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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Imperial Brands PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Imperial Brands PLC balance sheets as at 30 September 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Imperial Brands PLC statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

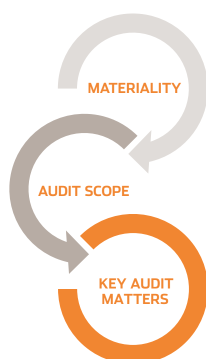
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 October 2018 to 30 September 2019.

OUR AUDIT APPROACH

OVERVIEW



- Overall Group materiality: £130 million (2018: £130 million), based on approximately 4 per cent of adjusted profit before tax.
- Overall Company materiality: £10 million (2018: £10 million), based on the lower of 1 per cent of total assets and an allocation of overall Group materiality.

- Following our assessment of the risk of material misstatement we selected 20 reporting entities for full scope audits which represent the principal business units. We conducted full scope audit work in the UK, USA, Germany and Logista in addition to a further eight locations in which the Group has significant operations. Our work also covered the Group shared service centre, central treasury function and the Parent Company.
- In addition, we performed specified procedures over certain balances and transactions in Russia, and given the increasing market focus on next generation products (NGP) we performed specified procedures on certain NGP balances and transactions, particularly revenue and inventory.
- During the year, the Group engagement team visited eight locations outside of the UK where full scope audits were performed and a number of locations specific to NGP.

All key audit matters relate to the Group:

- Uncertain tax positions in respect of direct and indirect taxes.
- Reallocation of goodwill and indefinite lived intangible assets.
- Presentation of Adjusted Performance Measures (APMs).
- Asset held for sale impairment assessment.
- Fair value of acquisition consideration – Von Erl.
- Additional focus on NGP.
- Tobacco / NGP related litigation.

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

CAPABILITY OF THE AUDIT IN DETECTING IRREGULARITIES, INCLUDING FRAUD

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tobacco legislation, UK tax legislation and equivalent local laws and regulations applicable to significant component teams, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase net revenue, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Consideration of system based segregation of duties;
- Assessment of matters reported on the Group's whistleblowing process and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit. All key audit matters relate to the Group.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
UNCERTAIN TAX POSITIONS IN RESPECT OF DIRECT AND INDIRECT TAXES **Refer to the Report of the Audit Committee and note 8 – Tax** The Group operates across a large number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business, including transfer pricing, direct and indirect taxes and transaction related tax matters. Where the amount of tax payable is uncertain, the Group establishes provisions based on management's judgement of the likelihood of settlement being required.	We used our UK and overseas tax specialists to gain an understanding of the current status of tax assessments and investigations and to monitor legislative developments. Our focus was on uncertain tax positions in relation to the challenge from the French Tax Authority in respect of the disposal of the Altadis Distribution France business, the EU Commission's challenge of the UK Controlled Foreign Company regime, and a number of other State Aid and transfer pricing risks. We used State Aid and transfer pricing specialists to read recent rulings and correspondence with local tax authorities, to challenge and test validity of key assumptions and inspect external advice provided by the Group's tax experts and legal advisers where relevant, to satisfy ourselves that the provisions had been appropriately recorded or adjusted to reflect any latest developments.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
UNCERTAIN TAX POSITIONS IN RESPECT OF DIRECT AND INDIRECT TAXES CONTINUED We focused on the judgements made by management in assessing the likelihood of potentially material exposures and the estimates used to determine such provisions where required. In particular we focused on the impact of changes in local tax regulations and ongoing inspections by local tax authorities and international bodies, which could materially impact the amounts recorded in the Group financial statements. Given the nature of judgements involved, the complexities of dealing with tax rules and regulations in numerous jurisdictions, accounting for this risk is primarily managed by the Imperial Brands head office tax team in Bristol. As such, this was a key area of focus for the Group engagement team.	We determined that the positions adopted in the Group financial statements for the above matters were reasonable based on our consideration of the risks. We also considered the Russian Tax Authority's audit finding seeking additional excise taxes, as disclosed in note 8 to the Group financial statements. We engaged our Russian audit team and tax specialists to perform specified procedures in relation to assessing the level of provisioning and discussed this with management's external tax and legal experts, and performed testing over the basis of the £139 million provision recognised. We challenged the overall sufficiency and clarity of disclosures in relation to uncertain tax provisions and tax related contingent liabilities. We highlighted where further disclosure was considered appropriate and ensured that management included this in the Annual Report.
REALLOCATION OF GOODWILL AND INDEFINITE LIVED INTANGIBLE ASSETS **Refer to the Report of the Audit Committee and note 12 – Intangible Assets** As at 1 October 2018, the Group reorganised its operational reporting and management lines to the Board into the following four areas: • Europe • Americas • AAA (Africa, Asia and Australia) • Distribution As this is deemed to be the level of information presented to the 'Chief Operating Decision Maker', IFRS 8 'Segmental Reporting' deems that these are now the Group's reportable segments and this led to the Group being required to reallocate its goodwill and intangible assets. We focused on this area because the determination of how to reallocate the existing goodwill and intangible assets is complex and judgemental, with the assets split in proportion to their expected value in use cash flows at 1 October 2018 in a manner similar to that of a disposal. The value in use cash flows involve complex and subjective judgements by the Directors about the future results of the relevant parts of the business, in addition to other sensitive judgements such as discount rates and long-term growth rates. The Group also considered whether any impairment was necessary at the time of the reallocation. This reallocation was also disclosed in the half-year announcement and the reorganisation was included as a post balance sheet event in the FY18 Annual Report and Accounts along with the details of the commercial rationalisation for the change.	We assessed the Group's reorganisation, by reviewing Board level reporting, the information flows in the business and the management structure and assessed whether reallocating goodwill and indefinite lived intangibles assets was appropriate and in accordance with IFRS. We considered management's value in use cash flows underpinning the reallocation, ensuring that key assumptions of discount rates and cash flows were consistent with the impairment assessment management performed at 30 September 2018. We performed testing on a sample basis to ensure further work was performed on key assumptions in the reallocation model (e.g. discount rates and tying through cash flows to business plans) given that the modelling for this was more detailed for some markets than the impairment model. We provided challenge on the methodology used within the model, considered the mathematical accuracy and analysed its sensitivity to key assumptions. We finally considered additional methods of reallocation and sense checked that the final reallocations and headroom appeared appropriate given management's and our understanding of the business. We also considered the disclosure of this allocation in the Annual Report. Separately, we tested management's FY19 year end impairment assessment of goodwill and indefinite lived assets, with no issues being found. Consistent with our audit plan reported to the Audit Committee in February 2019, we did not consider this impairment risk a significant audit risk or key audit matter given the level of headroom.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
PRESENTATION OF ADJUSTED PERFORMANCE MEASURES (APMS) **Refer to the Report of the Audit Committee** Like other large complex groups, Imperial Brands provides a number of alternative performance measures as part of its presentation and assessment of results at a Group and segmental level. The principal adjustments to reported numbers include: • Removal of amortisation and impairment on acquired intangibles. • Removal of restructuring costs for multi-year transformational change projects. • Removal of gains/losses and FX on financial instruments. • Removal of significant one-off events, for example in FY19 the fair value adjustment to acquisition consideration and the excise tax provision. • Significant one-off tax charges or credits. In making its assessment over APMs, Group Finance and the Audit Committee compared the Group's policy and reporting to other large UK listed groups, and other listed tobacco groups. They also analysed the ESMA guidance over use of APMs and the UK Corporate Governance Code. They also reflected on any third-party comments made regarding Imperial Brand's use of APMs. Their conclusion was that the APM policy approved by the Audit Committee in FY19 remained appropriate for FY19 reporting. As disclosed in the Annual Report, management is considering making a change for the FY20 Annual Report to record certain one-off items within adjusted results rather than treating them as an adjusting item. There will also be a consideration over whether adjusting out restructuring costs is relevant once the current restructuring programmes are completed by the end of FY20.	During our FY19 audit we: • Compared the Group's policy and disclosures to ensure they were consistent with ESMA guidance and Fair, Balanced and Understandable requirements. • Sample tested the restructuring costs adjustment to ensure costs related to COP1/COP2 only and not other, lower level or more frequently occurring reorganisation or redundancy costs. • Reconciled the APMs to underlying financial information in the financial statements to check accuracy and completeness. • Ensured APMs were properly defined in the financial statements. • Ensured reported IFRS results had sufficient prominence in the Annual Report, particularly the Financial Overview. At the October Audit Committee meeting, discussion was held over quality of earnings, with management noting the only large one-off FY19 gains included in adjusted results, amounted to around £10 million, relating to the revaluation of its exposure to investments taken in Auxly Cannabis Group Inc. We also got satisfied that removing disposal costs of £20 million in deriving adjusted operating profit is appropriate given its similarity to acquisition costs which have historically been excluded. Similar to FY18, we ensured the adjusted measures accounting policy in note 1 was clear, and updated where necessary. At the October Audit Committee meeting, we again reflected on the overall difference between reported versus adjusted operating profit for FY19, and FY18 comparatives. (A reconciliation is provided below the consolidated statement of comprehensive income in the financial statements). Ignoring the impact of removing restructuring and amortisation & impairment, (which is a framework used by many other listed groups), the differences are 12 per cent and 4 per cent respectively. The differences principally represent the fair value adjustment to acquisition consideration (£129 million) (see note 12) and excise tax provision (£139 million) (see note 8) in FY19, and administration of UK distributor (£110 million) in FY18, which are all large and one-off items. Overall we remain satisfied with the FY19 treatment of APMs and that management and the Audit Committee suitably considered ESMA and other associated guidance.
ASSET HELD FOR SALE IMPAIRMENT ASSESSMENT **Refer to the Report of the Audit Committee and note 11 – Assets Held for Sale** In the half-year announcement the Group announced its plans to dispose of the Premium Cigar business. In the second half year the disposal plans advanced sufficiently that an asset held for sale has been recognised. The recognition of the asset held for sale has created the need for an impairment assessment on the basis of fair value less costs to sell. The resulting assessment has significantly contributed to the Group's total impairment charge and associated costs in the year of £525 million. We focused on this area due to the complexity and estimation in the impairment charge.	We performed the following procedures: • We performed testing over the asset base to ensure the appropriate amount of assets have been allocated to the held for sale asset. • We assessed the potential sales price of the disposal, by analysing recent offers and terms. • We tested management's modelling of the impairment calculation, analysed the mathematical accuracy and understood the other inputs (testing where material). Overall we are comfortable that the impairment is appropriate based on the best available information at the date of signing. We also agree that the recycling of historical exchange gains and losses should be recognised at the point of disposal but the estimate, at the balance sheet date, has been appropriately disclosed in note 11.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
FAIR VALUE OF ACQUISITION CONSIDERATION – VON ERL **Refer to the Report of the Audit Committee and note 12 Intangible Assets** On 14 June 2017, the Group completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million. There was also agreement to purchase a further 50 per cent of the share capital of the company, payable as contingent consideration, based on the level of future product sales, with a cap of overall consideration. Post year end, management has reached agreement with the seller on the final consideration to be paid. An overall liability of £124 million and a charge of £129 million has been recognised in the year in respect of this. We focused on this area as consideration of the fair value has required judgement throughout the year.	We have assessed the sales and purchase agreement in respect of this acquisition and considered the terms of the contingent consideration and subsequent share purchase. The sales of related NGP products since the acquisition and future forecasts were key to arriving at the liability recognised in the first half of FY19. At half year, our independent analysis indicated that sufficient evidence had become available subsequent to the prior year end such that a significant step up in the calculation of the contingent consideration needed to be recognised, up to the capped level. Management performed its own assessment of forecasts and inputs and booked a £119 million increase to the liability up to the capped level, recognised as an adjusting item in the income statement. In the second half year, the liability has been updated to reflect the Group's renegotiated position with the third-party vendor. This led to a small increase in the liability, largely due to the unwinding of discounting. In respect of this we have: • Analysed the revised agreement, inspecting key terms and tying through final consideration to the year-end liability. • Tested the cash payment post year end to bank statements. Following these audit procedures we were able to obtain comfort over the liability recognised. We also considered the appropriateness of the charge of £129 million being excluded from adjusted profit, which given the one-off nature of this business acquisition related charge we deemed appropriate.
ADDITIONAL FOCUS ON NGP **Refer to the Report of the Audit Committee** The growth in NGP is a key internal and external metric for the Group and whilst its results currently make up a small proportion of the Group (4 per cent of Tobacco and NGP net revenue), we are aware of the shareholders' interest in this area, particularly in light of current year trading, and therefore increased our focus in two main areas. Slow-moving inventory – as a result of *my*blu sales not being at the internally forecast levels, the volume of *my*blu pods in the Group's own warehouses, and at Distributors and Retailers, had reached higher levels than management had forecast. The Group has therefore recognised in cost of sales in the year, a slow-moving inventory provision of £34 million against finished goods inventory. Key assumptions include forecast pod sales out of the retail channel and the shelf life of *my*blu pods. Revenue Recognition – Management has spent time in FY19 assessing its accounting policies over NGP revenue recognition. This included presentation of discounts/rebates net against revenue in line with IFRS 15, and recording the cost of free or heavily discounted samples in A&P rather than grossing up revenue. Reflecting on this, alongside the growth achieved versus forecast, we increased our focus on this area.	We have performed the following testing over the inventory provision: • Agreeing *my*blu pod inventory levels on a sample basis to underlying records and the results of inventory counts we attended. • Assessing sales forecasts, including understanding how they compared to Board approved forecasts. • Challenging management over the shelf life of e-vaping liquids, speaking with the Group's science experts and comparing the life to other competitor products and announcements where available. • Testing the mathematical accuracy of the model used by management to determine the inventory provision. • Considering sensitivities of estimates to variation in key assumptions. We performed the following testing over revenue: • Sample tested NGP revenue in key markets back to third-party supporting documentation. • Inspected on a sample basis third-party contracts to check there are no contractual rights of return. • Inspected credit notes issued post 30 September 2019 to check there was no evidence of FY19 sales being reversed. • Performed risk analytics and sample testing of gross and net revenue across key markets looking for any incidence of misstatements to presentation under IFRS 15. • Checked that the basis of preparation of the NGP net revenue disclosed in the Other Information in the Annual Report was appropriate. Based on this work we are satisfied that the level of NGP inventory slow-moving provision, and the basis of NGP revenue recognition, are appropriate.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
TOBACCO / NGP RELATED LITIGATION **Refer to the Report of the Audit Committee and note 29 Contingent Liabilities** The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking, vaping and health-related effects. The Group's view is that it has meritorious defences to all these cases and therefore no provisions have been made. In the US, tobacco-related litigation is managed separately by the Master Settlement Agreement ("MSA"). Four states are not parties to this agreement and claims have been raised by these states (Previously Settled States) against the Group's US business, ITG Brands, in respect of whether annual payments are required following the acquisition of certain US brands in June 2015. The Group continues to receive legal advice in relation to these claims that supports management's assessment that at present it is remote that the Group will incur any outflow of resources and therefore no provision is necessary. Separately, the Group, and other companies in the tobacco sector, are under investigation by the competition authorities in a number of markets. Two markets, Spain (including Logista) and the Ukraine, have issued public findings and fines against the Group. The Group is receiving legal advice in relation to these fines and believes that it is not probable that any outflow will occur and therefore no provision is necessary.	In respect of these matters, we held meetings with the Group legal team and reviewed Board meeting minutes to understand the matters and current progress. We also assessed available historic precedent. We wrote to and received responses from the Group's external lawyers in all these cases and validated responses to management's position. In respect of the Previously Settled States case, we held a meeting with the Group's external legal counsel. Through this we challenged management on elements of the case and the appropriateness of the accounting. Following this and as a result of our work we consider management's position, that no provision is required under IAS 37, to be reasonable. We also discussed the level of disclosure in relation to these matters and highlighted where further disclosure was required, particularly in relation to the possible exposure of the Previously Settled States and competition commission cases, and ensured this has been included in the Group financial statements or Other Information.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

HOW WE TAILORED THE AUDIT SCOPE

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

The Group is structured along two business lines being 'Tobacco & NGP' and 'Distribution'. The Tobacco & NGP business operates across 160 markets, with 23 key markets, which are then managed through segments: AAA; Americas; and Europe. A number of these markets are supported by the Group's shared service centres in Poland and the Philippines. The output of these shared service centres is included in the financial information of the reporting components they service and they are therefore not separate reporting components. The Group's accounting process is structured around a local or regional finance function for each of the markets in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol through an integrated consolidation system.

In establishing the overall approach to the Group audit we determined the type of work that needed to be performed at reporting components, by either the Group engagement team or through directing component auditors from PwC network firms. This included consideration of the work required to be performed by our audit teams at shared service centres to support component auditors.

We identified 20 reporting entities (including the Distribution sub group), which due to their significance and/or risk characteristics required an audit of their complete financial information. We also conducted specified procedures in Russia based on our assessment of the risk of misstatement and the scale of operations at this market, and given the increasing market focus on next generation products (NGP) we performed specified procedures on certain NGP balances and transactions, which is spread throughout the Group's markets with particular focus on revenue and inventory.

Certain specific audit procedures over central corporate functions and areas of significant judgement, including goodwill and intangible assets, taxation, material provisions and contingent liabilities, were performed at the Group's head office. We also performed work centrally on systems and IT general controls, consolidation journals and the one-off transactions undertaken by the Group during the year.

Taken together, the reporting entities and Group functions where we performed audit work accounted for approximately 79 per cent of Group revenues and in excess of 80 per cent of both Group profit before tax and Group adjusted profit before tax. At the Group level, we also carried out analytical and other procedures on the reporting components not covered by the procedures above.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We issued formal, written instructions to component auditors setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included attending component clearance meetings and holding regular conference calls, as well as reviewing and assessing matters reported.

Senior members of the Group engagement team visit the component teams on a rotational basis. In the current year the Group team visited the USA, Morocco, Germany, Spain, Logista, Netherlands, France, UAE and a number of NGP locations, as well as in-scope UK reporting locations. These visits included meetings with local management and with the component auditors, as well as certain operating site tours. The Group engagement partner also took part in the year-end clearance meetings for the UK, USA, Germany and Logista businesses, and the Group engagement team reviewed the audit working papers for these components and certain other components.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£130 million (2018: £130 million).	£10 million (2018: £10 million).
How we determined it	Approximately 4 per cent of adjusted profit before tax.	Lower of 1 per cent of total assets and an allocation of overall Group materiality.
Rationale for benchmark applied	We believe that adjusted profit before tax is the primary measure used by shareholders and other users in assessing the performance of the Group, and that by excluding adjusting items it provides a clearer view on the performance of the underlying business.	The Company is principally an investment holding company and therefore it is not appropriate to use profit before tax or revenues to determine materiality, rather materiality is considered with reference to total assets. Overall materiality applied is limited to £10 million, being the lower of 1 per cent of total assets and an allocation of overall materiality for the purposes of the audit of the Group financial statements.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £10 million and £40 million for the trading entities and £80 million for the financing and treasury entity. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5 million (Group audit) (2018: £10 million) and £5 million (Company audit) (2018: £10 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on pages 38-40 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on pages 38-40 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit (Listing Rules).

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

The statement given by the Directors, on page 41, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.

The section of the Annual Report on pages 50-57 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 (CA06).

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

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 REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the 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.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 6 August 1996 to audit the financial statements for the year ended 27 September 1997 and subsequent financial periods. The period of total uninterrupted engagement is 23 years, covering the years ended 27 September 1997 to 30 September 2019.

RICHARD FRENCH (SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
5 November 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

£ million unless otherwise indicated	Notes	2019	Restated 2018
Revenue	3	**31,594**	30,066
Duty and similar items		**(15,394)**	(14,700)
Other cost of sales		**(9,960)**	(9,356)
Cost of sales		**(25,354)**	(24,056)
Gross profit		**6,240**	6,010
Distribution, advertising and selling costs		**(2,295)**	(2,001)
Acquisition and disposal costs	11	**(22)**	–
Amortisation and impairment of acquired intangibles	11 / 12 / 14	**(1,118)**	(1,053)
Excise tax provision	8	**(139)**	–
Administration of UK distributor		**–**	(110)
Fair value adjustment of acquisition consideration	12	**(129)**	–
Restructuring costs	5	**(144)**	(196)
Other expenses		**(196)**	(243)
Administrative and other expenses		**(1,748)**	(1,602)
Operating profit	3	**2,197**	2,407
Investment income		**890**	631
Finance costs		**(1,452)**	(1,257)
Net finance costs	7	**(562)**	(626)
Share of profit of investments accounted for using the equity method	14	**55**	42
Profit before tax	4	**1,690**	1,823
Tax	8	**(609)**	(396)
Profit for the year		**1,081**	1,427
Attributable to:			
Owners of the parent		**1,010**	1,368
Non-controlling interests		**71**	59
Earnings per ordinary share (pence)			
• Basic	10	**106.0**	143.6
• Diluted	10	**105.8**	143.2

See note 1 Accounting Policies for details of the restatement in respect of the year ending 30 September 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Notes	2019	2018
Profit for the year		**1,081**	1,427
Other comprehensive income			
Exchange movements		**270**	176
Items that may be reclassified to profit and loss		**270**	176
Net actuarial (losses)/gains on retirement benefits	23	**(248)**	196
Deferred tax relating to net actuarial (losses)/gains on retirement benefits	22	**52**	(54)
Items that will not be reclassified to profit and loss		**(196)**	142
Other comprehensive income for the year, net of tax		**74**	318
Total comprehensive income for the year		**1,155**	1,745
Attributable to:			
Owners of the parent		**1,086**	1,683
Non-controlling interests		**69**	62
Total comprehensive income for the year		**1,155**	1,745

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2019	2018
Operating profit		**2,197**	2,407
Acquisition and disposal costs	11	**22**	–
Amortisation and impairment of acquired intangibles	11 / 12 / 14	**1,118**	1,053
Excise tax provision	8	**139**	–
Administration of UK distributor		**–**	110
Fair value adjustment of acquisition consideration	12	**129**	–
Restructuring costs	5	**144**	196
Adjusted operating profit		**3,749**	3,766

Following greater definition around the enforceability of the Von Erl contract and greater confidence in the sales forecast for *my*blu products an agreement has been made with the previous owners to settle at €140 million for the remaining equity. As a result an incremental provision of £129 million has been recognised during the year. See note 12 for further details.

A provision has been raised in respect of excise tax. See note 8 for further details.

On 28 November 2017 Palmer & Harvey (P&H) announced that they had entered administration. As a result of P&H entering administration, a provision was made of £160 million in the period ending 31 March 2018 in respect of monies considered irrecoverable. This was revised to £110 million at 30 September 2018 following receipt of monies in respect of a loan issued to P&H.

Amortisation and impairment of acquired intangibles, acquisition and disposal costs and restructuring costs are discussed in further detail in the above referenced notes.

RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	2019	2018
Net finance costs		**(562)**	(626)
Net fair value and exchange losses on financial instruments	7	**107**	126
Post-employment benefits net financing cost	7	**5**	13
Adjusted net finance costs		**(450)**	(487)

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2019	2018
Non-current assets			
Intangible assets	12	**18,596**	19,117
Property, plant and equipment	13	**1,979**	1,891
Investments accounted for using the equity method	14	**81**	845
Retirement benefit assets	23	**595**	598
Trade and other receivables	16	**119**	82
Derivative financial instruments	21	**677**	462
Deferred tax assets	22	**595**	600
		22,642	23,595
Current assets			
Inventories	15	**4,082**	3,692
Trade and other receivables	16	**2,993**	2,585
Current tax assets	8	**303**	164
Cash and cash equivalents	17	**2,286**	775
Derivative financial instruments	21	**137**	37
Current assets held for disposal	11	**1,287**	–
		11,088	7,253
Total assets		**33,730**	30,848
Current liabilities			
Borrowings	19	**(1,937)**	(2,397)
Derivative financial instruments	21	**(28)**	(105)
Trade and other payables	18	**(9,536)**	(8,270)
Current tax liabilities	8	**(421)**	(286)
Provisions	24	**(284)**	(179)
Current liabilities held for disposal	11	**(176)**	–
		(12,382)	(11,237)
Non-current liabilities			
Borrowings	19	**(11,697)**	(9,598)
Derivative financial instruments	21	**(1,408)**	(1,073)
Trade and other payables	18	**(7)**	(47)
Deferred tax liabilities	22	**(1,156)**	(1,113)
Retirement benefit liabilities	23	**(1,249)**	(1,061)
Provisions	24	**(247)**	(274)
		(15,764)	(13,166)
Total liabilities		**(28,146)**	(24,403)
Net assets		**5,584**	6,445
Equity			
Share capital	25	**103**	103
Share premium and capital redemption		**5,837**	5,837
Retained earnings		**(2,255)**	(1,150)
Exchange translation reserve		**1,252**	980
Equity attributable to owners of the parent		**4,937**	5,770
Non-controlling interests		**647**	675
Total equity		**5,584**	6,445

The financial statements on pages 96 to 145 were approved by the Board of Directors on 5 November 2019 and signed on its behalf by:

MARK WILLIAMSON
Chairman

OLIVER TANT
Director

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 30 September 2018	**103**	**5,837**	**(1,150)**	**980**	**5,770**	**675**	**6,445**
IFRS 9 Transition	–	–	(5)	–	(5)	–	(5)
At 1 October 2018	**103**	**5,837**	**(1,155)**	**980**	**5,765**	**675**	**6,440**
Profit for the year	–	–	1,010	–	1,010	71	1,081
Exchange movements on overseas net assets	–	–	–	232	232	(2)	230
Exchange movements on net investment hedges	–	–	–	(228)	(228)	–	(228)
Exchange movements on quasi-equity loans	–	–	–	268	268	–	268
Net actuarial losses on retirement benefits	–	–	(248)	–	(248)	–	(248)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	52	–	52	–	52
Other comprehensive income	–	–	(196)	272	76	(2)	74
Total comprehensive income	–	–	814	272	1,086	69	1,155
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	1	–	1	–	1
Costs of employees' services compensated by share schemes	–	–	23	–	23	–	23
Current tax on share-based payments	–	–	1	–	1	–	1
Cancellation of share capital	–	–	(108)	–	(108)	–	(108)
Changes in non-controlling interests	–	–	13	–	13	(13)	–
Dividends paid	–	–	(1,844)	–	(1,844)	(84)	(1,928)
At 30 September 2019	**103**	**5,837**	**(2,255)**	**1,252**	**4,937**	**647**	**5,584**
At 1 October 2017	103	5,837	(1,084)	828	5,684	542	6,226
Profit for the year	–	–	1,368	–	1,368	59	1,427
Exchange movements on overseas net assets	–	–	–	326	326	3	329
Exchange movements on net investment hedges	–	–	–	115	115	–	115
Exchange movements on quasi-equity loans	–	–	–	(268)	(268)	–	(268)
Net actuarial gains on retirement benefits	–	–	196	–	196	–	196
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(54)	–	(54)	–	(54)
Other comprehensive income	–	–	142	173	315	3	318
Total comprehensive income	–	–	1,510	173	1,683	62	1,745
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	2	–	2	–	2
Costs of employees' services compensated by share schemes	–	–	25	–	25	–	25
Current tax on share-based payments	–	–	1	–	1	–	1
Cancellation of share capital	–	–	(41)	–	(41)	–	(41)
Changes in non-controlling interests	–	–	(121)	(21)	(142)	142	–
Proceeds, net of fees from disposal of Logista shares (note 32)	–	–	234	–	234	–	234
Dividends paid	–	–	(1,676)	–	(1,676)	(71)	(1,747)
At 30 September 2018	103	5,837	(1,150)	980	5,770	675	6,445

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	2019	2018
Cash flows from operating activities		
Operating profit	**2,197**	2,407
Dividends received from investments accounted for under the equity method	**54**	25
Depreciation, amortisation and impairment	**1,316**	1,266
Profit on disposal of non-current assets	**(19)**	(76)
Post-employment benefits	**(72)**	(60)
Costs of employees' services compensated by share schemes	**23**	26
Provision in respect of loan to third parties	**–**	4
Fair value adjustment of acquisition consideration (note 12)	**129**	–
Movement in provisions	**80**	(87)
Operating cash flows before movement in working capital	**3,708**	3,505
Increase in inventories	**(560)**	(112)
Increase in trade and other receivables	**(267)**	(35)
Increase in trade and other payables	**877**	136
Movement in working capital	**50**	(11)
Tax paid	**(522)**	(407)
Net cash generated from operating activities	**3,236**	3,087
Cash flows from investing activities		
Interest received	**15**	10
Loan to joint ventures	**4**	–
Loan to third parties (note 20)	**(75)**	28
Proceeds from the sale of non-current assets	**57**	134
Purchase of non-current assets	**(409)**	(327)
Purchase of businesses (net of cash acquired)	**–**	(8)
Purchase of brands and operations (note 12)	**(17)**	(67)
Net cash used in investing activities	**(425)**	(230)
Cash flows from financing activities		
Interest paid	**(488)**	(501)
Cash from employees on maturity/exercise of share schemes	**1**	2
Increase in borrowings	**3,699**	1,619
Repayment of borrowings	**(2,330)**	(2,261)
Cash flows relating to derivative financial instruments	**(117)**	41
Repurchase of shares	**(108)**	(41)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 32)	**–**	234
Dividends paid to non-controlling interests	**(84)**	(71)
Dividends paid to owners of the parent	**(1,844)**	(1,676)
Net cash used in financing activities	**(1,271)**	(2,654)
Net increase in cash and cash equivalents	**1,540**	203
Cash and cash equivalents at start of year	**775**	624
Effect of foreign exchange rates on cash and cash equivalents	**(15)**	(52)
Transferred to held for disposal (note 11)	**(14)**	–
Cash and cash equivalents at end of year	**2,286**	775

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as published by the International Accounting Standards Board and adopted by the EU. In addition, the financial statements comply 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, and on a going concern basis as detailed on page 32.

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 judgements. This could affect future financial statements as the original estimates and judgements are modified, as appropriate, in the year in which the circumstances change.

The Company provides guarantees to the following subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2019:

- Imperial Tobacco Holdings (2007) Limited
- Sinclair Collis Limited
- Imperial Tobacco Ventures Limited
- Rizla UK Limited
- Imperial Tobacco Overseas (Polska) Limited
- La Flor de Copan UK Limited
- Tabacalera de Garcia UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited
- Nerudia Compliance Limited

The principal accounting policies, which have been applied consistently other than where new policies have been adopted, are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the results of Imperial Brands PLC (the Company), a public company listed by shares, incorporated in the United Kingdom, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

JOINT VENTURES

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of profit of investments accounted for using the equity method'.

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.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

	2019		2018	
Foreign exchange rate versus GBP	**Closing rate**	**Average rate**	Closing rate	Average rate
Euro	**1.1291**	**1.1315**	1.1270	1.1304
US Dollar	**1.2294**	**1.2766**	1.3046	1.3460

REVENUE RECOGNITION

For the Tobacco & Next Generation Products (Tobacco & NGP) business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue is based on the completion of performance obligations that constitute the delivery of goods and completion of services. The performance obligation is recognised as complete at the point in time when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Performance obligations associated with services, which include fees for distributing certain third-party products, are linked to the delivery of those services. Income arising from the licensing or sale of intellectual property, occurring in the ordinary course of business, is treated as revenue. Licensing revenue will be recognised over the period of the licence while revenue is recognised immediately on the sale of intellectual property where that represents a long-term right to use the asset.

For the Distribution business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or services provided. The Distribution 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.

Payments are made to both direct and indirect customers for rebates, discounts and other promotional activities. Direct customers are those to which the Group supplies goods or services. Indirect customers are other entities within the supply chain to the end consumer. Rebates and discounts are deducted from revenue. Payments for promotional activities will also be deducted from revenue where the payments relate to goods or services that are closely related to or indistinct from associated sales of goods or services to that customer. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

DUTY AND SIMILAR ITEMS

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Payments due in the USA under the Master Settlement Agreement are no longer deducted from net revenue, instead these payments are now being recognised in other cost of sales.

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.

Provisions for uncertain tax positions are recognised when the Group has a present obligation as a result of a past event and management judge that it is probable that there will be a future outflow of economic benefits from the Group to settle the obligation. Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions that we operate using management's estimate of the most likely outcome. The Group recognises interest on late paid taxes as part of financing costs. The Group recognises penalties, if applicable, as part of administrative and other expenses.

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.

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. If any negative goodwill arises this is recognised immediately in the income statement. 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, product development, 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.

Intellectual property (including trademarks), product development, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5-30 years	straight line
Supply agreements	3-15 years	straight line
Software	3-10 years	straight line
Product development	3-10 years	straight line

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	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

Following the adoption of IFRS 9, the Group's accounting policies for financial instruments and hedging remain the same as disclosed in the 30 September 2018 Annual Report and Accounts, except for changes to the classification and measurement of certain non-derivative financial assets and the calculation of expected credit losses, as detailed below.

At 30 September 2018 all non-derivative financial assets were classified as loans and receivables. Receivables were all initially recognised at fair value and subsequently stated at amortised cost using the effective interest method. From 1 October 2018, receivables held under a hold to collect business model continue to be stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement, are now separately classified as fair value through profit or loss, within trade and other receivables.

At 30 September 2018, provisions for impairment of receivables were established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of those receivables. Provisions were only recognised when an impairment had crystallised. From 1 October 2018 the calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

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 IFRS 9) 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.

All hedge accounting relationships are considered to be continuing hedge relationships upon the adoption of IFRS 9.

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 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. Inventory is considered for obsolescence or other impairment issues and an associated provision is booked where necessary.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

PROVISIONS

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

ASSETS HELD FOR SALE

Assets held for sale arise once a disposal process has advanced sufficiently to meet the requirements of IFRS 5. Assets identified as held for sale are considered for impairment of their carrying value against expected proceeds. The assets and liabilities are presented separately on the balance sheet as assets held for sale and liabilities held for sale.

CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group. In the event that the outflow of resources associated with a contingent liability is assessed as probable, and if the size of the outflow can be reliably estimated, a provision is recognised in the financial statements.

RETIREMENT BENEFIT SCHEMES

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

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

SHARE-BASED PAYMENTS

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

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue 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 reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

USE OF ADJUSTED MEASURES

Management believes that non-GAAP or adjusted measures provide an important 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, tax, attributable earnings and earnings per share exclude, where applicable, acquisition and disposal costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and 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 tax 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 items 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 AND DISPOSAL COSTS

Adjusted measures exclude costs associated with major acquisitions and disposals as they do not relate to the day to day operational performance of the Group. Where applicable and not reported separately, this includes changes in contingent or deferred consideration.

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. Any negative goodwill arising is recognised immediately in the income statement. We exclude from our adjusted measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

FAIR VALUE GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS AND EXCHANGE GAINS AND LOSSES ON BORROWINGS

IFRS 9 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 IFRS 9 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IFRS 9, 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 IFRS 9, in order to reduce income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as they will reverse over time or are matched in future periods by interest charges. Fair value gains and losses on the currency element of derivative financial instruments and ex change 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 include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs are all Board approved, and include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

POST-EMPLOYMENT BENEFITS NET FINANCING COST

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

TAX MATTERS

Tax matters are significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or
- newly enacted taxes in the year; or
- tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded on the same basis.

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

Tobacco & NGP net revenue comprises associated revenue less duty and similar items, excluding peripheral products. Management considers this an important measure in assessing the performance of Tobacco & NGP operations.

The Group recognises revenue on sales to Logista, a Group company, within its reported Tobacco & NGP revenue figure. As the revenue calculation includes sales made to Logista from other Group companies but excludes Logista's external sales, this metric differs from revenue calculated under IFRS accounting standards. For the purposes of Adjusted Performance Measures on net revenue we treat Logista as an arms' length distributor on the basis that contractual rights are in line with other third party suppliers to Logista. Variations in the amount of inventory held by Logista results in a different level of revenue compared to that which is included within the income statement. For tobacco product sales, inventory level variations are normally not significant. However, during the current year there has been a significant increase in the level of sales of NGP products into Logista. This has resulted in significant increases in the level of associated inventory as a proportion of sales. In order to avoid a distortion in the reported Tobacco & NGP revenue figure the calculation has been adjusted to reflect a normalised level of inventory.

DISTRIBUTION FEES

Distribution fees comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations. The eliminations in note 3 all relate to sales to Distribution.

ADJUSTED NET DEBT

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 October 2018. The detail of adoption is provided below. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

On 1 October 2018 the Group adopted IFRS 9 'Financial Instruments', with no revision of prior periods as permitted by the standard. IFRS 9 has replaced IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets are now classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables and derivative financial instruments, the Group does not currently hold any significant financial assets.

The Group has revised the classification of certain trade receivables which are subject to a non-recourse factoring arrangement. This arrangement covers various markets and customer accounts. Prior to the adoption of IFRS 9 all trade receivables were recognised at amortised cost. Where trade receivables may be sold in the future under a factoring arrangement that involves realising cash flows through the sale of assets in order to manage customer credit risk, they are now classified as fair value through other comprehensive income (OCI). Under this classification, valuation changes are recognised in the OCI. The level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £724 million at 1 October 2018 and £827 million at 30 September 2019. The total value of trade receivables reclassified as fair value through OCI was £37 million at 1 October 2018 and £23 million at 30 September 2019. On adoption of the standard there was no valuation difference and therefore the OCI has not been impacted. Trade receivables managed under a hold to collect business model continue to be measured at amortised cost.

The Group does not undertake any supply chain financing activity.

Impairment of financial assets: Impairment provisions are calculated using a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. The expected credit loss model requires the recognition of a provision which reflects future impairment risk. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group.

Under the revised trade receivables provisioning policy, expected future credit loss provisions are now recognised in addition to doubtful debt provisions on receivables which have already become overdue. With the exception of the Palmer & Harvey debt write-off in 2018, the Group has historically experienced low levels of credit default. On adoption of the standard the Group has recognised an additional expected credit loss provision of £5 million, with the costs being recognised directly in equity within the retained earnings reserve at 1 October 2018.

Hedge Accounting: IFRS 9 aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group has adopted the hedge accounting aspects of IFRS 9 prospectively from 1 October 2018. The Group continues to apply net investment hedging as part of its risk management approach. All hedging relationships that existed at 30 September 2018 continue to apply under IFRS 9. The adoption of this area of IFRS 9 has not had any significant impact on the financial statements.

On 1 October 2018 the Group adopted IFRS 15 'Revenue from Contracts with Customers', the Group has restated prior periods as permitted by the standard. IFRS 15 has introduced an amended framework for revenue recognition and has replaced the prior guidance in IAS 18 'Revenue'. The accounting policies have been revised and applied to both the current and prior period. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

Following the adoption of the standard, revenue continues to be recognised in line with the completion of performance obligations constituting the delivery of goods or services to customers. The performance obligation is met when the customer has accepted products and the collectability of the related receivables is reasonably assured. We have reclassified certain distribution, advertising and selling costs arising from payments to customers, from overheads / other costs of sales to discounts from revenue. These costs are judged as not distinct from the related sales to the customer. This has reduced revenue, but has had no net impact on gross profit. This has reduced the level of revenue recorded in the year ended 30 September 2018 by £458 million.

Following a review of the presentation of duties, levies and similar payments against the guidance given by IFRS 15, levy payments made in the United States under the Master Settlement Agreement (MSA) are now being recognised in other cost of sales. This has increased the level of net revenue recorded in the year ended 30 September 2018 by £425 million. The Group has taken the option to restate the comparative figures on adoption of the standard. The adoption of the standard has not had any other impact on the Group's results.

IFRS 16 'Leases' will be effective for the period beginning 1 October 2019. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs. The Group will take advantage of the practical expedients under the standard by not applying IFRS 16 to short-term leases (leases of less than 12 months maximum term) and to leases of low-value assets.

As permitted by the standard, the Group will apply the modified retrospective approach with no restatement of prior year. On adoption of IFRS 16 the expected impact is approximately £333 million increase in non-current assets and £333 million increase in liabilities.

IFRIC 23 'Uncertainty over income tax treatments' will be effective, subject to EU endorsement, for the period beginning 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation is not expected to have a material effect on the Group's net assets or results.

PRIOR PERIOD RE-STATEMENTS REQUIRED FOLLOWING ACCOUNTING STANDARD ADOPTION

	Year ended 30 September 2018		
£ million unless otherwise indicated	Previously reported	IFRS 15 adjustment	Restated
Revenue	30,524	(458)	30,066
Duty and similar items	(15,125)	425	(14,700)
Net revenue	15,399	(33)	15,366
Europe	3,812	(289)	3,523
Americas	1,823	425	2,248
Africa, Asia & Australasia	2,095	(169)	1,926
Distribution	8,383	–	8,383
Eliminations	(714)	–	(714)
Other cost of sales	(8,949)	(407)	(9,356)
Gross profit	6,450	(440)	6,010
Distribution, advertising and selling costs	(2,441)	440	(2,001)
Administrative and other expenses	(1,602)	–	(1,602)
Operating profit	2,407	–	2,407

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

INTANGIBLE ASSETS

Judgements typically include determining both the existence and valuation of these type of assets when they are acquired, particularly where they arise as part of a business acquisition. Assets are only recognised when it is judged that the Group has beneficial right to the use of the assets as guided by applicable Accounting Standards. The valuation of these assets requires estimates of initial current and future carrying values. Estimation is also required in the assessment of the future life of these assets.

INITIAL CARRYING VALUE

The Group allocates the purchase price of acquired businesses to their identifiable tangible and intangible assets, including goodwill. For major acquisitions the Group engages external consultants to assist in the valuation of identifiable intangible assets. On acquisition intangible assets are valued at fair value using the income method. The valuation process is based on associated future cash flows and is also dependent on assumptions about economic factors and business strategy. 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.

DETERMINATION OF USEFUL ECONOMIC LIFE

For non-goodwill intangible assets, there are critical judgements required in determining whether the asset has an indefinite useful economic life, or not. The Davidoff cigarette trademark and some premium cigar trademarks are currently considered to have indefinite lives, based on the fact that they are established international brands with global potential.

AMORTISATION AND IMPAIRMENT

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the amount and time period during which an intangible asset will support future cashflows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, impairment in the carrying value of the asset may be required.

Factors considered important that could trigger an impairment review of 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 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 calculation of accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are uncertainties associated with estimating the valuation of the recoverable amount.

Details of goodwill and intangible asset impairment assessments are included in note 12.

INCOME TAXES

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. Where liabilities exist estimation is often required to determine the potential future tax payments.

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. Consideration of the judgements surrounding certain tax positions are applicable to the Group and consideration of the valuation estimates related to tax provisions are given in note 8 to these financial statements.

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.

Judgement is required as to whether a liability exists. Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of judgement include consideration as to whether certain claims associated with the acquisition of certain brands specifically in respect of three of the four US states that are not parties to the Master Settlement Agreement (MSA) are likely to succeed, and the likely outcome of a number of product liability claims. More detail as to the considered position on these claims is given in both note 29 of the financial statements and within the Directors' Report – update on Tobacco and e-vapour related litigation.

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.

RETIREMENT BENEFITS

Accounting for retirement benefits uses a number of accounting estimates. The Group holds a number of defined benefit retirement schemes across various jurisdictions. The valuation of these schemes requires estimates of various market, demographic and mortality assumptions, which are fully reviewed by external actuaries. Full disclosure of the estimates used in retirement benefit accounting is included within note 23.

PROVISIONS

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

The main area of estimation risk relates to the estimation of restructuring provisions associated with various plans to transform the business. These include the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 24.

INVENTORY PROVISIONS

Provisions for excess or slow-moving inventory are calculated with reference to the levels of inventory carried, the expected useful life of the product and forecast future product sales. In the year, a slow-moving inventory provision of £34 million was created for NGP products using expected product ageing and future sell-out rates as the key assumptions for this judgement. Sell-out rates, which are judgemental, take into account the impact of planned trade promotions and pricing decisions which in turn influence the level of inventory usage. Ageing takes into account expected product shelf life and any other factors which may result in the product not being sold, such as packaging or regulatory changes. The current estimate has not anticipated any change to the US regulatory environment. The provision would increase to £57 million if no growth was applied to future sell-out rates for this category.

ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. Judgement has been required as to whether the disposal process has advanced sufficiently to meet the requirements of IFRS 5 and therefore the assets presented as assets held for sale. As at 30 September 2019 these assets have been judged to meet this criteria, and have been presented accordingly. Additionally, the carrying value of these assets has been considered for impairment prior to reclassification. See note 11 for further details.

CONTROL OF LOGISTA

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01 per cent of the voting shares. The Group has reviewed its control of Logista. The Group continues to have Director presence on the Board of Logista, representing 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

3. SEGMENT INFORMATION

Imperial Brands comprises two distinct businesses – Tobacco & NGP and Distribution. The Tobacco & NGP business comprises the manufacture, marketing and sale of Tobacco & NGP and Tobacco & NGP-related products, including sales to (but not by) the Distribution business. The Distribution business comprises the distribution of Tobacco & NGP products for Tobacco & NGP product manufacturers, including Imperial Brands, as well as a wide range of non-Tobacco & NGP products and services. The Distribution business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco & NGP and Distribution businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

On 1 October 2018 we reorganised the Tobacco & NGP business to manage our footprint based on geographic proximity changing from the previous approach of grouping markets based on their growth and returns profiles. The managerial and internal reporting structures of the business have been revised to reflect the new structure. 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 Europe, Americas, Africa, Asia & Australasia (AAA) and Distribution. Operating segments are comprised of geographical groupings of business markets. The main Tobacco & NGP business markets within the Europe, Americas and AAA reportable segments are:

Europe – United Kingdom, Germany, Spain, France, Italy, Greece, Sweden, Norway, Belgium, Netherlands, Ukraine and Poland.

Americas – United States and Canada.

AAA – Australia, Japan, Russia, Saudi Arabia, Taiwan and our African markets including Algeria and Morocco (also includes premium cigar, which is run as a separate business within AAA. Premium cigar primarily manufactures within the AAA geography but does make sales in countries outside of this area).

TOBACCO & NGP

£ million unless otherwise indicated	2019	Restated 2018
Revenue	**23,418**	22,427
Net revenue	**7,998**	7,697
Operating profit	**2,074**	2,282
Adjusted operating profit	**3,531**	3,557
Adjusted operating margin %	**44.1**	46.2

DISTRIBUTION

£ million unless otherwise indicated	2019	2018
Revenue	**8,969**	8,383
Distribution fees	**1,015**	989
Operating profit	**137**	128
Adjusted operating profit	**232**	212
Adjusted operating margin %	**22.9**	21.4

REVENUE

	2019		Restated 2018	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco & NGP				
Europe	**14,152**	**13,359**	14,183	13,439
Americas	**3,358**	**3,358**	3,123	3,123
Africa, Asia & Australasia	**5,908**	**5,908**	5,121	5,121
Total Tobacco & NGP	**23,418**	**22,625**	22,427	21,683
Distribution	**8,969**	**8,969**	8,383	8,383
Eliminations	**(793)**	**–**	(744)	–
Total Group	**31,594**	**31,594**	30,066	30,066

RECONCILIATION FROM TOBACCO & NGP REVENUE TO TOBACCO & NGP NET REVENUE

£ million	2019	Restated 2018
Revenue	**23,418**	22,427
Duty and similar items	**(15,394)**	(14,700)
Sale of peripheral products	**(26)**	(30)
Net Revenue	**7,998**	7,697

TOBACCO & NGP NET REVENUE

£ million	2019	Restated 2018
Europe	**3,636**	3,523
Americas	**2,472**	2,248
Africa, Asia & Australasia	**1,890**	1,926
Total Tobacco & NGP	**7,998**	7,697

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	2019	2018
Tobacco & NGP		
Europe	**1,699**	1,701
Americas	**1,068**	1,036
Africa, Asia & Australasia	**764**	820
Total Tobacco & NGP	**3,531**	3,557
Distribution	**232**	212
Eliminations	**(14)**	(3)
Adjusted operating profit	**3,749**	3,766
Acquisition and disposal costs – Tobacco & NGP	**(22)**	–
Amortisation and impairment of acquired intangibles – Tobacco & NGP	**(1,033)**	(970)
Amortisation of acquired intangibles – Distribution	**(85)**	(83)
Excise tax provision – Tobacco & NGP	**(139)**	–
Administration of UK distributor – Tobacco & NGP	**–**	(110)
Fair value adjustment of acquisition consideration – Tobacco & NGP	**(129)**	–
Restructuring costs	**(144)**	(196)
Operating profit	**2,197**	2,407
Net finance costs	**(562)**	(626)
Share of profit of investments accounted for using the equity method	**55**	42
Profit before tax	**1,690**	1,823

See statement of other comprehensive income for details of excise tax provision, fair value adjustment of acquisition consideration and administration of UK distributor. See notes 11 and 12 for details on amortisation and impairment, note 11 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

OTHER INFORMATION

	2019		2018	
£ million	**Additions to property, plant and equipment**	**Depreciation and software amortisation**	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco & NGP				
Europe	**156**	**93**	109	103
Americas	**48**	**33**	53	33
Africa, Asia & Australasia	**60**	**39**	53	42
Total Tobacco & NGP	**264**	**165**	215	178
Distribution	**36**	**35**	39	34
Total Group	**300**	**200**	254	212

ADDITIONAL GEOGRAPHIC ANALYSIS

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

	2019		2018	
£ million	**External revenue**	**Non-current assets**	External revenue	Non-current assets
UK	**3,939**	**110**	4,153	109
Germany	**3,675**	**3,383**	3,772	3,351
France	**3,599**	**2,532**	3,575	2,597
USA	**3,427**	**7,061**	3,154	7,037
Other	**16,954**	**7,570**	15,412	8,759
Total Group	**31,594**	**20,656**	30,066	21,853

Non-current assets comprise intangible assets, property, plant and equipment, and investments accounted for using the equity method.

4. PROFIT BEFORE TAX

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

£ million	2019	2018
Raw materials and consumables used	**964**	927
Changes in inventories of finished goods – Tobacco & NGP	**2,679**	2,410
Changes in inventories of finished goods – Distribution	**6,180**	5,520
Depreciation and impairment of fixed assets	**183**	176
Amortisation and impairment of intangible assets	**1,162**	1,090
Acquisition and disposal costs	**22**	–
Operating lease charges	**53**	57
Net foreign exchange (gains)/losses	**(68)**	52
Write down of inventories	**52**	28
Profit on disposal of non-current assets	**(19)**	(76)
Impairment of trade receivables	**9**	9

ANALYSIS OF FEES PAYABLES TO PRICEWATERHOUSECOOPERS LLP AND ITS ASSOCIATES

£ million	2019	2018
Audit of Parent Company and consolidated financial statements	**2.0**	1.2
Audit of the Company's subsidiaries	**4.4**	4.2
Audit of joint venture entities	**0.4**	0.4
Audit related assurance services	**0.8**	0.3
	7.6	6.1
Other services	**0.2**	0.2
	7.8	6.3

In addition to the above, PricewaterhouseCoopers LLP audit the individual pension schemes in the UK and Ireland. Fees for these audits total £55.8 thousand (2018: £53.2 thousand).

5. RESTRUCTURING COSTS

£ million	2019	2018
Employment related	**96**	170
Asset impairments	**29**	3
Other charges	**19**	23
	144	196

Restructuring costs analysed by workstream:

£ million	2019	2018
Cost optimisation programme	**144**	181
Acquisition integration costs	**–**	15
	144	196

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is a discrete, time bound project which, given its scale, will be delivered over a number of years and once delivered the associated restructuring costs will cease.

Costs of implementing cost savings that do not arise from the change in strategic direction are excluded from restructuring costs.

The charge for the year of £144 million (2018: £181 million) relates to our two cost optimisation programmes announced in 2013 and 2016.

In 2019 the cash cost of Phase I of the programme was £24 million (2018: £43 million) and £108 million (2018: £173 million) for Phase II, bringing the cumulative net cash cost of the programme to £958 million (Phase I £545 million, Phase II £413 million).

Cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million in respect of the savings of £300 million per annum that the programme has generated by 2018 (the last year of the programme), and Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million per annum by 2020.

The total restructuring cash spend in the year was £146 million (2018: £241 million).

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

6. DIRECTORS AND EMPLOYEES

EMPLOYMENT COSTS

£ million	2019	2018
Wages and salaries	**826**	836
Social security costs	**178**	173
Other pension costs (note 23)	**81**	90
Share-based payments (note 26)	**23**	26
	1,108	1,125

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. The Directors' Remuneration Report, on pages 66-85, includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NUMBER OF PEOPLE EMPLOYED BY THE GROUP DURING THE YEAR

	2019		2018	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	**26,400**	**26,000**	27,100	27,200
Distribution	**6,300**	**6,300**	6,200	6,100
	32,700	**32,300**	33,300	33,300

NUMBER OF PEOPLE EMPLOYED BY THE GROUP BY LOCATION DURING THE YEAR

	2019		2018	
	At 30 September	Average	At 30 September	Average
European Union	**15,600**	**15,500**	15,700	15,400
Americas	**8,400**	**8,200**	8,600	8,500
Rest of the World	**8,700**	**8,600**	9,000	9,400
	32,700	**32,300**	33,300	33,300

7. NET FINANCE COSTS

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	2019	2018
Reported net finance costs	**562**	626
Fair value gains on derivative financial instruments	**665**	492
Fair value losses on derivative financial instruments	**(839)**	(567)
Exchange gains/(losses) on financing activities	**67**	(51)
Net fair value and exchange losses on financial instruments	**(107)**	(126)
Interest income on net defined benefit assets (note 23)	**142**	129
Interest cost on net defined benefit liabilities (note 23)	**(147)**	(142)
Post-employment benefits net financing cost	**(5)**	(13)
Adjusted net finance costs	**450**	487
Comprising		
Interest on bank deposits	**(16)**	(10)
Interest on bank and other loans	**466**	497
Adjusted net finance costs	**450**	487

8. TAX

ANALYSIS OF CHARGE IN THE YEAR

£ million	2019	2018
Current tax		
UK corporation tax	**101**	55
Overseas tax	**420**	367
Total current tax	**521**	422
Deferred tax movement	**88**	(26)
Total tax charged to the consolidated income statement	**609**	396

RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

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	2019	2018
Reported tax	**609**	396
Deferred tax on amortisation and impairment of acquired intangibles	**9**	196
Excise tax provision	**15**	–
Administration of UK distributor	**–**	21
Tax on net fair value and exchange movements on financial instruments	**31**	22
Tax on post-employment benefits net financing cost	**4**	5
Tax on restructuring costs	**35**	55
Deferred tax impact of US tax reforms	**–**	29
Tax on unrecognised losses	**(61)**	(76)
Adjusted tax charge	**642**	648

The use of adjusted measures is explained in note 1, Accounting Policies (Use of Adjusted Measures).

FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 19.0 per cent (2018: 19.0 per cent) as follows:

£ million	2019	2018
Profit before tax	**1,690**	1,823
Tax at the UK corporation tax rate	**321**	346
Tax effects of:		
Differences in effective tax rates on overseas earnings	**(66)**	(44)
Movement in provision for uncertain tax positions	**16**	10
Remeasurement of deferred tax balances	**87**	51
Remeasurement of deferred tax balances arising from changes in tax rates	**–**	(68)
Deferred tax on unremitted earnings	**15**	26
Permanent differences	**243**	66
Adjustments in respect of prior years	**(7)**	9
Total tax charged to the consolidated income statement	**609**	396

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties.

Remeasurement of deferred tax balances includes £35 million (2018: £35 million) in relation to the de-recognition of deferred tax assets for tax losses in the Group's Dutch business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is nil (2018: £68 million). In respect of the previous year this included £29 million in relation to the remeasurement of deferred tax assets and liabilities on US liabilities and assets following the enactment of tax rate reductions and £39 million in relation to the remeasurement of deferred tax liabilities on French assets following the enactment of future tax rate reductions which were effective for the Group from 1 October 2019.

During the year the Group has provided for deferred tax on unremitted earnings of £15 million (2018: £26 million). The tax will arise on the distribution of profits through the group and on planned group simplification.

Permanent differences include £4 million (2018: £5 million) in respect of non-deductible exchange losses and £21 million (2018: £26 million) in respect of non-deductible interest expense, £32 million (2018: nil) in respect of non-deductible contingent consideration and £147 million (2018: nil) in respect of an impairment of goodwill and equity investments in the Premium Cigar Division.

MOVEMENT ON THE CURRENT TAX ACCOUNT

£ million	2019	2018
At 1 October	**(122)**	(123)
Charged to the consolidated income statement	**(521)**	(422)
Credited to equity	**1**	1
Cash paid	**522**	407
Exchange movements	**3**	3
Other movements	**(1)**	12
At 30 September	**(118)**	(122)

The cash tax paid in the year is £1 million higher than the current tax charge (2018: £15 million lower). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

£ million	2019	2018
Assets	**303**	164
Liabilities	**(421)**	(286)
	(118)	(122)

UNCERTAIN TAX POSITIONS

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2019 the total value of these provisions, including foreign exchange movements, was £204 million (2018: £202 million). It is possible that amounts paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the French matter referred to below, the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact to the results of the Group.

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £240 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In September 2018 the dispute was heard before the Commission Nationale, an independent adjudication body, whose decision is advisory only. In October 2018 the Commission issued its report which was favourable to the Group's position. In November 2018 a meeting was held with the French tax authorities to discuss the Commission's decision. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed (£240 million). In January 2019 the Group appealed against the assessment. The Group awaits the response of the French tax authorities. At this time it is appropriate to maintain the £42 million (2018: £42 million) held in the provision for uncertain tax positions in respect of this matter.

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, in line with a number of UK corporates, is making a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process. The Group has not received any indication from the UK Government as to the quantum of State Aid that it believes the Group has received, if any. The Group considers that the potential amount of additional tax payable remains between nil and £300 million depending on the basis of calculation. This does not include interest which would be chargeable on any recovery sought. Based upon current advice the Group does not consider any provision is required in relation to this investigation or any other EU State Aid investigation. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

In 2017 new legislation was introduced in Russia, prospectively limiting the amount of production that could take place prior to new excise tax increases without being subject to a higher excise tax rate. On 28 September 2018, the Russian tax authorities issued a preliminary tax audit report for the calendar years 2014-2016 seeking to assess retrospectively additional excise and VAT with associated interest and penalties of approximately £132 million in respect of pre-production prior to new excise duty increases. In the event that the Russian tax authorities were to apply the same ruling to 2017, the Group estimates further excise and VAT with associated interest and penalties of £74 million could be assessed. The Group filed objections to the preliminary report which were discussed with the Russian tax authorities in November 2018. Subsequent to these discussions, additional audit measures were commenced by the tax authorities. A final report was received on 26 August 2019, which assessed £119 million for the audit period, and an implied liability for 2017 estimated at £74 million. We appealed against the final report and are currently in discussion with the tax authorities on our appeal.

The Group has complied with the Russian legislation since it became effective.

Based on the current state of discussions with the Russian tax authorities a provision of £139 million has been made. Tax relief associated with this provision is estimated at £15 million resulting in a net of tax provision of £124 million.

9. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2019	2018	2017
Paid interim of 62.56 pence per share (2018: 122.33 pence, 2017: 111.21 pence)			
• Paid June 2017	–	–	247
• Paid September 2017	–	–	247
• Paid December 2017	–	–	567
• Paid June 2018	–	271	–
• Paid September 2018	–	271	–
• Paid December 2018	–	624	–
• Paid June 2019	**298**	–	–
• Paid September 2019	**298**	–	–
Interim dividend paid	**596**	1,166	1,061
Proposed interim of 72.00 pence per share (2018: nil, 2017: nil)			
• To be paid December 2019	**683**	–	–
Interim dividend proposed	**683**	–	–
Proposed final of 72.01 pence per share (2018: 65.46 pence, 2017: 59.51 pence)			
• Paid March 2018	–	–	567
• Paid March 2019	–	624	–
• To be paid March 2020	**683**	–	–
Final dividend	**683**	624	567
Total ordinary share dividends of 206.57 pence per share (2018: 187.79 pence, 2017: 170.72 pence)	**1,962**	1,790	1,628

The third interim dividend for the year ended 30 September 2019 of 72.00 pence per share amounts to a proposed dividend of £683 million, which will be paid in December 2019.

The proposed final dividend for the year ended 30 September 2019 of 72.01 pence per share amounts to a proposed dividend payment of £683 million in March 2020 based on the number of shares ranking for dividend at 30 September 2019, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2019 will be £1,962 million (2018: £1,790 million). The dividend paid during 2019 is £1,844 million (2018: £1,676 million).

10. EARNINGS PER ORDINARY 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	2019	2018
Earnings: basic and diluted – attributable to owners of the Parent Company	1,010	1,368

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	953.0	952.4
Potentially dilutive share options	1.9	3.0
Shares for diluted earnings per share	954.9	955.4

Pence		
Basic earnings per share	106.0	143.6
Diluted earnings per share	105.8	143.2

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

	2019		2018	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	106.0	1,010	143.6	1,368
Acquisition and disposal costs	2.3	22	–	–
Amortisation and impairment of acquired intangibles	116.4	1,109	90.0	857
Excise tax provision	13.0	124	–	–
Administration of UK distributor	–	–	9.3	89
Fair value adjustment of acquisition consideration	13.5	129	–	–
Net fair value and exchange movements on financial instruments	8.0	76	10.9	104
Post-employment benefits net financing cost	0.1	1	0.8	8
Restructuring costs	11.4	109	14.9	141
Deferred tax impact of US tax reforms	–	–	(3.0)	(29)
Tax on unrecognised losses	6.4	61	8.0	76
Adjustments above attributable to non-controlling interests	(3.8)	(36)	(2.3)	(22)
Adjusted	273.3	2,605	272.2	2,592
Adjusted diluted	272.8	2,605	271.3	2,592

11. ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. At 30 September 2019, the Group has assessed the IFRS 5 criteria for presentation of the business as held for disposal. Given the Group's stated commitment to complete the disposal, the significant work performed to separate the business, and significant progress made on delivery of a new, alternative ownership, the Group has reconfirmed that the IFRS 5 criteria have been met and therefore it is highly probable that a disposal transaction will be completed. The Group has therefore presented the net assets of the Premium Cigar Division business as current assets and liabilities held for disposal.

When the sale of the Premium Cigar Division completes a gain or loss will arise. There are currently cumulative foreign exchange gains recognised in the foreign exchange translation reserve relating to prior retranslations of non-sterling assets held by the Division. On completion, these gains will be recycled from the foreign exchange translation reserve to the income statement and included in the profit or loss on disposal.

The amount of the gains that will be recycled is uncertain as that amount will be affected by movements in foreign exchange rates up to the date of completion. We currently estimate the associated cumulate foreign exchange gains at 30 September 2019 to be in the region of £300 million-£400 million.

IMPAIRMENT TESTING

The Premium Cigar Division has been presented as held for disposal at 30 September 2019 and as a consequence of this an impairment test has been undertaken to assess the carrying value of the associated assets on a fair value less cost of sale basis. This test involves an assessment of the level of proceeds expected to be achieved on completion of the disposal, less transaction tax and costs with a comparison of this figure to the carrying value of the net assets. Since bid offers are an observable input not based on a quoted price the fair value is based on a level 2 valuation under IFRS 13.

The negotiations for the sale of the business are ongoing and although a range of bids have been received, there is uncertainty as to the level of disposal proceeds that will actually be achieved. A range of the current bids has been assessed in order to determine an expected level for the disposal proceeds. We do not expect that the actual proceeds will vary significantly to the amount used to determine the fair value and therefore no further disclosure of sensitivities has been given. However, given that disposal price is an estimate it is possible that a gain or loss will still arise on completion.

The test indicated an impairment and associated cost of disposal charge of £525 million. This has been primarily adjusted against the carrying value of goodwill and equity investments held by the Premium Cigar Division. The impairment amount is sensitive to the level of the estimated disposal proceeds, any reduction in the expected amount of these proceeds would result in a higher impairment and vice-versa. The goodwill and equity investment values included in the current assets held for disposal have been adjusted accordingly.

The assets and liabilities classified as held for disposal are as follows:

£ million	2019
Non-current assets	
Intangible assets	138
Property, plant and equipment	26
Investments accounted for using the equity method	574
Trade and other receivables	52
Deferred tax assets	11
	801
Current assets	
Inventories	228
Trade and other receivables	244
Cash and cash equivalents	14
	486
Total assets	1,287
Current liabilities	
Trade and other payables	(172)
Provisions	(4)
	(176)
Total liabilities	(176)
Net assets	1,111

12. INTANGIBLE ASSETS

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total 2019
Cost					
At 1 October 2018	14,040	12,701	1,421	378	28,540
Additions	31	66	2	52	151
Acquisitions	–	–	–	–	–
Disposals	–	(1)	–	(15)	(16)
Reclassifications	–	–	(2)	4	2
Transferred to held for disposal (note 11)	–	(136)	(2)	–	(138)
Exchange movements	161	391	4	2	558
At 30 September 2019	14,232	13,021	1,423	421	29,097
Amortisation and impairment					
At 1 October 2018	1,577	6,472	1,131	243	9,423
Amortisation charge for the year[1]	–	515	85	34	634
Impairment	273	18	–	–	291
Disposals	–	(1)	–	(13)	(14)
Reclassifications	–	–	–	–	–
Exchange movements	(3)	165	4	1	167
Accumulated amortisation	–	6,777	1,220	265	8,262
Accumulated impairment	1,847	392	–	–	2,239
At 30 September 2019	1,847	7,169	1,220	265	10,501
Net book value					
At 30 September 2019	12,385	5,852	203	156	18,596

1. Amortisation of acquired intangibles excluded from adjusted operating profit comprises amortisation on intellectual property of £515 million (2018: £941 million), impairment on intellectual property of £8 million (2018: nil) and amortisation on supply agreements of £85 million (2018: £112 million). An adjustment is made for impairment on internally generated intellectual property of £10 million (2018: £1 million).

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total
					2018
Cost					
At 1 October 2017	13,833	12,430	1,401	343	28,007
Additions	3	8	–	47	58
Acquisitions	63	68	–	–	131
Disposals	–	(7)	–	(13)	(20)
Reclassifications	(6)	–	6	–	–
Exchange movements	147	202	14	1	364
At 30 September 2018	14,040	12,701	1,421	378	28,540
Amortisation and impairment					
At 1 October 2017	1,568	5,452	1,008	216	8,244
Amortisation charge for the year[1]	–	942	112	36	1,090
Disposals	–	(4)	–	(10)	(14)
Reclassifications	–	–	–	–	–
Exchange movements	9	82	11	1	103
Accumulated amortisation	–	6,098	1,131	243	7,472
Accumulated impairment	1,577	374	–	–	1,951
At 30 September 2018	1,577	6,472	1,131	243	9,423
Net book value					
At 30 September 2018	12,463	6,229	290	135	19,117

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships. All were acquired as part of the Altadis purchase.

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 and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit.

ACQUISITIONS

For each acquisition, an exercise to value the net assets and apportion the consideration has taken place and the values have been recognised in the year end accounts. We engaged external consultants to assist in the valuation of the intangible assets, which make up the most significant element of the assets acquired and have been valued using the income method.

Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions to contingent consideration or asset values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

VON ERL

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million plus an estimated contingent consideration of £15 million payable on performance measures being achieved. In August 2018 and August 2019 total payments of £20 million were made to purchase an additional share capital, taking the total shareholding to 70 per cent. On 2 October 2019 a final agreement to pay €140 million was made to purchase the remaining equity in Von Erl, making it a fully owned subsidiary.

NERUDIA

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for an estimated total cash consideration of £86 million, comprised of an initial consideration of £64 million plus an estimated contingent consideration of £22 million. The maximum amount of contingent consideration payable is £42 million with the amount payable based on certain performance targets being met.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT REVIEW

Goodwill is allocated to groups of cash-generating units (CGUGs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business CGUGs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2019		2018	
£ million	**Goodwill**	**Intangible assets with indefinite lives**	Goodwill	Intangible assets with indefinite lives
Europe	**4,602**	**342**	4,522	345
Americas	**4,225**	**–**	4,153	136
Africa, Asia & Australasia	**1,819**	**136**	1,787	–
Premium Cigar Division	**–**	**–**	258	126
Tobacco & NGP	**10,646**	**478**	10,720	607
Distribution	**1,739**	**–**	1,743	–
	12,385	**478**	12,463	607

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGUGs), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGUGs) and ITG Brands in 2015 (USA).

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 CGUG is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans which 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.

	2019		
%	**Pre-tax discount rate**	**Initial growth rate**	**Long-term growth rate**
Europe	**9.6**	**1.1**	**0.2**
Americas	**8.9**	**3.9**	**2.5**
Africa, Asia & Australasia	**10.3**	**1.6**	**0.1**
Distribution	**9.3**	**2.5**	**1.6**

Cash flows from the business plan period are extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. Estimated long-term weighted average compound growth rates of between 0.1 per cent and 2.5 per cent are used beyond year five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the tobacco industry.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Our impairment testing confirms there are sufficient cashflows to support the current carrying values of the goodwill held at 30 September 2019. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

PREMIUM CIGAR DIVISION

As at 30 September 2019, all assets and liabilities within the Premium Cigar Division have been reclassified as 'Assets held for sale' in line with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Management are committed to a plan to sell and the Division is being actively marketed for sale.

A separate impairment review has been performed on these 'Assets held for sale', the review has compared the carrying amounts of the Premium Cigar Division and the fair value (represented by the indicative sales price) less costs to sell. The test indicated an impairment and associated cost of disposal charge of £525 million.

OTHER INTANGIBLE ASSETS

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cashflows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cashflows. No impairments were recognised in the period (2018: nil).

13. PROPERTY, PLANT AND EQUIPMENT

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2019
Cost				
At 1 October 2018	**909**	**2,013**	**432**	**3,354**
Additions	**10**	**226**	**64**	**300**
Disposals	**(7)**	**(80)**	**(36)**	**(123)**
Reclassifications	**4**	**15**	**(21)**	**(2)**
Transferred to held for disposal (note 11)	**(22)**	**(14)**	**(4)**	**(40)**
Exchange movements	**15**	**33**	**5**	**53**
At 30 September 2019	**909**	**2,193**	**440**	**3,542**
Depreciation and impairment				
At 1 October 2018	**169**	**1,016**	**278**	**1,463**
Depreciation charge for the year	**20**	**113**	**33**	**166**
(Impairment write back)/impairment	**(6)**	**23**	**–**	**17**
Disposals	**(2)**	**(52)**	**(33)**	**(87)**
Reclassifications	**2**	**(1)**	**(1)**	**–**
Transferred to held for disposal (note 11)	**(4)**	**(8)**	**(2)**	**(14)**
Exchange movements	**2**	**13**	**3**	**18**
At 30 September 2019	**181**	**1,104**	**278**	**1,563**
Net book value				
At 30 September 2019	**728**	**1,089**	**162**	**1,979**

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2018
Cost				
At 1 October 2017	960	1,989	408	3,357
Additions	10	183	58	251
Acquisitions	1	2	–	3
Disposals	(63)	(153)	(31)	(247)
Reclassifications	(2)	4	(2)	–
Exchange movements	3	(12)	(1)	(10)
At 30 September 2018	909	2,013	432	3,354
Depreciation and impairment				
At 1 October 2017	164	1,051	277	1,492
Depreciation charge for the year	19	127	30	176
Impairment	–	–	–	–
Disposals	(14)	(153)	(28)	(195)
Reclassifications	–	–	–	–
Exchange movements	–	(9)	(1)	(10)
At 30 September 2018	169	1,016	278	1,463
Net book value				
At 30 September 2018	740	997	154	1,891

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the joint venture entities, which are accounted for by the Group under the equity method, is shown below:

					2019
£ million	**Corporación Habanos**	**Altabana**	**Global Horizon Ventures**	**Others**	**Total**
Revenue	**208**	**329**	**16**	**69**	**622**
Profit after tax	**44**	**60**	**10**	**11**	**125**
Non-current assets	**482**	**27**	**24**	**13**	**546**
Current assets	**95**	**219**	**47**	**65**	**426**
Total assets	**577**	**246**	**71**	**78**	**972**
Current liabilities	**(132)**	**(60)**	**(3)**	**(42)**	**(237)**
Non-current liabilities	**(26)**	**(5)**	**–**	**(6)**	**(37)**
Total liabilities	**(158)**	**(65)**	**(3)**	**(48)**	**(274)**
Net assets	**419**	**181**	**68**	**30**	**698**

					2018
£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others	Total
Revenue	196	325	8	65	594
Profit after tax	39	48	4	9	100
Non-current assets	468	18	24	14	524
Current assets	89	225	33	64	411
Total assets	557	243	57	78	935
Current liabilities	(107)	(60)	(3)	(38)	(208)
Non-current liabilities	(22)	(5)	–	(7)	(34)
Total liabilities	(129)	(65)	(3)	(45)	(242)
Net assets	428	178	54	33	693

TRANSACTIONS AND BALANCES WITH JOINT VENTURES

£ million	**2019**	2018
Sales to	**99**	90
Purchases from	**115**	107
Accounts receivable from	**54**	13
Accounts payable to	**(26)**	(18)

MOVEMENT ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

£ million	**2019**	2018
At 1 October	**845**	785
Profit for the year from joint ventures and associates	**55**	42
Increase in investment in associates	**11**	10
Impairment of investment in joint ventures	**(232)**	–
Impairment of investment in associates	**(5)**	–
Dividends	**(45)**	(17)
Transferred to held for disposal (note 11)	**(574)**	–
Foreign exchange	**26**	25
At 30 September	**81**	845

IFRS 11 Joint Arrangements came into effect for the Group from 1 October 2014. As a result of this standard the profit and loss items from joint ventures are shown in the consolidated income statement below net finance costs as "Share of investments accounted for using the equity method". Similarly, the asset and liability amounts are classified as "Investments accounted for using the equity method".

15. INVENTORIES

£ million	2019	2018
Raw materials	**1,012**	908
Work in progress	**67**	78
Finished inventories	**2,829**	2,520
Other inventories	**174**	186
	4,082	3,692

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,829 million (2018: £2,520 million) there is excise duty of £1,406 million (2018: £1,200 million).

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 £156 million (2018: £139 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

16. TRADE AND OTHER RECEIVABLES

	2019		2018	
£ million	Current	Non-current	Current	Non-current
Trade receivables	**2,599**	**5**	2,370	5
Less: loss allowance	**(72)**	**(5)**	(61)	(5)
Net trade receivables	**2,527**	**–**	2,309	–
Other receivables	**176**	**108**	119	74
Prepayments	**151**	**11**	157	8
Amounts owed from group undertakings (assets held for disposal)	**139**	**–**	–	–
	2,993	**119**	2,585	82

Trade receivables may be analysed as follows:

	2019		2018	
£ million	Current	Non-current	Current	Non-current
Within credit terms	**2,363**	**–**	2,119	–
Past due by less than 3 months	**100**	**–**	107	–
Past due by more than 3 months	**64**	**–**	83	–
Amounts that are impaired	**72**	**5**	61	5
	2,599	**5**	2,370	5

The movements in the total loss allowance for receivables can analysed as follows:

£ million	2019	2018
At 1 October previously stated	**66**	58
IFRS 9 Transition (note 1)	**5**	–
At 1 October restated	**71**	58
Net increase in provision	**6**	8
At 30 September	**77**	66

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. 12 month expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach.

17. CASH AND CASH EQUIVALENTS

£ million	2019	2018
Cash at bank and in hand	**835**	771
Short-term deposits and other liquid assets	**1,451**	4
	2,286	775

£176 million (2018: £221 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.

18. TRADE AND OTHER PAYABLES

£ million	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Trade payables	**1,775**	**–**	1,198	–
Duties payable	**4,919**	**–**	4,808	–
Other taxes and social security contributions	**1,358**	**–**	1,436	–
Other payables	**400**	**–**	174	–
Accruals	**900**	**7**	654	47
Amounts owed to group undertakings (assets held for disposal)	**184**	**–**	–	–
	9,536	**7**	8,270	47

Included within accruals is deferred consideration payable in respect of the Von Erl and Nerudia acquisitions.

19. BORROWINGS

The Group's borrowings, held at amortised cost, are as follows.

£ million	2019	2018
Current borrowings		
Bank loans and overdrafts	**46**	147
Capital market issuance:		
European commercial paper (ECP)	**177**	1,530
£200m 6.25% notes due December 2018	**–**	210
£500m 7.75% notes due June 2019	**–**	510
€750m 5.0% notes due December 2019	**692**	–
$1,250m 2.95% notes due July 2020	**1,022**	–
Total current borrowings	**1,937**	2,397
Non-current borrowings		
Bank loans	**–**	–
Capital market issuance:		
€750m 5.0% notes due December 2019	**–**	693
$1,250m 2.95% notes due July 2020	**–**	963
€1,000m 2.25% notes due February 2021	**897**	898
€500m 0.5% notes due July 2021	**443**	443
£1,000m 9.0% notes due February 2022	**1,055**	1,055
$1,250m 3.75% notes due July 2022	**1,023**	963
$1,000m 3.5% notes due February 2023	**815**	768
€750m 1.25% notes due August 2023	**664**	–
£600m 8.125% notes due March 2024	**626**	626
$1,000m 3.125% notes due July 2024	**816**	–
€500m 1.375% notes due January 2025	**446**	447
$1,500m 4.25% notes due July 2025	**1,222**	1,151
€650m 3.375% notes due February 2026	**587**	588
$750m 3.5% notes due July 2026	**612**	–
£500m 5.5% notes due September 2026	**500**	499
€750m 2.125% notes due February 2027	**671**	–
$1,000m 3.875% notes due July 2029	**816**	–
£500m 4.875% notes due June 2032	**504**	504
Total non-current borrowings	**11,697**	9,598
Total borrowings	**13,634**	11,995
Analysed as:		
Capital market issuance	**13,588**	11,848
Bank loans and overdrafts	**46**	147

Current and non-current borrowings include interest payable of £33 million (2018: £22 million) and £164 million (2018: £172 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 4 December 2018, £200 million 6.25 per cent notes were repaid.

On 24 June 2019, £500 million 7.75 per cent notes were repaid.

On 12 February 2019 €750 million 1.125 per cent notes due August 2023 and €750 million 2.15% notes due February 2027 were issued.

On 26 July 2019 $1,000 million 3.125 per cent notes due July 2024, $750 million 3.5 per cent notes due July 2026 and $1,000 million 3.875 per cent notes due July 2029 were issued.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2018: no defaults).

NON-CURRENT FINANCIAL LIABILITIES

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2019 (including net derivative financial instruments detailed in note 21) is as follows:

	2019			2018		
£ million	**Borrowings**	**Net derivative financial liabilities/ (assets)**	**Total**	Borrowings	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:						
Between one and two years	**1,340**	**(16)**	**1,324**	1,656	4	1,660
Between two and five years	**4,999**	**14**	**5,013**	4,128	123	4,251
In five years or more	**5,358**	**733**	**6,091**	3,814	484	4,298
	11,697	**731**	**12,428**	9,598	611	10,209

FAIR VALUE OF BORROWINGS

The fair value of borrowings as at 30 September 2019 is estimated to be £14,320 million (2018: £12,484 million). £14,274 million (2018: £12,337 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

	2019		2018	
£ million	**Balance sheet amount**	**Fair value**	Balance sheet amount	Fair value
GBP	**2,685**	**3,168**	3,405	3,861
EUR	**4,577**	**4,681**	4,598	4,681
USD	**6,326**	**6,425**	3,845	3,795
Total capital market issuance	**13,588**	**14,274**	11,848	12,337

UNDRAWN BORROWING FACILITIES

At 30 September the Group had the following undrawn committed facilities:

£ million	**2019**	2018
Amounts maturing:		
In less than one year	**266**	–
Between one and two years	**3,011**	1,040
Between two and five years	**–**	3,016
	3,277	4,056

During the year four new bilateral facilities for a total €573 million were cancelled.

20. FINANCIAL RISK FACTORS

FINANCIAL RISK MANAGEMENT

OVERVIEW

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group-wide insurance programmes. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets when required and comprises the Chief Financial Officer, the Company Secretary and the Director of Treasury. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

(A) MARKET RISK

PRICE RISK

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 23 and the investment in convertible debentures issued by Auxly Cannabis Group Inc. 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 over the short to medium term 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 and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

TRANSACTION RISK

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

TRANSLATION RISK

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2019. 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 movements in the fair value of derivative financial instruments.

£ million	**2019** **Increase in income**	2018 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2018: 10%)	**184**	127
10% appreciation of US dollar (2018: 10%)	**43**	83

An equivalent depreciation in the above currencies would cause a decrease in income of £225 million and £53 million for euro and US dollar exchange rates respectively (2018: £155 million and £102 million).

Movements in equity in the table below relate to intercompany loans treated as quasi-equity under IAS 21 and hedging instruments designated as net investment hedges and of the Group's euro and US dollar denominated assets.

£ million	**2019** **Change in equity**	2018 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2018: 10%)	**453**	408
10% appreciation of US dollar (2018: 10%)	**(47)**	(44)

An equivalent depreciation in the above currencies would result in a change in equity of (£554) million and £57 million for euro and US dollar exchange rates respectively (2018: (£499) million and £54 million).

At 30 September 2019, after the effect of derivative financial instruments, approximately 74 per cent of the Group's net debt was denominated in euro and non US dollar currencies (2018: 68 per cent), 26 per cent in US dollars (2018: 32 per cent).

INTEREST RATE RISK

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. 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.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2019, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 63 per cent (2018: 72 per cent) of net debt was at fixed rates of interest and 37 per cent (2018: 28 per cent) was at floating rates of interest.

INTEREST RATE SENSITIVITY ANALYSIS

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's income statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2019, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2018: nil).

£ million	2019 Change in income	2018 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2018: 1%)	**31**	20
+/- 1% increase in US dollar interest rates (2018: 1%)	**14**	14

(B) CREDIT RISK

The implementation of IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, cash deposits, derivatives and other amounts due from external financial counterparties arising on other financial instruments. The maximum aggregate credit risk to these sources was £5,624 million at 30 September 2019 (2018: £3,644 million).

TRADE AND OTHER RECEIVABLES

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers, and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2019 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £827 million (2018: £724 million). Analysis of trade and other receivables is provided in note 16.

FINANCIAL INSTRUMENTS

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with two ISDA Credit Support Annexes the Group had placed £38 million as at 30 September 2019 (2018: £82 million) as collateral with third parties in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2019. The increase in the credit exposure is due to falling long-term interest rates increasing the value of interest rate swaps converting fixed rate debt to floating rates and a weakening of sterling against the US dollar affecting the buy US Dollar leg of foreign exchange forward contracts. At the balance sheet date management does not expect these counterparties to default on their current obligations. The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

	2019		2018	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**A+**	**20**	A+	6
2nd highest	**AA–**	**19**	BBB+	5
3rd highest	**A**	**12**	A	3
4th highest	**A**	**8**	A	3
5th highest	**A**	**8**	–	–

(C) LIQUIDITY RISK

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

There are no financial covenants on the Group's material short and long-term borrowings. Certain of these borrowings contain cross default provisions and negative pledges. The core committed bank facilities are subject to two financial covenants, these being minimum interest cover ratio of four times (defined as the ratio of consolidated EBITDA to consolidated net interest payable for each measurement period) and maximum gearing of four times (defined as consolidated total net borrowings at the end of each measurement period to consolidated EBITDA for that measurement period). They are also subject to pari passu ranking and negative pledge covenants. Any non-compliance with covenants underlying Imperial Brands' financing arrangements could, if not waived, constitute an Event of Default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities.

We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the 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, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short-term liquidity requirements in line with short-term cash flow forecasts. As at 30 September 2019, the Group held liquid assets of £2,286 million (2018: £775 million). The significant increase in liquid assets results from the USD bonds issued in July 2019, the proceeds of which have largely been placed on deposit and will be used to replace existing funding as it matures.

The table below summarises the Group's non-derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2019. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 21.

						2019
£ 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	**46**	**56**	**56**	**–**	**–**	**–**
Capital market issuance	**13,588**	**15,787**	**2,345**	**1,773**	**5,806**	**5,863**
Trade payables	**1,775**	**1,775**	**1,775**	**–**	**–**	**–**
Total non-derivative financial liabilities	**15,409**	**17,618**	**4,176**	**1,773**	**5,806**	**5,863**

						2018
£ 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	147	152	152	–	–	–
Capital market issuance	11,848	13,745	2,670	2,002	4,843	4,230
Trade payables	1,198	1,198	1,198	–	–	–
Total non-derivative financial liabilities	13,193	15,095	4,020	2,002	4,843	4,230

CAPITAL MANAGEMENT

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only external imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group continues to manage its capital structure to maintain its investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in ongoing discussions with the relevant rating agencies.

As at 30 September 2019 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	**2019**	2018
Adjusted net debt (note 30)	**11,376**	11,474
Equity attributable to the owners of the parent	**4,937**	5,770
Total capital	**16,313**	17,244

HEDGE ACCOUNTING

The Group has investments in foreign operations which are consolidated in its financial statements and whose functional currencies are Euros or US Dollars. Where it is practicable and cost effective to do so, the foreign exchange rate exposures arising from these investments are hedged through the use of cross-currency swaps and foreign currency denominated debt.

The Group only designates the undiscounted spot element of the cross-currency swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross-currency swaps attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line. These amounts are, therefore, not included in the hedge effectiveness assessment.

Net investment gains and losses are reported in exchange movements within other comprehensive income and the hedging instrument foreign currency gains deferred to the foreign currency revaluation reserve are detailed in the statement of changes in equity.

The Group establishes the hedging ratio by matching the notional balance of the hedging instruments with an equal notional balance of the net assets of the foreign operation. Given that only the undiscounted spot element of hedging instruments is designated in the hedging relationship, no ineffectiveness is expected unless the notional balance of the designated hedging instruments exceeds the total balance of the foreign operation's net assets during the reporting period. The foreign currency risk component is determined as the change in the carrying amount of designated net assets of the foreign operation arising solely from changes in spot foreign currency exchange rates.

All net investment hedges were fully effective at 30 September 2019.

The following table sets out the maturity profile of the hedging instruments used in the Group's net investment hedging strategies.

					2019
		Maturity			
£ million	Total notional balance	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(8,407)	(1,681)	(1,328)	(2,494)	(2,904)
Cross-currency swaps	(2,863)	–	–	(1,739)	(1,124)
	(11,270)	(1,681)	(1,328)	(4,233)	(4,028)

The following table contains details of the hedging instruments and hedged items used in the Group's net investment hedging strategies.

					2019
		Carrying amount			
£ million	Notional balance	Assets	Liabilities	Balance sheet line item	Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	8,407		8,482	Borrowings	(228)
Cross-currency swaps	2,863		341	Derivative financial instruments	5
Hedged item:					
Investment in a foreign operation	n/a	11,270			223

The Group also treats certain permanent intra-group loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intra-group loans with a notional value of €2,506 million (2018: €2,506 million) and US dollar loans with a notional value of $5,636 million (2018: $5,636 million) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

FAIR VALUE ESTIMATION AND HIERARCHY

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 21. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 19.

AUXLY CANNABIS GROUP INC.

On 25 July the Company announced that it would invest CAD 123 million by way of a debenture convertible into 19.9 per cent ownership of Auxly at a conversion price of $0.81 per share. The transaction was completed on 25 September 2019.

This investment has been classified as a financial asset at fair value through profit and loss and sits in Level 3 on the fair value hierarchy using inputs not based upon observable market data. As at 30 September 2019 the fair value of the investment was £82 million and a fair value gain of £3 million was recognised in the year. One-off IP income of £7 million was also recognised as part of the transaction.

Credit risk of Auxly is managed through a contractual obligation which gives the Company the right to inspect Auxly and its subsidiaries and where necessary to perform audits of their books and records. Auxly is also required to provide the Company with all relevant internal financial reports, audit and compliance reports, as well as information relating to material transactions and expenditure.

NETTING ARRANGEMENTS OF FINANCIAL INSTRUMENTS

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments under ISDA Credit Support Annexes. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

					2019
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	852	(38)	814	(740)	74
Cash and cash equivalents	2,286	–	2,286	–	2,286
	3,138	(38)	3,100	(740)	2,360
Liabilities					
Derivative financial instruments	(1,474)	38	(1,436)	740	(696)
Bank loans and overdrafts	(46)	–	(46)	–	(46)
	(1,520)	38	(1,482)	740	(742)

					2018
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet	Net
Assets					
Derivative financial instruments	581	(82)	499	(481)	18
Cash and cash equivalents	775	–	775	–	775
	1,356	(82)	1,274	(481)	793
Liabilities					
Derivative financial instruments	(1,260)	82	(1,178)	481	(697)
Bank loans and overdrafts	(147)	–	(147)	–	(147)
	(1,407)	82	(1,325)	481	(844)

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments held at fair value, are as follows.

	2019			2018		
£ million	**Assets**	**Liabilities**	**Net Fair Value**	Assets	Liabilities	Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**24**	**(26)**	**(2)**	28	(24)	4
Foreign exchange contracts	**104**	**(2)**	**102**	6	(7)	(1)
Cross-currency swaps	**9**	**–**	**9**	3	(127)	(124)
Total current derivatives	**137**	**(28)**	**109**	37	(158)	(121)
Collateral[1]	**–**	**–**	**–**	–	53	53
	137	**(28)**	**109**	37	(105)	(68)
Non-current derivative financial instruments						
Interest rate swaps	**645**	**(1,079)**	**(434)**	462	(700)	(238)
Cross-currency swaps	**32**	**(367)**	**(335)**	–	(402)	(402)
Total non-current derivatives	**677**	**(1,446)**	**(769)**	462	(1,102)	(640)
Collateral[1]	**–**	**38**	**38**	–	29	29
	677	**(1,408)**	**(731)**	462	(1,073)	(611)
Total carrying value of derivative financial instruments	**814**	**(1,436)**	**(622)**	499	(1,178)	(679)
Analysed as:						
Interest rate swaps	**669**	**(1,105)**	**(436)**	490	(724)	(234)
Foreign exchange contracts	**104**	**(2)**	**102**	6	(7)	(1)
Cross-currency swaps	**41**	**(367)**	**(326)**	3	(529)	(526)
Collateral[1]	**–**	**38**	**38**	–	82	82
Total carrying value of derivative financial instruments	**814**	**(1,436)**	**(622)**	499	(1,178)	(679)

1. Collateral deposited against derivative financial liabilities under the terms and conditions of ISDA Credit Support Annexes.

Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 20.

MATURITY OF OBLIGATIONS UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Group's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2019. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2019. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non-derivative financial instruments are detailed in note 20.

2019

£ 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	**(398)**	**(616)**	**(30)**	**(37)**	**(210)**	**(339)**
Gross settled derivatives	**(224)**					
• receipts		**6,852**	**2,151**	**165**	**2,738**	**1,798**
• payments		**(6,833)**	**(2,199)**	**(100)**	**(2,701)**	**(1,833)**
	(622)	**(597)**	**(78)**	**28**	**(173)**	**(374)**

2018

£ 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	(205)	(508)	(13)	(38)	(183)	(274)
Gross settled derivatives	(474)					
• receipts		5,364	2,249	102	1,228	1,785
• payments		(5,610)	(2,349)	(79)	(1,234)	(1,948)
	(679)	(754)	(113)	(15)	(189)	(437)

DERIVATIVES AS HEDGING INSTRUMENTS

As outlined in note 20, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross-currency swaps. Foreign exchange contracts are used to manage the Group's short-term liquidity requirements in line with short-term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IFRS 9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

INTEREST RATE SWAPS

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination and/or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2019, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £13,448 million equivalent (2018: £10,353 million equivalent) with a fair value of £657 million asset (2018: £240 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2018: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR.

As at 30 September 2019, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £10,024 million equivalent (2018: £10,285 million equivalent) with a fair value of £1,055 million liability (2018: £445 million liability). The fixed interest rates vary from 0.5 per cent to 4.4 per cent (2018: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,412 million equivalent (2018: £1,476 million equivalent) of which there are £1,522 million equivalent with tenors extending for five years, starting between October 2020 and May 2022, £443 million equivalent with 10 year tenors starting in October 2019 and £447 million equivalent with 13 year tenors starting in October and November 2019.

CROSS-CURRENCY SWAPS

The Group enters into cross-currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

As at 30 September 2019, the notional amount of cross-currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,600 million (2018: £3,300 million) and the fair value of these swaps was £364 million net liability (2018: £473 million net liability). During the financial year foreign currency forward and cross-currency swaps were transacted to convert $3 billion of US Dollar denominated debt to €2.8 billion Euros with a fair value of £134 million net asset.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

As at 30 September 2019, cross-currency swaps with a notional amount of €3,233 million (2018: €4,164 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £0.2 million (2018: £23 million losses) were recognised in other comprehensive income in respect of cross currency swaps that had been designated as hedges of a net investment in foreign operations.

FOREIGN EXCHANGE CONTRACTS

The Group enters into foreign exchange contracts to manage short-term liquidity requirements in line with cash flow forecasts. As at 30 September 2019, the notional amount of these contracts was £1,087 million equivalent (2018: £1,430 million equivalent) and the fair value of these contracts was a net asset of £6 million (2018: £1 million net liability).

22. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

DEFERRED TAX ASSETS

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2019
At 1 October 2018	**231**	**133**	**236**	**600**
Credited/(charged) to consolidated income statement	**26**	**(2)**	**(60)**	**(36)**
Credited to other comprehensive income	**–**	**46**	**–**	**46**
Transfers	**7**	**(3)**	**(13)**	**(9)**
Transferred to held for disposal (note 11)	**(8)**	**–**	**(3)**	**(11)**
Exchange movements	**1**	**12**	**(8)**	**5**
At 30 September 2019	**257**	**186**	**152**	**595**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2018
At 1 October 2017	181	129	307	617
Credited/(charged) to consolidated income statement	57	1	(68)	(10)
Credited to other comprehensive income	–	2	–	2
Transfers	(3)	1	(1)	(3)
Exchange movements	(4)	–	(2)	(6)
At 30 September 2018	231	133	236	600

DEFERRED TAX LIABILITIES

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2019
At 1 October 2018	**(1,193)**	**(27)**	**107**	**(1,113)**
Charged to consolidated income statement	**(35)**	**(17)**	**–**	**(52)**
Credited to other comprehensive income	**–**	**6**	**–**	**6**
Transfers	**(7)**	**3**	**13**	**9**
Exchange movements	**(17)**	**3**	**8**	**(6)**
At 30 September 2019	**(1,252)**	**(32)**	**128**	**(1,156)**

£ million	Accelerated depreciation and amortisation	Retirement benefits	Other temporary differences	Total
				2018
At 1 October 2017	(1,403)	37	275	(1,091)
Credited/(charged) to consolidated income statement	219	(12)	(171)	36
Charged to other comprehensive income	–	(56)	–	(56)
Transfers	3	(1)	1	3
Other movements	(7)	–	2	(5)
Exchange movements	(5)	5	–	–
At 30 September 2018	(1,193)	(27)	107	(1,113)

DEFERRED TAX EXPECTED TO BE RECOVERED WITHIN 12 MONTHS

£ million	**2019**	2018
Deferred tax assets	**114**	252
Deferred tax liabilities	**(72)**	(50)
	42	202

DEFERRED TAX EXPECTED TO BE RECOVERED IN MORE THAN 12 MONTHS

£ million	**2019**	2018
Deferred tax assets	**481**	348
Deferred tax liabilities	**(1,084)**	(1,063)
	(603)	(715)

Within other temporary differences, deferred tax assets of £129 million (2018: £173 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 £205 million (2018: £133 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 £31 million (2018: £6 million) are expected to expire in 2020 and £46 million (2018: £37 million) are expected to expire within 5 years. The remaining £128 million (2018: £90 million) has no time expiry.

Also within other temporary differences, deferred tax assets of £17 million (2018: £21 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 £145 million (2018: £146 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £51 million (2018: £48 million) are expected to expire between 2021 and 2027.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2019 we derecognised deferred tax assets of £87 million (2018: £51 million) that were previously recognised on the basis that it is more likely than not that these are irrecoverable.

A deferred tax liability of £130 million (2018: £115 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £6 billion (2018: £9 billion).

23. 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 three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 64 per cent, 12 per cent and 7 per cent of the Group's total defined benefit obligations and 37 per cent, 28 per cent and 7 per cent of the current service cost respectively.

IMPERIAL TOBACCO PENSION FUND

The UK scheme, the Imperial Tobacco Pension Fund or ITPF, is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF was offered to employees who joined the Company before 1 October 2010 and has a weighted average maturity of 18 years. Effective from 1 September 2017, members' pensionable pay was capped at the higher of £75,000 or their pensionable pay at 1 September 2017. The population as at the most recent funding valuation comprises 72 per cent in respect of pensioners, 26 per cent in respect of deferred members and 2 per cent in respect of current employees. New employees in the UK are now offered a defined contribution scheme. As the ITPF is in surplus funds in the defined benefit section, these funds may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases and any salary increases above inflation) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the fund were to be wound up.

The latest valuation of the ITPF was carried out as at 31 March 2016 when the market value of the invested assets was £3,302 million. Based on the ongoing funding target the total assets were sufficient to cover 96 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, ITL and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly. The ITPF is currently undergoing a valuation as at 31 March 2019, the outcomes of which will be available later in the year.

Following the valuation, the level of employer's contributions to the scheme was increased from £65 million per year. ITL paid £85 million in the year to 31 March 2019 and agreed to pay £85 million each year for the subsequent 12 years. Further contributions were agreed to be paid by the ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees with a total value of £600 million and a parental guarantee with Imperial Brands PLC have been put in place.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be influenced by the factors noted above). The investment portfolio is subject to a range of risks typical of the asset classes held, in particular credit risk on bonds, exposure to equity markets, and exposure to the property market.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a proportion of the assets invested in equities and other return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

THE REEMTSMA CIGARETTENFABRIKEN PENSION PLAN

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 20 years. The scheme population comprises 52 per cent in respect of pensioners, 19 per cent in respect of deferred members and 29 per cent in respect of current employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £24 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the DBO and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

LORILLARD HOURLY PENSION PLAN

The main USA pension scheme, held by ITG Brands is the Lorillard Hourly Pension Plan (ITGBH), is a defined benefit pension plan that is open to new entrants. It has a weighted average maturity of 11 years. The population comprises 75 per cent in respect of pensioners, 11 per cent in respect of deferred members and 14 per cent in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

OTHER PLANS

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2019 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

DEFINED BENEFIT PLANS

£ million	2019 DBO	2019 Assets	2019 Total	2018 DBO	2018 Assets	2018 Total
At 1 October	**(5,311)**	**4,848**	**(463)**	(5,448)	4,732	(716)
Consolidated income statement expense						
Current service cost	**(44)**	**–**	**(44)**	(52)	–	(52)
Settlements gains/(losses)	**3**	**(3)**	**–**	12	(7)	5
Past service (losses)/gains	**(1)**	**–**	**(1)**	12	–	12
Cost of termination benefits	**(19)**	**–**	**(19)**	(38)	–	(38)
Net interest (expense)/income on net defined benefit (liability)/asset	**(147)**	**142**	**(5)**	(142)	129	(13)
Administration costs paid from plan assets	**–**	**(6)**	**(6)**	–	(5)	(5)
Cost recognised in the income statement			**(75)**			(91)
Remeasurements						
Actuarial gain/(loss) due to liability experience	**73**	**–**	**73**	(20)	–	(20)
Actuarial (loss)/gain due to financial assumption changes	**(845)**	**–**	**(845)**	105	–	105
Actuarial loss due to demographic assumption changes	**(14)**	**–**	**(14)**	–	–	–
Return on plan assets excluding amounts included in net interest (expense)/income above	**–**	**538**	**538**	–	111	111
Remeasurement effects recognised in other comprehensive income			**(248)**			196
Cash						
Employer contributions	**–**	**142**	**142**	–	158	158
Employee contributions	**(1)**	**1**	**–**	(1)	1	–
Benefits paid directly by the company	**218**	**(218)**	**–**	66	(66)	–
Benefits paid from plan assets	**48**	**(48)**	**–**	215	(215)	–
Net cash			**142**			158
Other						
Exchange movements	**(36)**	**26**	**(10)**	(20)	10	(10)
Total other			**(10)**			(10)
At 30 September	**(6,076)**	**5,422**	**(654)**	(5,311)	4,848	(463)

The cost of termination benefits in the year ended 30 September 2019 and 30 September 2018 mainly relate to restructuring activity in Germany.

RETIREMENT BENEFIT SCHEME COSTS CHARGED TO OPERATING PROFIT

£ million	2019	2018
Defined benefit expense in operating profit	**70**	78
Defined contribution expense in operating profit	**17**	17
Total retirement benefit scheme cost in operating profit	**87**	95

Split as follows in the consolidated income statement:

£ million	2019	2018
Cost of sales	**27**	29
Distribution, advertising and selling costs	**37**	40
Administrative and other expenses	**23**	26
Total retirement benefit scheme costs in operating profit	**87**	95

ASSETS AND LIABILITIES RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

£ million	2019	2018
Retirement benefit assets	**595**	598
Retirement benefit liabilities	**(1,249)**	(1,061)
Net retirement benefit liability	**(654)**	(463)

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

			2019			2018
£ million unless otherwise indicated	**ITPF**	**RCPP**	**ITGBH**	ITPF	RCPP	ITGBH
Defined benefit obligation (DBO)	**3,880**	**758**	**453**	3,380	600	394
Fair value of scheme assets	**(4,416)**	**–**	**(418)**	(3,902)	–	(388)
Net defined benefit (asset)/liability	**(536)**	**758**	**35**	(522)	600	6
Current service cost	**16**	**12**	**3**	21	13	5
Employer contributions	**85**	**–**	**–**	80	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	**1.8**	**0.9**	**3.2**	2.9	1.9	4.3
Future salary increases	**3.1**	**2.6**	**n/a**	3.7	2.9	n/a
Future pension increases	**3.1**	**1.5**	**n/a**	3.2	1.8	n/a
Inflation	**3.1**	**1.5**	**2.5**	3.2	1.8	2.5

						2019
		ITPF		**RCPP**		**ITGBH**
	Male	**Female**	**Male**	**Female**	**Male**	**Female**
Life expectancy at age 65 years:						
Member currently aged 65	**22.1**	**23.7**	**20.2**	**23.7**	**19.6**	**22.1**
Member currently aged 50	**23.3**	**25.5**	**22.3**	**25.4**	**20.9**	**23.3**

						2018
		ITPF		RCPP		ITGBH
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	22.0	23.6	19.4	23.4	19.7	22.2
Member currently aged 50	23.4	25.5	21.4	25.3	20.9	23.3

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S2 tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S2 All Pensioner Male Amounts table with a 97.7 per cent multiplier. An allowance for improvements in longevity is made using the 2015 CMI improvement rates with a long-term trend of 1.25 per cent per annum.

SENSITIVITY ANALYSIS FOR KEY ASSUMPTIONS AT THE END OF THE YEAR

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

			2019			2018
% increase in DBO	**ITPF**	**RCPP**	**ITGBH**	ITPF	RCPP	ITGBH
Discount rate: 0.5% decrease	**9.3**	**10.4**	**5.7**	**8.7**	**9.9**	**5.2**
Rate of inflation: 0.5% decrease	**7.7**	**6.8**	**n/a**	**7.1**	**6.5**	**n/a**
One year increase in longevity for a member currently age 65, corresponding changes at other ages	**4.9**	**4.9**	**4.5**	**3.5**	**4.5**	**4.0**

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5 per cent decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £15 million.

An approximate split of the major categories of ITPF scheme assets is as follows:

£ million unless otherwise indicated	2019 Fair value	2019 Percentage of ITPF scheme assets	2018 Fair value	2018 Percentage of ITPF scheme assets
Equities	**497**	**11**	564	15
Bonds – index linked government	**1,912**	**43**	1,403	36
Bonds – corporate and other	**666**	**15**	361	9
Property	**563**	**13**	542	14
Absolute return	**732**	**17**	477	12
Other – including derivatives, commodities and cash	**46**	**1**	555	14
	4,416	**100**	3,902	100

The primary investment objective is to invest the ITPF's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as they fall due. Specifically the ITPF targets an expected return in excess of the growth in the liabilities, which in conjunction with the contributions paid is consistent to achieve and maintain an ongoing funding level of at least 100 per cent on a buy-out basis by 2028.

The majority of the assets are quoted. The ITPF holds £0.3 million of self-invested assets. As in previous years, the value of ground leases have been allocated to the property asset class.

An approximate split of the major categories of ITGBH scheme assets is as follows:

£ million unless otherwise indicated	2019 Fair value	2019 Percentage of ITGBH scheme assets	2018 Fair value	2018 Percentage of ITGBH scheme assets
Investment funds	**279**	**67**	252	65
Bonds – fixed government	**47**	**11**	54	14
Bonds – corporate and other	**71**	**17**	66	17
Other – including derivatives, commodities and cash	**21**	**5**	16	4
	418	**100**	388	100

The majority of the assets are non-quoted.

24. PROVISIONS

£ million	2019 Restructuring	2019 Other	2019 Total
At 1 October 2018	**297**	**156**	**453**
Additional provisions charged to the consolidated income statement	**46**	**191**	**237**
Amounts used	**(95)**	**(37)**	**(132)**
Unused amounts reversed	**(4)**	**(22)**	**(26)**
Transferred to held for disposal (note 11)	**–**	**(4)**	**(4)**
Exchange movements	**1**	**2**	**3**
At 30 September 2019	**245**	**286**	**531**

Analysed as:

£ million	2019	2018
Current	**284**	179
Non-current	**247**	274
	531	453

Restructuring provisions relate mainly to our cost optimisation programme (see note 5), and other provisions principally relates to excise tax of £139 million with the remainder comprised of holiday pay, local tax and Logista provisions. See note 8 for further details on the excise tax provision. It is expected that the majority of provisions will be utilised within a period of 10 years.

25. SHARE CAPITAL

£ million	2019	2018
Authorised, issued and fully paid		
1,025,795,746 ordinary shares of 10p each (2018: 1,031,026,084)	**103**	103

During the year 5,230,338 shares (2018: 1,313,916 shares) were repurchased and immediately cancelled, increasing the capital redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the capital redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

26. SHARE SCHEMES

The Group operates four 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 shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

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. Dividend equivalents accrue on vested shares.

SHARESAVE PLAN

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

DISCRETIONARY SHARE AWARDS PLAN (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25 per cent of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

ANALYSIS OF CHARGE TO THE CONSOLIDATED INCOME STATEMENT

£ million	**2019**	2018
Share Matching Scheme	**9**	14
Long Term Incentive Plan	**12**	9
Sharesave Plan	**1**	2
Discretionary Share Awards Plan	**1**	1
	23	26

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2019 was £0.9 million (2018: £0.9 million).

RECONCILIATION OF MOVEMENTS IN AWARDS/OPTIONS

					2019
Thousands of shares unless otherwise indicated	**Share matching scheme awards**	**LTIP awards**	**Sharesave options**	**DSAP awards**	**Sharesave weighted average exercise price £**
Outstanding at 1 October 2018	**1,307**	**3,014**	**1,324**	**71**	**25.03**
Granted	**243**	**2,132**	**883**	**45**	**17.45**
Lapsed/cancelled	**(66)**	**(677)**	**(633)**	**(5)**	**24.02**
Exercised	**(701)**	**(156)**	**(15)**	**(17)**	**25.05**
Outstanding at 30 September 2019	**783**	**4,313**	**1,559**	**94**	**21.21**
Exercisable at 30 September 2019	**–**	**–**	**168**	**–**	**29.68**

					2018
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2017	1,907	1,190	997	45	27.73
Granted	175	2,002	972	26	22.24
Lapsed/cancelled	(78)	(25)	(302)	–	29.12
Exercised	(697)	(153)	(343)	–	23.87
Outstanding at 30 September 2018	1,307	3,014	1,324	71	25.03
Exercisable at 30 September 2018	–	–	98	–	25.22

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £26.06 (2018: £26.80). The weighted average fair value of sharesave options granted during the year was £3.32 (2018: £4.00).

SUMMARY OF AWARDS/OPTIONS OUTSTANDING AT 30 SEPTEMBER 2019

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2017	**487**	**5**	**n/a**
2018	**147**	**17**	**n/a**
2019	**149**	**29**	**n/a**
Total awards outstanding	**783**		
Long Term Incentive Plan			
2015	**12**	**–**	**n/a**
2016	**5**	**–**	**n/a**
2017	**395**	**5**	**n/a**
2018	**1,821**	**17**	**n/a**
2019	**2,080**	**29**	**n/a**
Total awards outstanding	**4,313**		
Sharesave Plan			
2016	**168**	**–**	**29.68**
2017	**180**	**10**	**29.62**
2018	**337**	**22**	**22.24**
2019	**874**	**34**	**17.45**
Total options outstanding	**1,559**		
Discretionary Share Awards Plan			
2017	**21**	**8**	**n/a**
2017	**2**	**11**	**n/a**
2018	**27**	**23**	**n/a**
2019	**41**	**29**	**n/a**
2019	**2**	**29**	**n/a**
2019	**1**	**29**	**n/a**
Total options outstanding	**94**		

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 generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

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, Sharesave Plan, Discretionary Shares Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2019 and 2018 is as follows.

	2019		
	Share Matching	**Sharesave**	**DSAP**
Risk-free interest rate %	**1.1**	**-1.4**	**0.7-1.1**
Volatility (based on 3 or 5 year history) %	**25**	**24.5-26.1**	**24.7-26.3**
Expected lives of options granted years	**3.00**	**3**	**2.58-3**
Dividend yield %	**6.65**	**6.65**	**6.65**
Fair value £	**21.72**	**2.37-3.54**	**15.65-21.72**
Share price used to determine exercise price £	**26.52**	**19.77-21.81**	**18.69-26.52**
Exercise price £	**n/a**	**17.45**	**n/a**

	2018			
	LTIP	Share Matching	Sharesave	DSAP
Risk-free interest rate %	1.2-1.3	1.2	0.0-2.9	1.2
Volatility (based on 3 or 5 year history) %	23.9-24.5	24.1	24.0-24.1	24.2
Expected lives of options granted years	3-5	3	3	3
Dividend yield %	4.8	4.8	4.8	4.8
Fair value £	22.05-24.24	22.84	3.88-4.76	24.24
Share price used to determine exercise price £	27.96	26.34	26.08-26.32	27.96
Exercise price £	n/a	n/a	22.24	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2019 and 2018 are given in the following table.

%	2019	2018
Future Imperial Brands share price volatility	**20.0**	18.7–19.2
Future Imperial Brands dividend yield	**–**	–
Share price volatility of the tobacco and alcohol comparator group	**14.9-65.6**	17.0-38.0
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**27.0**	32.0

EMPLOYEE SHARE OWNERSHIP TRUSTS

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 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 2019. 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	2019	2018
At 1 October	**0.7**	1.9
Gift of shares from Treasury	**3.0**	–
Distribution of shares held by Employee Share Ownership Trusts	**(0.9)**	(1.2)
At 30 September	**2.8**	0.7

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2018: nil) and 2.8 million (2018: 0.7 million) treasury shares gifted to the Trusts by the Group. There were 3 million (2018: nil) shares gifted in the financial year 2019.

27. TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 5,230,338 shares at a cost of £108 million (2018: 1,313,916 shares at a cost of £41 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2019		2018	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	**77.3**	**2,183**	77.3	2,183
Purchase of shares	**5.2**	**108**	1.3	41
Cancellation of shares	**(5.2)**	**(108)**	(1.3)	(41)
Gifted to Employee Share Ownership Trusts	**(3.0)**	**–**	–	–
At 30 September	**74.3**	**2,183**	77.3	2,183
Percentage of issued share capital	**7.2**	**n/a**	7.5	n/a

28. COMMITMENTS

CAPITAL COMMITMENTS

£ million	2019	2018
Contracted but not provided for:		
Property, plant and equipment and software	**179**	208

OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

	2019			2018		
£ million	Property	Other	Total	Property	Other	Total
Within one year	**54**	**26**	**80**	47	19	66
Between one and five years	**146**	**36**	**182**	107	29	136
Beyond five years	**88**	**1**	**89**	52	–	52
	288	**63**	**351**	206	48	254

A review of operating leases has identified four leases with a total commitment greater than £10 million. A summary of these commitments are detailed on page 143.

Following the sale of the Head Office buildings in the UK in the prior year, two new leases have commenced in respect of these, one of which represents a total commitment greater than £10 million as at 30 September 2019. The lease in respect of 121 Winterstoke Road commenced on 23 August 2018 for a term of 20 years, due to terminate on 22 August 2038 and currently has an annual rental commitment of £2.5 million; the lease has a review of the rental obligation five years after the lease commencement date.

The German head office lease commenced on 1 January 2014 for a term of 10 years, due to terminate on 31 December 2024. Currently there is an annual commitment of €3.2 million which is price index graduated on an annual basis. There is the option to terminate up to 30 per cent of the remaining lease space from 31 December 2019 to 31 December 2023, subject to notice of 14 months and a pro-rata payment penalty.

Within Logista two leases exist with total commitments in excess of £10 million as of 30 September 2019. The Coslada III lease commenced on 4 June 2018 for a term of 15 years and extensions of three years more with a maximum of five extensions. For the moment it is considered that one extension exists with a termination date of 31 March 2036. Currently there is an annual commitment of €1.0 million and its price index is reviewed on an annual basis. The Getafe lease commenced on 31 March 2008 and its term was renegotiated in the year until 31 December 2025. Currently there is an annual commitment of €2.1 million per annum which is price index reviewed on an annual basis.

29. CONTINGENT LIABILITIES

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.

For further details see page 63-64 of the Directors' Report.

COMPETITION AUTHORITY INVESTIGATIONS

The Group is currently co-operating with relevant national competition authorities in relation to a number of ongoing competition law investigations, none of which have resulted in findings of infringement.

SPAIN

On 12 April 2019 the Spanish National Commission on Markets and Competition (CNMC) announced penalties against Philip Morris Spain, Altadis, JT International Iberia and Logista. Altadis and Logista received fines of €11.4 million and €20.9 million, respectively, from the CNMC. According to the decision, Altadis and Logista are alleged to have infringed competition law by participating in an exchange of sales volume data between 2008 and February 2017. CNMC considers that this conduct had the effect of restricting competition in the Spanish tobacco market. Both companies believe that the arguments made by CNMC that define this conduct as anti-competitive are flawed. In June 2019, both Altadis and Logista commenced appeals to the CNMC's Decision and the fines imposed in the Spanish High Court where they believe they will be successful, a decision supported by external legal counsel. In September 2019 Altadis and, separately, Logista arranged bank guarantees for the full amount of the fines with the result that payment of the fines have been suspended pending the outcome of the appeals. Therefore, provision for these amounts is not considered appropriate.

BELGIUM

On 29 May 2017, the National Competition Authority in Belgium (the BCA) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. The Group's subsidiary in Belgium received a visit from the BCA and is assisting with enquiries including responding to a request for information.

UKRAINE

In February 2017, the Anti-Monopoly Committee in Ukraine (AMCU) initiated an investigation considering alleged concerted actions between manufacturers, including Imperial Tobacco Ukraine (ITU), and the distributor TEDIS.
On 10 October the AMCU announced its Decision to make a finding of anti-competitive conduct against the industry (Imperial, JTI, BAT, PM – both factories and trading companies – and the distributor TEDIS). ITU has been fined approximately £8.4 million and Imperial Tobacco Production Ukraine (ITPU) has been fined approximately £4.8 million, totalling £13.2 million. The Decision was given orally; the fact of the Decision was subsequently made public by the AMCU, and we await a copy of the Decision in writing. ITU and ITPU have announced in a press release that they believe they have meritorious defence arguments and intend to appeal the Decision and fines. Payment of the fines would be suspended pending resolution of the appeal. Therefore, provision for these amounts is not considered appropriate.

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 2018	**775**	**(2,397)**	**(9,598)**	**(679)**	**(11,899)**
Reallocation of current borrowings from non-current borrowings	**–**	**(1,656)**	**1,656**	**–**	**–**
Cash flow	**1,540**	**2,159**	**(3,528)**	**117**	**288**
Accretion of interest	**–**	**20**	**(26)**	**39**	**33**
Change in fair values	**–**	**–**	**–**	**(174)**	**(174)**
Transferred to held for disposal (note 11)	**(14)**	**–**	**–**	**–**	**(14)**
Exchange movements	**(15)**	**(63)**	**(201)**	**75**	**(204)**
At 30 September 2019	**2,286**	**(1,937)**	**(11,697)**	**(622)**	**(11,970)**

ANALYSIS BY DENOMINATION CURRENCY

£ million	GBP	EUR	USD	Other	2019 Total
Cash and cash equivalents	**235**	**659**	**932**	**460**	**2,286**
Total borrowings	**(2,687)**	**(4,588)**	**(6,326)**	**(33)**	**(13,634)**
	(2,452)	**(3,929)**	**(5,394)**	**427**	**(11,348)**
Effect of cross-currency swaps	**2,510**	**(4,268)**	**1,432**	**–**	**(326)**
	58	**(8,197)**	**(3,962)**	**427**	**(11,674)**
Derivative financial instruments					**(296)**
Net debt					**(11,970)**

£ million	GBP	EUR	USD	Other	2018 Total
Cash and cash equivalents	47	225	39	464	775
Total borrowings	(3,419)	(4,700)	(3,844)	(32)	(11,995)
	(3,372)	(4,475)	(3,805)	432	(11,220)
Effect of cross-currency swaps	3,180	(3,706)	–	–	(526)
	(192)	(8,181)	(3,805)	432	(11,746)
Derivative financial instruments					(153)
Net debt					(11,899)

ADJUSTED NET DEBT

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

£ million	2019	2018
Reported net debt	**(11,970)**	(11,899)
Accrued interest	**162**	197
Fair value of derivatives providing commercial hedges	**432**	228
Adjusted net debt	**(11,376)**	(11,474)

31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2019	2018
Increase in cash and cash equivalents	**1,540**	203
Cash flows relating to derivative financial instruments	**117**	(41)
Increase in borrowings	**(3,699)**	(1,619)
Repayment of borrowings	**2,330**	2,261
Change in net debt resulting from cash flows	**288**	804
Other non-cash movements including revaluation of derivative financial instruments	**(141)**	(61)
Transferred to held for disposal (note 11)	**(14)**	–
Exchange movements	**(204)**	(152)
Movement in net debt during the year	**(71)**	591
Opening net debt	**(11,899)**	(12,490)
Closing net debt	**(11,970)**	(11,899)

32. NON-CONTROLLING INTERESTS

CHANGES IN NON-CONTROLLING INTERESTS

In August 2018 the Group reduced its holding in its Distribution business, Compañía de Distribución Integral Logista Holdings SA (Logista) to a holding of 50.01 per cent. This increased non-controlling interests by £142 million. Sales proceeds were €264 million. Net proceeds after fees and costs were £234 million. A net gain of £92 million was recognised in equity attributable to owners of the parent. There have been no changes to the shareholding of Logista during 2019.

MATERIAL NON-CONTROLLING INTERESTS

Detailed below is the summarised financial information of Logista, being a subsidiary where the non-controlling interest of 49.99 per cent is considered material to the Group.

SUMMARISED BALANCE SHEET

at 30 September

Euro million	2019	2018
Current assets	5,440	5,192
Current liabilities	(6,254)	(6,031)
Current net assets	(814)	(839)
Non-current assets	1,644	1,673
Non-current liabilities	(309)	(323)
Non-current net assets	1,335	1,350
Net assets	521	511

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

Euro million	2019	2018
Revenue	10,148	9,476
Profit for the year	165	156
Other comprehensive income	(3)	–
Total comprehensive income	162	156

SUMMARISED CASHFLOW STATEMENT

for the year ended 30 September

Euro million	2019	2018
Cashflows from operating activities	347	348
Cashflows from investing activities	(190)	(146)
Cashflows from financing activities	(150)	(150)
Net increase in cash and cash equivalents	7	52

33. POST BALANCE SHEET EVENTS

SHARE BUY-BACKS

Since 30 September 2019 the Group has repurchased and immediately cancelled 2,734,638 shares at a total cost of £50 million, increasing the capital redemption reserve. At 5 November 2019, 1,023,061,108 ordinary shares of 10 pence each were authorised, issued and fully paid up.

34. BREXIT

The Group has looked into the potential Brexit impacts under a number of different scenarios: soft, hard and no deal. The key risks that have been identified include potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling, inventory requirements to ensure supply; impact on consumer confidence, and implications on existing international tax treaties. In the event of a no deal Brexit, we estimate there could be additional costs of around £100 million relating to the restructuring of the Group for tax purposes.

35. RELATED UNDERTAKINGS

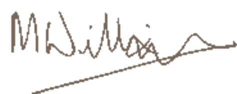
In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2019, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

IMPERIAL BRANDS PLC BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2019	2018
Fixed assets			
Investments	iii	**7,968**	7,968
Current assets			
Debtors	iv	**6,174**	8,017
Creditors: amounts falling due within one year	v	**(44)**	(2)
Net current assets		**6,130**	8,015
Total assets less current assets		**14,098**	15,983
Net assets		**14,098**	15,983
Capital and reserves			
Called up share capital	vi	**103**	103
Capital redemption reserve		**4**	4
Share premium account		**5,833**	5,833
Profit and loss account – brought forward		**10,043**	10,222
Profit and loss account – loss for the year		**(1,885)**	(179)
Total shareholders' funds		**14,098**	15,983

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented.

The financial statements on pages 146-150 were approved by the Board of Directors on 5 November 2019 and signed on its behalf by:



MARK WILLIAMSON
Chairman

OLIVER TANT
Director

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Share capital	Share premium and capital redemption	Retained earnings	Total equity
At 1 October 2018	**103**	**5,837**	**10,043**	**15,983**
Profit for the year	**–**	**–**	**67**	**67**
Total comprehensive income	**–**	**–**	**67**	**67**
Transactions with owners				
Cancellation of share capital	**–**	**–**	**(108)**	**(108)**
Dividends paid	**–**	**–**	**(1,844)**	**(1,844)**
At 30 September 2019	**103**	**5,837**	**8,158**	**14,098**
At 1 October 2017	103	5,837	10,222	16,162
Profit for the year	–	–	38	38
Dividends received	–	–	1,500	1,500
Total comprehensive income	–	–	1,538	1,538
Transactions with owners				
Cancellation of share capital	–	–	(41)	(41)
Dividends paid	–	–	(1,676)	(1,676)
At 30 September 2018	103	5,837	10,043	15,983

1. ACCOUNTING POLICIES

BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH FRS 101

Imperial Brands PLC (the Company) is the ultimate parent company within the Imperial Brands group (the Group). The Company is a public company listed by shares, incorporated in the United Kingdom, and its principal activity continued to be that of holding investments. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level.

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), FRS 101 and applicable accounting standards.

The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

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 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 118(e) of IAS 38 'Intangible assets' – reconciliations between the carrying amount at the beginning and end of the period;
- The following paragraphs of IAS 1 'Presentation of financial statements':
  - (i) 10(d) – statement of cash flows;
  - (ii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
  - (iii) 16 – statement of compliance with all IFRS;
  - (iv) 38A – requirement for minimum of two primary statements, including cash flow statements;
  - (v) 38B-D – additional comparative information;
  - (vi) 40A-D – requirements for a third statement of financial position;
  - (vii) 111 – cash flow information; and
  - (viii) 134-136 – capital management disclosures;
- IAS 7 'Statement of cash flows';
- Paragraphs 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- IFRS 7 'Financial Instruments: Disclosures'; and
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently, are set out below. The Directors do not consider there to be any critical accounting estimates or judgements in respect of the Company, see note 2 Critical Accounting Estimates and Judgements of the consolidated financial statements for further details.

INVESTMENTS

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. Investments are tested for impairment annually to ensure that the carrying value of the investment is supported by their recoverable amount.

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. Dividends receivable are recognised as an asset when they are approved.

FINANCIAL INSTRUMENTS

Following the adoption of IFRS 9, the Company's accounting policies for financial instruments and hedging remain the same as disclosed in the 30 September 2018 annual report and accounts, except for changes to the classification and measurement of certain non-derivative financial assets and the calculation of expected credit losses.

At 30 September 2018 all non-derivative financial assets were classified as loans and receivables. Receivables were all initially recognised at fair value and subsequently stated at amortised cost using the effective interest method. From 1 October 2018, receivables held under a hold to collect business model continue to be stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are now separately classified as fair value through profit or loss, within trade and other receivables.

At 30 September 2018, provisions for impairment of receivables were established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of those receivables. Provisions were only recognised when an impairment had crystallised. From 1 October 2018 the calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

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

TREASURY SHARES

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Company has adopted IFRS 9 'Financial Instruments' with effect from 1 October 2018. See note 1 Accounting Policies of the consolidated financial statements for further details of adoption. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Company.

II. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	**2019**	2018	2017
Paid interim of 62.56 pence per share (2018: 122.33 pence, 2017: 111.21 pence)			
• Paid June 2017	**–**	–	247
• Paid September 2017	**–**	–	247
• Paid December 2017	**–**	–	567
• Paid June 2018	**–**	271	–
• Paid September 2018	**–**	271	–
• Paid December 2018	**–**	624	–
• Paid June 2019	**298**	–	–
• Paid September 2019	**298**	–	–
Interim dividend paid	**596**	1,166	1,061
Proposed interim of 72.00 pence per share (2018: nil, 2017: nil)			
• To be paid December 2019	**683**	–	–
Interim dividend proposed	**683**	–	–
Proposed final of 72.01 pence per share (2018: 65.46 pence, 2017: 59.51 pence)			
• Paid March 2018	**–**	–	567
• Paid March 2019	**–**	624	–
• To be paid March 2020	**683**	–	–
Final dividend	**683**	624	567
Total ordinary share dividends of 206.57 pence per share (2018: 187.79 pence, 2017: 170.72 pence)	**1,962**	1,790	1,628

The third interim dividend for the year ended 30 September 2019 of 72.00 pence per share amounts to a proposed dividend of £683 million, which will be paid in December 2019.

The proposed final dividend for the year ended 30 September 2019 of 72.01 pence per share amounts to a proposed dividend payment of £683 million in March 2020 based on the number of shares ranking for dividend at 30 September 2019, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2019 will be £1,962 million (2018: £1,790 million). The dividend paid during 2019 is £1,844 million (2018: £1,676 million).

III. INVESTMENTS

COST OF SHARES IN IMPERIAL TOBACCO HOLDINGS (2007) LIMITED

£ million	2019	2018
At 1 October	7,968	7,968
At 30 September	7,968	7,968

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 151-167.

IV. DEBTORS

£ million	2019	2018
Amounts owed from Group undertakings	6,174	8,017

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2019	2018
Amounts owed by Group undertakings	35	–
Cash at bank and in hand	2	2
Other creditors	7	–
	44	2

Amounts owed by Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

VI. CALLED UP SHARE CAPITAL

£ million	2019	2018
Authorised, issued and fully paid		
1,025,795,746 ordinary shares of 10p each (2018: 1,031,026,084)	103	103

During the year 5,230,338 shares (2018: 1,313,916 shares) were repurchased and immediately cancelled, increasing the capital redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the capital redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

VII. RESERVES

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 £67 million (2018: £1,538 million).

TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the year the Group purchased 5,230,338 shares at a cost of £108 million (2018: 1,313,916 shares at a cost of £41 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2019		2018	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	77.3	2,183	77.3	2,183
Purchase of shares	5.2	108	1.3	41
Cancellation of shares	(5.2)	(108)	(1.3)	(41)
Gifted to Employee Share Ownership Trusts	(3.0)	–	–	–
At 30 September	74.3	2,183	77.3	2,183
Percentage of issued share capital	7.2	n/a	7.5	n/a

VIII. GUARANTEES

The Company provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2019. See note 1 Accounting Policies of the consolidated financial statements for further details.

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2019, the amount guaranteed is £19,272 million (2018: £18,374 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2019 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, the Company has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

Many of the committed borrowing facilities remain undrawn as at 30 September 2019 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2019. The Irish companies, namely John Player & Sons Limited, 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 Company has also provided a parent guarantee to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

IX. RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 66-85, includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.