5 November 2013

Imperial Tobacco Group PLC
Preliminary Results for the 12 months ended 30 September 2013

Overview

- Significant transition progress: realigned footprint and optimised brand portfolio
- Robust performance: earnings per share up 6 per cent at constant currency
- Enhanced quality of growth, driven by Growth Brands and Growth Markets
    - Growth Brands: share up (+30bps); net revenue up 2 per cent
    - Growth Markets: share up (excluding Russia); net revenue +2%, profit +7%
    - Returns Markets: robust profit performance
- Cost optimisation initiatives deliver £30 million; on track for £300 million pa by 2018
- Strong cash conversion: 86%
- Full year dividend per share +10% to 116.4p; total of £1.6bn returned to shareholders in year

Overview - adjusted basis[1]	**Full Year 2013**	**Change**	**Change at Constant Currency**[3]	Full Year 2012
Growth Brand Volumes[2]	129bn	-2%		132bn
Tobacco net revenue	£7,007m	0%	-1%	£7,005m
Tobacco adjusted operating profit	£3,003m	0%	+1%	£2,989m
Logistics adjusted operating profit	£176m	0%	-2%	£176m
Total adjusted operating profit	£3,180m	+1%	+1%	£3,161m
Adjusted earnings per share	210.7p	+5%	+6%	201.0p
Full Year dividend per share	116.4p	+10%	+10%	105.6p

Alison Cooper, Chief Executive, said:

"Our focus on driving quality growth and transitioning the business has delivered another year of earnings growth and further strengthened our sustainability.

"Market conditions remain tough. We remain focused on maximising our long-term growth potential and in 2014 our priority is to continue transitioning the business: increasing investment behind our key brands and markets to drive quality growth; delivering our cost optimisation programme; and implementing our stock optimisation programme. A reasonable working assumption for 2014 therefore is modest growth in earnings per share at constant currency, with another strong dividend increase of at least 10%.

"Our actions in 2013 and over the coming year will provide us with a strong platform for growth in 2015 and beyond."

Overview - reported basis	**Full Year 2013**	**Change**	Full Year 2012
Revenue	£28,269m	-1%	£28,574m
Total Volumes[2]	317bn	-7%	341bn
Operating profit	£1,958m	29%	£1,518m
Basic earnings per share	96.2p	41%	68.1p
Impairment of intangible assets	-£580m	-51%	-£1,187m

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, fine cut tobacco, cigar and snus volumes.
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 or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the Company for current or future financial years will necessarily match or exceed the historical or published earnings per share of the Company.

This announcement 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 announcement 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 35,000 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 3427 1905
Participant code: 3260892

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

Replay Number: +44 (0)20 3427 0598
Access Code: 3260892

BUSINESS REVIEW

We delivered a robust performance in a challenging operating environment, reflecting the tremendous support we've received from our people across the business over the year; their focus and commitment has ensured that we delivered earnings growth and made significant progress with our strategic transition.

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

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

Creating Shareholder Value

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

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

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

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

Transition Progress: Growth Markets and Returns Markets

We've realigned our footprint into Growth Markets and Returns Markets and now manage markets based on the strategic role they play, rather than their geographic proximity.

Growth Markets are characterised by large profit and/or volume pools. We tend to have shares below 15 per cent and see considerable opportunities for share and profit growth over the long term. Our main Growth Markets include the USA and selected markets in the EU, Eastern Europe, Asia, and the Middle East. We measure the performance of our Growth Markets against share, volume and revenue metrics and our quality of growth by the progress our Growth Brands are making.

In Returns Markets we have relatively large shares, mostly above 15 per cent. Our objective is to maximise profit, whilst actively managing our market share. Our main Returns Markets include UK, Germany, and other markets in the EU, Australia, Eastern Europe and Africa. We measure the performance of our Returns Markets against share and revenue metrics and our quality of growth by the progress our Growth Brands are making.

This new approach enables us to better target resource and is improving the clarity of our growth focus across markets. We've aligned our sales teams around the world to this new market reclassification and now report our performance on this basis.

Transition Progress: Growth Brands and Specialist Brands

In optimising our portfolio we're enhancing our ability to deliver quality growth from our most important brands and products.

Our key strategic and focus brands have been grouped together and are now managed as Growth Brands. They are: Davidoff, Gauloises Blondes, JPS, West, Fine, News, USA Gold, Bastos, Lambert & Butler and Parker & Simpson. These are high quality brands with strong consumer appeal and, with the exception of the recently launched Parker & Simpson, established positions in key markets. We have successfully developed a number of these brands into total tobacco offerings, providing consumers with both cigarette and fine cut tobacco options. We're managing these brands to drive quality volume, share and revenue growth over the long-term. We measure the performance of our Growth Brands against volume, share and revenue metrics.

Our Specialist Brands consist of a range of cigarette, fine cut tobaccos, papers, cigars and smokeless tobacco brands. Specialist Brands have strong positions in their own categories and appeal to specific consumer groups. They are: Style, Gitanes (cigarettes), Golden Virginia, Drum, Route 66 (fine cut tobacco), Cohiba, Montecristo, Romeo Y Julieta (premium cigars), Backwoods (cigars), Skruf (snus) and Rizla (papers). These brands generate strong returns and we measure their performance against revenue metrics.

The rest of our portfolio consists of local and regional brands that fulfil a variety of roles. Some of these brands have the capacity to continue adding to our revenue momentum; others will add greater value by being migrated into Growth Brands and we will be progressing a number of brand migrations in the coming year.

Transition Progress: Cost Optimisation

Portfolio optimisation drives product cost and complexity reductions which is a core element of our five year cost programme that we announced at the beginning of the year, aligned with our strategic transition agenda; we will achieve savings of £300 million per annum from September 2018.

£30 million was realised in 2013 and we're making good progress on key cost initiatives for the current financial year. These include further optimising product costs, refining our operating model, driving operational efficiencies and realising global procurement benefits.

2013 Performance Overview: Growth Brands Outperforming Market

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

Overall we increased the market share of our Growth Brands and grew revenues by 2 per cent, which further reflects the quality of growth we're generating. Growth Brands accounted for 41 per cent of total volumes, an increase of 200 basis points, and 39 per cent of our tobacco net revenue, an increase of 100 basis points.

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

JPS was our star performing brand, making volume gains in many markets including several in the EU against a backdrop of weak industry volumes. This highlights the total tobacco strength of JPS and its growing popularity with value-seeking consumers.
Davidoff and Gauloises Blondes delivered some good results in a broad spread of markets, including Russia, Turkey, Greece, Germany and Algeria.

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

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

2013 Performance Overview: Specialist Brands Increasing Revenues

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

In cigarette, Style is performing well in Russia and Ukraine, and Gitanes is delivering strong growth in Iraq. In fine cut tobacco and papers, contributions from Golden Virginia, Drum, Route 66 and Rizla in a number of markets continued to underpin our world leadership in these categories.
Our premium cigars, led by Cohiba, Montecristo and Romeo Y Julieta, performed particularly well in Growth Markets and our cigar brand Backwoods generated significant revenue growth. Further gains from Skruf were behind another successful year for our dynamic snus business.

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

2013 Performance Overview: Good Progress in Growth Markets
Economic pressures persist in a number of Growth Markets but market volumes have been resilient in the year, with the exception of Russia which has been impacted by adverse regulatory and excise changes.

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

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

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

2013 Performance Overview: Resilient Results in Returns Markets
We divide our Returns Markets into Returns Markets South and Returns Markets North in order to better manage these significant profit pools.

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

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

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

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

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

2013 Performance Overview: Logistics
Our logistics business is one of the largest of its kind in Europe, with a unique network that is difficult to replicate. The business focuses on providing excellent service to tobacco and non-tobacco customers, making around 40 million deliveries every year, and has consistently delivered a robust performance in challenging economic conditions.

Against a backdrop of weak industry tobacco volumes, distribution fees declined by 5 per cent to £850 million and adjusted operating profit was down by 2 per cent to £176 million. Excluding the impact of the timing of a VAT increase in Italy, adjusted operating profit increased by 2 per cent.
In tobacco logistics, cost saving initiatives and fee increases helped mitigate the impact of tobacco declines. In non-tobacco logistics we continue growing sales in our direct delivery pharma business and lottery business, and made further efficiency gains in our transport business. Our wholesale business also performed well and our publications business is benefiting from a restructuring in Spain and divestment in Portugal.

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

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

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

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

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

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

Maximising Returns
The strong 10 per cent dividend increase we delivered is in line with our commitment to grow dividends ahead of adjusted earnings by a minimum of 10 per cent a year over the medium term.

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

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

Strengthening Senior Management
In recent months we were delighted to welcome two new members to the executive team: Peter Corijn as Group Marketing Director and Oliver Tant as Finance Director.

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

Oliver takes over from Bob Dyrbus today; Bob is retiring at the end of 2013 and he leaves with our sincere thanks for the huge contribution he's made to our success over the years.

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

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

2014 Priorities
Transitioning the business and building momentum behind our quality growth agenda are our priorities for the coming year. Further embedding our new footprint structure and optimising our portfolio will strengthen our ability to capitalise on growth opportunities.

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

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

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

Operational Performance: Tobacco

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

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

Our Growth Markets have large profit and/or volume pools and include selected markets in the EU, Eastern Europe, Asia, the Middle East and the USA. We typically have shares below 15 per cent in these markets and focus on driving long-term share and profit growth.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

Percentage growth figures for our adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

Revenue Performance

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

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

Group Earnings Performance

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

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

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

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

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

Group Results – Constant Currency Analysis

£ million unless otherwise indicated	2012	Foreign Exchange	**Constant currency growth**	**2013**	**Change**	**Constant Currency change**
Tobacco net revenue	7,005	86	**(84)**	**7,007**	**-**	**-1%**
Growth Markets net revenue	2,192	26	**36**	**2,254**	**+3%**	**+2%**
Returns Markets North net revenue	2,924	23	**(18)**	**2,929**	**-**	**-1%**
Returns Markets South net revenue	1,889	37	**(102)**	**1,824**	**-3%**	**-5%**

Tobacco adjusted operating profit	2,989	(17)	**31**	**3,003**	**-**	**+1%**
Growth Markets adjusted operating profit	633	(10)	**45**	**668**	**+6%**	**+7%**
Returns Markets North adjusted operating profit	1,502	(11)	**52**	**1,543**	**+3%**	**+3%**
Returns Markets South adjusted operating profit	854	4	**(66)**	**792**	**-7%**	**-8%**
Logistics distribution fees	872	18	**(40)**	**850**	**-3%**	**-5%**
Logistics adjusted operating profit	176	4	**(4)**	**176**	**-**	**-2%**
Adjusted operating profit	3,161	(13)	**32**	**3,180**	**+1%**	**+1%**
Adjusted net finance costs	(535)	(8)	**11**	**(532)**	**+1%**	**+2%**
Adjusted EPS	201.0p	(1.6)p	**11.3p**	**210.7p**	**+5%**	**+6%**

Reconciliation of Adjusted Performance Measures

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

Adjusting Items

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

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

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

Spanish Intangibles

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

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

Net Finance Costs

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

Cash Flows and Financing

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

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

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

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

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

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

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

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

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

In performing its review the Board acknowledged the current market conditions 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 approximately £1.0 billion of bonds maturing in November 2013 and has already arranged committed financing to repay these at maturity; and has a further £0.6 billion maturing in September 2014.The Group plans its financing in a structured and proactive manner and remains confident that sources of financing will be available when needed.

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.

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

Consolidated Statement of Comprehensive Income
for the year ended 30 September

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

Reconciliation from operating profit to adjusted operating profit

£ million	Notes	**2013**	**2012**

Operating profit		1,958	1,518
Acquisition accounting adjustments		-	(10)
Amortisation of acquired intangibles		372	365
Impairment of acquired intangibles	2	580	1,187
Restructuring costs	3	270	101
Adjusted operating profit		3,180	3,161

Reconciliation from net finance costs to adjusted net finance costs

£ million	Notes	**2013**	**2012**
Net finance costs		(697)	(437)
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	4	156	(125)
Post-employment benefits net financing cost	4	9	27
Adjusted net finance costs		(532)	(535)

Consolidated Balance Sheet
at 30 September

£ million	Notes	**2013**	**2012**
Non-current assets			
Intangible assets		17,382	17,609
Property, plant and equipment		2,080	2,025
Investments in associates		17	16
Retirement benefit assets		1	-
Trade and other receivables		85	98
Derivative financial instruments	8	312	636
Deferred tax assets		153	142
		20,030	20,526
Current assets			
Inventories		3,296	3,132
Trade and other receivables		2,966	3,029
Current tax assets		72	55
Cash and cash equivalents	8	1,809	631
Derivative financial instruments	8	245	266
		8,388	7,113
Total assets		28,418	27,639
Current liabilities			
Borrowings	8	(3,276)	(1,254)
Derivative financial instruments	8	(219)	(182)
Trade and other payables		(7,354)	(7,231)
Current tax liabilities		(141)	(372)
Provisions		(92)	(103)
		(11,082)	(9,142)
Non-current liabilities			
Borrowings	8	(7,858)	(8,333)
Derivative financial instruments	8	(531)	(729)
Trade and other payables		(17)	(18)
Deferred tax liabilities		(1,820)	(1,877)
Retirement benefit liabilities		(1,055)	(1,046)
Provisions		(407)	(410)
		(11,688)	(12,413)
Total liabilities		(22,770)	(21,555)
Net assets		5,648	6,084

Equity			
Share capital		107	107

Share premium	5,833	5,833
Retained earnings	(795)	(150)
Exchange translation reserve	447	245
Equity attributable to owners of the parent	5,592	6,035
Non-controlling interests	56	49
Total equity	5,648	6,084

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 2012	107	5,833	(150)	245	6,035	49	6,084
Profit for the year	-	-	937	-	937	24	961
Exchange movements	-	-	-	162	162	2	164
Current tax on exchange movements	-	-	-	40	40	-	40
Net actuarial losses on retirement benefits	-	-	(3)	-	(3)	-	(3)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	(32)	-	(32)	-	(32)
Other comprehensive income	-	-	(35)	202	167	2	169
Total comprehensive income	-	-	902	202	1,104	26	1,130
Transactions with owners							
Cash from employees on maturity/ exercise of share schemes	-	-	6	-	6	-	6
Purchase of shares by Employee Share Ownership Trusts	-	-	(4)	-	(4)	-	(4)
Costs of employees' services compensated by share schemes	-	-	14	-	14	-	14
Current tax on share-based payments	-	-	2	-	2	-	2
Increase in own shares held as treasury shares	-	-	(500)	-	(500)	-	(500)
Dividends paid	-	-	(1,065)	-	(1,065)	(19)	(1,084)
At 30 September 2013	**107**	**5,833**	**(795)**	**447**	**5,592**	**56**	**5,648**
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 interest	-	-	5		5	(5)	-
Increase in own shares held as treasury shares	-	-	(528)	-	(528)	-	(528)

Dividends paid	-	-	(983)	-	(983)	(19)	(1,002)
At 30 September 2012	107	5,833	(150)	245	6,035	49	6,084

Consolidated Cash Flow Statement
for the year ended 30 September

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

Notes to the Financial Statements

1. Segment Information

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

During 2013 we reorganised the Tobacco business to manage our footprint based on the strategic role of groups of markets rather than their geographic proximity, with Divisions focused on prioritising growth or returns. Returns markets are typically mature markets where we have relatively large market shares and our objective is to maximise returns over the long term by growing profits while actively managing market share. Growth markets are mainly large profit or volume pools where we typically have shares below 15% and where our total tobacco approach provides many opportunities for share and profit growth both now and in the future.

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

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive. Our reportable segments are Returns Markets North, Returns Markets South, Growth Markets (which includes our Cuban joint ventures and Fontem) and Logistics. Prevailing market characteristics such as maturity, excise structure and the breadth of the distribution networks determine the allocation of Returns Markets between Returns Markets North and Returns Markets South.

The main tobacco business markets in each of the new reportable segments are:

Returns Markets North - Australia, Belgium, Germany, Netherlands, Poland, United Kingdom

Returns Markets South - France, Spain and African markets including Algeria, Morocco

Growth Markets - Iraq, Norway, Russia, Saudi Arabia, Taiwan, United States of America

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

Tobacco

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

Logistics

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

New segments - revenue

	2013	**2012**

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

New segments - tobacco net revenue

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

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

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

Former segments - revenue

	2013		2012	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
UK	5,007	5,007	5,390	5,390
Germany	4,105	4,105	3,931	3,931
Spain	435	35	470	32
Rest of European Union	4,933	4,433	5,015	4,498
Americas	1,162	1,162	1,223	1,223
Rest of the World	5,239	5,239	5,132	5,132
Total Tobacco	20,881	19,981	21,161	20,206
Logistics	8,288	8,288	8,368	8,368
Eliminations	(900)	-	(955)	-
Total Group	28,269	28,269	28,574	28,574

Former segments - tobacco net revenue

£ million	2013	2012
UK	915	936
Germany	907	861
Spain	435	470
Rest of European Union	1,515	1,534
Americas	653	660

Rest of the World	2,582	2,544
Total Tobacco	7,007	7,005

Former segments - adjusted operating profit

£ million	**2013**	**2012**
Tobacco		
UK	623	627
Germany	475	448
Spain	178	202
Rest of European Union	625	626
Americas	219	214
Rest of the World	883	872
Total Tobacco	3,003	2,989
Logistics	176	176
Eliminations	1	(4)
Adjusted operating profit	3,180	3,161

2. Impairment of Acquired Intangibles

We have reviewed our forecasts for Spain and the carrying value of our Spanish intangible assets in the light of continued economic weakness and duty increases which have led to further legitimate market decline in Spain. Based on a revised short term growth rate of -6.5 per cent, our review indicated a further impairment of £580 million this year. This has reduced our Spanish goodwill by £225 million to nil, and our brand intangibles by £355 million to £815 million.

Further impairment of our Spanish intangible assets could result in the event of an increase in the discount rate, or a reduction in the initial or long-term growth rates, or a reduction in the value of overall cash flows. An increase of 50 basis points in the discount rate from 13.5 per cent would result in further impairment of £40 million, a reduction in the initial growth rate of 50 basis points in further impairment of £23 million, and a reduction of 50 basis points in the long-term growth rate in a further impairment of £25 million. A reduction of 5 per cent in overall cash flows as compared to those used in our impairment test would result in a further impairment of £58 million.

3. Restructuring Costs

£ million	**2013**	**2012**
Employment related	107	28
Asset impairments	83	43
Other charges	80	30
	270	101

In January 2013 we announced our cost optimisation programme, aligned to our strategy, with a target of generating annual savings of £300 million by 2018, and with an anticipated cash implementation cost in the region of £600 million. The programme includes major restructurings of a number of sales forces to align with our strategy, rationalisation of our manufacturing footprint, and aligning organisational structures and resource levels with future requirements. A number of initiatives have been delivered or are underway, already delivering savings of over £30 million in our 2013 results mostly in the second half, and we expect this figure to rise significantly in 2014. Cash outflows in 2013 for the programme were around £100 million. We additionally incurred non-cash charges of around £75 million for asset impairments mainly due to the closure of our facility in Cadiz, and charged provisions of around £50 million for actions taken which will result in cash outflows in future years. The overall charge for the year for restructuring costs under our cost optimisation programme was consequently around £225 million.

We made additional charges of around £45 million due to other restructuring activity which does not fall under our cost optimisation programme, mainly due to legacy projects and non-material disposals of non-core businesses, bringing our total restructuring costs for 2013 to £270 million (2012: £101 million).

The net charge for the year of £270 million (2012: £101 million) included £24 million (2012: £29 million) of unused provisions reversed during the year, £163 million (2012: £33 million) of additional restructuring provisions and £83 million (2012: £43 million) impairment of tangible assets. The remaining charge of £48 million (2012: £54 million) was charged directly to the consolidated income statement as incurred.

Restructuring costs of £101 million in 2012 included impairments of surplus properties in Spain, integration of our American businesses, manufacturing rationalisation in Europe and the streamlining of parts of our Logistics operations.

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

4. Net Finance Costs

£ million	**2013**	**2012**
Interest on bank deposits	(8)	(15)
Expected return on retirement benefit assets	(168)	(168)
Fair value gains on derivative financial instruments providing commercial hedges	(578)	(761)
Fair value gains on derivative financial instruments hedging underlying borrowings	(12)	-
Exchange gains on financing activities	-	(92)
Investment income	(766)	(1,036)
Interest on bank and other loans	540	550
Interest on retirement benefit liabilities	168	187
Unwind of discount on redundancy and other long term provisions	9	8
Fair value losses on derivative financial instruments providing commercial hedges	688	723
Fair value losses on derivative financial instruments hedging underlying borrowings	-	5
Exchange losses on financing activities	58	-
Finance costs	1,463	1,473
Net finance costs	697	437

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	**2013**	**2012**
Reported net finance costs	697	437
Fair value gains on derivative financial instruments providing commercial hedges	578	761
Fair value losses on derivative financial instruments providing commercial hedges	(688)	(723)
Exchange (losses)/gains on underlying borrowings	(58)	92
Fair value gains/(losses) on derivative financial instruments hedging underlying borrowings	12	(5)
Net fair value and exchange (losses)/gains on financial instruments providing commercial hedges	(156)	125
Expected return on retirement benefit assets	168	168
Interest on retirement benefit liabilities	(168)	(187)
Unwind of discount on redundancy and other long term provisions	(9)	(8)
Post-employment benefit net financing cost	(9)	(27)
Adjusted net finance costs	532	535

5. Taxation

Analysis of charge in the year

£ million	**2013**	**2012**
Current tax		
UK corporation tax at 23.5% (2012: 25%) being the average rate for the year	6	(112)
Overseas taxation	472	490
Total current tax	478	378
Deferred tax		
Origination and reversal of temporary differences	(178)	4
Total tax charged to the consolidated income statement	300	382

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

Reconciliation from reported taxation to adjusted taxation

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

£ million	**2013**	**2012**
Reported taxation	300	382
Tax on acquisition accounting adjustments	-	(1)
Deferred tax on amortisation of acquired intangibles	72	69
Deferred tax on impairment of acquired intangibles	107	-
Tax on net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	9	(21)
Tax on post-employment benefits net financing cost	5	9
Tax on restructuring costs	79	29
Tax provisions released	-	137
Adjusted tax charge	572	604

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate for the year of 23.5 per cent (2012: 25 per cent) as follows:

£ million	**2013**	**2012**
Profit before tax	1,261	1,081
Tax at the UK corporation tax rate of 23.5% (2012: 25%)	296	270
Tax effects of:		
Differences in effective tax rates on overseas earnings	(156)	(145)
Remeasurement of deferred tax balances	44	55
Permanent differences	51	45
Non-deductible goodwill impairment	67	296
Tax provisions released	-	(137)
Adjustments in respect of prior years	(2)	(2)
Total tax charged to the consolidated income statement	300	382

Movement on current tax account

£ million	**2013**	**2012**
At 1 October	(317)	(392)
Charged to the consolidated income statement	(478)	(378)
Credited to other comprehensive income	40	6
Credited to equity	2	1
Cash paid	686	442
Exchange movements	2	8
Other movements	(4)	(4)
At 30 September	(69)	(317)

6. Dividends

Dividend per share in respect of financial year

Pence	**2013**	**2012**	**2011**
Interim	35.2	31.7	28.1
Final	81.2	73.9	67.0
Total	116.4	105.6	95.1

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

Amounts recognised as distributions to ordinary equity holders in the year

£ million	2013	2012
Final dividend paid in the period in respect of previous financial year	724	669
Interim dividend	341	314
	1,065	983

The proposed final dividend for the year ended 30 September 2013 of 81.2 pence per share amounts to a proposed final dividend payment of £783 million based on the number of shares ranking for dividend at 30 September 2013, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2013 will be £1,124 million (2012: £1,043 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	2013	2012
Earnings: basic and diluted	937	678
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	973.9	995.4
Potentially dilutive share options	2.6	2.9
Shares for diluted earnings per share	976.5	998.3
Pence		
Basic earnings per share	96.2	68.1
Diluted earnings per share	96.0	67.9

Reconciliation from reported to adjusted earnings and earnings per share

	2013		2012	
£ million unless otherwise indicated	Earnings per share	Earnings	Earnings per share	Earnings
Reported basic	96.2p	937	68.1p	678
Acquisition accounting adjustments	-	-	(0.9)p	(9)
Amortisation of acquired intangibles	30.8p	300	29.7p	296
Impairment of acquired intangibles	48.6p	473	119.3p	1,187
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	15.1p	147	(10.4)p	(104)
Post-employment benefits net financing cost	0.4p	4	1.8p	18
Restructuring costs	19.6p	191	7.2p	72
Tax provisions released	-	-	(13.8)p	(137)
Adjusted	210.7p	2,052	201.0p	2,001
Adjusted diluted	210.1p	2,052	200.4p	2,001

8. 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:

	Cash and cash	Current	Non-current	Derivative financial

£ million	equivalents	borrowings	borrowings	instruments	Total
At 1 October 2012	631	(1,254)	(8,333)	(9)	(8,965)
Cash flow	1,323	7	(1,428)	28	(70)
Reallocate current borrowings from non-current borrowings	-	(2,108)	2,108	-	-
Accretion of interest	-	(62)	28	-	(34)
Change in fair values	-	-	-	(212)	(212)
Exchange movements	(145)	141	(233)	-	(237)
At 30 September 2013	1,809	(3,276)	(7,858)	(193)	(9,518)

Adjusted net debt

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

£ million	2013	2012
Reported net debt	(9,518)	(8,965)
Accrued interest	321	287
Fair value of derivatives providing commercial hedges	99	(94)
Finance lease liabilities	-	20
Adjusted net debt	(9,098)	(8,752)

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:

	2013			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments				
Gains arising on commercial hedges (note 4)	-	99	479	578
Losses arising on commercial hedges (note 4)	-	(99)	(589)	(688)
Gains offsetting underlying borrowings (note 4)	-	12	-	12
Losses arising on instruments designated as net investment hedges	(114)	-	-	(114)
Net fair value gains/(losses) on derivative financial instruments	(114)	12	(110)	(212)
Net fair value of derivatives 30 September 2012				(9)
Cash flows relating to derivative financial instruments				28
Net fair value of derivatives at 30 September 2013				(193)

9. 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 to the financial statements, 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 and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These costs include the impairment of property, plant and equipment which are surplus to requirements due to restructuring activity.

Post-Employment Benefits Net Financing Cost

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

Tax Provisions

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

Other Non-GAAP Measures Used by Management

Net Revenue

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

Distribution Fees

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

Adjusted Net Debt

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

Financial Calendar

Ex dividend date for final dividend	15 January 2014
Final dividend record date	17 January 2014
Final dividend payable	17 February 2014

By order of the Board

Alison Cooper	Robert Dyrbus
Chief Executive	Finance Director