 detailed in note 20.

	2013					
£ million	**Balance sheet amount**	**Contractual cash flows Total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
Non-derivative financial liabilities:						
Bank loans	**25**	**25**	**24**	**1**	**–**	**–**
Capital market issuance	**11,109**	**13,851**	**3,096**	**1,514**	**4,725**	**4,516**
Trade payables	**1,055**	**1,055**	**1,055**	**–**	**–**	**–**
Total non-derivative financial liabilities	**12,189**	**14,931**	**4,175**	**1,515**	**4,725**	**4,516**

	2012					
£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	84	84	84	–	–	–
Capital market issuance	9,483	13,103	1,695	2,422	3,091	5,895
Trade payables	1,036	1,036	1,036	–	–	–
Finance lease liabilities	20	20	20	–	–	–
Total non-derivative financial liabilities	10,623	14,243	2,835	2,422	3,091	5,895

Capital management

The Group manages the capital structure in an efficient manner in order to minimise the cost of capital whilst ensuring access to ongoing sources of finance such as the debt capital markets. The Group defines capital as adjusted net debt (see note 30) and equity attributable to owners of the parent company (see Consolidated Statement of Changes in Equity). The only externally imposed capital requirements for the Group are interest cover and gearing covenants under the terms of the bank facilities, with which we have fully complied during both the current period and the prior period.

The Group manages the capital structure to maintain an investment grade credit rating and has taken and will continue to take the appropriate measures to maintain this, including ongoing consideration of the return of capital to shareholders through an appropriate mix of share buybacks and dividends, or raising equity to finance material acquisitions.

Fair value estimation and fair values of financial assets and financial liabilities

All financial assets and financial 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 of IFRS 7).

With the exception of issued bonds, the fair value of all financial assets and financial liabilities is considered to be approximate to their carrying amount. Set out below is a comparison of carrying amount of the Group's bonds (as detailed in note 18) to their fair value, by currency. The fair value of these bonds has been determined by reference to market prices as at the balance sheet date.

	2013		2012	
£ million	**Balance sheet amount**	**Fair value**	Balance sheet amount	Fair value
GBP	**3,369**	**4,047**	3,370	4,374
EUR	**5,205**	**5,516**	4,963	5,581
USD	**1,392**	**1,348**	–	–
Total bonds	**9,966**	**10,911**	8,333	9,955

Credit risk

The Group is exposed to credit risk arising from its trade receivables due from customers, as well as from cash and cash equivalents and the fair value of derivative financial instruments in asset positions transacted with financial institutions.

Trade and other receivables

The Group has some significant concentrations of customer credit risk. However, the Group has implemented policies to ensure that sales of products are made to customers with an appropriate credit history and obtains guarantees or other means of credit support to reduce the risk where this is considered necessary. Analysis of trade and other receivables is provided in note 15.

Financial instruments

The Group has a policy of having no concentrations of credit risk from financial institutions that are in excess of limits agreed by the Group Treasury Committee. The Group has placed cash deposits and entered into derivative financial instruments with a diversified group of financial institutions with suitable credit ratings in order to manage its credit risk with any one financial institution. Utilisation of credit limits is regularly monitored and to reduce credit exposures, the Group has ISDA Master Agreements with most of its counterparties for financial derivatives, which permit net settlement of assets and liabilities in certain circumstances. In limited cases, collateral is deposited against derivative financial liabilities and these are supported by an ISDA Credit Support Annex in each case.

The table below summarises the Group's 5 largest financial institution counterparties, based on maximum exposure to credit risk, by credit rating and balances at 30 September. As at the balance sheet date, management does not expect these counterparties to default on their current obligations.

	2013		2012	
	S&P credit rating	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Counterparty exposure				
Highest	**A**	**113**	A+	128
2nd highest	**A**	**112**	A-	115
3rd highest	**A+**	**112**	A	113
4th highest	**A**	**112**	AA-	92
5th highest	**A**	**111**	A	74

The Group considers its maximum aggregate credit risk to be £5,175 million at 30 September 2013 (2012: £4,443 million), which includes trade receivables, derivative financial assets and cash and cash equivalents.

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments, at fair value, at the balance sheet date were as follows:

	2013			2012		
£ million	**Assets**	**Liabilities**	**Net fair value**	Assets	Liabilities	Net fair value
Current derivative financial instruments						
Interest rate swaps and swaptions	**203**	**(158)**	**45**	205	(175)	30
Forward foreign currency contracts	**3**	**(50)**	**(47)**	11	(9)	2
Cross currency swaps	**39**	**(17)**	**22**	37	(9)	28
Total current derivatives	**245**	**(225)**	**20**	253	(193)	60
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	**–**	**6**	**6**	13	11	24
	245	**(219)**	**26**	266	(182)	84
Non-current derivative financial instruments						
Interest rate swaps and swaptions	**312**	**(470)**	**(158)**	620	(652)	(32)
Cross currency swaps	**–**	**(165)**	**(165)**	19	(138)	(119)
Total non-current derivatives	**312**	**(635)**	**(323)**	639	(790)	(151)
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	**–**	**104**	**104**	(3)	61	58
	312	**(531)**	**(219)**	636	(729)	(93)
Total carrying value of derivative financial instruments	**557**	**(750)**	**(193)**	902	(911)	(9)

20 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current according to their undiscounted contractual cash settlements applying spot rates as at the balance sheet date as required. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

	2013					
£ million	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)**

	2012					
£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	46	(44)	35	22	(61)	(40)
Gross settled derivatives:	(55)					
Receipts		7,620	3,589	429	1,847	1,755
Payments		(7,262)	(3,544)	(389)	(1,689)	(1,640)
	(9)	314	80	62	97	75

The tables above show all contractual cash flows (interest and exchange of principals) for all derivative financial instruments held at the balance sheet date. In order to disclose more comparable data from year-to-year, the presentation of these tables has been changed to include all derivative financial instruments, as prior year disclosures showed only derivative financial liabilities.

Derivatives as hedging instruments

The Group has entered into various cross currency swaps, forward foreign currency contracts, interest rate swaps and swaptions to manage foreign exchange and interest rate risk arising on financial assets and liabilities. These risks are discussed in more detail in note 19.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IAS 39, in order to minimise income statement volatility.

Applied as commercial hedges

As mentioned in note 19, interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments where necessary to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the interest rate risk section of the risk management framework.

Interest rate swaps and swaptions

Interest rate swaps entered into to change fixed rate borrowings into floating rate borrowings:

	2013			
£ million	Notional	Fair value	Receiving rates between	Paying rates between
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**		

	2012			
£ million	Notional	Fair value	Receiving rates between	Paying rates between
GBP	2,100	392	7.5% to 8.7%	LIBOR plus 301bps to 511bps
EUR	4,150	289	3.9% to 8.0%	EURIBOR plus 55bps to 503bps
USD	1,242	107	4.2% to 5.5%	LIBOR plus 175bps to 285bps
	7,492	788		

The movement in USD receiving rates from 2012 to 2013 is due to the replacement of synthetic USD variable rate debt, created by cross currency swaps, with fixed rate bonds (as detailed in note 18) issued in the year and subsequently changed into floating rate using interest rate swaps.

Interest rate swaps entered into to manage the Group's exposure to interest rate risk:

£ million	**2013** Notional	Fair value	Paying rates between	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)**		

£ million	2012 Notional	Fair value	Paying rates between	Receiving
GBP	1,726	(255)	3.0% to 5.7%	LIBOR
EUR	4,509	(274)	2.0% to 5.1%	EURIBOR
USD	1,102	(176)	1.4% to 4.7%	LIBOR
	7,337	(705)		

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 2013 to determine whether, and if so when, such options are likely to be exercised in order to determine the probable maturity date. The actual maturity date could be earlier or later depending upon future market conditions and a cancellation would not result in a cash flow other than in respect of interest outstanding at the cancellation date. The effect of the cancellation of any of these interest rate swaps would be to reduce the proportion of the Group's borrowings that were at a fixed rate, increasing the Group's exposure to cash flow interest rate risk. The embedded options are as follows:

- £15 million interest rate swap maturing in 2031 where the counterparty has the option to cancel every six months throughout the life of the trade. This trade is expected to be cancelled in October 2023.
- £50 million interest rate swap maturing in 2041 where the counterparty has the option to cancel every five years throughout the life of the trade. This trade is expected to be cancelled in October 2023.

Additionally, the Group has entered into several forward starting interest rate swaps with a total notional amount of £1,266 million equivalent (2012: £1,135 million equivalent) with tenors extending between 5 and 10 years, starting between April 2014 and May 2017. The fair value of these swaps was a net liability of £43 million (2012: net liability of £73 million) as at the balance sheet date.

The Group has sold options to two counterparties providing them with the right to transact interest rate swaps with notional values of €100 million and £100 million. The options are available for exercise by the counterparty on 27 March 2014 and 30 April 2014 and if exercised, would result in the Group paying fixed rates of 2.79 per cent and 2.72 per cent respectively for 5 years. The fair value of these instruments was a net liability of £11 million as at the balance sheet date (2012: net liability of £13 million).

Forward foreign currency contracts
The Group has entered into forward foreign currency contracts to manage short-term foreign currency exposures. As at 30 September 2013 the notional amount of these contracts was £3,011 million equivalent (2012: £2,373 million equivalent) and the fair value of these swaps and contracts was a net liability of £47 million (2012: net asset of £2 million) as at the balance sheet date.

Cross currency swaps
The Group has entered into cross currency swaps to manage the risk of foreign exchange cash flows relating to interest and dividends. As at the balance sheet date, the following cross currency swaps were in place for the reasons set out below.

To manage foreign exchange cash flow risk associated with converting euro dividends from subsidiaries into sterling. As at 30 September 2013 the notional amount of these contracts was £1,299 million equivalent (2012: £2,311 million) and the fair value of these swaps was a net liability of £69 million (2012: net asset of £9 million). Principal amounts are exchanged at the start and maturity of these trades.

To convert issued fixed rate debt into the desired currency at floating rates of interest. As at 30 September 2013 the notional amount of these contracts was £650 million equivalent (2012: £1,828 million equivalent) and the fair value of these swaps was a net liability of £73 million (2012: net liability of £100 million). Principal amounts are exchanged at the start and maturity of these trades.

To convert floating rate sterling debt (after interest rate swaps) into the desired currency at floating rates of interest. As at 30 September 2013 the notional amount of these contracts was £1,000 million equivalent (2012: £nil) and the fair value of these swaps was a net liability of £1 million (2012: £nil). Principal amounts will be exchanged at maturity of these trades.

20 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Designated as hedges of net investments in foreign operations

At 30 September 2013 external debt with a carrying value of €6,507 million (2012: €6,424 million) and cross currency swaps with a notional value of €2,835 million (2012: €2,922 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 €5,608 million (2012: €6,792 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 losses amounting to £662 million (2012: £1,143 million gain) were transferred to reserves through other comprehensive income.

Reconciliation of fair value gains/(loss) on derivative financial instruments

The movements in the carrying value of derivative financial instruments in the year were as follows:

	2013			
	Fair value attributable to currency movements recognised in:		**Fair value attributable to interest rate movements recognised in:**	
£ million	**Comprehensive income**	**Income statement**	**Income statement**	**Total**
Derivative financial instruments:				
Gains arising on commercial hedges (note 7)	**–**	**99**	**479**	**578**
Losses arising on commercial hedges (note 7)	**–**	**(99)**	**(589)**	**(688)**
Gains offsetting underlying borrowings (note 7)	**–**	**12**	**–**	**12**
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)**

	2012			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on commercial hedges (note 7)	–	122	639	761
Losses arising on commercial hedges (note 7)	–	(157)	(566)	(723)
Losses offsetting underlying borrowings (note 7)	–	(5)	–	(5)
Gains arising on instruments designated as net investment hedges	288	–	–	288
Net fair value gains/(losses) on derivative financial instruments	288	(40)	73	321
Net fair value of derivatives at 30 September 2011				(409)
Cash flows relating to derivative financial instruments				79
Net fair value of derivatives at 30 September 2012				(9)

21 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

£ million	2013	2012
Deferred tax assets	153	142
Deferred tax liabilities	(1,820)	(1,877)
	(1,667)	(1,735)

Deferred tax expected to be recovered within 12 months

£ million	2013	2012
Deferred tax assets	65	32
Deferred tax liabilities	(121)	(100)
	(56)	(68)

Deferred tax assets

	2013				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(67)	158	3	48	142
Credited/(charged) to consolidated income statement	31	2	(1)	10	42
Charged to other comprehensive income	–	(26)	–	–	(26)
Transfers	–	7	–	(9)	(2)
Exchange movements	(16)	15	–	(2)	(3)
At 30 September 2013	(52)	156	2	47	153

	2012				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2011	(65)	100	–	67	102
Credited/(charged) to consolidated income statement	14	(11)	(1)	37	39
Credited to other comprehensive income	–	79	–	–	79
Credited to equity	–	–	–	1	1
Transfers	(50)	8	4	(47)	(85)
Other movements	–	–	–	(4)	(4)
Exchange movements	34	(18)	–	(6)	10
At 30 September 2012	(67)	158	3	48	142

Deferred tax liabilities

	2013				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
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)

21 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

	2012				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2011	(2,365)	58	4	247	(2,056)
Credited/(charged) to consolidated income statement	54	–	–	(97)	(43)
Credited to other comprehensive income	–	17	–	–	17
Transfers	50	(8)	(4)	47	85
Exchange movements	138	(4)	–	(14)	120
At 30 September 2012	(2,123)	63	–	183	(1,877)

Within other temporary differences, deferred tax assets of £25 million (2012: £24 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 £598 million (2012: £593 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, £486 million (2012: £539 million) losses are expected to expire at approximately £60 million (2012: £60 million) per annum between 2014 and 2021, £12 million (2012: £12 million) are expected to expire within 5 years, £15 million (2012: nil) are expected to expire within 7 years and £69 million (2012: £38 million) are expected to expire between 2023 and 2029.

Also within other temporary differences, deferred tax assets of £22 million (2012: £48 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 £131 million (2012: £57 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. These unrecognised deferred tax assets are expected to expire between 2016 and 2021.

We have reviewed the recoverability of deferred tax assets in an overseas territory in the light of further economic deterioration in economic indicators. Consequently, we have reduced deferred tax assets by £44 million (2012: £55 million) relating to losses and tax credits previously recognised on the basis that it was more likely than not that these were not 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 (2012: £8 billion). A provision of £6 million (2012: £6 million) has been made for taxation expected to arise on a planned future dividend payment of £92 million from one subsidiary. No liability has been recognised in respect of other differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

The rate of UK corporation tax was reduced by 1 per cent from 24 per cent to 23 per cent from 1 April 2013. Further reductions to 21 per cent from 1 April 2014 and 20 per cent from 1 April 2015 were enacted at the balance sheet date and are 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 final salary defined benefit schemes and are operated by Imperial Tobacco Limited in the UK and Reemtsma Cigarettenfabriken GmbH in Germany. The UK scheme's assets are held in trustee administered funds, whereas the German scheme is unfunded. The UK defined benefit scheme was closed to new members with effect from 1 October 2010 and since that date new employees are offered a defined contribution scheme instead.

The results of the most recent actuarial valuation for the principal UK scheme have been updated to 30 September 2013 by Towers Watson Limited, actuaries and consultants, in order to determine the amounts to be included in the Group's consolidated financial statements. Actuarial valuations of the pension liabilities of other schemes of the Group were made as at or updated to 30 September 2013 by the various actuaries to those schemes.

Amounts recognised in the consolidated income statement

£ million	**2013**	2012
Current service cost	**55**	43
Past service cost	**(2)**	(18)
Losses from special termination benefits	**11**	2
Defined benefit costs in operating profit	**64**	27
Interest on retirement benefit liabilities	**168**	187
Expected return on retirement benefit assets	**(168)**	(168)
Retirement benefits net financing costs in net finance costs (note 7)	**–**	19
Total defined benefit scheme cost	**64**	46
Defined contribution costs in operating profit	**17**	18
Total retirement benefit scheme costs in the consolidated income statement	**81**	64

Retirement benefit scheme costs charged to operating profit

£ million	2013	2012
Defined benefit costs in operating profit	64	27
Defined contribution costs in operating profit	17	18
Total retirement benefit scheme costs in operating profit	81	45

Split as follows in the consolidated income statement:

£ million	2013	2012
Cost of sales	35	33
Distribution, advertising and selling costs	28	22
Administrative and other expenses	18	(10)
Total retirement benefit scheme costs in operating profit	81	45

Defined benefit schemes – amounts recognised in the consolidated balance sheet

£ million	2013	2012
Present value of funded obligations	(3,566)	(3,361)
Fair value of scheme assets	3,349	3,099
	(217)	(262)
Present value of unfunded obligations	(837)	(784)
	(1,054)	(1,046)

Recognised in the consolidated balance sheet as:

£ million	2013	2012
Retirement benefit assets	1	–
Retirement benefit liabilities	(1,055)	(1,046)
	(1,054)	(1,046)

Defined benefit scheme obligations – changes in present value

£ million	2013	2012
At 1 October	4,145	3,630
Current service cost	55	43
Past service cost	(2)	(18)
Special termination benefits	11	2
Interest cost	168	187
Actuarial losses	199	588
Contributions by employees	2	3
Benefits paid	(218)	(212)
Other adjustments	(7)	–
Exchange movements	50	(78)
At 30 September	4,403	4,145

Defined benefit scheme assets – changes in fair value

£ million	2013	2012
At 1 October	3,099	2,876
Expected return on scheme assets	168	168
Actuarial gains	196	184
Contributions by employees	2	3
Contributions by employer	98	101
Benefits paid	(218)	(212)
Other adjustments	(5)	–
Exchange movements	9	(21)
At 30 September	3,349	3,099

The actual return on defined benefit scheme assets was £364 million (2012: £352 million).

22 RETIREMENT BENEFIT SCHEMES CONTINUED

Amounts recognised in other comprehensive income

£ million	2013	2012
Net actuarial losses	3	404
Cumulative net actuarial losses since 1 October 2004	812	809

Defined benefit scheme – principal actuarial assumptions used in scheme valuations

	2013		
%	UK	Germany	Other
Discount rate	4.30	3.45	3.68
Expected return on scheme assets	5.76	n/a	4.54
Future salary increases	4.80	3.10	3.44
Future pension increases	3.30	2.00	1.32
Inflation	3.30	2.00	2.09

	2012		
%	UK	Germany	Other
Discount rate	4.30	3.60	3.56
Expected return on scheme assets	5.70	n/a	4.86
Future salary increases	4.30	3.10	3.66
Future pension increases	2.80	2.00	1.35
Inflation	2.80	2.00	2.20

Other represents the weighted averages of the rates used for schemes outside the UK and Germany.

We estimate that a 0.5 per cent increase in the discount rate for all plans would have increased the IAS 19 pension expense by approximately £0.3 million and a 0.5 per cent decrease would have reduced the pension expense by £1.4 million. We estimate that a 0.5 per cent decrease/(increase) in the expected return on plan assets would have increased/(decreased) the IAS 19 pension expense by approximately £15.0 million.

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory, and are provided in the table below for the defined benefit schemes in the UK and Germany, which in aggregate represent 84 per cent (2012: 84 per cent) of the Group's total defined benefit scheme obligations at the year end. The average life expectancy, in years, of a pensioner retiring at age 65 is as follows:

	2013			
	UK		Germany	
	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

	2012			
	UK		Germany	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.0	22.9	18.6	22.6
Member currently aged 50	22.1	24.1	20.6	24.6

Categories of scheme assets

£ million unless otherwise indicated	2013 UK Fair value	2013 UK Percentage of UK assets %	2013 Germany Fair value	2013 Germany Percentage of other assets %
Equities	**1,345**	**46**	**141**	**33**
Bonds	**965**	**33**	**244**	**57**
Property	**322**	**11**	**11**	**3**
Other	**292**	**10**	**29**	**7**
	2,924	**100**	**425**	**100**

£ million unless otherwise indicated	2012 UK Fair value	2012 UK Percentage of UK assets %	2012 Germany Fair value	2012 Germany Percentage of other assets %
Equities	1,189	44	134	34
Bonds	920	34	216	55
Property	325	12	13	3
Other	271	10	31	8
	2,705	100	394	100

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco Group PLC amounted to £3 million (2012: £3 million).

History of the plans

£ million	2013	2012	2011	2010	2009
At 30 September					
Present value of defined benefit obligations	**4,403**	4,145	3,630	3,802	3,592
Fair value of total plan assets	**3,349**	3,099	2,876	2,960	2,798
Net total (deficit)/surplus on plans	**(1,054)**	(1,046)	(754)	(842)	(794)
Experience (loss)/gain on total plan liabilities	**(5)**	(36)	(24)	63	8
Experience gain/(loss) on total plan assets	**196**	184	(158)	146	(58)

UK scheme triennial valuation and contribution levels

Following completion in 2011 of the triennial valuation of the Imperial Tobacco Pension Fund (ITPF – the main UK Group scheme) as at 31 March 2010, the level of employer's contributions to this scheme was increased from nil to £31 million per year as set by the ITPF actuary. This level of contribution will be reviewed again when the next triennial valuation is completed later this year at which time future payments may be increased or decreased.

In relation to the last triennial valuation, the assumptions which had the most significant effect when valuing the ITPF's liabilities were those relating to the rate of investment return on the ITPF's existing assets, the rates of increase in pay and pensions and estimated mortality rates. On the basis that the ITPF is continuing, it was assumed that the future investment returns relative to market values at the valuation date would be 5.5 per cent per annum and that pay and pension increases would average 5.0 per cent and 3.5 per cent respectively. The assets were brought into account at their market value.

At 31 March 2010 the market value of the invested assets of the ITPF was £2,622 million. The total assets were sufficient to cover 100 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 88 per cent of the total benefits that had accrued to members for past service and future service benefits for current members.

23 PROVISIONS

£ million	Restructuring 2013	Other 2013	Total 2013
At 1 October 2012	**221**	**292**	**513**
Additional provisions charged to the consolidated income statement	**163**	**49**	**212**
Unwind of discount on redundancy and other long-term provisions	**3**	**6**	**9**
Amounts used	**(152)**	**(61)**	**(213)**
Unused amounts reversed	**(24)**	**(22)**	**(46)**
Exchange movements	**11**	**13**	**24**
At 30 September 2013	**222**	**277**	**499**

Analysed as:

£ million	2013	2012
Current	**92**	103
Non-current	**407**	410
	499	513

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.

24 SHARE CAPITAL

£ million	2013	2012
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2012: 1,067,942,881)	**107**	107

25 SHARE SCHEMES

The Group operates three types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

Share Matching Scheme

Awards are made to eligible employees who are invited to invest a proportion of their 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 on pages 62 to 82.

Analysis of charge to the consolidated income statement

£ million	2013	2012
Share Matching Scheme	**16**	17
Long Term Incentive Plan	**(2)**	2
Sharesave Plan	**2**	3
	16	22

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2013 was £2.1 million (2012: £2.1 million).

Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated	2013 Share matching awards	2013 LTIP awards	2013 Sharesave options	2013 Sharesave weighted average exercise price £
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**

Thousands of shares unless otherwise indicated	2012 Share matching awards	2012 LTIP awards	2012 Sharesave options	2012 Sharesave weighted average exercise price £
Outstanding at 1 October 2011	2,981	1,089	2,157	14.64
Granted	856	349	610	20.45
Lapsed/cancelled	(174)	(264)	(97)	15.77
Exercised	(925)	(245)	(871)	12.96
Outstanding at 30 September 2012	2,738	929	1,799	17.31
Exercisable at 30 September 2012	–	–	107	15.59

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £23.27 (2012: £24.20). The weighted average fair value of sharesave options granted during the year was £2.68 (2012: £3.55).

Summary of awards/options outstanding at 30 September 2013

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2011	**927**	**4**	**n/a**
2012	**750**	**16**	**n/a**
2013	**1,046**	**28**	**n/a**
Total awards outstanding	**2,723**		
Long Term Incentive Plan			
2008	**5**	**–**	**n/a**
2009	**17**	**–**	**n/a**
2010	**284**	**1**	**n/a**
2011	**299**	**13**	**n/a**
2012	**331**	**26**	**n/a**
Total awards outstanding	**936**		
Sharesave Plan			
2008	**2**	**–**	**17.50**
2009	**152**	**10**	**12.54**
2010	**114**	**8**	**15.63**
2011	**361**	**13**	**17.80**
2012	**455**	**24**	**20.45**
2013	**653**	**35**	**18.40**
Total options outstanding	**1,737**		

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.

25 SHARE SCHEMES CONTINUED

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 2013 and 2012 is as follows.

	2013		2012	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	0.5	0.6 – 1.2	0.5	0.7 – 1.3
Volatility (based on 3 or 5 year history) %	18.0	10.1 – 23.0	24.7	23.1 – 31.5
Expected lives of options granted years	3	3 – 5	3	3 – 5
Dividend yield %	4.4	4.4	4.7	4.7
Fair value £	20.32	2.22 – 4.61	21.46	3.51 – 4.94
Share price used to determine exercise price £	23.18	23.00	24.73	25.56
Exercise price £	n/a	18.40	n/a	20.45

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2013 and 2012 are given in the following table.

%	2013	2012
Future Imperial Tobacco Group share price volatility	18	22
Future Imperial Tobacco Group dividend yield	4.4	4.7
Share price volatility of the tobacco and alcohol comparator group	14 – 29	18 – 44
Share price volatility of the FTSE 100 comparator group	15 – 50	18 – 104
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	40	35
Correlation between Imperial Tobacco and the FTSE 100 comparator group	40	40

Employee Share Ownership Trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million (2012: £19.2 million) and an interest free loan of £181.9 million (2012: £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 2013. 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	2013	2012
At 1 October	4.1	4.8
Distribution of shares held by Employee Share Ownership Trusts	(1.2)	(1.8)
Gift of treasury shares	0.4	1.1
At 30 September	3.3	4.1

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.8 million (2012: 1.8 million) shares acquired in the open market at a cost of £16.7 million (2012: £23.3 million) and 2.5 million (2012: 2.3 million) treasury shares gifted to the Trusts by the Group, of which 0.4 million were gifted in this financial year (2012: 1.1 million).

26 TREASURY SHARES

On 16 May 2011, the Group recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During 2013 the Group purchased 21,287,000 shares under the programme (2012: 21,865,000) at a cost of £500 million (2012: £528 million).

Millions of shares	2013	2012
At 1 October	77.8	57.0
Gift to Employee Share Ownership Trusts	(0.4)	(1.1)
Purchase of treasury shares	21.3	21.9
At 30 September	98.7	77.8
Percentage of issued share capital %	9.2	7.3

27 COMMITMENTS

Capital commitments

£ million	2013	2012
Contracted but not provided for:		
Property, plant and equipment and software	159	123

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

£ million	2013	2012
Property		
Within one year	35	35
Between one and five years	78	80
Beyond five years	18	16
	131	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.

In August 2012 Imperial Tobacco Ukraine (ITU) received a decision from the State Tax Service Department (the Department) seeking to apply financial sanctions equivalent to approximately £87 million based on ITU's alleged contravention of the law on state regulation of production and circulation of alcohol and tobacco, by engaging in the wholesale trade of tobacco without the correct licence.

ITU's appeal against the decision was upheld by the Circuit Administrative Court in Kiev in October 2012. The Department's appeal to the Kiev Administrative Court of Appeal was dismissed in February 2013 and its further appeal to the Superior Administrative Court of Ukraine was dismissed in June 2013. In August 2013, the Superior Administrative Court of Ukraine dismissed the Department's application for its decision to be reviewed by the Supreme Court of Ukraine. There are limited circumstances in which the Department could file a further appeal and ITU has been advised that the prospect of this happening is low. As a consequence, the Group has not provided for any amount in the financial statements in respect of this matter.

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 is deferred until 2014. This gave rise to goodwill of £41 million, largely representing the value of the sales force in place.

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 2012	631	(1,254)	(8,333)	(9)	(8,965)
Cash flow	1,323	7	(1,428)	28	(70)
Reallocated from non-current to current	–	(2,108)	2,108	–	–
Accretion of interest	–	(62)	28	–	(34)
Change in fair values	–	–	–	(212)	(212)
Exchange movements	(145)	141	(233)	–	(237)
At 30 September 2013	1,809	(3,276)	(7,858)	(193)	(9,518)

30 NET DEBT CONTINUED

Analysis by denomination currency

£ million	2013 GBP	2013 EUR	2013 USD	2013 Other	2013 Total
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)

£ million	2012 GBP	2012 EUR	2012 USD	2012 Other	2012 Total
Cash and cash equivalents	–	221	20	390	631
Total borrowings	(3,420)	(6,093)	–	(74)	(9,587)
	(3,420)	(5,872)	20	316	(8,956)
Effect of cross currency swaps	1,150	678	(1,828)	–	–
	(2,270)	(5,194)	(1,808)	316	(8,956)
Derivative financial instruments					(9)
Net debt					(8,965)

Adjusted net debt

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

£ million	2013	2012
Reported net debt	(9,518)	(8,965)
Accrued interest	321	287
Fair value of derivatives providing commercial hedges	99	(94)
Finance lease liabilities	–	20
Adjusted net debt	(9,098)	(8,752)

31 RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2013	2012
Increase/(decrease) in cash and cash equivalents	1,323	(438)
Cash flows relating to derivative financial instruments	28	79
Increase in borrowings	(4,884)	(1,335)
Repayment of borrowings	3,443	1,486
Repayment of finance leases	20	2
Change in net debt resulting from cash flows	(70)	(206)
Other non-cash movements including revaluation of derivative financial instruments	(246)	331
Exchange movements	(237)	351
Movement in net debt during the year	(553)	476
Opening net debt	(8,965)	(9,441)
Closing net debt	(9,518)	(8,965)

Independent Auditors' Report

to the Members of Imperial Tobacco Group PLC

REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

Our Opinion

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2013;
- 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.

This opinion is to be read in the context of what we say below.

What We Have Audited

The Parent Company financial statements, which are prepared by Imperial Tobacco Group PLC, comprise:

- the Parent Company Balance Sheet as at 30 September 2013; and
- the notes to the Parent Company 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 comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 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 & 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 Parent Company 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 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 Parent Company financial statements are prepared is consistent with the Parent Company 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 Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' Remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Other Information in the Annual Report

Under ISAs (UK & 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 Parent Company financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- is 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 Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and ISAs (UK & 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 2013.

John Maitland

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

5 November 2013

Imperial Tobacco Group PLC Balance Sheet

at 30 September

£ million	Notes	2013	2012
Fixed assets			
Investments	iii	**7,968**	4,225
Current assets			
Debtors	iv	**–**	3,297
Cash at bank and in hand		**(1)**	185
Creditors: amounts falling due within one year	v	**(107)**	–
Net current (liabilities)/assets		**(108)**	3,482
Total assets		**7,860**	7,707
Capital and reserves			
Called up share capital	vi	**107**	107
Share premium account	vii	**5,833**	5,833
Profit and loss account	vii	**1,920**	1,767
Total shareholders' funds		**7,860**	7,707

The financial statements on pages 133 to 138 were approved by the Board of Directors on 5 November 2013 and signed on its behalf by:

Iain Napier
Chairman

Robert Dyrbus
Director

Notes to the Financial Statements of Imperial Tobacco Group PLC

I ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared on the going concern basis in accordance with the historical cost convention, the Companies Act 2006 and UK Generally Accepted Accounting Principles.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company. As permitted by FRS 29, the Company has elected not to present FRS 29 Financial Instruments: Disclosures in the notes to its individual financial statements as full equivalent disclosures are presented in the consolidated financial statements. As permitted by FRS 8 Related Party Disclosures the Company has not disclosed transactions with wholly owned subsidiaries.

The principal accounting policies are set out below.

Investments

Investments comprise the Company's investment in subsidiaries and are shown at cost less any provision for impairment.

Dividends

Final dividends payable are recognised as a liability in the period in which the dividends are approved by shareholders 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 cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds.

II DIVIDENDS

Dividend per share in respect of financial year

Pence	**2013**	2012	2011
Interim	**35.2**	31.7	28.1
Final	**81.2**	73.9	67.0
Total	**116.4**	105.6	95.1

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	**2013**	2012
Final dividend paid in the period in respect of previous financial year	**724**	669
Interim dividend	**341**	314
	1,065	983

The proposed final dividend for the year ended 30 September 2013 of 81.2p per share amounts to a proposed final dividend payment of £783 million based on the number of shares ranking for dividend at 30 September 2013, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2013 will be £1,124 million (2012: £1,038 million).

III INVESTMENTS

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2013	2012
At 1 October	4,225	3,035
Additions	3,743	1,190
At 30 September	7,968	4,225

During 2013 and 2012 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 137 and 138.

IV DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2013	2012
Amounts owed by Group undertakings	–	3,297

Amounts owed by Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand.

V CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2013	2012
Amounts owed to Group undertakings	107	–

Amounts owed to Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand.

VI CALLED UP SHARE CAPITAL

£ million	2013	2012
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2012: 1,067,942,881)	107	107

VII RESERVES

£ million	Share premium account	Profit and loss account
At 1 October 2012	5,833	1,767
Profit for the year	–	1,718
Dividends	–	(1,065)
Purchase of own shares	–	(500)
At 30 September 2013	5,833	1,920

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 £1,718 million (2012: £426 million). This is after charging an audit fee of £1.0 million (2012: £0.4 million).

Treasury shares

On 16 May 2011, the Company recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are not cancelled but are retained in issue and represent a deduction from shareholders' funds. During the year the Company purchased 21,287,000 shares under the programme (2012: 21,865,000) at a cost of £500 million (2012: £528 million).

Millions of shares	2013	2012
At 1 October	77.8	57.0
Gift to Employee Share Ownership Trusts	(0.4)	(1.1)
Purchase of treasury shares	21.3	21.9
At 30 September	98.7	77.8
Percentage of issued share capital %	9.2	7.3

VIII RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

£ million	2013	2012
Profit for the year	1,718	426
Dividends	(1,065)	(983)
Purchase of own shares	(500)	(528)
Movements in total shareholders' funds	153	(1,085)
Opening total shareholders' funds	7,707	8,792
Closing total shareholders' funds	7,860	7,707

IX 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 2013, the contingent liability totalled £11,238 million (2012: £9,378 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2013 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 2013. 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.

X RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report on pages 62 to 82. These disclosures form part of the financial statements.

Principal Undertakings

The principal subsidiaries and joint ventures of the Group, which are unlisted unless otherwise indicated, are shown below.

REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

Name	Principal activity
Imperial Tobacco Holdings (2007) Limited	Holding investments in subsidiary companies
Imperial Tobacco Limited	Manufacture, marketing and sale of tobacco products in the UK
Imperial Tobacco International Limited	Export and marketing of tobacco products
Imperial Tobacco Finance PLC	Finance company

INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity
Altadis SAU	Spain	Manufacture, marketing, sale and distribution of tobacco products in Spain
Altadis Canaries SAU	Spain	Marketing and sale of tobacco products in the Canary Islands
Altadis Emisiones Financieras SAU	Spain	Finance company
Altadis Finance BV	Netherlands	Finance company
Altadis Middle East Fzco	United Arab Emirates	Marketing and sale of tobacco products in the Middle East
Altadis USA Inc	United States of America	Manufacture, marketing and sale of cigars in the United States of America
Commonwealth-Altadis Inc	United States of America	Manufacture, marketing and sale of tobacco products in the United States of America
Commonwealth Brands Inc	United States of America	Manufacture, marketing and sale of tobacco products in the United States of America
Compañía de Distribución Integral Logista SAU	Spain	Distribution of tobacco products and related services in Spain
Ets L Lacroix Fils NV	Belgium	Manufacture, marketing and sale of tobacco products in Belgium
Imperial Tobacco Australia Limited	Australia	Marketing and sale of tobacco products in Australia
Imperial Tobacco China Limited	China	Marketing of tobacco products in China
Imperial Tobacco CR sro	Czech Republic	Marketing and sale of tobacco products in the Czech Republic
Imperial Tobacco Finland Oy	Finland	Marketing and sale of tobacco products in Finland
Imperial Tobacco Hellas SA	Greece	Marketing and sale of tobacco products in Greece
Imperial Tobacco Italia Srl	Italy	Marketing and sale of tobacco products in Italy
Imperial Tobacco Magyarország Dohányforgalmazö 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 Tutunculuck Sanayi ve Ticaret AS	Turkey	Manufacture of tobacco products in Turkey
Imperial Tobacco Slovakia AS	Slovak Republic	Marketing and sale of tobacco products in the Slovak Republic
Imperial Tobacco Taiwan Co Limited	Taiwan	Marketing and sale of tobacco products in Taiwan
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan
Imperial Tobacco Tutun Urunleri Satis ve Pazarlama AS	Turkey	Marketing and sale of tobacco products in Turkey
Imperial Tobacco Ukraine	Ukraine	Marketing and sale of tobacco products in Ukraine
OOO Imperial Tobacco Volga LLC	Russia	Manufacture of tobacco products in Russia
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
Logista France SAS	France	Distribution of tobacco products in France
Logista Italia SpA	Italy	Distribution of tobacco products in Italy

INCORPORATED OVERSEAS, WHOLLY OWNED CONTINUED

Name	Country of incorporation	Principal activity
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture, marketing and sale of tobacco products in Germany
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
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS	France	Manufacture, marketing and sale of tobacco products in France and export of tobacco products
Supergroup SAS	France	Wholesale distribution in France
Tobaccor SAS	France	Holding investments in subsidiary companies involved in the manufacture, marketing and sale of tobacco products in Africa
Tobacna Ljubljana doo	Slovenia	Marketing and sale of tobacco products in Slovenia
Van Nelle Tabak Nederland BV	Netherlands	Manufacture, marketing and sale of tobacco products in the Netherlands
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies involved in the sale of cigars in the United States of America

INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity	Percentage owned
Imperial Tobacco Production Ukraine	Ukraine	Manufacture of cigarettes in Ukraine	99.8
Imperial Tobacco TKS ad	Macedonia	Manufacture, marketing and sale of tobacco products in Macedonia	99.1
Reemtsma Kyrgyzstan OJSC	Kyrgyzstan	Manufacture, marketing and sale of tobacco products in Kyrgyzstan	98.6
Société Ivoirienne des Tabacs SA	Ivory Coast	Manufacture, marketing and sale of tobacco products in the Ivory Coast	74.1

INCORPORATED OVERSEAS, JOINT VENTURES

Name	Country of incorporation	Principal activity	Percentage owned
Altabana SL	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars	50.0
Corporación Habanos SA	Cuba	Export of cigars manufactured in Cuba	50.0

PARTNERSHIPS

The Group also owns the following 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	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.

Société Ivoirienne des Tabacs SA is listed on the Stock Exchange of the Ivory Coast.

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 Depositary
Shareholder Services for ADR Holders
Citibank Shareholder Services
PO Box 43077
Providence, RI 02940-3077
USA
Toll-free number in the USA: 1-877-CITI-ADR (1-877-248-4237)
email: citibank@shareholders-online.com

Stockbrokers
Morgan Stanley & Co International Limited
20 Bank Street
Canary Wharf
London E14 4AD
+44 (0)20 7425 8000

Credit Suisse Securities (Europe) Limited
One Cabot Square
Canary Wharf
London E14 4QJ
+44 (0)20 7888 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

Financial Calendar and Dividends
Half year results are expected to be announced in May 2014 and the full year's results in November 2014.

The Annual General Meeting of the Company will be held on Wednesday 5 February 2014 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 2013 final dividend, if approved, will be on 17 February 2014 to shareholders on the Register of Members at the close of business on 17 January 2014. The associated ex dividend date will be 15 January 2014.

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 onto 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 £5.00 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.

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Registered Office
Imperial Tobacco Group PLC
121 Winterstoke Road
Bristol BS3 2LL
UK
www.imperial-tobacco.com