



1 May 2012

**Imperial Tobacco Group PLC
Half Year Results for the 6 months ended 31 March 2012**

Total Tobacco Portfolio Driving Sales Momentum

Sales Growth

- Tobacco net revenue up 3.3 per cent; stick equivalent volumes down 4.1 per cent
- Key strategic brand net revenue up 12 per cent; stick equivalent volumes up 5 per cent
- Continued growth in luxury Cuban cigars and snus
- Strong Q2 growth: tobacco net revenue up 8 per cent*; stick equivalent volumes down 1 per cent*

Ongoing Cost Optimisation

- Tobacco adjusted operating margin at around 43 per cent
- Disciplined investments supporting growth

Maximising Cash Returns

- Interim dividend up 13 per cent
- Ongoing increase in full year dividend payout ratio ahead of adjusted earnings per share growth
- Annualised £500 million share buyback achieved and ongoing

* Second quarter performance against the same period last year

Highlights – adjusted basis¹	6 months ended 31 March 2012	Change	Change at Constant currency³	6 months ended 31 March 2011
Stick equivalents ²	159.1bn	-4.1%		165.9bn
Tobacco net revenue	£3,388m	+3.0%	+3.3%	£3,289m
Tobacco adjusted operating profit	£1,456m	+3.3%	+3.3%	£1,409m
Logistics distribution fees	£439m	-2.9%	-1.8%	£452m
Logistics adjusted operating profit	£76m	-5.0%	-3.8%	£80m
Total adjusted operating profit	£1,524m	+3.0%	+3.0%	£1,479m
Adjusted earnings per share	93.1p	+5.3%	+5.1%	88.4p
Interim dividend per share	31.7p	+12.8%		28.1p

Alison Cooper, Chief Executive, said:

“Our focus on realising the potential of our total tobacco portfolio through our sales growth drivers has delivered a good first half performance, with strong second quarter results reflecting the sales momentum we’re generating.

“I’m pleased with the ongoing success of our key strategic brands *Davidoff*, *Gauloises Blondes*, *West* and *JPS*, as well as the recent cigarette and fine cut tobacco share progress we’ve made in both the EU and emerging markets.

“Disciplined investments are supporting our sales ambitions and we’ll continue to maximise the many growth opportunities that our unique portfolio offers to create further value for our shareholders.”

Highlights – reported basis	6 months ended 31 March 2012	Change	6 months ended 31 March 2011
Revenue	£13,962m	+1.9%	£13,701m
Operating profit	£1,330m	+4.4%	£1,274m
Basic earnings per share	82.5p	-9.6%	91.3p



- 1 Management believes that these non-GAAP measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Definitions are included in our accounting policies within the notes to the financial statements. Reconciliations between adjusted and reported measures are also included in the relevant notes.
- 2 Stick equivalent volumes reflect our combined cigarette and fine cut tobacco volumes. Our 2011 stick equivalent volumes have been restated due to a change to the conversion factors used to convert fine cut tobacco volumes into stick equivalent volumes, reflecting increasing consumption patterns of expanded tobacco products.
- 3 To aid understanding of our performance, change at constant currency removes the effects of exchange rate movements on the translation of the results of our overseas operations. References in this document to percentage growth and increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise.

Cautionary Statement

Certain statements in this announcement constitute or may constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is or may be a forward-looking statement, particularly under Outlook, Outlook: Tobacco and Outlook: Logistics. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied in any forward-looking statement. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions some of which are identified on pages 16 to 19 of our 2011 Annual Report and Accounts. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast.

Notes to Editors

Imperial Tobacco Group PLC is a multi-national tobacco company, with international strength in cigarettes and world leadership in fine cut tobacco, cigars, rolling papers and tubes. The Group has 50 manufacturing sites and around 38,000 employees and operates in over 160 markets.

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A live webcast of a presentation for analysts and investors will be available on www.imperial-tobacco.com from 9.00am (BST). An archive of the webcast and the presentation script and slides will also be made available during the afternoon.

Interviews with Alison Cooper, Chief Executive and Bob Dyrbus, Finance Director, are available in video, audio and text formats at: www.imperial-tobacco.com and www.cantos.com

Alison Cooper will host a media conference call at 7.30am (BST), at which there will be the opportunity for questions.

Dial in number: +44 (0)20 7136 2051
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A replay of this call will be available for one week. To listen, please dial: +44 (0)20 7111 1244
Access code: 4184287



STRATEGIC AND OPERATIONAL OVERVIEW

Our focus on driving growth through our total tobacco portfolio, while effectively managing cost and cash, has resulted in a good performance in the first half of the year.

We maximise shareholder returns by driving sales, generating high margin profits and using our cash to create value for our shareholders and support the development of the business.

We are focused on realising the potential of our assets through our four sales growth drivers: portfolio management, innovation, customer engagement and pricing.

The sales growth drivers are supported by three key enablers: continued development of consumer insights, alignment of our operations behind our sales agenda and shaping our external environment.

The sales growth drivers are central to our success; we are focused on excelling in each area to drive sustainable growth. This statement sets out the progress we have made in the first six months of our 2012 financial year.

More information on our growth strategy is available on our website: www.imperial-tobacco.com

Results and Dividends¹

We grew both our tobacco net revenue and our tobacco adjusted operating profit by 3.3 per cent and increased adjusted earnings per share by 5.1 per cent to 93.1 pence.

The Board has declared an interim dividend of 31.7 pence per share, which represents a third of last year's full year dividend, an increase of 13 per cent. Our full year dividend payout ratio will continue to increase ahead of adjusted earnings per share. The interim dividend will be paid on 17 August 2012, with an ex-dividend date of 18 July 2012.

¹ References in this document to percentage increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise.

Sales Growth

On a half yearly basis our overall stick equivalent volumes declined by around 4 per cent with cigarette down 4 per cent and fine cut tobacco down 1 per cent. Our first quarter was challenging due to a number of specific external factors that we highlighted in February.

Our second quarter performance provides a better insight into the sales momentum we are generating: stick equivalent volumes declined just 1 per cent and tobacco net revenue was up 8 per cent compared to the same period last year. Our second quarter growth reflects the success of our key strategic brands with combined stick equivalent volumes up over 6 per cent and net revenue up 15 per cent compared to the same period last year. We are focused on building on this sales growth momentum in the remainder of the year.

Sales Growth Drivers

Portfolio Management

Through portfolio management we are capitalising on our unique total tobacco strength to maximise our share of consumers and consumption.

In the first half, we grew combined stick equivalent volumes of our key strategic brands *Davidoff*, *Gauloises Blondes*, *JPS* and *West* by 5 per cent with net revenue up by 12 per cent. Fine cut tobacco volumes declined by 1 per cent driven by market weakness and trade destocking in Poland; excluding Poland volumes were up 3 per cent.



We improved volumes of our luxury Cuban cigars by 3 per cent and revenue by 8 per cent with strong growth in emerging markets. We again delivered excellent results in smokeless tobacco, improving snus volumes by 74 per cent.

We increased volumes of *Davidoff* by 2 per cent, making further gains in Asia and the Middle East. *Davidoff* performed very well in profitable high growth segments such as king size superslims and queen size in Eastern Europe, where our volumes of these formats increased significantly. *Davidoff* growth was especially strong in Asia Pacific with volumes up 11 per cent in the region.

We improved volumes of our largest brand *Gauloises Blondes* by 11 per cent, achieving excellent results in the Middle East and North Africa where volumes were up 20 per cent. *West* volumes were flat, although we are achieving gains in numerous emerging markets in Eastern Europe and Asia, with Taiwan up 35 per cent and further growth in Russia and Ukraine.

JPS again delivered a good performance across the total tobacco brand franchise with volumes up by 4 per cent and excellent results in the UK and Australia. We recently completed a major brand rejuvenation initiative to reinforce the brand's credentials.

We are the world leader in fine cut tobacco and we have been strategically managing share and profit to maximise returns. We are focused on driving profitable growth in the make your own category in a number of European markets with *JPS*, *Ducados* and *News*. In addition, we delivered 5 per cent growth in papers and 10 per cent growth in tubes.

Our luxury Cuban cigar portfolio delivered another strong performance, particularly in emerging markets. Limited edition launches supported the excellent gains we made in China, Russia and the Middle East.

In smokeless tobacco, our portfolio is aligned with consumers in both the premium and value segments and we increased our market shares in both Sweden and Norway.

Innovation

We have launched a number of innovative brands and products in the first half as we continued to create an innovation pipeline of scalable initiatives based on consumer insights.

Pack innovations provide smokers with choice and reinforce brand differentiation. Branded tobacco packaging enables smokers to distinguish one brand from another, which drives effective competition between tobacco companies.

Through our GlideTec pack we have developed an industry leading innovation built around the sociability of smoking. In the UK, GlideTec has strengthened the performance of *Lambert & Butler*, while in France we launched *Gauloises Tactil* in a GlideTec pack in March. *GlideTec Fortuna* was launched in Spain in April, with other brands and markets to follow.

While setting the pace for innovation and being first to market is an important aspect of our innovation strategy, we are also focused on growing share in high growth segments. We launched a number of brands using crushball filter technology, which allows smokers to determine the strength of the menthol flavour in each cigarette, including *West Duo* in Poland and Russia and *Lambert & Butler Fresh Burst* in the UK. In addition, we have introduced queen size variants across many markets including *Lambert & Butler Profile* in the UK, *Davidoff Shape* in a number of countries in Eastern Europe and *West Compact* in Russia and Ukraine.

Customer Engagement

Customer engagement involves partnering with retailers to enhance the advocacy and the availability of our products. It is a key focus area across our markets and is particularly important in an environment of product display restrictions. Our strong relationships with retailers in Australia have supported the



excellent market share and volume gains we continue to deliver. We have also been working with large retailers in the UK in the run up to the first stage of display restrictions which came into force last month.

Pricing

Our fourth sales growth driver is pricing; maximising revenue growth by taking a strategic approach to pricing opportunities on a brand, pack size and sales channel basis. This involves detailed pricing analysis across our market footprint as well as further evolving our approach to engagement with authorities on excise matters.

By actively sharing best practice around price research and scenario modelling we can optimise brand price, pack per channel offers that drive profit and/or share. Our focus on pricing has enabled us to already achieve over 80 per cent of our pricing assumptions for this financial year.

Ongoing Cost Optimisation

Our tobacco adjusted operating margins remained strong at around 43 per cent. Our focus on manufacturing excellence and our disciplined approach to investments have supported the portfolio gains we have made in the first half of the year.

Maximising Cash Returns

Effectively using the cash we generate is central to creating sustainable shareholder returns. We have increased the interim dividend by 13 per cent and intend to continue to increase annual dividends ahead of adjusted earnings per share growth. Our cash conversion over the 12 month period to 31 March 2012 was 79 per cent. This was below our long term trend due to higher working capital outflows as a result of a number of factors including pre-production ahead of January and February duty increases, which we expect to unwind in the second half of the year.

We completed our £500 million share buyback programme announced at our 2011 half year results and the programme will continue at that annualised rate.

Outlook

Our second quarter performance reflects the strong sales growth momentum we are generating and we are focused on building on this in the remainder of the year.

We will focus on maximising the many growth opportunities across our brands and products: driving growth of our key strategic brands and enhancing our performance across our total tobacco portfolio. Our innovations will continue to support sales with scalable initiatives that are relevant to consumers. Our work in customer engagement and pricing is integral to our overall success and we are driving an integrated approach across all four sales growth drivers in our markets.

External conditions present challenges but we have consistently demonstrated our ability to grow our business in such environments. Our highly energised people are very focused on sales, cost and cash management. With their talents and our unique total tobacco portfolio, we remain in a strong position to maximise growth and further reward our shareholders.

OPERATIONAL PERFORMANCE: TOBACCO

Global Overview

The combination of our unique total tobacco portfolio and our balanced geographic footprint provides a good platform for growth in both EU and Non-EU countries. Applying our sales growth drivers across our footprint is key to building sustainable sales.



Economic and regulatory conditions are influencing consumer choices and we are continuing to respond to their evolving preferences. We also remain vigilant in managing regulation and tackling illicit trade, which regrettably remains a significant and growing problem in many markets, often fuelled by excessive regulation and rising excise duties.

We support reasonable regulation but will vigorously challenge extreme proposals that lack credible evidence such as plain packaging. We expect the outcome of the legal challenge against plain packaging in Australia to be announced later in the year and we will make a comprehensive submission to the UK Government's consultation on the plain packaging of tobacco products.

EU Overview

With our broad product portfolio and total tobacco strength we are well positioned in the EU, where consumers continue to seek value in what are challenging economic conditions.

We continue to focus on balancing market share and profit to maximise returns. Some of our market shares have been under pressure and we have been working to address this through our sales growth drivers. We generated positive market share results in most of our major markets in the second quarter, when compared to the first quarter, including in Spain, the UK, Germany and France.

We have a leading position in many markets in the EU and have implemented a number of price increases across the region in the first half which have strengthened our financial results.

EU Markets Results

Financial Performance

We delivered a good financial performance in the UK, Germany and in our Rest of EU region, with EU adjusted operating profit growing by over 5 per cent.

In the UK, our financial performance benefited from a favourable comparative due to the timing of price increases: net revenue was up by 12 per cent to £469 million and adjusted operating profit up by 9 per cent to £307 million.

In Germany, net revenue was up by 3 per cent to £410 million and adjusted operating profit up by 3 per cent to £216 million as a result of portfolio gains and price increases.

In Spain, the market remained challenging and as a result net revenue declined by 4 per cent to £239 million and adjusted operating profit was down by 2 per cent to £106 million.

In our Rest of EU region, we grew net revenue by 4 per cent to £764 million and adjusted operating profit was up by 5 per cent to £321 million due to a number of successes across our total tobacco portfolio and price increases.

Operational Performance

In the **UK**, we estimate the overall duty paid market declined by 2 per cent, with cigarettes down by 6 per cent and fine cut tobacco up by 11 per cent as consumers continued to economise. The overall duty paid market was impacted by a number of significant duty increases in 2011 and most recently a 5 per cent above inflation duty increase announced in March 2012.

In cigarette, we grew market share of our value brands *JPS Silver* and *Windsor Blue*. *Lambert & Butler* remains the UK's No 1 brand and continued to benefit from the launch of *GlideTec*. Further innovative variants were launched in April including *Lambert & Butler Profile* (queen size cigarettes) and *Lambert & Butler Fresh Burst* (with a crushball filter) which will strengthen our portfolio. Our cigarette share was down slightly to 45.1 per cent overall but is on an improved trend since July 2011.



In fine cut tobacco *JPS*, *Gold Leaf* and *Golden Virginia Yellow* have all performed well, although our overall fine cut tobacco share was 47.6 per cent reflecting premium sector decline.

In **Germany**, we estimate the duty paid market was up by 3 per cent overall, with the cigarette market stable and fine cut tobacco up 9 per cent reflecting strong make your own tobacco growth.

Several portfolio initiatives have taken place in the first half including a *JPS* brand rejuvenation and the launch of a number of limited editions for *Gauloises Blondes*. *West* remained under pressure, impacted by consumer downtrading and our overall cigarette share was down to 25.6 per cent. In fine cut tobacco *Route 66* performed well in make your own tobacco, growing share and our overall fine cut tobacco market share was stable at 20.7 per cent.

In **Spain**, we estimate the duty paid market declined by 9 per cent overall, by 10 per cent in cigarettes and by 3 per cent in fine cut tobacco, reflecting the wider economic challenges facing Spain and the resulting pressure on incomes. As market leader in Spain we have continued to focus on consolidating our leading position and providing Spanish consumers with value brands and products.

In cigarettes, we continued to deliver success across the *Fortuna* brand family with our line extensions *Red Line*, *Fortuna XL* and *Fortuna 24* driving growth in market share. We have further strengthened the franchise with the launch of *Fortuna GlideTec* in April. We grew *Nobel* market share with several successful innovative formats particularly *Nobel Style* in the queen size segment and *Nobel Slims*. As a result of these portfolio initiatives, we have grown our domestic blonde cigarette market share to 28.4 per cent.

In fine cut tobacco, we have grown our market share to 43.3 per cent, as a result of strong performances from *Ducados Rubio* and *Fortuna*. In the mass cigar category we delivered another good performance with *Coburn* growing volumes by 17 per cent.

In **Rest of EU** region, we estimate that overall duty paid regional volumes were down by 2 per cent with the cigarette market down 3 per cent and the fine cut tobacco market up by 6 per cent. Given the wider economic challenges across the Euro zone, consumers are looking for value brands and products and we have been using our portfolio management and innovation capabilities to drive growth.

We have grown our cigarette market shares in a number of markets including in the Czech Republic, Greece, Italy and Portugal. In **France**, our domestic blonde cigarette market share was 22.2 per cent and we are progressing a number of innovative portfolio initiatives to further support our recent share improvements. In March, *Gauloises Tactil* was launched in a *GlideTec* pack which has had a very positive response from smokers and retailers.

In fine cut tobacco, overall volumes were down due to market weakness and trade destocking in Poland, although we increased our market share. *JPS* delivered strong growth with regional volumes up by 9 per cent and we delivered particular success in the make your own category driving profitable growth in a number of European markets with *News* and *JPS*.

In **Scandinavia**, we have developed a dynamic snus portfolio with a strong presence in both the premium and value segments and our new factory is enabling us to keep pace with the growing demand for our products. In the first half of the year we improved volumes by 74 per cent and increased market shares in **Sweden** and **Norway** to 6.8 per cent and 26.4 per cent respectively.

Non-EU Markets Overview

Our Non-EU markets comprise the emerging markets of Africa and the Middle East, Eastern Europe and Asia Pacific and the more developed markets of USA and Australasia. We are driving sales growth by aligning our portfolio to consumer dynamics in individual markets in premium and value.

Our international strategic cigarette brands *Davidoff*, *West* and *Gauloises Blondes* and luxury Cuban cigar brands are continuing to grow strongly as consumers are trading up to premium brands and products in a



number of markets, improving our sales mix. In USA and Australasia, similar to the mature markets of the EU, the trend is for value brands and products.

Non-EU Markets Results

Financial Performance

In our Rest of the World region, we grew net revenue by 6 per cent to £1,212 million and adjusted operating profit by 5 per cent to £422 million. This reflects an excellent performance in Asia Pacific with revenue growth of 16 per cent and profit growth of 23 per cent and a good performance in Africa and the Middle East where, despite the impact of international sanctions in Syria, we increased revenue and profit. Our performance in Eastern Europe was impacted by distributor destocking in Ukraine and market declines following a duty increase.

In the Americas, our net revenue was down to £294 million and adjusted operating profit declined to £84 million partly reflecting the competitive market environment in the USA and shipment timings ahead of our October 2011 price increase.

Operational Performance

We delivered an excellent performance across the **Asia-Pacific** region growing our market shares in a number of countries with particularly good results in Taiwan and Australia. In Taiwan we grew *West* and increased our overall cigarette market share to 11.3 per cent. In Australia, *JPS* continued to make strong gains both in cigarette and fine cut tobacco such that we grew our overall market shares to 19.5 per cent and 61.5 per cent respectively.

In **Eastern Europe**, we have again delivered growth in innovative cigarette formats including king size superslimes and queen size with *Davidoff* and *West*. *Style* continued to deliver a good performance growing volumes by 9 per cent. In Russia, *Davidoff*, *Maxim* and *Style* delivered strong growth contributing to our overall cigarette market share performance which was up to 9.4 per cent. These results helped to partially offset conditions in Ukraine. Eastern Europe remains a key strategic growth region for the Group and we are continuing to invest to support our portfolio and strengthen our competitive position.

In **Africa and the Middle East** we grew our volumes and delivered a good performance with *Gauloises Blondes* which grew overall volumes by 20 per cent across the region with Algeria and Morocco particular highlights. In Africa, *Fine* continued to show strong growth, notably in Cote D'Ivoire. In the Middle East overall growth has slowed due to compliance with international sanctions against Syria. *Davidoff* made further gains across the region including in Saudi Arabia and UAE.

Our primary focus in the **Americas** is the **USA**, which remains an extremely competitive market. We estimate that the overall cigarette market declined by 3 per cent. The integration of our USA cigarette and mass market cigar sales forces is strengthening our business and we are focusing on our sales growth drivers to improve performance in the second half of the year.

In cigarette we grew our market share of *Fortuna*, although *USA Gold* and *Sonoma* remained under pressure, impacting our overall market share which was down to 3.5 per cent.

Across our premium handmade cigar business we continue to deliver growth and in mass market cigars we are building on a number of portfolio initiatives and delivered a good performance with *White Cat*.

Our **luxury Cuban cigar portfolio** includes *Montecristo*, *Cohiba* and *Romeo y Julieta*. We delivered another very strong performance, particularly in emerging markets with limited editions such as *Cohiba Behike* supporting the excellent gains we have continued to make in China, Russia and the Middle East.



Outlook: Tobacco – EU and Non-EU Markets

Our focus for the remainder of the year is to build on our sales momentum, driving growth across our total tobacco portfolio. Our key strategic brands are performing well and will be supported by a number of new initiatives in the second half. Consumer insights are fundamental to sales success; our ongoing programme of decoding consumer behaviours is enhancing our growth opportunities and ensures disciplined targeting of investments.

In the EU, we expect consumers to remain focussed on value brands and products and we will capitalise on this dynamic with our total tobacco portfolio, building on the market share improvements we are making.

In the UK we expect further market volume declines and we will continue to focus on reinforcing our leadership position. In Germany, the market remains buoyant and we will seek to capitalise on growth in fine cut tobacco and improve our cigarette share. Spain remains a challenging market and we will seek to improve our performance across our total tobacco portfolio.

Outside the EU we see significant opportunities across our portfolio and will build on the excellent results we have delivered through *Davidoff*, *Gauloises Blondes*, *West* and our luxury Cuban cigar portfolio. The USA remains challenging and highly competitive; we have the benefit of critical mass from the combined cigarette and mass cigar business and our new management team are focused on improving the performance of our core brands by applying our sales growth drivers.



Duty Paid Tobacco Market Size: EU Stick Equivalent Volumes¹

	Stick equivalents (bn)		Cigarettes (bn)		Fine cut tobacco (bn)	
	6 months ended 31 March 2012	Change +/-	6 months ended 31 March 2012	Change +/-	6 months ended 31 March 2012	Change +/-
UK	26.9	-2%	20.0	-6%	6.9	+11%
Germany	60.1	+3%	40.6	-	19.5	+9%
Spain	29.9	-9%	26.6	-10%	3.3	-3%
Rest of EU	188.2	-1%	160.5	-3%	27.7	+6%
Total EU ²	305.1	-1%	247.7	-3%	57.4	+7%

¹ Imperial Tobacco estimates

² Imperial Tobacco definition

Market Share Performance¹: Tobacco

Cigarette %	HY12 ²	1Q12 ³	HY12 v 1Q12	HY11 ²
Austria	17.0	16.8	0.2	17.4
Australia	19.5	18.8	0.7	18.4
Czech Republic	14.1	14.4	(0.3)	14.0
France ⁴	22.2	22.1	0.1	22.8
Germany	25.6	25.5	0.1	26.9
Greece	11.9	11.9	0	11.0 ⁵
Hungary	12.1	12.6	(0.5)	12.3
Ireland	23.1	23.0	0.1	24.4
Morocco	81.8	81.7	0.1	83.9
Netherlands	11.3	10.8	0.5	11.6 ⁵
Poland	24.1	23.4	0.7	25.4
Russia	9.4	8.8	0.6	9.0 ⁵
Spain ⁴	28.4	27.1	1.3	28.2
Taiwan	11.3	11.2	0.1	11.1 ⁵
Turkey	3.3	3.1	0.2	3.4
UK	45.1	45.0	0.1	45.3
Ukraine	21.6	21.5	0.1	22.5 ⁵
USA	3.5	3.6	(0.1)	3.9

Fine Cut Tobacco %	HY12 ²	1Q12 ³	HY12 v 1Q12	HY11 ²
Belgium	15.5	13.9	1.6	13.6 ⁵
Czech Republic	58.4	61.4	(3.0)	59.2
France	20.8	19.6	1.2	21.6 ⁵
Germany	20.7	20.2	0.5	20.7
Greece	24.2	25.2	(1.0)	30.7 ⁵
Hungary	35.3	32.5	2.8	42.0
Italy	28.0	33.6	(5.6)	40.0
Netherlands	45.5	45.5	0.0	46.9 ⁵
Poland	55.8	57.1	(1.3)	53.6
Spain	43.3	38.8	4.5	37.3 ⁵
UK	47.6	47.5	0.1	51.7

¹ Imperial Tobacco estimates

² 6 month average

³ 3 month average

⁴ Domestic blonde market share

⁵ Restated due to change of source or basis



Imperial Tobacco Volume Performance: Tobacco

	Stick equivalents ¹ (bn)		Cigarettes (bn)		Fine cut tobacco (bn)	
	6 months ended	6 months ended	6 months ended	6 months ended	6 months ended	6 months ended
	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011
UK	13.2	12.4	9.7	9.4	3.5	3.0
Germany	14.9	15.3	10.7	11.0	4.2	4.3
Spain	10.7	11.6	9.3	10.3	1.4	1.3
Rest of EU	36.2	38.6	26.1	27.6	10.1	11.0
Americas	4.7	6.2	4.4	5.9	0.3	0.3
Rest of the World	79.4	81.8	78.1	80.6	1.3	1.2
Total	159.1	165.9	138.3	144.8	20.8	21.1

¹ Stick equivalent volumes reflect our combined cigarette and fine cut tobacco volumes. Our 2011 stick equivalent volumes have been restated due to a change to the conversion factors used to convert fine cut tobacco volumes into stick equivalent volumes, reflecting increasing consumption patterns of expanded tobacco products.

Regional Net Revenue: Tobacco

£ million	6 months ended 31 March 2012	Foreign exchange 6 months ended 31 March 2011	Constant currency 6 months ended 31 March 2012	Change at constant currency %	6 months ended 31 March 2011						
						UK	469	-	469	+12.2	418
						Germany	410	(5)	415	+3.2	402
Spain	239	(3)	242	-4.0	252						
Rest of EU	764	(16)	780	+3.7	752						
Americas	294	4	290	-13.4	335						
Rest of the World	1,212	9	1,203	+6.5	1,130						
Total	3,388	(11)	3,399	+3.3	3,289						

Regional Adjusted Operating Profit: Tobacco

£ million	6 months ended 31 March 2012	Foreign exchange 6 months ended 31 March 2011	Constant currency 6 months ended 31 March 2011	Change at constant currency %	6 months ended 31 March 2011						
						UK	307	-	307	+9.3	281
						Germany	216	(3)	219	+3.3	212
Spain	106	(1)	107	-1.8	109						
Rest of EU	321	(6)	327	+5.1	311						
Americas	84	1	83	-21.0	105						
Rest of the World	422	10	412	+5.4	391						
Total	1,456	1	1,455	+3.3	1,409						

OPERATIONAL PERFORMANCE: LOGISTICS

Our logistics business has two key aspects: tobacco logistics and other logistics. Tobacco logistics delivers products for domestic and international tobacco companies, including Imperial Tobacco, to tobacconists and other sales outlets in Spain, France, Italy and Poland. In other logistics we provide specialist services for customers in a number of different sectors in Spain, Portugal, France and Italy. In total we make around 40 million deliveries per year.



Financial Performance

Economic conditions have remained challenging and in this context distribution fees were down by 1.8 per cent to £439 million, with adjusted operating profit down by 3.8 per cent to £76 million, a robust performance given the difficult operating environment.

Operational Performance

In **Tobacco Logistics**, Spain has continued to be difficult as a result of cigarette volume decreases and market volumes have remained under pressure in France and Italy. We have partially offset this impact with increased volumes of cigars and fine cut tobacco, fee increases and cost saving initiatives.

In **Other Logistics**, sales and profits were stable in our transport division. Our e-transaction business including telephone cards and transport tickets delivered a positive performance in a declining market while in our pharma division, we have grown our market share and are investing in direct distribution to pharmacies. In our Lottery business, we have added new points of sales to the network and incorporated new games into the portfolio which have continued to support our sales development.

Outlook: Logistics

Across our Logistics business we will continue to pursue opportunities to grow the business whilst maintaining our cost discipline.

Logistics

£ million	6 months ended 31 March 2012	Foreign exchange 6 months ended 31 March 2012	Constant currency 6 months ended 31 March 2012	Change at constant currency %	6 months ended 31 March 2011
Distribution fees	439	(5)	444	-1.8	452
Adjusted operating profit	76	(1)	77	-3.8	80

FINANCIAL REVIEW

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

Percentage growth figures for our adjusted results are given on a constant currency basis, where exchange translation (but not transactional) effects are removed by applying exchange rates in the first half of 2011 to the results in the first half of 2012.

Revenue Performance

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011
Tobacco revenue	10,300	9,986
Logistics revenue	4,146	4,188
Eliminations	(484)	(473)
Group revenue	13,962	13,701
Tobacco net revenue	3,388	3,289
Logistics distribution fees	439	452



Tobacco net revenue increased by 3.3 per cent with volume growth in our key strategic brands, cigars and smokeless tobacco together with price increases in many of our markets offsetting overall volume declines. Logistics distribution fees declined by 1.8 per cent; a robust performance given the difficult operating environment. Group revenue reflected these factors and changes in duty levels in various markets.

Group Earnings Performance

	Adjusted		Reported	
	6 months ended 31 March 2012	6 months ended 31 March 2011	6 months ended 31 March 2012	6 months ended 31 March 2011
£ million unless otherwise indicated				
Operating Profit				
Tobacco	1,456	1,409	1,309	1,262
Logistics	76	80	29	22
Eliminations	(8)	(10)	(8)	(10)
Group operating profit	1,524	1,479	1,330	1,274
Net finance costs	(276)	(280)	(222)	(331)
Profit before taxation	1,248	1,199	1,108	943
Taxation	(306)	(294)	(272)	(9)
Profit for the period	942	905	836	934
Earnings per ordinary share (pence)	93.1	88.4	82.5	91.3

Adjusted operating profit grew by 3.0 per cent reflecting our good performance in the majority of European Union markets and excellent results in Asia-Pacific, partially offset by reductions in Spain and in the Americas.

Tobacco adjusted operating profit was up 3.3 per cent and Logistics adjusted operating profit was down by 3.8 per cent reflecting external challenges.

After tax at an effective rate of 24.5 per cent (2011: 24.5 per cent), adjusted earnings per share grew by 5.1 per cent to 93.1 pence.

Reported earnings per share were 82.5 pence (2011: 91.3 pence) additionally reflecting fair value and exchange movements on financial instruments, amortisation of acquired intangibles and other adjusting items as outlined below.

Reconciliation of Adjusted Performance Measures

	Operating profit (£ millions)		Net finance costs (£ millions)		Earnings per share (pence)	
	6 months ended 31 March 2012	6 months ended 31 March 2011	6 months ended 31 March 2012	6 months ended 31 March 2011	6 months ended 31 March 2012	6 months ended 31 March 2011
Reported	1,330	1,274	(222)	(331)	82.5	91.3
Acquisition accounting adjustments	(10)	-	-	-	(0.9)	-
Amortisation of acquired intangibles	190	210	-	-	15.6	14.1
Fair value and exchange (gains)/losses on financial instruments providing commercial hedges	-	-	(68)	47	(5.9)	3.4
Post-employment benefits net financing cost	-	-	14	4	0.9	0.2
Restructuring costs	14	(5)	-	-	0.9	(0.3)
Tax provisions released	-	-	-	-	-	(20.3)
Adjusted	1,524	1,479	(276)	(280)	93.1	88.4

Acquisition accounting adjustments includes the release of a small number of provisions established on the acquisition of Altadis that are no longer required. Amortisation of acquired intangibles was £190 million compared with £210 million in the first half of 2011. Net fair value and exchange gains on financial



instruments providing commercial hedges included in reported net finance costs were £68 million (2011: losses £47 million). The net financing cost of post-employment benefits amounted to £14 million compared with £4 million in 2011. Restructuring costs of £14 million compared with a credit of £5 million in the first half of 2011.

Net Finance Costs

Adjusted net finance costs were down from £280 million to £276 million, as cash generated in the period funded a higher final dividend payment, share buybacks and higher working capital outflows. Reported net finance costs were £222 million (2011: £331 million). Our all in cost of debt was stable at 5.5 per cent and our interest cover was 5.5 times (2011: 5.3 times).

Cash Flows and Financing

Our reported net debt was £10.3 billion, up from £9.4 billion at 30 September 2011 mainly due to the normal seasonal increase in working capital as a result of a number of factors including pre-production ahead of January and February duty increases, which we expect to unwind in the second half of the year. Reported net debt was £0.6 billion lower than at 31 March 2011.

Eliminating accrued interest, the fair value of derivatives providing commercial cash flow hedges and finance lease liabilities, our adjusted net debt was £9.9 billion, up by £1.1 billion since 30 September 2011 but reduced by £0.2 billion since 31 March 2011. This 12 month reduction in both reported and adjusted net debt was supported by our 79 per cent cash conversion over the year to 31 March 2012 (to 31 March 2011: 98 per cent) which was below our long term trend due to higher working capital outflows in the 12 month period.

During the first half of the year we returned £1.0 billion (2011: £0.6 billion) to our shareholders, comprising £0.3 billion of share buybacks (2011: nil) and dividend payments of £0.7 billion (2011: £0.6 billion).

The denomination of our closing adjusted net debt was 48 per cent euro, 9 per cent US dollar and 43 per cent sterling. As at 31 March 2012, we had committed financing facilities in place of around £13.7 billion. Some 20 per cent was bank facilities with the balance raised through capital markets. We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Share Buyback Programme and Dividends

We continued our share buyback programme and in the six months to 31 March 2012 we spent £0.3 billion, acquiring 13.4 million shares which are held as treasury shares. The average price paid was £23.89. At 31 March 2012, we held 70.4 million shares representing 6.6 per cent of our issued share capital.

The Board has declared an interim dividend of 31.7 per share, an increase of 12.8 per cent over 2011.

Principal Risks and Uncertainties

The principal risks and uncertainties to which the Group is exposed and our approach to managing those risks are unchanged from those identified on pages 16 to 19 of our 2011 Annual Report and Accounts and cover the following areas:

- the illicit trade of tobacco products;
- the levels of excise duty applied in the many markets in which the Group operates;
- the degree of regulation in the Group's markets;
- the Group's performance being dependent on key markets;
- the Group's exposure to tobacco-related litigation; and
- the levels of the Group's borrowing and prevailing interest rates.



It is the Board's view that the principal risks and uncertainties surrounding the Group in the second half of the financial year remain those set out in the 2011 Annual Report and Accounts.

The Board considers that having taken into account the Group's plans and financial commitments the Group has sufficient resources to meet its expected requirements over the next twelve months.

Statement of Director's Responsibilities

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely: an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and material related party transactions in the first six months of the current financial year and any material changes in the related-party transactions described in the last annual report.

In October 2011, Malcolm Wyman was appointed a Non-Executive Director and at our Annual General Meeting in February 2012, Pierre Jungels retired from the Board as a Non-Executive Director. As a result Mark Williamson was appointed Senior Independent Director and Malcolm Wyman was appointed Chairman of the Audit Committee. In February 2012, David Haines was appointed a Non-Executive Director.

We have also strengthened our regional management team with the recent appointments of Roberto Ascoli, formerly of Unilever and Symrise as Regional Director Asia-Pacific and Kevin Freudenthal, formerly of UST and Altria as Regional Director Americas.

A list of current directors is maintained on the Imperial Tobacco Group website: www.imperial-tobacco.com

By order of the Board

Alison Cooper
Chief Executive

Robert Dyrbus
Finance Director



Financial Statements

Independent Review Report to the members of Imperial Tobacco Group PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2012, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in the Accounting Policies section, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
1 May 2012



Notes

(a) The maintenance and integrity of the Imperial Tobacco Group PLC website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the six months ended 31 March 2012

£ million unless otherwise indicated	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Revenue	13,962	13,701	29,223
Duty and similar items	(6,772)	(6,529)	(14,037)
Other cost of sales	(4,525)	(4,564)	(9,736)
Cost of sales	(11,297)	(11,093)	(23,773)
Gross profit	2,665	2,608	5,450
Distribution, advertising and selling costs	(994)	(970)	(2,006)
Administrative and other expenses	(341)	(364)	(804)
Operating profit	1,330	1,274	2,640
Investment income	361	497	785
Finance costs	(583)	(828)	(1,272)
Net finance costs	(222)	(331)	(487)
Profit before taxation	1,108	943	2,153
Taxation	(272)	(9)	(337)
Profit for the period	836	934	1,816
Attributable to:			
Owners of the parent	826	926	1,796
Non-controlling interests	10	8	20
Earnings per ordinary share (pence)			
- Basic	82.5	91.3	177.3
- Diluted	82.3	91.0	176.8



Consolidated Statement of Comprehensive Income
for the six months ended 31 March 2012

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Profit for the period	836	934	1,816
Other comprehensive income			
Exchange movements	(239)	28	(127)
Net actuarial (losses)/gains on retirement benefits	(29)	114	41
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	10	(31)	(21)
Other comprehensive income for the period, net of tax	(258)	111	(107)
Total comprehensive income for the period	578	1,045	1,709
Attributable to:			
Owners of the parent	570	1,037	1,692
Non-controlling interests	8	8	17
Total comprehensive income for the period	578	1,045	1,709

Reconciliation from operating profit to adjusted operating profit

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Operating profit	1,330	1,274	2,640
Acquisition accounting adjustments	(10)	-	-
Amortisation of acquired intangibles	190	210	402
Restructuring costs	14	(5)	61
Adjusted operating profit	1,524	1,479	3,103

Reconciliation from net finance costs to adjusted net finance costs

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Net finance costs	(222)	(331)	(487)
Net fair value and exchange (gains)/losses on financial instruments providing commercial hedges	(68)	47	(85)
Post-employment benefits net financing cost	14	4	10
Adjusted net finance costs	(276)	(280)	(562)



Consolidated Balance Sheet at 31 March 2012

£ million	31 March 2012	31 March 2011	30 Sept 2011
Non-current assets			
Intangible assets	19,692	21,041	20,487
Property, plant and equipment	2,068	2,054	2,038
Investments in associates	18	18	18
Retirement benefit assets	10	30	5
Trade and other receivables	94	98	100
Derivative financial instruments	469	90	429
Deferred tax assets	108	105	102
	22,459	23,436	23,179
Current assets			
Inventories	3,810	3,588	3,055
Trade and other receivables	3,119	2,968	2,897
Current tax assets	27	15	42
Cash and cash equivalents	896	635	1,171
Derivative financial instruments	204	181	223
	8,056	7,387	7,388
Total assets	30,515	30,823	30,567
Current liabilities			
Borrowings	(2,533)	(396)	(2,104)
Derivative financial instruments	(211)	(321)	(301)
Trade and other payables	(7,530)	(7,569)	(7,617)
Finance lease liabilities	(1)	(2)	(1)
Current tax liabilities	(500)	(408)	(434)
Provisions	(125)	(177)	(163)
	(10,900)	(8,873)	(10,620)
Non-current liabilities			
Borrowings	(8,415)	(10,435)	(8,076)
Derivative financial instruments	(685)	(586)	(760)
Trade and other payables	(22)	(21)	(19)
Finance lease liabilities	(21)	(23)	(22)
Deferred tax liabilities	(1,981)	(2,071)	(2,056)
Retirement benefit liabilities	(719)	(736)	(759)
Provisions	(477)	(563)	(545)
	(12,320)	(14,435)	(12,237)
Total liabilities	(23,220)	(23,308)	(22,857)
Net assets	7,295	7,515	7,710
Equity			
Share capital	107	107	107
Share premium	5,833	5,833	5,833
Retained earnings	785	602	956
Exchange translation reserve	522	911	759
Equity attributable to owners of the parent	7,247	7,453	7,655
Non-controlling interests	48	62	55
Total equity	7,295	7,515	7,710



Consolidated Statement of Changes in Equity
for the six months ended 31 March 2012

£ million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
At 1 October 2011	107	5,833	956	759	7,655	55	7,710
Profit	-	-	826	-	826	10	836
Other comprehensive income	-	-	(19)	(237)	(256)	(2)	(258)
Total comprehensive income	-	-	807	(237)	570	8	578
Transactions with owners							
Cash from employees on maturity/ exercise of share schemes	-	-	1	-	1	-	1
Purchase of shares by Employee Share Ownership Trusts	-	-	(1)	-	(1)	-	(1)
Costs of employees' services compensated by share schemes	-	-	12	-	12	-	12
Increase in own shares held as treasury shares	-	-	(321)	-	(321)	-	(321)
Dividends	-	-	(669)	-	(669)	(15)	(684)
At 31 March 2012	107	5,833	785	522	7,247	48	7,295
At 1 October 2010	107	5,833	206	883	7,029	60	7,089
Profit	-	-	926	-	926	8	934
Other comprehensive income	-	-	83	28	111	-	111
Total comprehensive income	-	-	1,009	28	1,037	8	1,045
Transactions with owners							
Cash from employees on maturity/ exercise of share schemes	-	-	2	-	2	-	2
Purchase of shares by Employee Share Ownership Trusts	-	-	(21)	-	(21)	-	(21)
Costs of employees' services compensated by share schemes	-	-	14	-	14	-	14
Dividends	-	-	(608)	-	(608)	(6)	(614)
At 31 March 2011	107	5,833	602	911	7,453	62	7,515



Consolidated Cash Flow Statement
for the six months ended 31 March 2012

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Cash flows from operating activities	254	484	2,556
Cash flows from investing activities			
Interest received	13	10	18
Purchase of property, plant and equipment	(152)	(171)	(341)
Proceeds from sale of property, plant and equipment	9	11	21
Purchase of intangible assets - software	(9)	(11)	(22)
Net cash used in investing activities	(139)	(161)	(324)
Cash flows from financing activities			
Interest paid	(333)	(385)	(570)
Cash from employees on maturity/exercise of share schemes	1	2	4
Purchase of shares by Employee Share Ownership Trusts	(1)	(21)	(22)
Settlement of exchange rate derivative financial instruments	(94)	(18)	(44)
Increase in borrowings	2,232	1,450	1,785
Repayment of borrowings	(1,232)	(892)	(1,837)
Reduction/(increase) in collateralisation deposits	62	12	(34)
Repayment of obligations under finance leases	(1)	(1)	(2)
Purchase of treasury shares	(321)	-	(182)
Dividends paid to non-controlling interests	(4)	(6)	(22)
Dividends paid to owners of the parent	(669)	(608)	(892)
Net cash used in financing activities	(360)	(467)	(1,816)
Net (decrease)/increase in cash and cash equivalents	(245)	(144)	416
Cash and cash equivalents at start of period	1,171	773	773
Effect of foreign exchange rates on cash and cash equivalents	(30)	6	(18)
Cash and cash equivalents at end of period	896	635	1,171

The accounting policies and notes 1 to 13 are an integral part of these consolidated financial statements.

Accounting Policies

Basis of Preparation

The financial information comprises the unaudited results for the six months ended 31 March 2012 and 31 March 2011, together with the audited results for the year ended 30 September 2011.

The information shown for the year ended 30 September 2011 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and is an abridged version of the Group's published financial statements for that year. The Auditors' Report on those statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The financial statements for the year ended 30 September 2011 were approved by the Board of Directors on 1 November 2011 and filed with the Registrar of Companies.

This condensed consolidated financial information for the six months ended 31 March 2012 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed consolidated financial statements for the six months ended 31 March 2012 should be read in conjunction with the annual financial statements for the year ended 30 September 2011 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.



The Group's principal accounting policies used in preparing this information are as stated in the financial statements for the year ended 30 September 2011, which are available on our website www.imperial-tobacco.com

Critical Accounting Estimates and Judgements

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

In the future, actual experience may deviate from these estimates and 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 current financial year are discussed in the financial statements for the year ended 30 September 2011.

Use of Adjusted Measures

Management believes that non-GAAP or adjusted measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, acquisition accounting adjustments, amortisation of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value gains and losses on derivative financial instruments in respect of commercially effective hedges, exchange gains and losses on borrowings in respect of commercially effective hedges, and related taxation effects and significant one-off tax provision charges or credits arising from the resolution of prior year tax matters. Reconciliations between adjusted and reported operating profit are included within note 1 to the financial statements, adjusted and reported net finance costs in note 2, adjusted and reported taxation in note 3, and adjusted and reported earnings per share in note 5. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

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

The principal adjustments made to reported profits are as follows:

Acquisition Accounting Adjustments

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

Amortisation of Acquired Intangibles

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

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

IAS 39 requires that all derivative financial instruments are recognised in the balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the



instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

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

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

Restructuring Costs

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These costs include the impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

Post-Employment Benefits Net Financing Cost

The expected return on plan assets and the interest on retirement benefit liabilities, together with the unwind of discount on redundancy and social plans costs included in restructuring provisions, are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures.

Tax Provisions

Significant one-off tax charges or credits arising from the resolution of prior year tax matters are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

Other Non-GAAP Measures Used by Management

Net Revenue

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

Distribution Fees

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

Adjusted Net Debt

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



Notes to the Financial Statements

1. Segment Information

Imperial Tobacco comprises two distinct businesses – Tobacco and Logistics. In addition to regularly reviewing results and plans for the Tobacco and Logistics businesses, the Operating Executive regularly reviewed during the period the performance and plans of the Tobacco business analysed on a geographic basis, reflecting the importance of certain individual markets and geographic groupings. The segments presented below are therefore the Group's six Tobacco regions and the Logistics business.

The information provided to the Operating Executive is used as the basis of the segment revenue and profit disclosures provided below, with the geographic analysis of Tobacco based on the location of customers, and central Group costs allocated consistently based on management's assessment of the level of support provided. The main measure of profit used by the Operating Executive to assess performance is adjusted operating profit. Segment balance sheet information is not provided to the Operating Executive.

The Tobacco business comprises the manufacture, marketing and sale of tobacco and tobacco-related products, including sales to (but not by) the Logistics business. The Logistics business comprises the distribution of tobacco products for tobacco product manufacturers, including Imperial Tobacco, as well as a wide range of non-tobacco products and services.

The Logistics business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco and Logistics businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

For the purposes of the analysis below, Rest of European Union comprises the EU member states plus Norway, Iceland, Liechtenstein and Switzerland. The Cuban joint ventures are included in the Rest of the World. All of the Logistics business is located in the European Union.

Tobacco

	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
<i>£ million unless otherwise indicated</i>			
Revenue	10,300	9,986	21,277
Net revenue	3,388	3,289	6,913
Operating profit	1,309	1,262	2,577
Adjusted operating profit	1,456	1,409	2,924
Adjusted operating margin	43.0%	42.8%	42.3%

Logistics

	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
<i>£ million unless otherwise indicated</i>			
Revenue	4,146	4,188	8,911
Distribution fees	439	452	932
Operating profit	29	22	67
Adjusted operating profit	76	80	183
Adjusted distribution margin	17.3%	17.7%	19.6%



Revenue

£ million	6 months ended 31 March 2012		6 months ended 31 March 2011		Year ended 30 September 2011	
	Total revenue	External revenue	Total revenue	External revenue	Total revenue	External revenue
Tobacco						
UK	2,726	2,726	2,358	2,358	5,030	5,030
Germany	1,884	1,884	1,923	1,923	4,147	4,147
Spain	239	16	252	29	497	56
Rest of European Union	2,472	2,211	2,553	2,303	5,469	4,945
Americas	542	542	650	650	1,408	1,408
Rest of the World	2,437	2,437	2,250	2,250	4,726	4,726
Total Tobacco	10,300	9,816	9,986	9,513	21,277	20,312
Logistics	4,146	4,146	4,188	4,188	8,911	8,911
Eliminations	(484)	-	(473)	-	(965)	-
Total Group	13,962	13,962	13,701	13,701	29,223	29,223

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £140 million (2011 6 months: £168 million, year: £326 million).

Tobacco net revenue

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
UK	469	418	869
Germany	410	402	879
Spain	239	252	497
Rest of European Union	764	752	1,592
Americas	294	335	731
Rest of the World	1,212	1,130	2,345
Total Tobacco	3,388	3,289	6,913



Adjusted operating profit and reconciliation to profit before tax

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Tobacco			
UK	307	281	577
Germany	216	212	461
Spain	106	109	200
Rest of European Union	321	311	658
Americas	84	105	234
Rest of the World	422	391	794
Total Tobacco	1,456	1,409	2,924
Logistics	76	80	183
Eliminations	(8)	(10)	(4)
Adjusted operating profit	1,524	1,479	3,103
Acquisition accounting adjustments - Tobacco	10	-	-
Amortisation of acquired intangibles - Tobacco	(147)	(152)	(299)
Amortisation of acquired intangibles - Logistics	(43)	(58)	(103)
Restructuring costs - Tobacco	(10)	5	(48)
Restructuring costs - Logistics	(4)	-	(13)
Operating profit	1,330	1,274	2,640
Net finance costs	(222)	(331)	(487)
Profit before tax	1,108	943	2,153

2. Net Finance Costs

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Interest on bank deposits	(9)	(8)	(18)
Expected return on retirement benefit assets	(84)	(89)	(178)
Fair value gains on derivative financial instruments providing commercial hedges	(245)	(367)	(445)
Fair value gains on derivative financial instruments hedging underlying borrowings	(4)	(33)	-
Exchange gains on financing activities	(19)	-	(144)
Investment income	(361)	(497)	(785)
Interest on bank and other loans	285	288	580
Interest on retirement benefit liabilities	94	89	180
Unwind of discount on redundancy and social plans	4	4	8
Fair value losses on derivative financial instruments providing commercial hedges	200	414	428
Fair value losses on derivative financial instruments hedging underlying borrowings	-	-	76
Exchange losses on financing activities	-	33	-
Finance costs	583	828	1,272
Net finance costs	222	331	487



Reconciliation from reported net finance costs to adjusted net finance costs

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Reported net finance costs	222	331	487
Fair value gains on derivative financial instruments providing commercial hedges	245	367	445
Fair value losses on derivative financial instruments providing commercial hedges	(200)	(414)	(428)
Fair value gains on derivative financial instruments hedging underlying borrowings	4	33	-
Fair value losses on derivative financial instruments hedging underlying borrowings	-	-	(76)
Exchange gains/(losses) on financing activities	19	(33)	144
Net fair value and exchange gains/(losses) on financial instruments providing commercial hedges	68	(47)	85
Expected return on retirement benefit assets	84	89	178
Interest on retirement benefit liabilities	(94)	(89)	(180)
Unwind of discount on redundancy and social plans	(4)	(4)	(8)
Post-employment benefit net financing cost	(14)	(4)	(10)
Adjusted net finance costs	276	280	562

3. Taxation

Reported taxation

Reported tax for the six months ended 31 March 2012 has been calculated on the basis of an estimated effective rate for the year ended 30 September 2012.

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Total tax charged to the consolidated income statement	272	9	337

The change in UK Corporation tax rate to 24% from 1 April 2012 does not have a material impact on the Group's tax position.

During the six months ended 31 March 2011 certain outstanding matters were resolved with tax authorities. The reported tax charge for the period includes a release of £205 million of tax provisions following resolution of these matters. This release is excluded from the adjusted tax charge to aid comparability and understanding of the Group's performance.



Reconciliation from reported taxation to adjusted taxation

Adjusted taxation for the six months ended 31 March 2012 has been calculated on the basis of an estimated adjusted effective rate of 24.5% (2011: 24.5%).

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 5.

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Reported taxation	272	9	337
Tax on acquisition accounting adjustments	(1)	-	-
Deferred tax on amortisation of acquired intangibles	34	67	77
Tax on net fair value and exchange (gains)/losses on financial instruments providing commercial hedges	(9)	13	(23)
Tax on post-employment benefits net financing cost	5	2	4
Tax on restructuring costs	5	(2)	17
Tax provisions released	-	205	205
Adjusted tax charge	306	294	617

4. Dividends

Dividend per share in respect of financial year

In pence	2012	2011	2010
Interim	31.7	28.1	24.3
Final	-	67.0	60.0
Total	31.7	95.1	84.3

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid. Consequently Imperial Tobacco Group's interim dividends are paid and recognised in the second half of the year, and final dividends in respect of a year are paid and recognised in the following financial year.

Amounts recognised as distributions to ordinary equity holders in the period

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
Final dividend paid in the period in respect of previous financial year	669	608	608
Interim dividend	-	-	284
	669	608	892

The declared interim dividend for 2012 amounts to a total dividend of £315 million based on the number of shares ranking for dividend at 31 March 2012.



5. Earnings Per Share

Basic earnings per share is based on the profit for the period attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the period 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.

	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 September 2011
£ million			
Earnings: basic and diluted	826	926	1,796
Millions of shares			
Weighted average number of shares:			
Shares for basic earnings per share	1,000.8	1,014.4	1,013.0
Potentially dilutive share options	2.4	2.9	3.0
Shares for diluted earnings per share	1,003.2	1,017.3	1,016.0
Pence			
Basic earnings per share	82.5	91.3	177.3
Diluted earnings per share	82.3	91.0	176.8

Reconciliation from reported to adjusted earnings and earnings per share

	6 months ended 31 March 2012		6 months ended 31 March 2011		Year ended 30 September 2011	
	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
£ million unless otherwise indicated						
Reported basic	82.5	826	91.3	926	177.3	1,796
Acquisition accounting adjustments	(0.9)	(9)	-	-	-	-
Amortisation of acquired intangibles	15.6	156	14.1	143	32.1	325
Net fair value and exchange (gains)/losses on financial instruments providing commercial hedges	(5.9)	(59)	3.4	34	(6.1)	(62)
Post-employment benefits net financing cost	0.9	9	0.2	2	0.6	6
Restructuring costs	0.9	9	(0.3)	(3)	4.3	44
Tax provisions released	-	-	(20.3)	(205)	(20.2)	(205)
Adjusted	93.1	932	88.4	897	188.0	1,904
Adjusted diluted	92.9	932	88.2	897	187.4	1,904

6. Intangible Assets

A number of factors affecting the Spanish market were reflected in note 9 to the financial statements (Intangible Assets) in our 2011 Annual Report and Accounts.

The 2011 year end impairment test for Spain indicated headroom of £30 million on a goodwill balance of £1,511 million, and that an impairment would result in the event of relatively small changes in an individual assumption or a combination of assumptions.

In view of the sensitivity of the 2011 year end impairment test for Spain to changes in assumptions, we have reviewed the appropriateness of the carrying value of our Spanish intangible assets at 31 March 2012. We have revised our projected short term cash flows, derived from five year financial plans, including the effects of recent duty and price changes and taking account of our current expectations for



the Spanish market. While the outlook for the Spanish economy remains uncertain, the improvement in the performance in the market in the first half of 2012 compared to the second half of 2011 was broadly consistent with our expectations and assumptions.

We have therefore concluded that the overall position has not materially changed since the year end, and that the carrying value of the Spanish intangible assets included in our 31 March 2012 balance sheet is appropriate.

7. Provisions

£ million	Restructuring	Other	Total
At 1 October 2011	351	357	708
Additional provisions charged to the consolidated income statement	3	9	12
Unwind of discount on redundancy and social plan liabilities	4	-	4
Amounts used	(56)	(18)	(74)
Unused amounts reversed	(17)	(15)	(32)
Exchange movements	(8)	(8)	(16)
At 31 March 2012	277	325	602
Analysed as:			
£ million		2012	2011
Current		125	163
Non-current		477	545
		602	708

Restructuring provisions relate primarily to European Integration projects announced in June 2008 as part of the integration of Imperial Tobacco and Altadis. These projects affect sales and marketing, manufacturing and central support functions in a number of markets and have largely been implemented. The remaining provisions are expected to be used over a number of years.

Other provisions principally relate to commercial legal claims and disputes. The majority of other provisions represent the fair value at acquisition of current and potential Altadis commercial disputes, litigation and duty claims arising in the normal course of business. These liabilities are expected to crystallise within the next five years.



8. Cash Flows from Operating Activities

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 Sept 2011
Profit for the period	836	934	1,816
Adjustments for:			
Taxation	272	9	337
Investment income	(361)	(497)	(785)
Finance costs	583	828	1,272
Share of post-tax losses of associates	-	1	1
Depreciation, amortisation and impairment	278	292	598
Profit on disposal of property, plant and equipment	(1)	(1)	(1)
Loss on disposal of software	1	-	2
Post-employment benefits	(62)	(34)	(45)
Cost of employees' services compensated by share schemes	12	14	26
Movement in provisions	(94)	(110)	(130)
Operating cash flows before movement in working capital	1,464	1,436	3,091
Increase in inventories	(835)	(498)	(39)
(Increase)/decrease in trade and other receivables	(283)	81	80
Increase/(decrease) in trade and other payables	102	(285)	(47)
Movement in working capital	(1,016)	(702)	(6)
Taxation paid	(194)	(250)	(529)
Net cash flows from operating activities	254	484	2,556

9. Net Debt

The movements in cash and cash equivalents, borrowings, derivative financial instruments and finance lease liabilities in the period were as follows:

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Finance lease liabilities	Total
At 1 October 2011	1,171	(2,104)	(8,076)	(409)	(23)	(9,441)
Cash flow	(245)	(438)	(562)	32	1	(1,212)
Accretion of interest	-	(37)	105	-	-	68
Change in fair values	-	-	-	154	-	154
Exchange movements	(30)	46	118	-	-	134
At 31 March 2012	896	(2,533)	(8,415)	(223)	(22)	(10,297)

Adjusted net debt

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

£ million	6 months ended 31 March 2012	6 months ended 31 March 2011	Year ended 30 Sept 2011
Reported net debt	(10,297)	(10,857)	(9,441)
Accrued interest	229	191	297
Fair value of derivatives providing commercial hedges	124	558	290
Finance lease liabilities	22	25	23
Adjusted net debt	(9,922)	(10,083)	(8,831)



10. Retirement Benefit Schemes

Actuarial valuations for the Group's retirement benefit plans are updated annually as at 30 September. An interim update is carried out at 31 March for the main plans. As part of this interim update, the plan assets are revalued based on market data at the period end and the scheme liabilities are recalculated to reflect key changes in membership data and revised actuarial assumptions.

11. Treasury Shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During the six months ended 31 March 2012 the Group purchased 13,365,000 shares (2011: nil) at a cost of £321 million (2011: nil).

12. Legal Proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health-related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the consolidated financial statements.

The fine of £112.3 million imposed by the United Kingdom Office of Fair Trading following its infringement decision in 2010 was quashed by the Competition Appeal Tribunal in December 2011. The Group had made no provision for the fine in any of its financial statements, based on legal advice that its appeal against the fine was likely to be successful.

13. Capital Expenditure and Commitments

In the six months ended 31 March 2012 capital expenditure on property, plant and equipment and intangible assets was £161 million (2011: £182 million). Property, plant and equipment and intangible assets with a net book value of £9 million (2011: £10 million) were disposed of during the period. Profit on disposal was nil (2011: £1 million). Commitments for capital expenditure contracted for, but not provided for, at 31 March 2012 were £151 million (2011: £139 million).

Financial Calendar

Ex-dividend date for interim dividend	18 July 2012
Interim dividend record date	20 July 2012
Interim dividend payable	17 August 2012