30 October 2012

Imperial Tobacco Group PLC
Preliminary Results for the twelve months ended 30 September 2012

Sales Growth Momentum

High quality growth through Total Tobacco

- Tobacco net revenue* up 4 per cent; stick equivalent volumes declined 2.7 per cent
- Excellent tobacco net revenue growth across our portfolio
  - + 13 per cent key strategic brands: *Davidoff; Gauloises Blondes; West* and *JPS*
  - + 13 per cent fine cut tobacco
  - + 10 per cent premium cigars
  - + 46 per cent snus

High margin profits

- Tobacco adjusted operating margin maintained at 42 per cent
- 8 per cent adjusted earnings per share growth
- Strategic investments driving quality growth

Maximising shareholder returns

- Returns to shareholders increased by 41 per cent in the year to £1.5 billion
- Full year dividend up 11 per cent; ongoing increase in payout ratio to 52.5 per cent
- £528 million shares bought; annualised £500 million share buyback ongoing

Spanish goodwill

- Non-cash impairment of £1.2 billion due to further deterioration in Spanish economic indicators; Spanish adjusted operating profit up 6 per cent

***** *all tobacco net revenue percentage increases and tobacco adjusted operating margin are on a constant currency basis*

Highlights adjusted basis[1]	**2012**	**Change**	**Change at constant currency**[3]	2011
Stick equivalents[2]	336.6bn	-2.7%		346.0bn
Tobacco net revenue	£7,005m	+1%	+4%	£6,913m
Tobacco adjusted operating profit	£2,989m	+2%	+4%	£2,924m
Logistics distribution fees	£872m	-6%	-1%	£932m
Logistics adjusted operating profit	£176m	-4%	+2%	£183m
Group adjusted operating profit	£3,161m	+2%	+4%	£3,103m
Adjusted earnings per share	201.0p	+7%	+8%	188.0p
Dividend per share	105.6p	+11%		95.1p

Alison Cooper, Chief Executive, said:

"We're generating high quality growth by investing in total tobacco brands that will deliver long-term sustainable sales. Revenues were strong across the portfolio and I'm particularly pleased with the excellent performances from our key strategic brands *Davidoff, Gauloises Blondes, West* and *JPS*, with volumes up 7 per cent and revenues growing 13 per cent.

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

Highlights – reported basis	**2012**	**Change**	2011
Revenue	£28,574m	-2%	£29,223
Impairment of intangible assets	-£1,187m	-	-
Operating profit	£1,518m	-43%	£2,640m
Basic earnings per share	68.1p	-62%	177.3p

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. Such 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. 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.

This document has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

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, premium cigars, rolling papers and tubes. The Group has 47 manufacturing sites and around 37,000 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 (GMT). 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

High-resolution photographs are available to the media free of charge at:
www.newscast.co.uk

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

Dial in Number:	+44(0)20 3140 8286
Participant code:	5849007

A replay of this call will be available for one week. To listen, please dial:

Replay Number:	+44 (0)20 7111 1244
Access Code:	5849007

STRATEGIC REVIEW

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

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

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

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

Improved returns for our shareholders[1]

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

We are increasing our dividend payout ratio to 52.5 per cent of adjusted earnings per share and the Board is recommending a final dividend of 73.9 pence, bringing the total dividend this year to 105.6 pence, up by 11 per cent. This will be paid on 18 February 2013 with an ex-dividend date of 16 January 2013.

[1] Throughout this document percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.

2012 Results

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

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

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

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

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

Building Brands: Key Strategic Brand Success

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

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

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

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

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

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

Our enhanced sales agenda initially focused on our key strategic brands; the priority two years ago was to drive growth in these brands and we'll be building on our successes. We're also growing other core brands in the portfolio such as *News, Bastos, Maxim* and *Fine*. These brands have strong heritage and we have a number of initiatives underway to add to their growth momentum.

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

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

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

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

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

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

Innovation: New Consumer Experiences

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

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

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

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

Pricing and Customer Engagement

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

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

High Margin Profits

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

Maximising Cash Returns

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

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

Our People and Our Values

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

Creating Sustainable Value

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

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

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

OPERATIONAL PERFORMANCE: TOBACCO

Driving Quality Growth

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

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

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

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

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

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

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

Our Financial Performance

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

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

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

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

Volume

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

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

Net Revenue [2]

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

Adjusted Operating Profit [2]

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

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

UK: Market context

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

UK: Performance Highlights

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

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

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

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

Germany: Market context

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

Germany: Performance Highlights

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

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

Spain: Market Context

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

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

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

Spain: Performance Highlights

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

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

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

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

Rest of EU: Regional Context

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

Rest of EU: Performance Highlights

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

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

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

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

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

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

Americas: Market Context

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

Americas: Performance Highlights

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

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

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

Rest of the World: Regional Context

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

Rest of the World: Performance Highlights

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

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

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

We grew *Davidoff, Style* and *West* in Ukraine which supported growth in our cigarette share in recent months. In Russia, we also grew *Davidoff, Style* and *West* supported by strong growth from *Maxim* although our overall market share was down slightly.

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

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

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

Building on our Growth Momentum

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

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

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

Cigarette Market Shares [1]		
%	**2012**	2011
Algeria	**15.2**	12.2
Australia	**19.4**	19.1
France [3]	**22.5**	22.6
Germany	**25.8**	26.6
Greece	**11.5**	11.2 [2]
Ireland	**22.9**	23.8
Italy	**2.5**	2.2
Morocco	**81.2**	83.1
Netherlands	**11.4**	11.4
Poland	**23.0**	25.0
Portugal	**10.3**	8.0
Russia	**9.3**	9.4 [2]
Spain [3]	**28.3**	28.1
Taiwan	**11.5**	11.3
Turkey	**3.6**	3.3
UK	**45.0**	45.1

Ukraine	**22.0**	22.5[2]
USA	**3.4**	3.9
Vietnam	**10.3**	9.8

Fine Cut Tobacco Market Shares [1]		
%	**2012**	2011
Australia	**60.7**	59.9
Belgium	**16.1**	14.7[2]
France	**21.2**	21.4[2]
Germany	**22.3**	20.4[2]
Netherlands	**45.1**	46.3[2]
Poland	**55.4**	60.1
Spain	**41.6**	40.3[2]
UK	**47.4**	51.0

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

OPERATIONAL PERFORMANCE: LOGISTICS

Logistics Overview

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

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

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

Logistics Performance Highlights

Our logistics business delivered a good performance in a challenging operating environment. Distribution fees were £872 million and on a constant currency basis we grew our adjusted operating profit by 2 per cent to £176 million.

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

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

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

FINANCIAL REVIEW

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

Revenue

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

Revenue Performance

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

Group Earnings Performance

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

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

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

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

Group Earnings Performance

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

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

Adjusting Items

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

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

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

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

Spanish Intangibles

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

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

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

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

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

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

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

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

Net Finance Costs

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

Net Finance Costs

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

Cash Flows and Financing

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

Eliminating accrued interest, the fair value of derivatives providing commercial cash flow hedges and finance lease liabilities, our adjusted net debt was £8.8 billion (2011: £8.8 billion).

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

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

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

Share Buyback Programme and Dividends

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

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

Finance Reporting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Financial Statements

The figures and financial information for the year ended 30 September 2012 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the Auditors yet reported on them. The financial statements have been prepared in accordance with our accounting policies published in our financial statements available on our website www.imperial-tobacco.com.

Consolidated Income Statement

for the year ended 30 September

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

Consolidated Statement of Comprehensive Income

for the year ended 30 September

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

Reconciliation from operating profit to adjusted operating profit

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

Reconciliation from net finance costs to adjusted net finance costs

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

Consolidated Balance Sheet
at 30 September

£ million	2012	2011
Non-current assets		
Intangible assets	17,609	20,487
Property, plant and equipment	2,025	2,038
Investments in associates	16	18
Retirement benefit assets	-	5
Trade and other receivables	98	100
Derivative financial instruments	636	429
Deferred tax assets	142	102
	20,526	23,179
Current assets		
Inventories	3,132	3,055
Trade and other receivables	3,029	2,897
Current tax assets	55	42
Cash and cash equivalents	631	1,171
Derivative financial instruments	266	223
	7,113	7,388
Total assets	27,639	30,567
Current liabilities		
Borrowings	(1,234)	(2,104)
Derivative financial instruments	(182)	(301)
Trade and other payables	(7,231)	(7,617)
Finance lease liabilities	(20)	(1)
Current tax liabilities	(372)	(434)
Provisions	(103)	(163)
	(9,142)	(10,620)
Non-current liabilities		
Borrowings	(8,333)	(8,076)
Derivative financial instruments	(729)	(760)
Trade and other payables	(18)	(19)
Finance lease liabilities	-	(22)
Deferred tax liabilities	(1,877)	(2,056)
Retirement benefit liabilities	(1,046)	(759)
Provisions	(410)	(545)
	(12,413)	(12,237)
Total liabilities	(21,555)	(22,857)
Net assets	6,084	7,710

Equity

Share capital	107	107
Share premium	5,833	5,833
Retained earnings	(150)	956
Exchange translation reserve	245	759
Equity attributable to owners of the parent	6,035	7,655
Non-controlling interests	49	55
Total equity	6,084	7,710

Consolidated Statement of Changes in Equity
for the year ended 30 September

£ million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attrib-utable to owners of the parent	Non-control-ling interests	Total equity
At 1 October 2011	107	5,833	956	759	7,655	55	7,710
Profit for the year	-	-	678	-	678	21	699
Exchange movements	-	-	-	(520)	(520)	(3)	(523)
Current tax on exchange movements	-	-	-	6	6	-	6
Net actuarial losses on retirement benefits	-	-	(404)	-	(404)	-	(404)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	96	-	96	-	96
Other comprehensive income	-	-	(308)	(514)	(822)	(3)	(825)
Total comprehensive income	-	-	370	(514)	(144)	18	(126)
Transactions with owners							
Cash from employees on maturity/ exercise of share schemes	-	-	8	-	8	-	8
Costs of employees' services compensated by share schemes	-	-	20	-	20	-	20
Current tax on share-based payments	-	-	1	-	1	-	1
Deferred tax on share-based payments	-	-	1	-	1	-	1
Changes in non-controlling interests	-	-	5	-	5	(5)	-
Increase in own shares held as treasury shares	-	-	(528)	-	(528)	-	(528)
Dividends paid	-	-	(983)	-	(983)	(19)	(1,002)
At 30 September 2012	**107**	**5,833**	**(150)**	**245**	**6,035**	**49**	**6,084**
At 1 October 2010	107	5,833	206	883	7,029	60	7,089
Profit for the year	-	-	1,796	-	1,796	20	1,816
Exchange movements	-	-	-	(124)	(124)	(3)	(127)
Net actuarial gains on retirement benefits	-	-	41	-	41	-	41
Deferred tax relating to net actuarial gains on retirement benefits	-	-	(21)	-	(21)	-	(21)
Other comprehensive income	-	-	20	(124)	(104)	(3)	(107)
Total comprehensive income	-	-	1,816	(124)	1,692	17	1,709
Transactions with owners							
Purchase of shares by Employee Share Ownership Trusts			(22)		(22)	-	(22)
Cash from employees on maturity/ exercise of share schemes	-	-	4	-	4	-	4
Costs of employees' services compensated by share schemes	-	-	26	-	26	-	26
Increase in own shares held as treasury shares in shareholdings	-	-	(182)	-	(182)	-	(182)
Dividends paid	-	-	(892)	-	(892)	(22)	(914)
At 30 September 2011	107	5,833	956	759	7,655	55	7,710

Consolidated Cash Flow Statement

for the year ended 30 September

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

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 year the performance and plans of the Tobacco business analysed on a geographic basis, reflecting the importance of certain individual markets and geographic groupings. The segments presented below are therefore the Group's six Tobacco regions and the Logistics business.

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

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

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

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

Tobacco

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

Logistics

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

Revenue

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

Tobacco net revenue

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

Adjusted operating profit and reconciliation to profit before tax

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

Net finance costs	(437)	(487)
Profit before tax	1,081	2,153

2. Impairment of Acquired Intangibles

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

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

3. Restructuring Costs

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

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

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

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

4. Net Finance Costs

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

Finance costs	1,473	1,272
Net finance costs	437	487

Reconciliation from reported net finance costs to adjusted net finance costs

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

5. Taxation

Analysis of charge in the year

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

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

Reconciliation from reported taxation to adjusted taxation

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 7.

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

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate for the year of 25 per cent (2011: 27 per cent) as follows:

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

Movement on current tax account

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

6. Dividends

Dividend per share in respect of financial year

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

Interim dividends are paid and recognised in the second half of the year, and final dividends in respect of a year are paid and recognised in the following financial period.

Amounts recognised as distributions to ordinary equity holders in the year

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

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

7. Earnings Per Share

Basic earnings per share is based on the profit for the year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the year excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2012	2011
Earnings: basic and diluted	678	1,796

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	995.4	1,013.0
Potentially dilutive share options	2.9	3.0
Shares for diluted earnings per share	998.3	1,016.0

Pence		
Basic earnings per share	68.1	177.3
Diluted earnings per share	67.9	176.8

Reconciliation from reported to adjusted earnings and earnings per share

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

8. Cash Flows from Operating Activities

£ million	2012	2011
Profit for the year	699	1,816
Adjustments for:		
Taxation	382	337
Investment income	(1,036)	(785)
Finance costs	1,473	1,272
Share of post-tax loss of associates	-	1
Depreciation, amortisation and impairment	1,762	598
Profit on disposal of property, plant and equipment	-	(1)
Loss on disposal of software	1	2
Post-employment benefits	(74)	(45)
Costs of employees' services compensated by share schemes	20	26
Movement in provisions	(161)	(130)
Operating cash flows before movement in working capital	3,066	3,091
Increase in inventories	(305)	(39)
(Increase)/decrease in trade and other receivables	(285)	80
Increase/(decrease) in trade and other payables	85	(47)
Movement in working capital	(505)	(6)
Taxation paid	(442)	(529)
Net cash flows from operating activities	2,119	2,556

9. Analysis of Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Finance lease liabilities	Derivative financial instruments	Total
At 1 October 2011	1,171	(2,104)	(8,076)	(23)	(409)	(9,441)
Cash flow	(438)	729	(578)	2	79	(206)
Accretion of interest	-	23	(13)	-	-	10
Change in fair values	-	-	-	-	321	321
Exchange movements	(102)	118	334	1	-	351
At 30 September 2012	631	(1,234)	(8,333)	(20)	(9)	(8,965)

Adjusted net debt

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

£ million	2012	2011
Reported net debt	(8,965)	(9,441)
Accrued interest	287	297
Fair value of derivatives providing commercial hedges	(94)	290
Finance lease liabilities	20	23
Adjusted net debt	(8,752)	(8,831)

Reconciliation of fair value gain/loss on derivative financial instruments

The movements in the carrying value of derivative financial instruments in the year were as follows:

	2012			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments				
Gains arising on commercial hedges (note 4)	-	122	639	761
Losses arising on commercial hedges (note 4)	-	(157)	(566)	(723)
Losses offsetting underling borrowings (note 4)	-	(5)	-	(5)
Gains arising on instruments designated as net investment hedges	288	-	-	288
Net fair value gains/(losses) on derivative financial instruments	288	(40)	73	321
Net fair value of derivatives 30 September 2011				(409)
Collateral transferred in respect of certain derivative financial liabilities				(196)
Cash payments on settlement of matured derivative financial instruments				275
Net fair value of derivatives at 30 September 2012				(9)

10. Use of Adjusted Measures

Management believes that non-GAAP or adjusted measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, acquisition accounting adjustments, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value gains and losses on derivative financial instruments in respect of commercially effective hedges, exchange gains and losses on borrowings in respect of commercially effective hedges, and related taxation effects and significant one-off tax provision charges or credits arising from the resolution of prior year tax matters. Reconciliations between adjusted and reported operating profit are included within note 1, adjusted and reported net finance costs in note 4, adjusted and reported taxation in note 5, and adjusted and reported earnings per share in note 7.

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

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

The principal adjustments made to reported profits are as follows:

Acquisition Accounting Adjustments

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

Amortisation and Impairment of Acquired Intangibles

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

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

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

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

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

Restructuring Costs

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

Post-Employment Benefits Net Financing Cost

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

Tax Provisions

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

Other Non-GAAP Measures Used by Management

Net Revenue

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

Distribution Fees

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

Adjusted Net Debt

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

Financial Calendar

Ex dividend date for final dividend	16 January 2013
Final dividend record date	18 January 2013
Final dividend payable	18 February 2013

By order of the Board

Alison Cooper	Robert Dyrbus
Chief Executive	Finance Director