30 April 2013

Imperial Tobacco Group PLC
Half Year Results for the 6 months ended 31 March 2013

Overview

- Focus on driving quality total tobacco growth
  - key strategic brand net revenue up 5 per cent, volumes up 1 per cent
  - fine cut tobacco net revenue up 10 per cent, volumes up 9 per cent
- Good results in the UK, Germany, Asia-Pacific and Africa and the Middle East
- Interim dividend up 11 per cent
- Overall performance impacted by EU weakness, dynamics in Russia, USA transition and higher investment
- Portfolio and cost optimisation initiatives to strengthen second half performance
- Expect to grow full year earnings per share at lower end of earnings model[1]

Overview – adjusted basis[2]	**6 months ended 31 March 2013**	**Change**	**Change at constant currency[4]**	6 months ended 31 March 2012
Stick equivalents[3]	**149.7bn**	-5.9%		159.1bn
Tobacco net revenue	**£3,284m**	-3.1%	-2.0%	£3,388m
Tobacco adjusted operating profit	**£1,359m**	-6.7%	-5.2%	£1,456m
Logistics distribution fees	**£413m**	-5.9%	-4.1%	£439m
Logistics adjusted operating profit	**£74m**	-2.6%	-1.3%	£76m
Total adjusted operating profit	**£1,425m**	-6.5%	-5.1%	£1,524m
Adjusted earnings per share	**90.2p**	-3.1%	-1.6%	93.1p
Interim dividend per share	**35.2p**	+11.0%		31.7p

Alison Cooper Chief Executive said

"Our focus on quality growth has delivered further volume and revenue gains from our key strategic brands and fine cut tobaccos and good results in a number of markets across our footprint.

"The resilience we're showing in a deteriorating EU environment demonstrates the strength and versatility of our unique total tobacco portfolio. Further afield, excise-driven market dynamics in Russia and our transition to a new pricing strategy in the USA slowed our revenue and profit momentum in non-EU territories, masking the good growth we're generating in Asia-Pacific and Africa and the Middle East.

"In January we said these headwinds would affect our first half results and in line with our strategy we've been implementing portfolio and cost initiatives to strengthen delivery in the second half and into 2014. Leveraging our total tobacco brands and optimising costs will drive this stronger performance, supported by effective cash management, enabling us to continue to create sustainable value for our shareholders."

Overview – reported basis	**6 months ended 31 March 2013**	**Change**	6 months ended 31 March 2012
Revenue	**£13,376m**	**-4.2%**	**£13,962m**
Operating profit	**£1,201m**	**-9.7%**	**£1,330m**
Basic earnings per share	**63.8p**	**-22.7%**	**82.5p**

1 Our earnings model aims to grow earnings per share between 4 and 8 per cent per annum before the beneficial impact of share buybacks
2 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.
3 Stick equivalent volumes reflect our combined cigarette and fine cut tobacco volumes.
4 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. Material transaction effects are also removed. 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. 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, some of which are identified on pages 52 to 55 of our 2012 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.

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 46 manufacturing sites and around 36,000 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

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 3450 9987
Participant code: 5792245

A replay of this call will be available for one week. To listen, please dial:
Replay Number: +44 (0)20 3427 0598
Access Code: 5792245

STRATEGIC REVIEW

Introduction

We delivered some good performances across our core total tobacco portfolio in what has been a challenging first half operating environment, achieving further growth from our key strategic brands, fine cut tobaccos, premium cigars and smokeless products. On a geographic basis we delivered good results in the UK, Germany and a number of emerging markets in our Rest of World region, particularly in Asia-Pacific and Africa and the Middle East.

However, this has been offset by factors that have impacted our overall performance, including worsening economic conditions in the European Union which have resulted in significant market size declines, with higher levels of illicit trade. We've also increased investment across the Group in the first half to support our long-term growth strategy.

In our interim management statement in January 2013 we highlighted the impact this would have on our results and explained that profits would be lower in the first half. We're implementing initiatives in line with our strategy to strengthen the business. We expect to grow our full year earnings per share in line with our earnings model, albeit at the lower end given the difficult operating environment.

2013 Half Year Results[1] Overview

In the first half, our total adjusted operating profit was down by 5.1 per cent and adjusted earnings per share declined by 1.6 per cent to 90.2 pence. Reported earnings per share were 63.8 pence (2012: 82.5 pence).

Tobacco net revenues declined by 2.0 per cent, with overall stick equivalent volumes down by 5.9 per cent. Our tobacco adjusted operating margin was around 41 per cent.

Factors impacting our performance included difficult trading conditions in the EU, particularly in Spain and our Rest of EU region where economic pressures are more pronounced. These conditions offset good results in the UK and Germany, and a strong total tobacco performance from our key strategic brand *JPS* and our fine cut tobacco portfolio.

Outside the EU, Russia and the USA undermined the positive performances we delivered in some of our key growth regions. Following recent excise changes in Russia the market is declining, particularly in the value segment, which is impacting our share. In the USA we're focusing on our sales growth drivers to strengthen our position. In addition, we increased investment levels across the business to support long-term growth, including in Russia and the USA.

Our strategic initiatives will benefit our performance and put the business in a stronger position to drive sustainable growth over the coming years.

Dividend

The Board has declared an interim dividend[2] of 35.2 pence per share, which represents a third of last year's full year dividend, an increase of 11.0 per cent. Our intention is to grow dividends by at least 10 per cent per year over the medium term.

1. Throughout this document percentage increases and decreases in our adjusted results are on a constant currency basis unless stated otherwise.
2. The interim dividend will be paid on 16 August 2013, with an ex-dividend date of 17 July 2013.

Sales

Key Strategic Brands

Maximising the potential of our key strategic brands *Davidoff, Gauloises Blondes, West and JPS* remains a priority. These brands generate high returns and performed well in the first half, with net revenue up by 5 per cent and volumes up by 1 per cent.

Davidoff was impacted by reduced trade stocks in Eastern Europe but grew share in both Russia and Ukraine. We're also driving growth with the brand in Turkey and a number of EU markets including Germany, Italy and Greece.

We delivered further growth with *Gauloises Blondes* in Africa and the Middle East where regional volumes were up 7 per cent and in Germany where a good performance was a key driver of our overall cigarette share growth.

West made share gains in Africa & Middle East and Asia-Pacific, although the brand performed less well in Eastern Europe largely as a result of increased competition in Azerbaijan.

We grew JPS volumes as we strengthened the brand's market share in numerous markets including Australia, Germany and the UK. The total tobacco credentials of *JPS* are integral to the brand's continued growth, particularly in the EU and Australia. Our focus on generating sustainable growth has increased volumes to over 25 billion stick equivalents on an annual basis and *JPS* is now the fifth largest tobacco brand within its EU footprint.

Our key strategic brands account for 32 per cent of our total volumes, around 100 billion stick equivalents on an annual basis, and we're focused on growing this further.

Fine cut tobacco

We delivered excellent growth in fine cut tobacco, with net revenue up 10 per cent and volumes up 9 per cent, driven by a very strong performance in the make your own tobacco category where we grew volumes in a number of European markets including Spain with *Ducados* and Germany with *JPS*, *Route 66* and *Fairwind.*

Complementing this success was further growth in papers and tubes with volumes of both increasing by 3 per cent.

Premium Cigars

In premium cigars, which includes luxury Cuban and other premium cigars, we increased overall volumes by 3 per cent and emerging market volumes by 18 per cent, although overall revenues were down by 3 per cent.

Smokeless Tobacco

We achieved excellent results in smokeless tobacco, growing snus net revenue by 31 per cent and volumes by 30 per cent. We also increased our snus market shares in both Sweden and Norway.

Optimising Portfolio for Future Growth

We're focused on driving quality growth across our brands and products and have undertaken a strategic portfolio review. One of our priorities is to replicate the success of our key strategic brands across other brands that have significant long-term growth potential. We've identified a number of cigarette and fine cut tobacco brands which we have categorised as focus brands; these brands have strong equity with consumers and untapped growth potential. By elevating their status within the portfolio, we'll ensure they get the right attention and support to realise their potential to drive volume and revenue growth on an aggregate basis.

Our current focus brands are: *Bastos*, *News*, *Fine*, *Lambert & Butler*, *USA Gold* and an international value brand *Parker & Simpson*, or *P&S.* Our specialist fine cut tobacco focus brands are: *Golden Virginia, Drum* and *Route 66.*

Our key strategic and focus brands generate high returns and together, they represent almost half of our total stick equivalent volumes. Collectively these brands will drive sustainable volume and revenue growth. The contribution of each brand will vary but on an aggregate basis volumes and revenues will increase and we are investing in a number of initiatives to support this growth.

In May we'll start rolling out a global rejuvenation of *Davidoff* to reinforce the brand's premium credentials. We're also rejuvenating *West* on a global basis; the new look *West* was recently launched in Russia and Poland and more markets will follow in the second half. We're also investing in queen size formats in Eastern Europe; this is a high growth segment in which we have strong representation with *Davidoff, Gauloises Blondes* and *West.*

Another high growth segment where we're performing well is natural tobacco products. *Gauloises* and *JPS* natural tobacco have added to our growth momentum in Germany and we're building on this by making these products available in more markets, including France and Austria. We've also been investing in the development of our focus brands, including a new design for *Lambert & Butler* and *gv 'born in britain'*, a new addition to the *Golden Virginia* brand franchise.

All these initiatives will strengthen our ability to drive growth in the second half and into the 2014 financial year.

Cost

We're effectively managing costs to support growth and the long-term development of the business.

Our cost optimisation programme will deliver savings of £300 million per annum from September 2018. Around £30 million of this will be realised in the second half of the current financial year.

We expect around 45 per cent of the overall savings to come from simplifying product costs, which includes reviewing our manufacturing capacity and implementing enhanced best practice across our manufacturing operations. The remaining 55 per cent will be realised by reducing overheads, which includes maximising opportunities in procurement and refining our operating model. In addition there are opportunities to proactively reduce inefficient trade stocks to increase our supply effectiveness.

We have charged over £20 million within restructuring costs in the first half and expect to charge an additional £100 million in the second half. We currently expect the cash cost of the programme to be in the region of 600 million pounds and expect a cash outflow of around 50 million pounds this year.

Cash

The cash we generate drives sustainable returns and supports the growth of the business.

We've grown our interim dividend by 11 per cent and intend to grow dividends by at least 10 per cent per year over the medium term. Our cash conversion over the 12 month period to 31 March 2013 was 63 per cent and was significantly impacted by lower tobacco sales in our logistics business. Cash conversion in tobacco was in line with the previous 12 month period. We expect cash conversion of between 80 and 100 per cent for the full year, subject to the potential impact of any material excise or price increases.

We spent £295 million during the first half of the year acquiring 12.3 million shares as part of our annualised £500 million share buyback programme.

Outlook

We're focused on leveraging our portfolio to drive quality growth across our footprint and the initial £30 million savings from our cost optimisation programme will support our earnings delivery in the second half.

We have demonstrated our resilience in a deteriorating EU environment and our aim is to build on this going forward. Our total tobacco strength and cost benefits should drive an improved EU performance over the coming months.

Outside the EU we're focused on generating further momentum behind our key strategic brands and adding to the growth we're achieving in Africa and the Middle East and Asia-Pacific. We're also taking action to improve our positions in Russia and the USA.

Our focus on maximising sales, cost and cash opportunities will strengthen our position for 2014 and enable us to continue creating sustainable value for shareholders.

Operational Performance: Tobacco

EU Overview

EU market sizes have declined considerably in our first half as a result of austerity measures, rising unemployment and increases in illicit trade. Unemployment is now at almost 11 per cent across the EU and over 27 per cent in Spain. Markets particularly impacted by increased illicit trade include the UK, Spain and France.

In our EU markets we focus on balancing profit delivery and market share performance. Our EU adjusted operating profit was down 2 per cent – a robust performance given the difficult trading conditions which was driven by the strength of our total tobacco portfolio and strong contributions from our operations in the UK and Germany.

Our fine cut tobacco performance was excellent and we achieved further success with our key strategic brands, particularly *JPS* which is now the fifth biggest tobacco brand within its EU footprint.

Our overall regional performance was affected by Spain and the Rest of EU, where economic pressures are more pronounced.

UK

In the **UK** net revenue was marginally down at £467 million and adjusted operating profit grew by 6 per cent as a result of price increases and a favourable sales mix.

We estimate overall UK market volumes were down by 7 per cent with cigarettes down 10 per cent and fine cut tobacco up 1 per cent.

We grew market share with *JPS* and our overall cigarette share remained stable. *Lambert & Butler* continued to benefit from recent innovations, reinforcing the brand's strength with consumers and improving our overall sales mix.

In fine cut tobacco we grew *JPS, Gold Leaf* and *Golden Virginia Yellow*, although our market share declined reflecting down trading within the segment. New growth initiatives will support the development of our *Golden Virginia* brand franchise, including a rejuvenation of our premium offering *Golden Virginia Green* and the introduction of a new brand variant *gv.*

Germany

In **Germany**, we grew net revenue by 4 per cent to £417 million and adjusted operating profits by 2 per cent to £214 million.

We estimate that the overall market was down 1 per cent. Cigarette market volumes were down by 2 per cent and fine cut tobacco market volumes were up by 3 per cent, with strong growth in make your own tobacco.

We grew our cigarette share due to the success of a number of portfolio initiatives. We further strengthened the *JPS* brand franchise with the launch of a natural tobacco variant in February and increased volumes and share of *Davidoff.* In addition, we grew share of *Gauloises Blondes* with new formats, such as maxi packs, supporting growth.

We made further excellent progress with our fine cut tobacco portfolio increasing our market share. We grew our make your own tobacco volumes by 20 per cent, with good growth from *JPS, Fairwind* and *Route 66.*

Spain

In **Spain**, the market remained difficult due to ongoing austerity measures and rising unemployment which is affecting disposable incomes. Net revenue fell by 10 per cent to £212 million with adjusted operating profits declining by 15 per cent to £87 million.

We estimate that the overall duty paid market was down by 4 per cent, with cigarettes down by 12 per cent and strong growth in fine cut tobacco, which grew by 55 per cent.

In cigarette we grew share of our value brands *Ducados Rubio* and *Fortuna Redline*, although our overall domestic blonde cigarette market share declined. This was due to our brands being at a price disadvantage following our December 2012 price increase and our market share is now on an improving trend.

In fine cut tobacco we grew our volumes by more than 60 per cent, although our overall market share was down. We delivered a very strong performance in the make your own tobacco segment with an excellent performance with *Ducados Rubio*.

Rest of EU

In our **Rest of EU** region, net revenues were down by 5 per cent to £718 million and adjusted operating profits by 9 per cent to £284 million reflecting the challenging operating environment.

We estimate overall duty paid regional volumes were down by 6 per cent reflecting cigarette market declines of 7 per cent and fine cut tobacco growth of 3 per cent.

Key brand highlights were *JPS* and *News* and we grew overall volumes of these brands by 9 per cent and 11 per cent respectively, with particularly strong growth in the make your own tobacco segment.

We made gains with *News* in France and we grew our cigarette market shares in a number of markets including in Greece and Portugal. In fine cut tobacco, we made market share gains in a number of markets and achieved strong growth with *JPS* in the Netherlands and Portugal.

Non-EU Overview

Outside the EU we continue to drive growth of our key strategic brands across our Rest of World region and made further good progress in a number of markets. We delivered some very good performances in Asia-Pacific and Africa and the Middle East, and further enhanced our position in the high growth queen size cigarette segment in Eastern Europe.

Our overall operational and financial performance was affected by Russia and the USA and higher levels of investment, compounded by reduced trade stocks in some markets.

Americas

In our **Americas** region, our primary market is the USA: net revenue declined by 11 per cent and adjusted operating profit by 31 per cent, reflecting our investments behind our revised pricing strategy and reduced trade stock levels. We estimate that the overall cigarette market was down 3 per cent.

In the USA we're focused on improving our position with our sales growth drivers, transitioning a new pricing strategy and progressing portfolio and customer engagement initiatives. The pricing strategy is being embedded in core states to strengthen *USA Gold* and *Sonoma* and although we're making good progress, our overall market share declined.

Our premium cigar portfolio is performing well following a number of successful launches and we have initiatives underway to strengthen our mass market cigar position.

Rest of the World

Rest of World net revenue was up 1 per cent and adjusted operating profit was down by 7 per cent, impacted by Russia, where we have increased investment in our business and are adjusting to a new excise structure. We've continued to make excellent progress with our key strategic brands in many markets across the region, increasing overall volumes by 3 per cent and net revenues by 7 per cent.

In **Asia-Pacific,** we delivered a good performance, growing volumes of our key strategic brands by 8 per cent and growing our market share in Taiwan with *West*. In Australia, where all tobacco products have been sold in plain packaging since 1 December 2012, we made further gains with *JPS,* growing both our cigarette and fine cut tobacco market shares.

In **Eastern Europe**, we continued to focus on the high growth queen size segment with our key strategic brands *Davidoff, Gauloises Blondes* and *West*. In Russia we've invested ahead of regulatory changes in the market which is supporting the development of our key strategic brands, but the market has been impacted by recent excise increases. Market volumes are declining, notably in the value segment which accounts for 75 per cent of our volumes, impacting our overall share. In Ukraine, we delivered good performances with *Davidoff, West* and *Style* although overall market volumes continue to reduce largely due to growth in illicit trade. We recently launched *Davidoff Boudoir Superfine*, an ultra slim cigarette, in both Russia and Ukraine.

In **Africa and the Middle East,** we increased net revenues and grew volumes of key strategic brands by 10 per cent. *Gauloises Blondes* continued to perform well with regional volumes up 7 per cent and growth in Algeria and Saudi Arabia, and *Fine* achieved further success in our core African markets. We also delivered good profit growth in Turkey and Saudi Arabia.

In our **luxury Cuban cigar portfolio**, we continue to drive growth in Africa and the Middle East and the success of Montecristo Minis continues to support our performance across markets in Eastern Europe and Asia-Pacific.

Performance Data: Tobacco

Volume Performance: Tobacco

	Stick equivalents[1] (bn)		Cigarettes (bn)		Fine cut tobacco (bn)	
	6 months ended 31 March 2013	6 months ended 31 March 2012	**6 months ended 31 March 2013**	6 months ended 31 March 2012	**6 months ended 31 March 2013**	6 months ended 31 March 2012
UK	**11.1**	13.2	**8.0**	9.7	**3.1**	3.5
Germany	**15.5**	14.9	**10.7**	10.7	**4.8**	4.2
Spain	**9.9**	10.7	**7.6**	9.3	**2.3**	1.4
Rest of EU	**33.4**	36.2	**22.7**	26.1	**10.7**	10.1
Americas	**4.1**	4.7	**3.9**	4.4	**0.2**	0.3
Rest of the World	**75.7**	79.4	**74.2**	78.1	**1.5**	1.3
Total	**149.7**	159.1	**127.1**	138.3	**22.6**	20.8

[1] Stick equivalent volumes reflect our combined cigarette and fine cut tobacco volumes.

Regional Net Revenue: Tobacco[2]

£ million	**6 months ended 31 March 2013**	Foreign exchange 6 months ended 31 March 2013	**Constant currency**	Change at constant currency %	6 months ended 31 March 2012
UK	**467**	-	**(2)**	(0.4)	469
Germany	**417**	(8)	**15**	3.7	410
Spain	**212**	(4)	**(23)**	(9.6)	239
Rest of EU	**718**	(11)	**(35)**	(4.6)	764
Americas	**260**	(1)	**(33)**	(11.2)	294
Rest of the World	**1,210**	(11)	**9**	0.7	1,212
Total	**3,284**	(35)	**(69)**	(2.0)	3,388

Regional Adjusted Operating Profit: Tobacco[2]

£ million	**6 months ended 31 March 2013**	Foreign exchange 6 months ended 31 March 2013	**Constant currency**	Change at constant currency %	6 months ended 31 March 2012
UK	**325**	(1)	**19**	6.2	307
Germany	**214**	(6)	**4**	1.9	216
Spain	**87**	(3)	**(16)**	(15.1)	106
Rest of EU	**284**	(8)	**(29)**	(9.0)	321
Americas	**58**	-	**(26)**	(31.0)	84
Rest of the World	**391**	(3)	**(28)**	(6.6)	422
Total	**1,359**	(21)	**(76)**	(5.2)	1,456

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

Cigarette Market Shares [1]

%	**HY13**	HY12
Algeria	**17.2**	13.5
Australia	**19.6**	19.3[2]
France [3]	**21.9**	22.2
Germany	**26.2**	25.6
Greece	**12.0**	11.9
Ireland	**22.0**	23.1
Morocco	**79.2**	81.8
Netherlands	**11.1**	11.3
Poland	**21.4**	24.1
Portugal	**11.8**	9.8
Russia	**8.0**	9.1[2]
Spain[3]	**27.2**	28.4
Taiwan	**12.2**	11.3
Turkey	**4.5**	3.3
UK	**45.1**	45.1
Ukraine	**21.5**	21.6
USA	**3.3**	3.5
Vietnam	**8.9**	10.3[2]

Fine Cut Tobacco Market Shares [1]

%	**HY13**	HY12[2]
Australia	**59.8**	58.5
Belgium	**15.8**	14.2
France	**21.0**	21.5
Germany	**23.3**	21.1
Netherlands	**43.5**	44.9
Poland	**58.7**	64.5
Spain	**37.1**	43.0
UK	**45.7**	47.6

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

Operational Performance: 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.

Our operating environment remained challenging and distribution fees were down by 4.1 per cent to £413 million and adjusted operating profit declined by 1.3 per cent to £74 million.

In tobacco logistics cost saving initiatives and tobacco price increases have offset the ongoing market volume declines.

In non-tobacco logistics, we grew sales of our direct delivery pharma business and our lottery business and made further efficiency gains in our transport business.

Our focus, throughout the business, remains on continuing to develop growth opportunities while ensuring all aspects of our logistics operations are effectively and efficiently structured.

£ million	**6 months ended 31 March 2013**	Foreign exchange 6 months ended 31 March 2013	**Constant currency**	Change at constant currency %	6 months ended 31 March 2012
Distribution fees	**413**	**(8)**	**(18)**	-4.1%	439
Adjusted operating profit	**74**	**(1)**	**(1)**	-1.3%	76

Financial Performance

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.

Percentage growth figures for our adjusted results are given on a constant currency basis, where exchange translation and material transactional effects are removed by applying exchange rates in the first half of 2012 to the results in the first half of 2013.

Revenue

We grew revenues of our key strategic brands, fine cut tobaccos and snus, and achieved revenue growth in several regions including Germany, Africa and the Middle East and Asia Pacific. Our overall tobacco net revenue was down 2 per cent impacted by the difficult trading conditions in the EU, particularly in Spain and in our Rest of EU region, and pressures in Russia and the USA.

Logistics distribution fees declined 4 per cent reflecting lower tobacco volumes and continued difficult conditions in our non-tobacco operations.

Revenue £ million	**6 months ended 31 March 2013**	6 months ended 31 March 2012
Tobacco revenue	**9,886**	10,300
Logistics revenue	**3,928**	4,146
Eliminations	**(438)**	(484)
Group revenue	**13,376**	13,962
Tobacco net revenue	**3,284**	3,388
Logistics distribution fees	**413**	439

Group Earnings Performance

We achieved strong results in the UK, Germany and a number of emerging markets in our Rest of the World region. Our overall adjusted operating profit was down 5.1 per cent reflecting the difficult trading conditions across the EU, pressures in Russia and the USA and higher investment levels than in the first half of last year.

Tobacco adjusted operating profit was down 5.2 per cent and Logistics adjusted operating profit declined by 1.3 per cent.

After tax at an effective rate of 23.0 per cent (2012: 24.5 per cent), adjusted earnings per share were 90.2 pence (2012: 93.1 pence).

Reported earnings per share were 63.8 pence (2012: 82.5 pence) additionally reflecting fair value and exchange movements on financial instruments and amortisation of acquired intangibles.

	Adjusted		Reported	
£ million unless otherwise indicated	**6 months ended 31 March 2013**	6 months ended 31 March 2012	**6 months ended 31 March 2013**	6 months ended 31 March 2012
Operating Profit				
Tobacco	**1,359**	1,456	**1,185**	1,309
Logistics	**74**	76	**24**	29
Eliminations	**(8)**	(8)	**(8)**	(8)
Group operating profit	**1,425**	1,524	**1,201**	1,330
Net finance costs	**(263)**	(276)	**(352)**	(222)
Profit before taxation	**1,162**	1,248	**849**	1,108
Taxation	**(267)**	(306)	**(213)**	(272)

Profit for the period	**895**	942	**636**	836
Earnings per ordinary share (pence)	**90.2**	93.1	**63.8**	82.5

Constant Currency Analysis

	6 months ended 31 March 2012	Foreign exchange	**Constant currency**	**6 months ended 31 March 2013**	**Change %**	**Change at constant currency %**
Tobacco net revenue	3,388	(35)	**(69)**	**3,284**	**-3.1**	**-2.0**
Logistics distribution fees	439	(8)	**(18)**	**413**	**-5.9**	**-4.1**
Tobacco adjusted operating profit	1,456	(21)	**(76)**	**1,359**	**-6.7**	**-5.2**
Logistics adjusted operating profit	76	(1)	**(1)**	**74**	**-2.6**	**-1.3**
Adjusted operating profit	1,524	(22)	**(77)**	**1,425**	**-6.5**	**-5.1**
Adjusted net finance costs	(276)	3	**10**	**(263)**	**4.7**	**3.6**
Adjusted EPS	93.1p	(1.4)p	**(1.5)p**	**90.2p**	**-3.1**	**-1.6**

Reconciliation of Adjusted Performance Measures

	Operating profit (£ millions)		Net finance costs (£ millions)		Earnings per share (pence)	
	6 months ended 31 March 2013	6 months ended 31 March 2012	**6 months ended 31 March 2013**	6 months ended 31 March 2012	**6 months ended 31 March 2013**	6 months ended 31 March 2012
Reported	**1,201**	1,330	**(352)**	(222)	**63.8**	82.5
Acquisition accounting adjustments	**-**	(10)	**-**	-	**-**	(0.9)
Amortisation of acquired intangibles	**184**	190	**-**	-	**15.1**	15.6
Fair value and exchange losses/(gains) on financial instruments providing commercial hedges	**-**	-	**87**	(68)	**8.4**	(5.9)
Post-employment benefits net financing cost	**-**	-	**2**	14	**0.1**	0.9
Restructuring costs	**40**	14	**-**	-	**2.8**	0.9
Adjusted	**1,425**	1,524	**(263)**	(276)	**90.2**	93.1

Acquisition accounting adjustments in 2012 included the release of a small number of provisions established on the acquisition of Altadis that are no longer required. Amortisation of acquired intangibles was £184 million compared with £190 million in the first half of 2012. Net fair value and exchange losses on financial instruments providing commercial hedges included in reported net finance costs were £87 million (2012: gains £68 million). The net financing cost of post-employment benefits amounted to £2 million compared with £14 million in 2012. Restructuring costs of £40 million (2012: £14 million) reflect charges in respect of our cost optimisation programme.

Net Finance Costs

Adjusted net finance costs were reduced from £276 million to £263 million reflecting a lower average cost of debt and, despite cash being used for a higher final dividend payment, our ongoing share buyback programme and higher working capital outflow.

Reported net finance costs were £352 million (2012: £222 million). Our all in cost of debt was 5.0 per cent (2012: 5.5 per cent) and our interest cover was 5.4 times (2012: 5.5 times).

Net Finance Costs

£ million	**6 months ended 31 March 2013**	6 months ended 31 March 2012
Net finance costs	**352**	222
Net fair value and exchange (losses)/gains on financial instruments providing commercial hedges	**(87)**	68
Post-employment benefits net financing cost	**(2)**	(14)
Adjusted net finance costs	**263**	276

Cash Flows and Financing

Our reported net debt was £11.2 billion, up from £9.0 billion at 30 September 2012, reflecting our normal seasonal pattern of working capital in the first half which was further impacted by lower tobacco sales in our logistics business. In addition, tax paid was £300 million higher as we settled outstanding tax matters which last year allowed us to release provisions we had previously made.

Eliminating accrued interest, the fair value of derivatives providing commercial cash flow hedges and finance lease liabilities, our adjusted net debt was £11.0 billion (31 March 2012: £ 9.9 billion).

Cash conversion for the 12 months to 31 March 2013 was 63 per cent impacted by lower sales in our logistics business. Cash conversion in tobacco was in line with the previous 12 month period.

The denomination of our closing adjusted net debt was 49 per cent euro, 7 per cent US dollar and 44 per cent sterling. As at 31 March 2013 we had committed financing facilities in place of around £14 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

In the six months to 31 March 2013 we spent £295 million acquiring 12.3 million shares which are held as Treasury shares. The average price paid was £23.78. At 31 March 2013 we held 90.1 million shares representing 8.4 per cent of our issued share capital.

The Board has declared an interim dividend of 35.2 pence per share, an increase of 11 per cent over 2012. The Board's intention over the medium term is to grow dividends per share by at least 10 per cent per annum.

Liquidity and Going Concern

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

In reviewing the Group's committed funding and liquidity positions, the Board acknowledged the current level of uncertainty in the financial markets and considered various sensitivity analyses when assessing the forecast funding and headroom requirements of the Group in the context of the maturity profile of the Group's facilities. The Group has £1.4 billion of bonds maturing in October and November 2013 which have already been pre-financed, as well as £0.6 billion in September 2014, and a combination of cash generated from operations as well as new financing will be used to replace this. The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available.

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

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 48 to 55 of our 2012 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 regulatory environment in the Group's markets;
- the Group's performance being dependent on key markets and key brands;
- the Group's exposure to Eurozone countries;
- the levels of the Group's borrowing and prevailing interest rates; and

- the Group's exposure to tobacco-related litigation.

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 2012 Annual Report and Accounts.

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.

At our Annual General meeting in January 2013 Mark Williamson was appointed Deputy Chairman and Bob Dyrbus, Finance Director informed the Board of his intention to retire and that he will remain in post during the process to appoint his successor. A list of current directors is maintained on the Imperial Tobacco Group website: www.imperial-tobacco.com.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Alison Cooper	Robert Dyrbus
Chief Executive	Finance Director

Financial Statements

Independent Review Report

Imperial Tobacco Group PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim management report for the six months ended 31 March 2013, 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 interim management 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 interim management report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim management report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 Accounting Policies, 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 interim management 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 interim management 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 Conduct 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 interim management report for the six months ended 31 March 2013 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 Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
30 April 2013

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

£ million unless otherwise indicated	Notes	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Revenue	2	**13,376**	13,962	28,574
Duty and similar items		**(6,505)**	(6,772)	(13,902)
Other cost of sales		**(4,283)**	(4,525)	(9,178)
Cost of sales		**(10,788)**	(11,297)	(23,080)
Gross profit		**2,588**	2,665	5,494
Distribution, advertising and selling costs		**(1,016)**	(994)	(2,005)
Impairment of acquired intangibles	7	**-**	-	(1,187)
Other expenses		**(371)**	(341)	(784)
Administrative and other expenses		**(371)**	(341)	(1,971)
Operating profit		**1,201**	1,330	1,518
Investment income	3	**473**	361	1,036
Finance costs	3	**(825)**	(583)	(1,473)
Net finance costs	3	**(352)**	(222)	(437)
Profit before taxation		**849**	1,108	1,081
Taxation	4	**(213)**	(272)	(382)
Profit for the period		**636**	836	699
Attributable to:				
Owners of the parent		**625**	826	678
Non-controlling interests		**11**	10	21
Earnings per ordinary share (pence)				
- Basic	6	**63.8**	82.5	68.1
- Diluted	6	**63.6**	82.3	67.9

Consolidated Statement of Comprehensive Income

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Profit for the period	**636**	836	699
Other comprehensive income			
Exchange movements	**593**	(239)	(523)
Current tax on exchange movements	**-**	-	6
Items that may be reclassified to profit or loss	**593**	(239)	(517)
Net actuarial losses on retirement benefits	**(78)**	(29)	(404)
Deferred tax relating to net actuarial losses on retirement benefits	**33**	10	96
Items that will not be reclassified to profit or loss	**(45)**	(19)	(308)
Other comprehensive income for the period, net of tax	**548**	(258)	(825)
Total comprehensive income for the period	**1,184**	578	(126)
Attributable to:			
Owners of the parent	**1,171**	570	(144)
Non-controlling interests	**13**	8	18
Total comprehensive income for the period	**1,184**	578	(126)

Reconciliation from operating profit to adjusted operating profit

£ million	Notes	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Operating profit		**1,201**	1,330	1,518
Acquisition accounting adjustments		**-**	(10)	(10)
Amortisation of acquired intangibles		**184**	190	365
Impairment of acquired intangibles	7	**-**	-	1,187
Restructuring costs	8	**40**	14	101
Adjusted operating profit		**1,425**	1,524	3,161

Reconciliation from net finance costs to adjusted net finance costs

£ million	Notes	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Net finance costs		**(352)**	(222)	(437)
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	3	**87**	(68)	(125)
Post-employment benefits net financing cost	3	**2**	14	27
Adjusted net finance costs		**(263)**	(276)	(535)

Consolidated Balance Sheet

£ million	Notes	31 March 2013	31 March 2012	30 September 2012
Non-current assets				
Intangible assets	7	**18,508**	19,692	17,609
Property, plant and equipment		**2,220**	2,068	2,025
Investments in associates		**17**	18	16
Retirement benefit assets		**-**	10	-
Trade and other receivables		**88**	94	98
Derivative financial instruments	9	**513**	469	636
Deferred tax assets		**81**	108	142
		21,427	22,459	20,526
Current assets				
Inventories		**3,844**	3,810	3,132
Trade and other receivables		**3,307**	3,119	3,029
Current tax assets		**101**	27	55
Cash and cash equivalents	9	**649**	896	631
Derivative financial instruments	9	**374**	204	266
		8,275	8,056	7,113
Total assets		**29,702**	30,515	27,639
Current liabilities				
Borrowings	9	**(2,919)**	(2,534)	(1,254)
Derivative financial instruments	9	**(294)**	(211)	(182)
Trade and other payables		**(6,960)**	(7,530)	(7,231)
Current tax liabilities		**(169)**	(500)	(372)
Provisions	8	**(96)**	(125)	(103)
		(10,438)	(10,900)	(9,142)
Non-current liabilities				
Borrowings	9	**(8,779)**	(8,436)	(8,333)
Derivative financial instruments	9	**(773)**	(685)	(729)
Trade and other payables		**(17)**	(22)	(18)
Deferred tax liabilities		**(1,909)**	(1,981)	(1,877)
Retirement benefit liabilities		**(1,140)**	(719)	(1,046)
Provisions	8	**(396)**	(477)	(410)
		(13,014)	(12,320)	(12,413)
Total liabilities		**(23,452)**	(23,220)	(21,555)
Net assets		**6,250**	7,295	6,084
Equity				
Share capital		**107**	107	107
Share premium		**5,833**	5,833	5,833
Retained earnings		**(585)**	785	(150)
Exchange translation reserve		**836**	522	245
Equity attributable to owners of the parent		**6,191**	7,247	6,035
Non-controlling interests		**59**	48	49
Total equity		**6,250**	7,295	6,084

Consolidated Statement of Changes in Equity

£ million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2012	**107**	**5,833**	**(150)**	**245**	**6,035**	**49**	**6,084**
Profit for the period	**-**	**-**	**625**	**-**	**625**	**11**	**636**
Other comprehensive income	**-**	**-**	**(45)**	**591**	**546**	**2**	**548**
Total comprehensive income	**-**	**-**	**580**	**591**	**1,171**	**13**	**1,184**
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	**-**	**-**	**1**	**-**	**1**	**-**	**1**
Costs of employees' services compensated by share schemes	**-**	**-**	**7**	**-**	**7**	**-**	**7**
Purchase of shares by Employee Share Ownership Trusts	**-**	**-**	**(4)**	**-**	**(4)**	**-**	**(4)**
Increase in own shares held as treasury shares	**-**	**-**	**(295)**	**-**	**(295)**	**-**	**(295)**
Dividends paid	**-**	**-**	**(724)**	**-**	**(724)**	**(3)**	**(727)**
At 31 March 2013	**107**	**5,833**	**(585)**	**836**	**6,191**	**59**	**6,250**
At 1 October 2011	107	5,833	956	759	7,655	55	7,710
Profit for the period	-	-	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
Costs of employees' services compensated by share schemes	-	-	12	-	12	-	12
Purchase of shares by Employee Share Ownership Trusts	-	-	(1)	-	(1)	-	(1)
Increase in own shares held as treasury shares	-	-	(321)	-	(321)	-	(321)
Dividends paid	-	-	(669)	-	(669)	(15)	(684)
At 31 March 2012	107	5,833	785	522	7,247	48	7,295

Consolidated Cash Flow Statement

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Cash flows from operating activities			
Operating profit	**1,201**	1,330	1,518
Depreciation, amortisation and impairment	**276**	278	1,762
Profit on disposal of property, plant and equipment	**(5)**	(1)	-
Loss on disposal of software	**-**	1	1
Loss on disposal of subsidiaries	**3**	-	-
Post-employment benefits	**(36)**	(62)	(74)
Costs of employees' services compensated by share schemes	**7**	12	20
Movement in provisions	**(52)**	(94)	(161)
Operating cash flows before movement in working capital	**1,394**	1,464	3,066
Increase in inventories	**(499)**	(835)	(305)
Increase in trade and other receivables	**(114)**	(283)	(285)
(Decrease)/increase in trade and other payables	**(641)**	102	85
Movement in working capital	**(1,254)**	(1,016)	(505)
Taxation paid	**(467)**	(194)	(442)
Net cash flows from operating activities	**(327)**	254	2,119
Cash flows from investing activities			
Interest received	**5**	13	15
Purchase of property, plant and equipment	**(167)**	(152)	(300)
Proceeds from sale of property, plant and equipment	**8**	9	21
Purchase of intangible assets - software	**(11)**	(9)	(24)
Net cash used in investing activities	**(165)**	(139)	(288)
Cash flows from financing activities			
Interest paid	**(376)**	(333)	(515)
Cash from employees on maturity/exercise of share schemes	**1**	1	8
Purchase of shares by Employee Share Ownership Trusts	**(3)**	(1)	-
Settlement of exchange rate derivative financial instruments	**51**	(94)	(275)
Increase in borrowings	**1,801**	2,232	1,335
Repayment of borrowings	**-**	(1,232)	(1,486)
Decrease in collateralisation deposits	**17**	62	196
Finance lease settlement and payments	**(20)**	(1)	(2)
Purchase of treasury shares	**(295)**	(321)	(528)
Dividends paid to non-controlling interests	**(3)**	(4)	(19)
Dividends paid to owners of the parent	**(724)**	(669)	(983)
Net cash generated by/(used in) financing activities	**449**	(360)	(2,269)
Net decrease in cash and cash equivalents	**(43)**	(245)	(438)
Cash and cash equivalents at start of period	**631**	1,171	1,171
Effect of foreign exchange rates on cash and cash equivalents	**61**	(30)	(102)
Cash and cash equivalents at end of period	**649**	896	631

Notes to the Financial Statements

Notes 1 to 13 are an integral part of these consolidated financial statements.

1 Accounting Policies

Basis of Preparation

The financial information comprises the unaudited results for the six months ended 31 March 2013 and 31 March 2012, together with the audited results for the year ended 30 September 2012.

The information shown for the year ended 30 September 2012 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 2012 were approved by the Board of Directors on 30 October 2012 and filed with the Registrar of Companies.

This condensed set of financial statements for the six months ended 31 March 2013 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed set of financial statements for the six months ended 31 March 2013 should be read in conjunction with the annual financial statements for the year ended 30 September 2012 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 2012, 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 2012.

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 (outside of changes in estimates in the normal course of business). Reconciliations between adjusted and reported operating profit are included within note 2 to the financial statements, adjusted and reported net finance costs in note 3, adjusted and reported taxation in note 4, and adjusted and reported earnings per share in note 6.

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.

New Accounting Standards and Interpretations

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

Under IAS 19 (Revised), which becomes mandatory for the Group in its 2014 accounts, the interest charge on retirement benefit liabilities and the expected return on pension plan assets will be replaced by a net interest income or expense on net defined benefit assets or liabilities based on high-quality corporate bond rates. We are monitoring the potential impact, which is likely to be an increase in our reported net finance costs. While the volatility of reported net finance costs is expected to increase, adjusted net finance costs will be unaffected. We do not expect the effect on the net assets of the Group to be material. IFRS 11 will become mandatory for the Group in its 2015 accounts and will require the Group to equity account for its joint ventures which are currently proportionately consolidated. It is not expected to have a material effect on the results or net assets of the Group.

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

2 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

£ million unless otherwise indicated	**6 months ended 31 March 2013**	6 months ended 31 March 2012	Year ended 30 September 2012
Revenue	**9,886**	10,300	21,161
Net revenue	**3,284**	3,388	7,005
Operating profit	**1,185**	1,309	1,447
Adjusted operating profit	**1,359**	1,456	2,989
Adjusted operating margin %	**41.4**	43.0	42.7

Logistics

£ million unless otherwise indicated	**6 months ended 31 March 2013**	6 months ended 31 March 2012	Year ended 30 September 2012
Revenue	**3,928**	4,146	8,368
Distribution fees	**413**	439	872
Operating profit	**24**	29	75
Adjusted operating profit	**74**	76	176
Adjusted distribution margin %	**17.9**	17.3	20.2

Revenue

	6 months ended 31 March 2013		6 months ended 31 March 2012		Year ended 30 September 2012	
£ million	**Total revenue**	**External revenue**	Total revenue	External revenue	Total revenue	External revenue
Tobacco						
UK	**2,486**	**2,486**	2,726	2,726	5,390	5,390
Germany	**1,910**	**1,910**	1,884	1,884	3,931	3,931
Spain	**212**	**18**	239	16	470	32
Rest of European Union	**2,347**	**2,103**	2,472	2,211	5,015	4,498
Americas	**479**	**479**	542	542	1,223	1,223
Rest of the World	**2,452**	**2,452**	2,437	2,437	5,132	5,132
Total Tobacco	**9,886**	**9,448**	10,300	9,816	21,161	20,206
Logistics	**3,928**	**3,928**	4,146	4,146	8,368	8,368
Eliminations	**(438)**	**-**	(484)	-	(955)	-
Total Group	**13,376**	**13,376**	13,962	13,962	28,574	28,574

Tobacco net revenue

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
UK	467	469	936
Germany	417	410	861
Spain	212	239	470
Rest of European Union	718	764	1,534
Americas	260	294	660
Rest of the World	1,210	1,212	2,544
Total Tobacco	3,284	3,388	7,005

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £97million (2012 6 months: £140 million, year: £254 million).

Adjusted operating profit and reconciliation to profit before tax

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Tobacco			
UK	325	307	627
Germany	214	216	448
Spain	87	106	202
Rest of European Union	284	321	626
Americas	58	84	214
Rest of the World	391	422	872
Total Tobacco	1,359	1,456	2,989
Logistics	74	76	176
Eliminations	(8)	(8)	(4)
Adjusted operating profit	1,425	1,524	3,161
Acquisition accounting adjustments - Tobacco	-	10	10
Amortisation of acquired intangibles - Tobacco	(143)	(147)	(283)
Amortisation of acquired intangibles - Logistics	(41)	(43)	(82)
Impairment of acquired intangibles - Tobacco	-	-	(1,187)
Restructuring costs - Tobacco	(31)	(10)	(82)
Restructuring costs - Logistics	(9)	(4)	(19)
Operating profit	1,201	1,330	1,518
Net finance costs	(352)	(222)	(437)
Profit before tax	849	1,108	1,081

3 Net Finance Costs

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Interest on bank deposits	(4)	(9)	(15)
Expected return on retirement benefit assets	(83)	(84)	(168)
Fair value gains on derivative financial instruments providing commercial hedges	(372)	(245)	(761)
Fair value gains on derivative financial instruments hedging underlying borrowings	(14)	(4)	-
Exchange gains on financing activities	-	(19)	(92)
Investment income	(473)	(361)	(1,036)
Interest on bank and other loans	267	285	550
Interest on retirement benefit liabilities	84	94	187
Unwind of discount on redundancy and social plans	1	4	8
Fair value losses on derivative financial instruments providing commercial hedges	343	200	723
Fair value losses on derivative financial instruments hedging underlying borrowings	-	-	5
Exchange losses on financing activities	130	-	-
Finance costs	825	583	1,473
Net finance costs	352	222	437

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Reported net finance costs	352	222	437
Fair value gains on derivative financial instruments providing commercial hedges	372	245	761
Fair value losses on derivative financial instruments providing commercial hedges	(343)	(200)	(723)
Fair value gains on derivative financial instruments hedging underlying borrowings	14	4	-
Fair value losses on derivative financial instruments hedging underlying borrowings	-	-	(5)
Exchange (losses)/gains on financing activities	(130)	19	92
Net fair value and exchange (losses)/gains on financial instruments providing commercial hedges	(87)	68	125
Expected return on retirement benefit assets	83	84	168
Interest on retirement benefit liabilities	(84)	(94)	(187)
Unwind of discount on redundancy and social plans	(1)	(4)	(8)
Post-employment benefit net financing cost	(2)	(14)	(27)
Adjusted net finance costs	263	276	535

4 Taxation

Reported taxation

Reported tax for the six months ended 31 March 2013 has been calculated on the basis of an estimated effective rate for the year ended 30 September 2013.

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Total tax charged to the consolidated income statement	213	272	382

The change in UK Corporation tax rate to 23 per cent from 1 April 2013 does not have a material impact on the Group's tax position.

During the year ended 30 September 2012 certain outstanding matters were resolved with tax authorities. The reported tax charge for that period includes a release of £137 million of tax provisions following resolution of these matters (outside of changes in estimates in the normal course of business). This significant one-off tax provision credit 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

Adjusted taxation for the six months ended 31 March 2013 has been calculated on the basis of an estimated adjusted effective rate of 23.0 per cent for the year ended 30 September 2013. The actual adjusted effective rates for the six months ended 31 March 2012 and the year ended 30 September 2012 were 24.5 per cent and 23.0 per cent respectively.

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 6.

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Reported taxation	213	272	382
Tax on acquisition accounting adjustments	-	(1)	(1)
Deferred tax on amortisation of acquired intangibles	36	34	69
Tax on net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	5	(9)	(21)
Tax on post-employment benefits net financing cost	1	5	9
Tax on restructuring costs	12	5	29
Tax provisions released	-	-	137
Adjusted tax charge	267	306	604

5 Dividends

Dividend per share in respect of financial year

Pence	2013	2012	2011
Interim	35.2	31.7	28.1
Final	-	73.9	67.0
Total	35.2	105.6	95.1

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 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Final dividend paid in the period in respect of previous financial year	724	669	669
Interim dividend	-	-	314
	724	669	983

The declared interim dividend for 2013 amounts to a total dividend of £343 million based on the number of shares ranking for dividend at 31 March 2013.

6 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.

£ million	6 months ended 31 March 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Earnings: basic and diluted	625	826	678
Millions of shares			
Weighted average number of shares:			
Shares for basic earnings per share	979.6	1,000.8	995.4
Potentially dilutive share options	2.5	2.4	2.9
Shares for diluted earnings per share	982.1	1,003.2	998.3
Pence			
Basic earnings per share	63.8	82.5	68.1
Diluted earnings per share	63.6	82.3	67.9

Reconciliation from reported to adjusted earnings and earnings per share

	6 months ended 31 March 2013		6 months ended 31 March 2012		Year ended 30 September 2012	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	63.8	625	82.5	826	68.1	678
Acquisition accounting adjustments	-	-	(0.9)	(9)	(0.9)	(9)
Amortisation of acquired intangibles	15.1	148	15.6	156	29.7	296
Impairment of acquired intangibles	-	-	-	-	119.3	1,187
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	8.4	82	(5.9)	(59)	(10.4)	(104)
Post-employment benefits net financing cost	0.1	1	0.9	9	1.8	18
Restructuring costs	2.8	28	0.9	9	7.2	72
Tax provisions released	-	-	-	-	(13.8)	(137)
Adjusted	90.2	884	93.1	932	201.0	2,001
Adjusted diluted	90.0	884	92.9	932	200.4	2,001

7 Intangible Assets

During 2012, and particularly in the second half of the financial year, economic conditions in Spain deteriorated resulting in an impairment of £1.2 billion of the goodwill in our Spanish business. The Spanish economy has subsequently stabilised and there has been no indicator of further impairment in the six months ended 31 March 2013.

The 2012 year end impairment test for Americas indicated headroom of £100 million on a goodwill balance of £1,776 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 2012 year end impairment test for Americas to changes in assumptions, we have reviewed the appropriateness of the carrying value of our Americas intangible assets at 31 March 2013. In doing so we have reviewed our cash flow forecasts and also considered other factors such as growth rates, discount rate and other appropriate assumptions. The business remains in transition, but we are confident that our revised strategy focused on key growth states combined with further cost efficiencies will be reflected in improved performance. Taking account of all these factors, we have concluded that the carrying value of the Americas intangible assets included in our 31 March 2013 balance sheet is appropriate. We will conduct a further review in the second half of the year in line with our normal impairment review cycle.

8 Restructuring and Other Provisions

Restructuring costs

Restructuring costs in 2013 include continued costs from the integration of our US operations and further streamlining of our Logistics business unit. Costs in 2013 also include initial costs in respect of our cost optimisation programme as announced in January 2013.

The net charge for the six months ended 31 March 2013 of £40 million (2012: £14 million) included £3 million (2012: £17 million) of unused restructuring provisions reversed during the period and £18 million (2012: £3 million) of additional restructuring provisions. The remaining charge of £25 million (2012: £28 million) was recorded directly in the income statement as incurred.

Restructuring costs in 2012 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.

Provisions

£ million	Restructuring	Other	Total
At 1 October 2012	221	292	513
Additional provisions charged to the consolidated income statement	18	20	38
Unwind of discount on redundancy and social plan liabilities	1	-	1
Amounts used	(37)	(45)	(82)
Unused amounts reversed	(3)	(5)	(8)
Exchange movements	12	18	30
At 31 March 2013	212	280	492

Analysed as:

£ million	2013	2012
Current	96	103
Non-current	396	410
	492	513

Restructuring provisions at 31 March 2013 mainly relate to historic post-acquisition integration activity and are expected to be used over the next ten years as employee social plans are utilised.

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.

9 Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2012	631	(1,254)	(8,333)	(9)	(8,965)
Reallocations	-	(1,424)	1,424	-	-
Cash flow	(43)	(80)	(1,701)	(68)	(1,892)
Accretion of interest	-	(13)	119	-	106
Change in fair values	-	-	-	(103)	(103)
Exchange movements	61	(148)	(288)	-	(375)
At 31 March 2013	649	(2,919)	(8,779)	(180)	(11,229)

On 11 February 2013, £1,434 million was raised through the capital markets by the issuance of two US dollar denominated bonds: $1,250 million 2.05 per cent notes due 11 February 2018 and $1,000 million 3.50 per cent notes due 11 February 2023.

Current borrowings at 1 October 2012 include finance lease liabilities of £20 million, previously disclosed separately at 30 September 2012. These liabilities were settled in full on 15 February 2013.

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 2013	6 months ended 31 March 2012	Year ended 30 September 2012
Reported net debt	(11,229)	(10,297)	(8,965)
Accrued interest	181	229	287
Fair value of derivatives providing commercial hedges	51	124	(94)
Finance lease liabilities	-	22	20
Adjusted net debt	(10,997)	(9,922)	(8,752)

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. During the six months ended 31 March 2013 the Group purchased 12,346,000 shares (2012: 13,365,000 shares) at a cost of £295 million (2012: £321 million).

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 financial statements.

In August 2012 Imperial Tobacco Ukraine ('ITU') received a decision from the State Tax Service Department seeking to apply financial sanctions equivalent to approximately £87 million. The alleged violation is that ITU acted in contravention of the law on state regulation of production and circulation of alcohol and tobacco, by engaging in the wholesale trade of tobacco without the correct licence for the period from July 2011.

ITU filed an appeal against the decision in the Circuit Administrative Court in Kiev primarily on the basis that it has at all times held the correct licence to trade and does not engage in wholesale trade in tobacco from its branches. On 23 October 2012, the Circuit Administrative Court upheld ITU's appeal, and the State Tax Service Department's subsequent appeal to the Kiev Administrative Court of Appeal was dismissed on 26 February 2013.

The State Tax Service Department has since appealed this decision to the Superior Administrative Court of Ukraine and a decision is awaited. As a consequence of the first instance and appeal courts' decisions and on the basis of the advice ITU has received that it has a strong case on the legal arguments, the Group has not provided for any amount in the financial statements in respect of this matter.

13 Capital Expenditure and Commitments

In the six months ended 31 March 2013 capital expenditure on property, plant and equipment and intangible assets was £178 million (2012: £161 million). Property, plant and equipment and intangible assets with a net book value of £3 million (2012: £9 million) were disposed of during the period. Profit on disposal was £5 million (2012: nil). Commitments for capital expenditure contracted for, but not provided for, at 31 March 2013 were £142 million (2012: £151 million).