



Imperial Tobacco Group PLC

Annual Report and Accounts 2015

WHO WE ARE

Our Business

We are an international fast-moving consumer goods company, focused on maximising opportunities for our brands and generating sustainable returns for our shareholders.

Our core business is built around a tobacco portfolio that offers a comprehensive range of cigarettes, fine cut and smokeless tobaccos, papers and cigars. Our tobacco operations include ITG Brands, a dynamic new company in the USA.

We are also creating new consumer experiences beyond tobacco through Fontem Ventures and adding to the breadth of our activities is Logista, one of the largest logistics businesses in Europe.

Through the consistent delivery of our strategy we have built a long track record of creating sustainable value for our shareholders.

Our Values

Our values express what we stand for and capture the individual and collective behaviours we expect from everyone who works for us.

Our people take pride in what they do, bringing our values to life every day to ensure we make the most of our opportunities for growth.



We enjoy



I am



We surprise



<p>Dividend Per Share</p> <hr/> <p>+10.1% 141.0p</p>	<p>Adjusted Earnings Per Share^{1,3}</p> <hr/> <p>+8.2% 212.5p</p>
<p>Tobacco Net Revenue^{1,3}</p> <hr/> <p>+3%² £6.3bn</p>	<p>Adjusted Operating Profit¹</p> <hr/> <p>+7% £3.1bn</p>
<p>Cash Conversion³</p> <hr/> <p>+590bps 97%</p>	<p>Growth Brand Volumes³</p> <hr/> <p>+7%² 145bn</p>
<p>Adjusted Net Debt (includes the £4.6 billion cost of the US acquisition)</p> <hr/> <p>+£3.5bn £11.6bn</p>	<p>Adjusted Net Debt Reduction (excludes the £4.6 billion cost of the US acquisition)</p> <hr/> <p>-13% £1.1bn</p>

1 Changes in our adjusted results are presented on a constant currency basis.
 2 Underlying change. See explanation in the Performance Measures table below.
 3 KPIs used as bonus and LTIP performance criteria for Executive Directors.
 See Remuneration Report on page 49 for more information.

Performance Measures

Measure	Explanation	Where used
Reported (GAAP)	Complies with International Financial Reporting Standards and the relevant legislation.	Throughout the report.
Adjusted (Non-GAAP)	Non-GAAP measures provide a useful comparison of performance from one period to the next. These measures are defined in the Accounting Policies on page 77.	Throughout the report.
Constant currency basis	Removes the effect of exchange rate movements on the translation of the results of our overseas operations.	Throughout the report.
Underlying change	Removes the impact on our growth rates of our 2014 stock optimisation programme in order to reflect management's estimate of the underlying performance before the one-off fall in sales arising from the reduction in excess stock held in distribution channels.	Throughout the report but only for volumes and tobacco net revenue.

STRATEGIC REPORT

OVERVIEW

Performance Highlights	1
How We Create Value	2
Our Brands and Markets	4
Chairman's Statement	6
Our Operating Environment	7

STRATEGY

Chief Executive's Review	8
Investing in the USA	10
Key Performance Indicators	12

PERFORMANCE

Operating Review	14
Financial Review	18
Corporate Responsibility	21
Risk Management	25
Principal Risks and Uncertainties	27

GOVERNANCE

Chairman's Introduction	31
Board of Directors	32
The Board and its Committees	34
Directors' Report	42
Directors' Remuneration Report	49

FINANCIAL STATEMENTS AND NOTES

Independent Auditors' Report	68
Consolidated Income Statement	74
Consolidated Statement of Comprehensive Income	75
Consolidated Balance Sheet	76
Consolidated Statement of Changes in Equity	77
Consolidated Cash Flow Statement	78
Notes to the Financial Statements	79
Independent Auditors' Report to the Members of Imperial Tobacco Group PLC	116
Imperial Tobacco Group PLC Balance Sheet	117
Notes to the Financial Statements of Imperial Tobacco Group PLC	118

SUPPLEMENTARY INFORMATION

Related Undertakings	121
Shareholder Information	131



For a more interactive experience visit:
www.imperial-tobacco.com

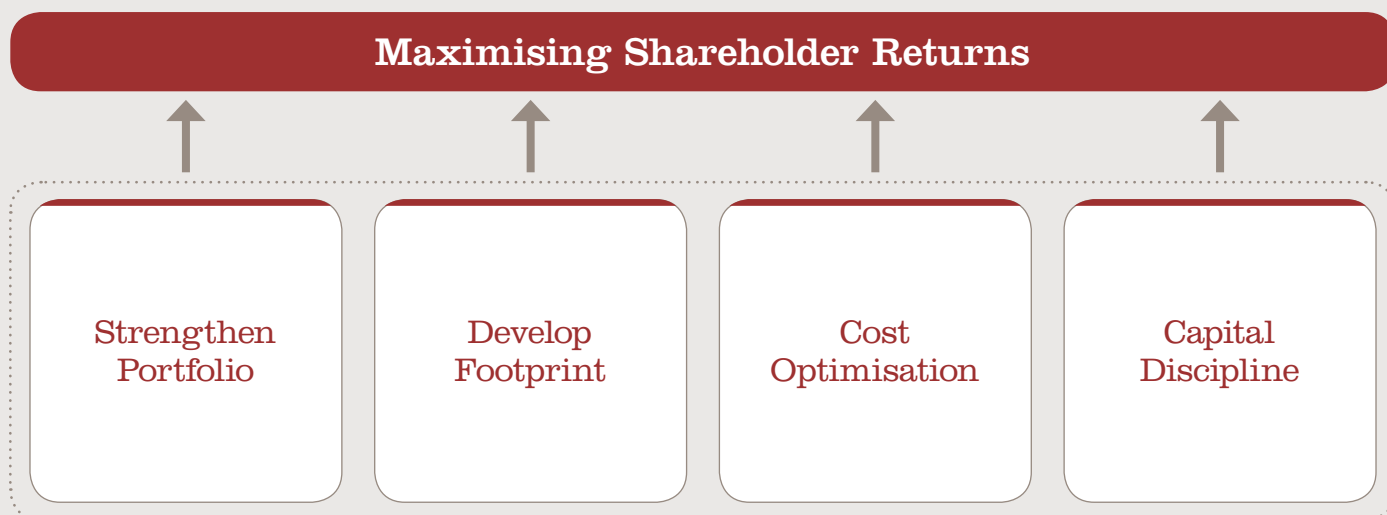


Keep up to date with our news via twitter @ImperialTobacco

Our Strategy and Business Model

Strategy

Our strategy aims to maximise sales, cost and cash opportunities to deliver sustainable returns to shareholders. We are strengthening our portfolio by building the contribution of our Growth and Specialist Brands, supported by new launches from Fontem Ventures, and a strategic focus on share and profit performance is central to the development of our geographic footprint. Our cost optimisation programme is improving efficiencies and by embedding stronger capital discipline we are more effectively managing working capital and achieving high cash conversion.



How we Support Growth

Strong Governance

High standards of governance are critical to our sustainability.

[Find out more on page 31](#)

Acting Responsibly

Operating responsibly is integral to the way we do business.

[Find out more on page 21](#)

Managing Risk

We actively identify, manage and mitigate the risks facing our business.

[Find out more on page 25](#)

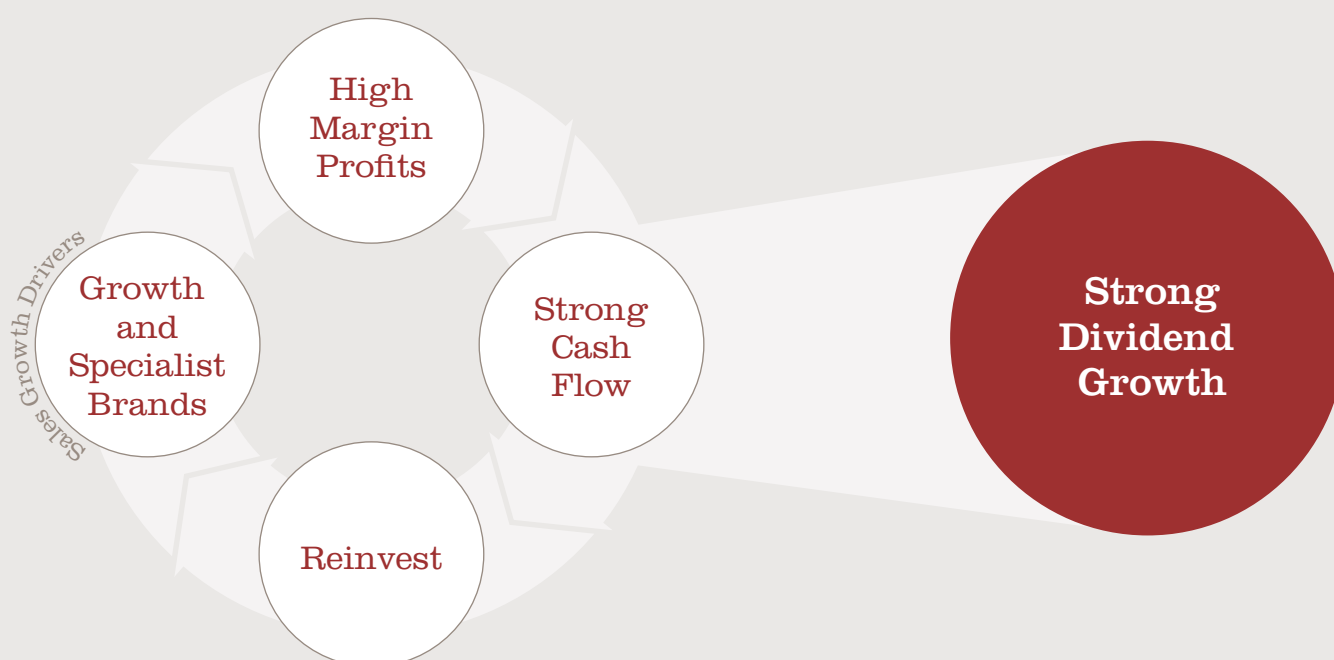
Rewarding Success

Our people are rewarded fairly and incentivised to deliver our sales strategy.

[Find out more on page 49](#)

Business Model

Our business model shows how we create value. We are improving the quality of our growth by driving the performance of our Growth and Specialist Brands, which combined with effective cost management, delivers high operating margins. This generates the strong cash flows that are a hallmark of our business. We use this cash to reinvest in the business, pay down debt or return to shareholders through dividends, which we are committed to growing by at least 10 per cent a year over the medium term.



Sales Growth Drivers

Portfolio management, innovation, customer engagement and pricing are the four sales growth drivers we have selected to drive the performance of our Growth and Specialist Brands.

Through portfolio management we focus on connecting our brands with consumers to enhance brand equity and build sales.

Our approach to innovation is to create a drumbeat of initiatives: small, frequent innovations that keep our brands relevant to consumers.

Excellence in customer engagement requires strong retailer partnerships. We work with retailers to support their business and maximise the availability and advocacy of our brands at the point of sale.

We evaluate pricing opportunities by brand, pack size and sales channel. We take excise structures into account when making pricing decisions and focus on maximising revenue growth while continuing to give consumers value for money.

Our Brands

We're optimising our portfolio to focus on our Growth and Specialist Brands. These are the most important brands in our portfolio and generate more than half our tobacco net revenue.

Growth Brands¹

Our Growth Brands have broad consumer appeal and account for 50.9 per cent of our total volumes. We manage our Growth Brands to drive quality sustainable growth.



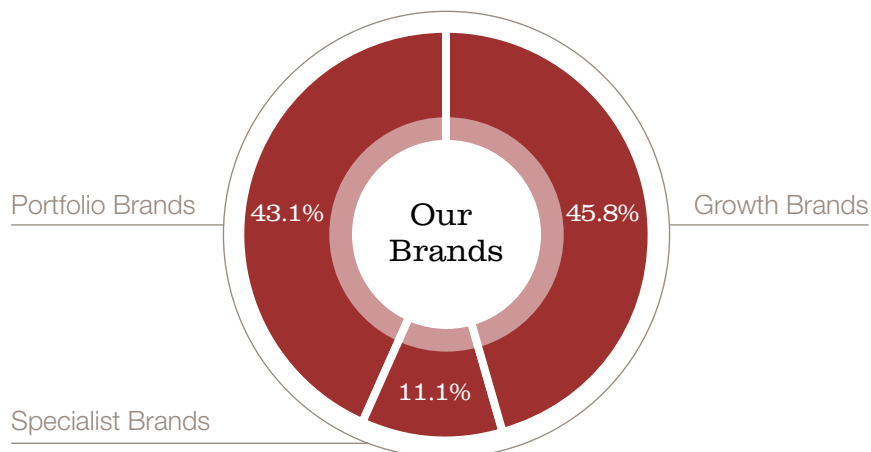
Specialist Brands¹

Our Specialist Brands are enjoyed by specific consumer groups and include cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. Specialist Brands have a track record of generating strong returns.



¹ As a result of the USA acquisition these brands have been reclassified, effective 1 October 2015. Details are on page 9.

Tobacco net revenue by brand



Our Markets

We manage our markets according to the strategic role they play, not by geographic location. Our markets prioritise either Growth or Returns, driving more effective resource allocation and greater collaboration.

Growth Markets

In Growth Markets, which include selected markets in the EU, Eastern Europe, Asia and the Middle East, our priority is to drive long-term share and profit growth.



USA Market

We manage the USA as a standalone Growth Market following an acquisition that has significantly enhanced our portfolio, market share and distribution coverage.

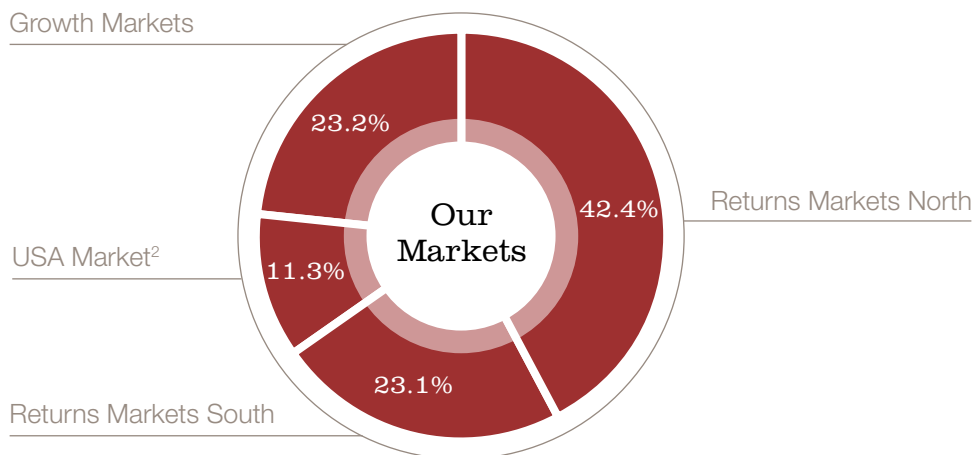


Returns Markets

In Returns Markets, which include Australia and markets in the EU, Eastern Europe and Africa, we focus on sustainable profit performance, while actively managing our strong share positions.



Tobacco net revenue by market



² Including a 3.9 per cent net contribution from ITG Brands since the completion of the acquisition on 12 June 2015.



Mark Williamson Chairman

We delivered another good performance in 2015, creating further sustainable value for our shareholders. This was achieved through the consistent execution of our strategy, which is focused on maximising sales, cost and cash opportunities.

Our performance highlights included gains from our Growth and Specialist Brands, strong results in a broad spread of markets and the completion of an acquisition that has transformed our presence in the USA, the world's most profitable tobacco market outside of China.

We also made excellent progress with our strategic transition initiatives, further optimising our portfolio and market footprint, implementing better ways of working and efficiently managing our cost base.

It is a credit to our people around the world that Imperial Tobacco continues to deliver such good results, often against a backdrop of difficult market conditions. My thanks to everyone for their contribution.

Growing Returns for Shareholders

Our success continues to generate sustainable returns for our shareholders.

On a constant currency basis tobacco net revenue was up by 4 per cent, adjusted operating profit was up by 7 per cent and we grew adjusted earnings per share by 8 per cent.

The Board is pleased to be recommending a total dividend for the year of 141.0 pence per share, another strong increase of 10 per cent.

Investing in the USA

In July 2014 we announced our intention to acquire a number of assets in the USA, one of our key Growth Markets. These assets were being sold as a result of the acquisition of Lorillard by Reynolds American and consisted of a portfolio of US cigarette brands, blu, a leading e-cigarette brand and Lorillard's infrastructure, including its cigarette factory and national sales force.

We successfully completed the transaction on 12 June 2015 for a consideration of \$7.1 billion (£4.6 billion) or \$5.6 billion (£3.6 billion) after adjusting for the present value of expected tax benefits of approximately \$1.5 billion.

The deal, which was financed from debt and our own cash resources, has significantly enhanced our operations in the USA providing national distribution for our brands and improving our cigarette market share from around 3 per cent to over 9 per cent.

The expanded business, ITG Brands, will significantly increase the diversity and sustainability of our cash flow and returns. The USA will become the largest contributor to Group revenues and as a result, we now disclose our USA performance as a separate reportable segment.

Capital Discipline

Our continued focus on embedding stronger capital discipline in the business was reflected in further improvements in cash conversion and debt reduction.

Cash conversion increased to 97 per cent, up from 91 per cent last year.

Adjusted net debt increased to £11.6 billion, the result of adding £4.6 billion for the USA acquisition. We reduced adjusted net debt in the existing business by £1.1 billion, building on the excellent progress we made in 2014 and taking the total reduction over the last two years to £2.1 billion.

A Responsible Business

We run our business responsibly and take pride in the positive contributions we make in countries across our international footprint. We respect the natural resources we use, provide employment for around 36,400 people and return over £16 billion a year to governments in taxes and duties.

Our corporate responsibility priorities are clearly set out in our responsibility framework and an update on the progress we're making in key areas can be found on pages 21 to 24 of this report and on our website: www.imperial-tobacco.com

Governance and the Board

Strong governance is integral to our long-term sustainability and the Board is committed to ensuring that Imperial Tobacco is governed and managed in an open, honest and transparent manner.

Our Governance Report provides an overview of our governance framework and the work of the Board and its Committees.

Following the completion of the USA acquisition we made a number of senior management changes to ensure that we have the right structure in place to lead the enlarged Group.

These changes included appointing Matthew Phillips, previously Corporate Affairs Director and a member of the Board for the past three years, as Chief Development Officer. In this new role, Matthew is responsible for corporate development and Fontem Ventures, including blu, and also retains his corporate and legal affairs responsibilities.

Building on our Success

We made good progress in 2015 and will continue to focus on strengthening the business and improving the quality of our growth.

We have the strategy, the capabilities and the people to build on these results and deliver another year of value creation for our shareholders.

Mark Williamson
Chairman

Our Operating Environment

Our Markets

Globally, there are around a billion adult smokers consuming 6 trillion cigarettes a year and the value of the world tobacco market is estimated at around £500 billion.

Our geographic footprint extends across many territories and we have classified our markets to prioritise either Growth or Returns.

Growth Markets have large profit and/or volume pools and include selected countries 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 growing share and profit.

We tend to have larger shares in Returns Markets, which include Australia and markets in the EU, Eastern Europe and Africa. Here, we focus on generating sustainable profit, while actively managing our share.

The macro-economic environment has impacted consumer spending and cigarette volumes in some markets, and political instability in the Near East has further affected industry volumes. However, we have a long track record of developing our business in challenging conditions and see many opportunities for growth across our market footprint.

Illicit Trade

Regrettably, some 500 billion illegal cigarettes are consumed every year, depriving governments of around £30 billion in legitimate taxes.

Smuggling and counterfeiting benefits no-one except the criminals involved, creating a market that is uncontrolled and unaccountable. As well as impacting government tax revenues, illicit trade means children can more easily obtain tobacco products, consumers are deprived of the quality and taste they associate with their favourite brands and the livelihoods of independent tobacco retailers are threatened.

We apply stringent controls to our global network of distributors and have a dedicated team of specialists who work with governments and law enforcement agencies around the world to tackle illicit trade. We also invest in systems and processes to improve the security of our products and share intelligence to help disrupt the supply of illegal cigarettes.

We welcome these partnership opportunities and through our engagement activities we encourage authorities to recognise both the scale of the illicit trade problem, as well as the adverse impact that excessive regulatory and taxation policies can have.

Regulating Tobacco Products

Regulation of tobacco products continues to increase and is largely driven by the World Health Organization (WHO), through the Framework Convention on Tobacco Control, the FCTC), the USA's Food and Drug Administration (FDA) and the European Commission (through the European Union Tobacco Products Directive, the EUTPD).

The EUTPD has been revised to include legislation to standardise the appearance and taste of tobacco products. The revised Directive came into force in May 2014 and EU Member States have until May 2016 to transpose it into national law.

We support reasonable and proportionate regulation that is underpinned by sound evidence, including regulation that will reduce illicit trade and youth smoking. We also support appropriate ingredients disclosure and agree that all tobacco products should display written health warnings that are consistent with global public health messages.

We don't agree with regulation that bans smoking in public or private places. Other regulation that we oppose includes plain packaging, pictorial health warnings and bans on product display, vending and the use of descriptors.

We seek constructive dialogue with regulatory authorities and continue to vigorously oppose excessive regulation to protect our business and defend the rights of our consumers. We don't engage lightly in legal challenges but do so when we consider it is necessary, such as earlier this year when we filed a legal challenge to the UK Government's plain packaging legislation.

Extreme measures such as plain packaging are ineffective and fuel the growth of illicit trade. Since the introduction of plain packaging in Australia in December 2012 and subsequent high tax increases, long-term overall consumption trends have not been affected while both illicit trade and underage smoking have significantly increased.

Regulating E-vapour Products

The global market for e-vapour products (EVPs) continues to expand and there is growing consensus that these products may be less risky than smoking tobacco.

E-cigarettes are the most common EVPs and we are developing our own portfolio of brands through our standalone subsidiary Fontem Ventures.

The e-vapour sector requires a clear regulatory framework to govern the way these products are made and sold, and we continue to engage with stakeholders to support the development of effective legislation.

In the USA, the FDA has proposed to extend its authority to include the regulation of EVPs.

We do not make or sell heated tobacco products. Unlike EVPs, these products contain tobacco and in our view should therefore be regulated and taxed as conventional tobacco products.



Alison Cooper Chief Executive

This was another successful year for Imperial, one in which we delivered a good underlying performance and made further progress with our strategic transition.

I am particularly pleased with the results from our Growth and Specialist Brands. Our consistent focus on developing these brands continues to improve the contribution they make to the quality of the business and they now account for more than half of our tobacco net revenue.

From a footprint perspective, we've strengthened our delivery in Returns Markets and maintained positive momentum in many Growth Markets, including in the USA where we significantly expanded our operations with a major acquisition.

This investment, which saw Imperial acquire brands and other assets sold as a result of Reynolds American's purchase of Lorillard, was a key highlight of the year.

Our strategic transition remains on track and continues to revolve around optimising our brand portfolio and market footprint, implementing new ways of working and effectively managing cost and cash.

These initiatives are strengthening the business, improving our quality of growth and enhancing our ability to generate sustainable shareholder returns.

The underlying results disclosed in this report are adjusted to remove the impact on our growth rates of our 2014 stock optimisation programme, which reduced the level of stock held by distributors, impacting volume, revenue and profit. Underlying results provide a clearer view of our 2015 performance against last year's.

On a constant currency basis adjusted operating profit was up by 7 per cent and we grew adjusted earnings per share by 8 per cent.

Return on invested capital was 11 per cent and we delivered another strong dividend increase of 10 per cent.

Our detailed financial results are set out on pages 18-20.

Our Transition Agenda

The work we're doing to optimise our brand portfolio is at the core of our transition agenda.

Our portfolio consists of Growth, Specialist and Portfolio Brands. Growth and Specialist Brands are our most important brands and our priority is to build their equity and enhance the contribution they make to our success.

Portfolio Brands are a mix of local and regional offerings; some will keep adding to our volume and revenue momentum, while others are being delisted or migrated into stronger, higher quality Growth Brands.

Brand migrations are carefully planned and implemented gradually to ensure the highest possible number of consumers complete the journey from one brand to another.

We achieved consistently high consumer retention with the 21 brand migrations we completed in the year. A number of other migrations are currently underway and more will be progressed in 2016.

Managing fewer brands provides focus around the portfolio choices we make in markets and this is sharpening our focus on growth opportunities as we continue to develop our footprint.

Reducing complexity and streamlining the way we manage our brands and markets, combined with the changes we're making to our operating model, supports our cost and cash objectives.

The ongoing review of our operating model involves looking at how the business is run on a day-to-day basis and identifying areas where we can change systems, processes and structures to improve our performance.

For example, clusters of markets are starting to share support services such as HR, Finance and Corporate Affairs which is removing duplication and enabling more efficient resource allocation. Elsewhere, we are investing in new technologies to provide our sales teams with real time information about key customers.

Simplifying the way we work is also instilling a more cost-conscious culture in the business and provides opportunities for margin expansion.

Our focus on efficiently managing our cost base is balanced by our commitment to capital discipline and this drives the effective deployment of our cash, which we use to reinvest in the business, pay down debt and return to shareholders.

Our approach to building the capabilities and leadership skills of our employees is aligned with our strategic transition and we continue to invest in training and development to support their career progression.

The ability of our people to make things happen, often in challenging circumstances, has kept us on track throughout the year and I would like to thank them all for their hard work and commitment.

Our transition initiatives are creating a stronger, more agile organisation that's better equipped to respond to changing market and consumer dynamics.

Excellent Results from Growth Brands

Our Growth Brands are: Davidoff, Gauloises Blondes, JPS, West, Fine, News, USA Gold, Bastos, Lambert & Butler and Parker & Simpson.

These brands are clustered on five platforms, or 'brand chassis'. Brands that share the same chassis also share the same growth initiatives, including innovations and pack designs. This further reduces cost and complexity and enables greater consistency in the way we manage their performance.

Growth Brands continued to deliver excellent results and again outperformed the market, with underlying volumes up 7.1 per cent and underlying net revenue up 11.7 per cent. In contrast, market volumes in our geographic footprint declined by 3.5 per cent. Excluding Iraq and Syria, underlying Growth Brand volumes were up 13.9 per cent and net revenue was up by 14.9 per cent. We also grew the market share of Growth Brands by 110 basis points to 6.6 per cent.

Our total Group tobacco volumes for the year were 285.1 billion stick equivalents (2014: 294.4 billion), which includes five billion from ITG Brands in the USA since the acquisition was completed on 12 June 2015. On an underlying basis volumes declined by 5.6 per cent, over half of which was as a result of Iraq and Syria. Our total Group market share was broadly maintained at 13.3 per cent.

Growth Brands accounted for 50.9 per cent of total Group tobacco volumes (145.1 billion stick equivalents), an increase of 640 basis points, and 45.8 per cent of overall tobacco net revenue, an increase of 320 basis points.

Brand migrations supported these strong results, with Portfolio Brands successfully migrated into a range of Growth Brands including Parker & Simpson in Poland and Taiwan, JPS in Spain and the UK, West in Spain and News in France.

Investment also supported the performance of Growth Brands, including the roll out of new marketing campaigns for JPS, Davidoff and Gauloises Blondes.

Performance highlights included share and volume growth of JPS in Australia and the EU and Davidoff gains in Greece and Taiwan. Gauloises Blondes contributed to our success in Germany and continued to make progress in Algeria, although the impact of Iraq and Syria held back the brand's overall performance.

Momentum slowed for Bastos and Fine due to regulatory and pricing pressures but West grew share in Saudi Arabia and Japan, and USA Gold made further progress in key focus states.

We continued to focus on building the presence of Parker & Simpson in a number of markets and in the UK another good performance from Lambert & Butler Blue continued to strengthen the brand franchise.

Underlying Growth from Specialist Brands

Our Specialist Brands 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 account for over 11 per cent of our tobacco net revenue. As a result of Iraq and Syria, underlying net revenue from Specialist Brands was down by 0.7 per cent; excluding this impact, underlying net revenue increased by 2.9 per cent.

Performance highlights included further share and volume growth from Skruf in Scandinavia and growth in premium cigars in parts of Latin America and Europe, Africa and the Middle East, China and the USA. Limited editions continued to support cigar growth, including exclusive offerings from Montecristo to celebrate the brand's 80th anniversary.

Contributions from Golden Virginia, Drum, Route 66 and Rizla reinforced our world leadership in fine cut tobacco and papers, and included strong growth in modern variants of Golden Virginia in the UK and Greece.

As a result of the USA acquisition our Growth and Specialist Brands have been reclassified, effective 1 October 2015.

Winston has been added to Growth Brands, replacing USA Gold, which becomes a Portfolio Brand, and Kool and blu have joined our Specialist Brands.

Momentum in Growth Markets

Conditions in the Near East masked a number of good results in Growth Markets, where our overall market share was 6.1 per cent.

Underlying net revenue declined by 2.5 per cent and adjusted operating profit increased by 19.0 per cent. Excluding Iraq and Syria, underlying net revenue was up 4.5 per cent and adjusted operating profit was up 27.0 per cent.

Our performance in Russia improved in the year, buoyed by stronger pricing in the second half and gains from Maxim in the growing value segment. Snus sales increased in Norway and Sweden and we improved our cigarette share in Saudi Arabia.

We continued to build our position in Japan and Egypt and made further progress in Italy and Kazakhstan. Results in Vietnam were undermined by further growth in illicit trade following regulatory changes.

Underlying Growth Brand volumes were down 16.0 per cent at 46.5 billion stick equivalents, with the majority of the decline due to lower volumes in Iraq, Syria and Vietnam.

Excellent Progress in the USA

We completed the acquisition of assets in the USA from Reynolds American on 12 June and the enlarged business, ITG Brands, has made excellent progress against its commercial and integration plans.

Our financial performance was enhanced by the contribution of ITG Brands. In total, ITG Brands and our existing USA operations generated tobacco net revenue of £707 million, an increase of 39.4 per cent, and adjusted operating profit of £375 million, an increase of 47.2 per cent. Since completion, the net contribution of the acquisition to the USA performance was volumes of five billion stick equivalents and tobacco net revenue of £242 million.

The newly acquired brands maintained share and our national sales team has introduced new retail programmes to support the development of our enhanced portfolio.

Integration continues to be effectively managed, with all elements of the plan moving ahead smoothly in line with our timetable. The transfer of manufacturing machinery between Lorillard's factory in Greensboro and Reynolds American's site at Tobaccolville as part of a reciprocal manufacturing agreement is also progressing well.

Our cigarette business is complemented by a strong cigar position. Challenges persisted in the mass market cigar segment as a result of competitor discounting, impacting revenue.

Our premium cigar portfolio performed well and we implemented a restructuring of our distribution business JR Cigars to further strengthen our position in the premium segment.

Positive Performance in Returns Markets

We made positive progress in Returns Markets, generating good results in Australia, Germany, Czech Republic, Portugal, Ukraine and Algeria. This mitigated the impact of weaker trading conditions in France, Spain and Morocco.

A dynamic new business



ITG Brands is our dynamic new business in the USA, combining our former Commonwealth-Altadis operations with assets we bought from Reynolds American, following its acquisition of Lorillard.

These assets are: the American cigarette brands Winston, Maverick, Kool and Salem, the e-cigarette brand blu, which is now part of Fontem Ventures, a cigarette factory and most of Lorillard's employees.

The transaction has transformed our presence in this key Growth Market. Excluding China, the USA is the most profitable tobacco market in the world and the second largest by volume, at around 260 billion stick equivalents a year.

ITG Brands, now the third largest tobacco company in the market, is headquartered in Greensboro, North Carolina and led by Chief Executive David Taylor, former Chief Financial Officer of Lorillard.

With great brands and great people, we're confident of establishing ITG Brands as a winning business with a long-term future. Performance has been in line with our plans and we're making excellent progress with integration.

We're investing to support growth, with funds primarily targeted at Winston, the sixth largest cigarette brand in the market. Further investment is being allocated to Maverick, Kool and USA Gold.

Cigarette brands

	<p>The iconic Winston brand is one of the best-selling cigarettes in the US.</p>
	<p>Maverick is a leading value brand with strong positions in a number of key states.</p>
	<p>USA Gold is a popular value brand in the discount sector.</p>
	<p>Kool is one of America's most famous menthol cigarette brands.</p>
	<p>Salem is another prominent brand in the menthol category.</p>

Cigar brands

	<p>Dutch Masters is one of the most well-known natural wrapper cigars.</p>
	<p>Backwoods is a cigar famed for its unique style, taste and aroma.</p>

In the UK we continued to focus on stabilising the performance of our Growth Brands and further expanded our share in the growing sub-economy segment.

Net revenue per thousand stick equivalents increased 2.8 per cent on an underlying basis and adjusted operating profit was up by 1.3 per cent on a constant currency basis.

Growth Brands performed well, accounting for 50.9 per cent of net revenue, an increase of 770 basis points.

Our share across Returns Markets was similar to last year's, in line with our strategy for managing these markets.

Fontem Ventures

Following the USA acquisition Fontem Ventures has focused on integrating the blu team and consolidating its operations in the Netherlands and the USA.

Sales are currently focused on the USA, UK, Italy and France, four markets that between them account for around 80 per cent of the global e-vapour market.

The blu brand continues to gain traction in the UK and plans are being implemented to strengthen its position in the USA.

Fontem also continues to focus on developing and licensing a range of patented technologies.

Logista

Logista is one of the largest logistics businesses in Europe, making more than 35 million deliveries a year to 300,000 outlets across Spain, France, Italy, Portugal and Poland.

The business services tobacco and non-tobacco customers and has established a long track record of delivering sustainable value.

On a constant currency basis distribution fees were down 1 per cent to £749 million and adjusted operating profit increased by 2 per cent to £154 million.

Cost control measures and efficiency improvement programmes continued to mitigate the impact of tobacco volume declines in tobacco logistics. In non-tobacco logistics there was growth in the pharma and transport businesses.

The Logista team continues to focus on managing costs and generating new growth opportunities to drive the profitable development of the business.

Cost Optimisation

Our cost optimisation programme remains on track to save £300 million per annum from September 2018.

£85 million was realised in the year through a range of initiatives that are reducing complexity, driving operational efficiencies and securing further global procurement benefits.

Reducing complexity and implementing new ways of working through the ongoing refinement of our operating model enhances our ability to efficiently manage cost and provides opportunities to further develop our margins.

Capital Discipline

We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest in the business.

Our commitment to capital discipline underpins our focus on cash generation and the effective management of our working capital.

We increased cash conversion to 97 per cent, up from 91 per cent last year.

As a result of the USA acquisition adjusted net debt increased to £11.6 billion. We reduced adjusted net debt in the existing business by £1.1 billion, taking the total reduction over the last two years to £2.1 billion.

Dividend growth was again strong at 10 per cent and during the year we began quarterly dividend payments to provide shareholders with more regular cash returns.

Outlook

We delivered a good performance in 2015 and in the year ahead we will continue to focus on further strengthening the business and improving the quality of our growth.

Maintaining momentum behind our Growth and Specialist Brands and maximising opportunities for Fontem Ventures and blu are key priorities.

The diversity of our geographic footprint provides considerable opportunities for growth. We have large shares in Returns Markets and will concentrate on effectively managing these positions, while maximising profit delivery. In Growth Markets we expect a headwind from Iraq and Syria in the first half but see continued portfolio and pricing opportunities as we target share and profit growth.

Our expanded USA business has had an excellent first few months and we look forward to a full year's contribution from ITG Brands. The portfolio is performing in line with our plans and integration is progressing exceptionally well, providing a great platform to build on.

Cost optimisation and capital discipline underpin our growth strategy, enhancing our resilience, improving margins and releasing funds to invest in growth.

Looking to the year ahead, we expect first quarter volumes will continue to reflect the situation in Iraq and Syria as well as a strong comparator quarter for volumes last year, while first half revenue should benefit from stronger relative pricing. Overall, we are well placed to meet expectations for the coming year.

Challenges will persist in some markets but we have the assets and capabilities to further drive quality growth in this environment. We have the brands, the footprint and the people to make 2016 another successful year of value creation.



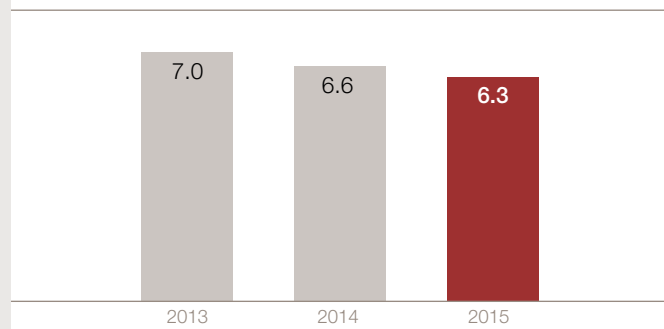
Alison Cooper
Chief Executive

How We Measure Our Performance

Key Performance Indicators

We use key performance indicators and the supporting metrics in the Operating Review to measure the progress we make in delivering our strategy. These measures reflect our priorities and are used to monitor and drive business performance.

Tobacco Net Revenue¹ (£bn)



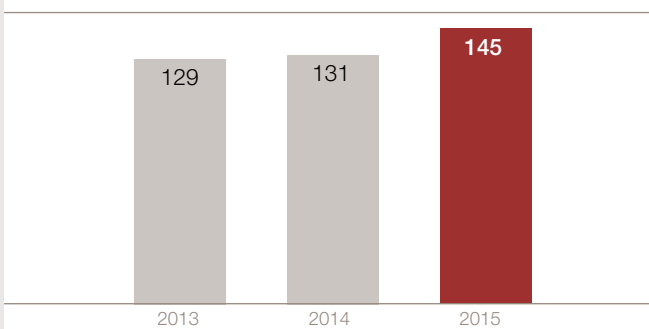
Performance

Tobacco net revenue was impacted by foreign exchange movements and conditions in Iraq and Syria. Excluding these effects, tobacco net revenue was up by 5 per cent.

Definition

Tobacco net revenue comprises tobacco revenue less duty and similar items, excluding peripheral products.

Growth Brand Volumes¹ (bn)



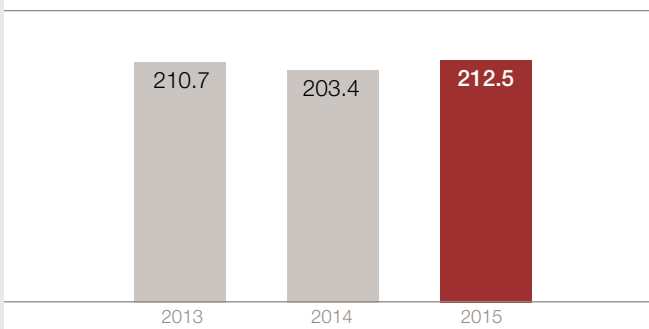
Performance

Our Growth Brands outperformed market trends, with underlying volumes up 7 per cent compared with market declines of 4 per cent. Excluding Iraq and Syria, volumes were up 14%.

Definition

Volumes are measured on a stick equivalent basis to reflect combined cigarette and fine cut tobacco volumes.

Adjusted Earnings Per Share¹ (pence)



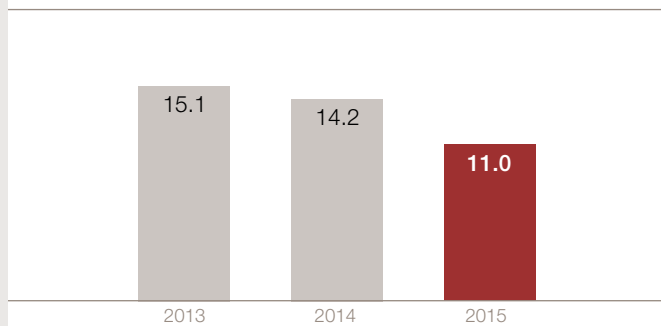
Performance

Reported adjusted earnings per share rose by 4 per cent. On a constant currency basis the increase was 8 per cent.

Definition

Adjusted earnings per share represents adjusted profit after tax attributable to the equity holders of the Company divided by the weighted average number of shares in issue during the period, excluding shares held to satisfy employee share plans and shares purchased by the Company and held as treasury shares.

Return on Invested Capital (%)



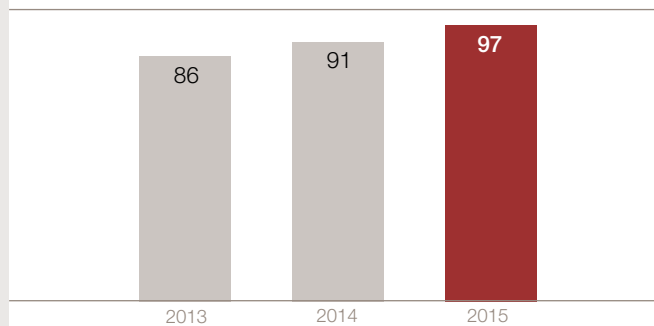
Performance

Return on Invested Capital (RoIC) declined due to the USA acquisition.

Definition

RoIC measures the effectiveness of capital allocation and is calculated by dividing adjusted net operating profit after tax by invested capital.

Cash Conversion Rate¹ (%)



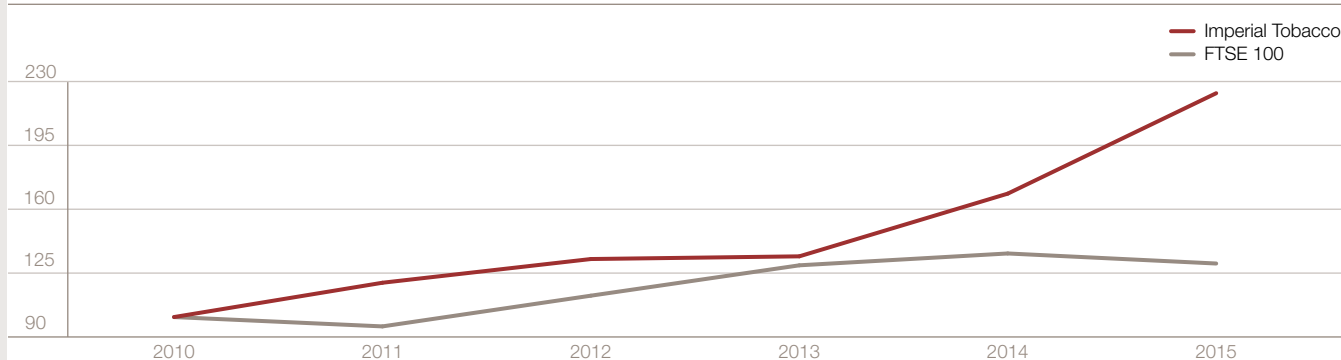
Performance

Our focus on cash generation and effective working capital management increased cash conversion to 97 per cent.

Definition

Cash conversion is calculated as cash flow from operations before interest and tax payments less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit.

Total Shareholder Return¹



Performance

In 2015 we outperformed the FTSE 100 Index by 95 per cent. With dividends reinvested, £100 invested in Imperial Tobacco five years ago would now be worth £224.60 compared with £129.80 if invested in the FTSE 100 Index.

Definition

Total shareholder return is the total investment gain to shareholders resulting from the movement in the share price and assuming dividends are immediately reinvested in shares.

¹ KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 49 for more information.

OPERATING REVIEW

We manage our markets based on the strategic roles they play, with markets prioritising Growth or Returns. Our portfolio priorities are focused on driving the performance of our Growth and Specialist Brands.

Brand Performances

Our Growth and Specialist Brands are the most important assets in our portfolio and together they account for 56.9 per cent of our tobacco net revenue, up 270 basis points. The rest of our portfolio consists of Portfolio Brands, local and regional brands that fulfil a variety of roles. Some add to our revenue momentum, while others will create more value by being migrated into Growth Brands.

Growth Brands

	Full Year Result		Change		
	2015	2014 ^R	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	6.6	5.5 ^R	+110bps		
Net revenue (£m)	2,862	2,736	+4.6%	+13.5%	+11.7%
Percentage of Group volumes	50.9	44.5	+640bps		
Percentage of tobacco net revenue	45.8	42.6	+320bps		

¹ See Performance Measures table on page 1. ^R See page 83 for details of restatements made to 2014 comparatives.

Growth Brands have broad consumer appeal. They generate a significant amount of our volume and revenue and our aim is to increase the contribution they make to the business.

Growth Brands outperformed the market in the year with underlying volumes growing 7.1 per cent, against a backdrop of market volume decline in our geographic footprint of 3.5 per cent. We improved the share of Growth Brands from 5.5 per cent to 6.6 per cent and increased underlying net revenue by 11.7 per cent.

Growth Brands accounted for 50.9 per cent of our total volumes, up from 44.5 per cent last year, and 45.8 per cent of tobacco net revenues, up from 42.6 per cent last year. Excluding Iraq and Syria, underlying Growth Brand volumes increased by 13.9 per cent and underlying net revenue increased by 14.9 per cent.

Specialist Brands

	Full Year Result		Change		
	2015	2014 ^R	Actual	Constant Currency ¹	Underlying ¹
Net revenue (£m)	693	743	-6.8%	0%	-0.7%
Percentage of tobacco net revenue	11.1	11.6	-50bps		

¹ See Performance Measures table on page 1. ^R See page 83 for details of restatements made to 2014 comparatives.

Specialist Brands appeal to specific consumer groups across the tobacco spectrum. Net revenue declined in the year, largely due to lower sales of Gitanes in Iraq and Syria. Excluding this impact, underlying net revenue was up 2.9 per cent.

Market Performances

We divide our footprint into Growth and Returns Markets. In Growth Markets we prioritise long-term share and profit growth and in Returns Markets the focus is on sustainable profit delivery and effective management of our strong share positions.

Growth Markets

	Full Year Result		Change		
	2015	2014 ^R	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	6.1	6.4	-30bps		
Tobacco net revenue (£m)	1,449	1,513	-4.2%	+4.2%	-2.5%
Adjusted operating profit (£m)	409	334	+22.3%	+19.0%	
Growth Brands % tobacco net revenue	47.0	47.9	-90bps		
Growth Brand volume (bn SE)	46.4	50.9	-8.9%		-16.0%

¹ See Performance Measures table on page 1. ^R See page 83 for details of restatements made to 2014 comparatives.

We continue to build good momentum across these territories, although results, particularly of our Growth Brands, were held back by the Near East. Against a backdrop of industry volume declines of 5.5 per cent in Growth Markets, underlying net revenue declined by 2.5 per cent. Adjusted operating profit increased by 19.0 per cent, reflecting the impact of last year's stock optimisation programme which reduced the level of stock held by distributors. Excluding Iraq and Syria, underlying net revenue was up 4.5 per cent and adjusted operating profit was up 27.0 per cent.

Country	Performance
Italy	We grew our cigarette share with JPS, supported by Davidoff which is available in key cities.
Greece	Revenue was up, with Davidoff performing well and increasing sales of Rizla, and we successfully completed the migration of Maxim into JPS.
Sweden and Norway	Volume, revenue, profit and share were all higher as we further built on our snus position with another excellent performance from Skruf, supported by gains from Knox.
Turkey	Our results were impacted by significant price competition and we implemented a restructuring programme to reduce costs and strengthen our performance.
Iraq and Syria	Volumes, largely of Growth Brands, declined considerably due to deteriorating conditions in territories where we have a high presence. Cost saving initiatives elsewhere in the Group offset the financial impact.
Saudi Arabia	Contributions from West, Davidoff and Gauloises Blondes enhanced our share in a growing cigarette market.
Egypt	We improved our cigarette share as we continued to build our presence with Davidoff and Parker & Simpson.
Japan	Positive progress was underpinned by cigarette share gains from West and a focus on developing long-term retailer partnerships.
Taiwan	Davidoff performed well, supported by our new marketing campaign, although our overall cigarette share was held back as a result of a decline in West following a price increase.
Vietnam	Regulatory changes and excise-driven price increases have significantly fuelled illicit trade, impacting our volume and share performance.
Cambodia	Price competition undermined the positive progress of Fine. In response we extended the brand franchise with the launch of Fine Blue to strengthen our position.
Russia	Portfolio initiatives and strong pricing have strengthened our delivery in this key market. We stabilised our share, with Maxim performing particularly well.
Kazakhstan	We improved our market share with contributions from West, Davidoff and Parker & Simpson.

USA Market

	Full Year Result		Change		
	2015	2014	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	9.5				
Tobacco net revenue (£m)	707	507	+39.4%	+30.0%	+39.4%
Adjusted operating profit (£m)	375	236	+58.9%	+47.2%	
Growth Brands % tobacco net revenue	13.7	22.0	-830bps		
Growth Brand volume (bn SE)	3.1	3.1	-1.7%		+10.1%

¹ See Performance Measures table on page 1.

Our enhanced revenue and profit performance reflects the contribution from ITG Brands since the completion of the acquisition of assets from Reynolds American on 12 June 2015. The table above reflects the combined performance of ITG Brands and our existing USA operations. The net contribution of the acquisition to the USA performance was tobacco net revenue of £242 million and volumes of five billion, increasing our total USA volumes to 13.2 billion.

The percentage of tobacco net revenue generated by Growth Brands declined, as a consequence of the larger post-acquisition portfolio.

The acquired cigarette brands – Winston, Salem, Kool and Maverick – performed well in the fourth quarter, maintaining stable market shares. In addition, USA Gold gained share in key focus states.

As a result of the USA acquisition our Growth and Specialist Brands have been reclassified, effective 1 October 2015. Winston has been added to Growth Brands, replacing USA Gold, which becomes a Portfolio Brand, and Kool has joined our Specialist Brands.

Our new portfolio strategy is primarily focused on growing Winston and Kool in the premium segment and Maverick and USA Gold in the discount segment, and the development of these brands is being supported by new retail merchandising programmes.

Competitor discounting impacted our mass market cigar performance and we are responding by strengthening the retail focus of the cigar business model and enhancing the consumer appeal of our key brands Dutch Masters and Backwoods.

Returns Markets

	Full Year Result		Change		
	2015	2014 ^R	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	26.2	26.4	-20bps		
Net revenue per '000 SE (£)	22.1	23.4	-5.7%	+2.8%	+2.8%
Adjusted operating profit (£m)	2,111	2,235	-5.5%	+1.3%	
Growth Brands % tobacco net revenue	50.9	43.2	+770bps		

¹ See Performance Measures table on page 1. R See page 83 for details of restatements made to 2014 comparatives.

We continue to make positive progress in Returns Markets, where we focus on maximising profit and broadly holding our share.

Against a backdrop of industry volume declines of 1.4 per cent, we grew adjusted operating profit by 1.3 per cent, with strong results in Returns North offsetting the impact of the weak operating environment in Returns South.

We grew net revenue per thousand stick equivalents by 2.8 per cent and our market share was 26.2 per cent. Growth Brands performed well, generating 50.9 per cent of tobacco net revenue, up by 770 basis points.

Returns Markets North

	Full Year Result		Change		
	2015	2014	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	25.0	24.8	+20bps		
Net revenue per '000 SE (£)	25.8	27.0	-4.7%	+3.6%	+3.7%
Adjusted operating profit (£m)	1,475	1,511	-2.4%	+4.0%	
Growth Brands % tobacco net revenue	53.6	46.7	+690bps		

¹ See Performance Measures table on page 1.

We achieved good results in Returns Markets North, increasing net revenue per thousand stick equivalents by 3.6 per cent and adjusted operating profit by 4.0 per cent. Growth Brands delivered 53.6 per cent of tobacco net revenue, up from 46.7 per cent, and we grew our market share by 20 basis points to 25 per cent.

Country	Performance
UK	We maintained our market leadership and extended our share in the growing sub-economy cigarette segment. The Lambert & Butler franchise benefited from the good performance of L&B Blue and Fontem Ventures continued to focus on building the presence of blu e-cigarettes.
Germany	Our overall market share was down slightly but both revenue and profit increased as we delivered another strong financial performance.
Benelux	We continued to extend our presence in the growing make-your-own category, although our overall share was down.
Australia	Another excellent performance from JPS, now the leading brand in the market, resulted in further revenue, profit and share growth.
New Zealand	Good results from JPS and West led to further improvements in our cigarette and fine cut tobacco shares.
Azerbaijan	We enhanced our market-leading position with further growth in our cigarette share.
Ukraine	A strong portfolio performance, including gains from the newly-launched Parker & Simpson, improved our cigarette share.

Returns Markets South

	Full Year Result		Change		
	2015	2014 ^R	Actual	Constant Currency ¹	Underlying ¹
Market share (%)	28.0	28.8	-80bps		
Net revenue per '000 SE (£)	17.5	19.0	-7.7%	+1.0%	+0.8%
Adjusted operating profit (£m)	636	724	-12.2%	-4.2%	
Growth Brands % tobacco net revenue	46.0	37.1	+890bps		

¹ See Performance Measures table on page 1. R See page 83 for details of restatements made to 2014 comparatives.

The impact of the weak operating environment in Spain, France and Morocco continued to hold back our overall results in Returns South, with Morocco in particular impacting our market share and profit performance. We made good progress in further building the contribution from our Growth Brands, with these brands generating 46.0 per cent of tobacco net revenue, up from 37.1 per cent last year.

Country	Performance
Spain	We improved our profit delivery against a background of slower industry volume declines and began the migration of Ducados to JPS.
France	We made gains in fine cut tobacco and strengthened our portfolio with the migration of Fortuna to News, although our overall share was down.
Portugal	Another strong performance from JPS was behind our market share gains.
Czech Republic	Our Growth Brands, particularly Parker & Simpson, performed well in a growing market and we increased revenue and profit.
Algeria	Our volumes and share increased following a good performance from Gauloises Blondes.
Ivory Coast	Our revenue performance benefitted from further gains from Fine.
Morocco	Conditions remained challenging, with excise-driven price increases impacting industry volumes and fuelling growth in illicit trade. Our share declined and we continued to focus on portfolio initiatives to strengthen our position.



Oliver Tant Chief Financial Officer

Effective cost and cash management supports our sales growth strategy. We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest to support growth. By focusing on cash generation and working capital we are embedding a stronger capital discipline in the business.

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide a useful comparison of performance from one period to the next. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures, which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies accompanying our financial statements, and reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements. Percentage growth figures for 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.

Another Year of Significant Progress

The progress we continue to make in simplifying our brand portfolio is improving execution and consistency in our markets. Reducing complexity and streamlining brand management is also a key part of the success we are achieving in managing our cost base, optimising working capital and controlling our cash flow. Results were affected by market size declines and by difficult trading caused by the conflict in Iraq and Syria. Strong price/mix and cost control initiatives mitigated these impacts. We completed the acquisition of assets in the USA on 12 June 2015. The net benefit to the Group results was an additional volume of five billion stick equivalents and £242 million of net revenue that is reported within the USA division, now separately disclosed within our results.

Underlying revenue and volume results remove the impact of last year's stock optimisation programme and give a clearer picture of how well we performed. Underlying tobacco net revenue was up by 3 per cent, or 5 per cent excluding Iraq and Syria. Net revenue in Returns Markets increased by 1 per cent. Growth Markets net revenue was up by 4 per cent excluding Iraq and Syria, or down 3 per cent with these markets included. The proportion of Group net revenue from our Growth Brands increased, improving the quality of our revenue and strengthening our sustainability. Total adjusted operating profit increased 7 per cent to £3 billion.

Group Results – Constant Currency Analysis

£ million unless otherwise indicated	Year ended 30 September 2014 ^R	Foreign Exchange	Constant currency growth	Year ended 30 September 2015	Change	Constant currency change ¹
Tobacco net revenue	6,421	(447)	277	6,251	-3%	+4%
Growth Markets net revenue	1,513	(128)	64	1,449	-4%	+4%
Returns Markets North net revenue	2,801	(230)	78	2,649	-5%	+3%
Returns Markets South net revenue	1,600	(137)	(17)	1,446	-10%	-1%
USA Division net revenue	507	48	152	707	+39%	+30%
Tobacco adjusted operating profit	2,805	(115)	205	2,895	+3%	+7%
Growth Markets adjusted operating profit	334	11	64	409	+22%	+19%
Returns Markets North adjusted operating profit	1,511	(96)	60	1,475	-2%	+4%
Returns Markets South adjusted operating profit	724	(58)	(30)	636	-12%	-4%
USA Division adjusted operating profit	236	28	111	375	+59%	+47%
Logistics distribution fees	838	(78)	(11)	749	-11%	-1%
Logistics adjusted operating profit	166	(16)	4	154	-7%	+2%
Adjusted operating profit	2,981	(131)	203	3,053	+2%	+7%
Adjusted net finance costs	(515)	36	12	(467)	+9%	+2%
Adjusted EPS	203.4p	(7.6p)	16.7p	212.5p	+4%	+8%

R Restated on adoption of IFRS 11.

1 See Performance Measures table on page 1.

Group Earnings Performance

£ million unless otherwise indicated	Adjusted		Reported	
	2015	2014 ^R	2015	2014 ^R
Operating profit				
Tobacco	2,895	2,805	1,910	1,925
Logistics	154	166	74	84
Eliminations	4	10	4	10
Group operating profit	3,053	2,981	1,988	2,019
Net finance costs	(467)	(515)	(261)	(543)
Share of profit of investments accounted for using the equity method	29	29	29	49
Profit before taxation	2,615	2,495	1,756	1,525
Taxation	(541)	(521)	(33)	(80)
Profit for the year	2,074	1,974	1,723	1,445
Earnings per ordinary share (pence)	212.5	203.4	177.4	148.5

R Restated on adoption of IFRS 11.

Reconciliation of Adjusted Performance Measures

£ million unless otherwise indicated	Operating profit		Net finance costs		Earnings per share (pence)	
	2015	2014 ^R	2015	2014 ^R	2015	2014 ^R
Reported	1,988	2,019	(261)	(543)	177.4	148.5
Acquisition costs	40	13	–	–	4.2	1.4
Amortisation of acquired intangibles	697	644	–	–	57.5	35.8
Fair value (gains)/losses on derivative financial instruments	–	–	(226)	(12)	(22.7)	(2.5)
Post-employment benefits net financing costs	–	–	20	40	1.5	2.8
Restructuring costs	328	305	–	–	24.9	23.1
Tax on unrecognised losses	–	–	–	–	(28.6)	(5.3)
Items above attributable to non-controlling interests	–	–	–	–	(1.7)	(0.4)
Adjusted	3,053	2,981	(467)	(515)	212.5	203.4

R Restated on adoption of IFRS 11.

Logista again delivered an encouraging performance in a challenging environment with adjusted operating profit of £154 million compared with £166 million last year. This decline is driven primarily by foreign exchange movements; on a constant currency basis adjusted operating profit grew 2 per cent. The overall decline in distribution fees was mitigated by the performance of non-tobacco products, price increases and cost control measures.

Adjusted net finance costs were lower at £467 million (2014: £515 million), as our cost of debt reduced. Reported net finance costs were £261 million (2014: £543 million), reflecting net fair value and exchange gains on financial instruments of £226 million (2014: gains of £12 million) and post-employment benefits net financing costs of £20 million (2014: costs of £40 million).

After tax at an effective adjusted rate of 20.7 per cent (2014: 20.9 per cent), adjusted earnings per share grew by 4 per cent to 212.5 pence. The reported effective tax rate for 2015 was unusually low largely due to the recognition of previously unrecognised tax losses as a deferred tax asset, on the basis that taxable profits will arise in the relevant entities following the acquisition of assets in the USA.

Reported earnings per share were 177.4 pence (2014: 148.5 pence) reflecting non-cash amortisation of £697 million (2014: £644 million) and restructuring costs of £328 million (2014: £305 million), mainly in respect of our continuing cost optimisation programme and integration activities following the USA acquisition. The weakening of the euro and Russian rouble, partially offset by a stronger US dollar, negatively impacted reported and adjusted measures. On a constant currency basis, adjusted earnings per share grew 8%.

The restructuring charge for the year of £328 million (2014: £305 million) relates mainly to our cost optimisation programme announced in 2013 (£159 million) and integration costs relating to the businesses acquired in the year (£139 million). The balance of £30 million relates primarily to the closure of our UK vending operation and the restructuring of our Chinese operations. The total restructuring cash flow in the year ended 30 September 2015 was £256 million (2014: £120 million).

Our cost optimisation programme is expected to deliver savings of £300 million per annum from September 2018 and to have a cash implementation cost of in the region of £600 million. More than £85 million was realised in 2015 through a range of initiatives focused on reducing complexity in the business, driving operational efficiencies and securing further global procurement benefits. The cumulative savings to date are £179 million. In 2015, the cash cost of the programme was £169 million (2014: £81 million) bringing the cumulative net cash cost of the programme to £340 million.

Cash Flows and Financing

Our continued focus on capital discipline is driving working capital benefits with a further improvement in operating cash conversion to 97 per cent, up from 91 per cent last year. Cash conversion also benefited from a favourable working capital position from the USA acquisition.

Reported and adjusted net debt increased by £3.5 billion, which represents a £1.1 billion debt reduction before taking into account the £4.6 billion cost of the USA acquisition. £0.8 billion of the net debt reduction comes from continued focus on managing working capital, lower capital expenditure and a working capital benefit from the USA acquisition, partly offset by acquisition and integration costs. A £0.3 billion foreign exchange benefit also contributed to the net debt reduction.

The denomination of our closing adjusted net debt was split approximately 56 per cent euro and 44 per cent US dollar. As at 30 September 2015, the Group had committed financing in place of around £16.7 billion. Some 28 per cent was bank facilities, 3 per cent was commercial paper and 69 per cent was raised through capital markets reflecting refinancing activity during the financial year. This included issuance of \$4.5 billion in the US debt capital markets in July 2015 to refinance a proportion of the syndicated acquisition bank facilities. Following refinancing activity and additional cancellation of the facilities, as a result of free cash flow generation during the 2015 financial year, the outstanding syndicated acquisition facilities now total \$1.2 billion.

Our all-in cost of debt reduced 60 basis points to 4.3 per cent (2014: 4.9 per cent) as a result of our recent refinancing. Our interest cover was 6.3 times (2014: 5.9 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Taxation Policy

Our global tax contribution through both indirect and direct taxation exceeds £16 billion annually (excluding logistics).

Our policy is to ensure compliance with tobacco taxation and product supply legislation and to engage constructively with revenue authorities worldwide to help combat illicit trade. We also engage with revenue authorities and governments more widely on policy issues to voice opposition to aspects of regulation and excessively high tobacco taxation that are likely to increase illicit trade to the detriment of consumers, governments and the Group.

In the field of direct taxation, it is our policy to maintain a sustainably low effective tax rate in order to enhance shareholder value whilst having due regard to financial and reputational risk.

In pursuing this policy it is of paramount importance that our actions comply with all national and international laws on corporate and tobacco taxation and that there is full disclosure and transparency in our dealings with all revenue authorities.

The Board is kept informed of all material developments relating to our taxation position, with updates on tax matters regularly provided to the Audit Committee.

Dividends

We have delivered another year of 10 per cent growth in our dividend, demonstrating our commitment to growing shareholder returns.

The Group has paid two interim dividends of 21.4 pence per share each in June 2015 and September 2015, in line with the announced switch to quarterly dividend payments, giving shareholders a more regular cash return.

The Board has approved a further interim dividend of 49.1 pence per share and will propose a final dividend of 49.1 pence per share, bringing the total dividend for the year to 141.0 pence per share, up 10 per cent and in line with our policy of growing dividends by at least 10 per cent per year over the medium term.

The third interim dividend will be paid on 31 December 2015, with an ex-dividend date of 19 November 2015. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2016, with an ex-dividend date of 4 February 2016.

Liquidity and Going Concern

The Group's policy is to ensure that we always have sufficient capital markets 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 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 plans its financing in a structured and proactive manner and remains confident that sources of financing will be available when required.

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 a period of at least 12 months from the date of this report and conclude that it is appropriate to prepare the financial statements on a going concern basis.



Oliver Tant
Chief Financial Officer

Operating responsibly is integral to the way we do business.

How we behave today impacts our business tomorrow. It supports our sales growth strategy and is vital for our long-term success. We measure our performance against the progress we make in four key areas: being responsible with products, having a rewarding workplace, respecting natural resources and reinvesting in society. These form the basis of our responsibility framework; they are the responsible focus for our business, our people and our stakeholders.

Our values and Code of Conduct are embedded in the business and drive our responsible approach. We also have policies, internal controls and risk management processes that underpin our sales growth strategy.

The following pages provide an overview of our Corporate Responsibility (CR) achievements. We have not included any performance data for our USA acquisition, which was completed on 12 June 2015. This data will be included in next year's report.

More detailed information on our performance can be found in the responsibility section of our corporate website www.imperial-tobacco.com/cr

You can also read our new stakeholder panel report online. This captures views on our approach to CR from a broad range of stakeholders, including leaf and non-tobacco material suppliers, investors, employees, consumers, non-governmental organisations, environment specialists, and independent consultants. The panel highlighted many positive aspects of our CR approach and gave constructive feedback on areas where we can drive improvement. Our thanks to all participants for their time and comments.

We're proud of the contribution our people make to our responsibility agenda and continue to be encouraged by the positive feedback we receive externally. We scored 98 per cent in the Business in the Community (BiTC) Corporate Responsibility Index and 76 per cent in the RobecoSAM assessment for the Dow Jones Sustainability Index.

Responsible with Products

Millions of people around the world choose to enjoy our products every day. We recognise there are societal concerns about the health risks of smoking and acknowledge that smoking is a cause of serious diseases in smokers. We ensure our products are manufactured, marketed and sold responsibly.

High Product Standards

Consumers and other stakeholders rightly expect us to adhere to high product standards. We rigorously test and analyse our products to ensure we continue to build our knowledge and understanding. This enables us to fulfil our duty of care to consumers and meet legal requirements for scientific disclosures and submissions.

We have continued our focus on the testing and scientific analysis of e-vapour products. Our research shows that the vast majority of tobacco smoke constituents are not present in e-vapour products, whereas they are still generated by heated tobacco products.

E-vapour products therefore have potential as a reduced risk product relative to tobacco products and we have shared our findings with regulators and other key stakeholders.

Clear and consistent e-vapour regulation is critical for consumer understanding and the long-term development of the category. We support regulation that has high consumer safety and product quality standards and believe that e-vapour products that make smoking cessation claims should be covered by pharmaceutical legislation.

Unlike e-vapour products, heated tobacco products contain tobacco and should therefore be regulated in line with conventional tobacco products.

Marketing Products Responsibly

Legislation that governs the way tobacco should be advertised and marketed to the public exists in most markets. We also have our own stringent International Marketing Standards (IMS), which we updated during the year and published in full on our corporate website.

All Imperial Tobacco Group companies and employees, and the agencies we work with around the world, must adhere to our IMS and local legislation at all times. To support IMS awareness and understanding we have developed an e-learning module that has been translated into 12 languages.

Fighting Illicit Trade

The illegal market in tobacco undermines society's efforts to ensure that tobacco products are marketed responsibly.

We advocate a partnership approach to fighting illicit trade and seek to work with governments and customs and law enforcement agencies to combat the problem of tobacco smuggling and counterfeiting.

We have 24 Memoranda of Understanding (MoU) with authorities around the world and continue to invest in our long-term anti-illicit trade partnership agreement with the European Commission and Member States. During the year, we renewed our MoU with authorities in Vietnam and signed a new MoU agreement with Latvia.

Working with Retailers

We continue to build strong relationships with retailers around the world and actively encourage them to sell responsibly. Tobacco products are for adults and should never be sold to children. We reinforce this through our support for initiatives aimed at preventing tobacco sales to children, including schemes that highlight the minimum age at the point of sale.

During the year we commissioned an independent report to analyse smoking trends in 20 of our key markets and the findings are helping us to further develop initiatives to prevent children from gaining access to tobacco products.

Rewarding Workplace

We strive to provide a safe and pleasant working environment that inspires employees to do their best. We want to see skills and talent flourish and are proud of the diversity and collaborative spirit of our workforce.

A Diverse Workforce

Following the acquisition of a number of assets in the USA in the year, we now employ around 36,400 people. Our employees come from many different backgrounds and cultures, enriching the vibrancy of our business.

Around 40 per cent of our workforce is female, with some 14,000 women employed. At a senior leadership level, 22 per cent of the Operating Executive and 22 per cent of the Board are female, as of 30 September 2015.

The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct and underpinned by our values. This is reinforced through offering equal opportunities and giving fair consideration to applications for employment, career development and promotion, irrespective of an employee's gender, race, religion, age or disability.

Our values capture the essence of what it's like to be part of Imperial Tobacco; the combination of the 'We' values and the 'I' values reflect the collective and individual behaviours we expect from our people.

Our efforts to provide the best possible working environment and opportunities for our people have been recognised with a number of Best Employer awards in the year in markets such as the USA, UK, Spain, Italy, Slovenia and Poland.

Engaging with our People

We are committed to employee engagement throughout the business. Employees are kept informed of our strategic priorities and performance through communication channels, including meetings, emails, videos, the intranet, webinars, conferences and employee magazines.

Our global engagement survey is carried out every 18 months. The survey gives employees the opportunity to have their say and provides us with valuable feedback that is used to develop local and global action plans. The 2015 survey generated an excellent 83 per cent response rate and again showed a slight increase in overall engagement levels. This is encouraging, given the ongoing change that is taking place in the business.

Workplace Health and Safety

The health and safety of people who work for us is of paramount importance and we have reduced Lost Time Accidents by 67 per cent over the last six years. We were saddened that a sales employee in Ukraine and a contractor in Vietnam were fatally injured in road traffic incidents. This has further strengthened our resolve to address occupational road risk management and other critical safety areas, such as working from heights.

We commissioned an independent health and safety capability and culture review to learn more about how we can improve our performance. We developed an action plan based on the review recommendations and this is now being implemented across the business.

We made further progress in installing world-class management systems aligned to the international occupational health and safety management standard OHSAS 18001 across our operations. Five additional sites in Senegal, Congo, the UK, Germany and France were certified as having reached this standard during the year. In total, 76 per cent of our sites have achieved the OHSAS 18001 accreditation.

Reinvesting in Society

We are proud to be part of many different communities around the world and have developed strong partnerships with a wide range of stakeholders in the communities we serve.

Human Rights

We have a role to play in addressing human rights issues, including slavery and human trafficking. This respect for human rights is reflected in our Code of Conduct, which is published on our website, our responsible sourcing programme SRiTP (Social Responsibility in Tobacco Production) and our Supplier Standards which we use to exert influence in our business and supply chain. We have a focus on anti-discrimination and harassment, a healthy and safe working environment, responsible procurement, supplier partnerships and environmental responsibilities.

All employees and business partners must comply with the Code of Conduct, now available in 29 languages. We provide Code of Conduct training for all employees and all suppliers are required to complete detailed self-assessment questionnaires. Suppliers are periodically subject to onsite audits against these self-assessments. More information on Supplier Standards and our responsible sourcing programme is available on our website.

The governance of companies may vary but our respect for human rights extends throughout our operations. It is implicit in our employment practices and within the high standards we expect from suppliers and other business partners.

To ensure we continue to adequately address our responsibilities in relation to human rights, we plan to conduct an independent Human Rights Impact Assessment across our value chain in 2016. A full statement on human rights is available on our website.

Supplier Standards

Working with supply chain stakeholders to address important issues such as leaf sustainability and child labour is a priority.

Our leaf and non-tobacco material suppliers must adhere to our Code of Conduct. All our leaf suppliers are required to participate in our SRiTP programme, which encourages continual performance improvement in areas such as employment, health and safety, environmental management and good agricultural practices. We were pleased to see our overall leaf supplier performance against the SRiTP criteria increase from 75 per cent to 79 per cent in the year.

We have a Supplier Qualification Programme for non-tobacco material (NTM) suppliers. This is a self-assessment questionnaire that covers business conduct, environmental management, health and safety and employment practices. We conduct periodic onsite audits to confirm these assessments.

Farmer Livelihoods and Child Labour

Child labour is a risk in agricultural supply chains and we continue to support the Eliminating Child Labour in Tobacco (ECLT) Foundation in tackling this problem. Working with the Foundation, we help communities understand child labour issues and seek better access to education and health services for children.

Our Leaf Partnership Committee continues to support projects aimed at enhancing the livelihoods of farmers by improving their overall labour and fuel efficiency in Malawi, Tanzania, Zimbabwe, Madagascar and Mozambique.

Supporting Communities

We fund projects that are connected to the communities in which we operate. We particularly focus on supporting the most disadvantaged communities around our factories, offices and tobacco sourcing activities.

Our Altadis Foundation supports initiatives to improve livelihoods in areas where we have operational sites. During the year the Foundation commissioned an independent report to evaluate partnership projects aimed at supporting disadvantaged people in countries such as Vietnam, Chad and Kyrgyzstan. The report found that in total, these projects had benefited around 31,000 people directly and 60,000 people indirectly.

We also commissioned an independent socio-economic impact study on our operations in West Africa, which highlighted that in 2012-13 we created more than £50 million in terms of wealth generated, benefiting employees and their communities, governments and local shareholders, and paid around £95 million in direct and indirect taxes. The full study is available on our website.

We continue to be encouraged by the growing number of employees who volunteer to get involved in projects linked to our responsibility framework. This year we launched our first global volunteering drive, entitled Mobilise for May, which involved employees supporting over 140 projects in 56 countries worldwide, exceeding our global target of 50,000 hours volunteered.

Respecting Natural Resources

We respect natural resources and are committed to further reducing our environmental impact, minimising waste and improving energy efficiency.

We have set long-term targets for our key environmental performance indicators, energy, waste and water use. Changing our factory footprint to align with market demands will always mean that our year-on-year environmental data trends are unlikely to be linear, so we track our progress against our 2009 baseline year. In line with other major companies, we measure our performance against the amount of net revenue we generate. Lower net revenue in 2015, driven by foreign exchange movements and conditions in the Near East, adversely affected CO₂ emissions, energy consumption and waste. This was the main driver of the slight increases shown for all three measures in our Responsibility Performance Indicators.

Our environmental data is independently verified one year in arrears.

Climate Change and Energy

We are well on track to reduce our carbon footprint and energy usage by 20 per cent by 2020, having already reduced our energy consumption by 14 per cent over the last six years.

We're original members of the Carbon Disclosure Project (CDP), which works with organisations to measure and reduce their emissions and climate change impacts. We continue to make improvements in this area, achieving a 98 per cent score from the CDP in 2015.

Resource Efficiency

Getting the most out of the materials and natural resources we use is good for our business and good for the environment. Our mantra is: reduce, re-use and recycle.

We have steadily reduced waste and waste to landfill in recent years and continue working with suppliers to help them reduce their environmental impact. Since the 2009 baseline year our environmental waste has reduced by 8 per cent and the amount of waste to landfill has reduced by 25 per cent.

In manufacturing we are increasing the use of environmental management systems that are independently certified to the environmental management standard ISO 14001. Ninety per cent of our factories are now certified to this standard.

Reforestation Programmes

In Africa, where wood is the primary fuel source and the majority of tobacco farmers are smallholders, we are actively involved in protecting natural forests and reducing wood consumption.

We have continued to work with our African tobacco suppliers on a major tree planting programme that aims to achieve wood sustainability in Africa by 2020. We also scaled up our support for more efficient tobacco curing barns, providing funding for 1,270 rocket barns. These barns run a faster curing process that uses significantly less wood than conventional barns.

Water Management

Water security is a key environmental issue that continues to rise in importance. Our operations and supply chain are both reliant on the secure supply of water.

We have a strong track record of effectively managing water use and have reduced water consumption by 22 per cent since the 2009 baseline year. In our factories we apply environmental management systems under the international standard ISO 14001 to reduce water use and manage waste water, and each location has its own local water management targets.

We have also started to focus some of our Leaf Partnership projects towards water security, particularly in Africa.

Environmental Reporting

We report on greenhouse gas emissions resulting from our tobacco operations which fall within our consolidated financial statements using the operational control reporting method. We report scope 1 (direct) and scope 2 (indirect) emissions for which we are responsible using a methodology based on the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition). Any deviations from this standard are described below. We have considered the seven main greenhouse gases and report in CO₂ equivalent. Our relative emissions are expressed against net tobacco revenue, which is consistent with the standardised CDP reporting format and facilitates meaningful comparison with other businesses that report both their emissions and financial fundamentals.

Our scope 1 emissions include: emissions from stationary fuel combustion at our sites; emissions from mobile fuel combustion in our fleet of company vehicles; leakage of refrigerant gases; and process emissions from the Dry Ice Expanded Tobacco process at our expansion plants. Our scope 2 emissions include the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites.

This year we have changed the way we calculate emissions data and now apply the CO₂ factors and calculation methodology for fossil fuels and electricity set out in the UK Department for Environment, Food and Rural Affairs (DEFRA) document '2014 Government GHG Conversion Factors for Company Reporting'. This method splits scope 1 and 2 emissions into scope 1, 2 and 3 to more explicitly account for the transmission and distribution of electricity and fuel. This decreases our scope 1 and 2 emissions as scope 3 emissions are not reported. To improve transparency we have used the new methodology to recalculate historic data since our 2009 baseline year and this is shown in the graphs overleaf. We have also modified our calculation of CO₂ and energy from our sales fleet cars to increase the amount of emissions which are captured to 97 per cent (the remaining 3 per cent being beyond our current reporting capabilities).

Our reported emissions include all main sources from our manufacturing sites over which we have operational control, our expansion plants in Cadiz and Reidsville, and our main offices (Bristol, Hamburg, Paris, Madrid and Casablanca). Operations not included, as deemed immaterial or beyond our current reporting capabilities, relate to greenhouse gases other than the seven greenhouse gases, the JR 800 Cigar retail outlets in the USA, small sales offices (being those offices not listed above which contribute less than 0.05 per cent of our total scope 1 and 2 emissions), our Habanos joint venture and our Cambodian distribution operation.

Scope 1 emissions arising from mobile fuel combustion in our fleet of company vehicles are specified and for the latest financial year are unverified estimates based on data from the previous financial year. All other emissions for the latest financial year are unverified estimated data based on the first six months of the latest financial year and the final six months of the previous financial year. Verified data is reported 12 months in arrears to allow for internal checking, validation and external assurance.

We continue to work on improving our Group reporting boundaries and the timeliness of data. More information on our environmental reporting approach can be found in the Responsibility section of our website.

In addition to our reported emissions we also report information provided by Logista, which is managed remotely due to commercial sensitivities and does not report wholly into Group data. This year Logista has provided verified data for absolute emissions within scope 1, 2 and 3 for FY14 and we anticipate reporting on verified FY15 data in next year's report. Logista has also voluntarily extended its carbon footprint verification to include waste generated in operations, franchises, purchased goods and services of 14 additional business units.

Logista Data FY14

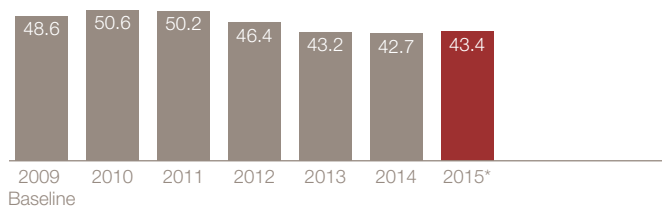
	Scope 1	Scope 2	Scope 3
CO ₂ equivalent emissions (Tonnes)	35,731	4,455	213,081

Logista's scope 1 emissions relate to refrigerant gas emissions and the stationary and mobile fuel combustion, including emissions from transport operations for which Logista has operational control. Scope 2 emissions include the indirect emissions resulting from the use of purchased electricity at Logista's sites. Scope 3 emissions correspond to transport activities for which Logista has no operational control.

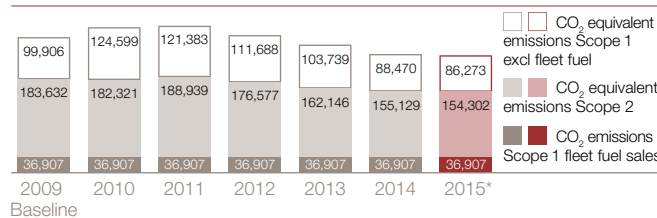
Logista's verified relative CO₂ equivalent emissions within scopes 1 and 2 amount to 47.4 tonnes per million pounds of FY14 distribution fees (our non-GAAP revenue measure for Logista). More detail is available at www.grupologista.com

Responsibility Performance Indicators

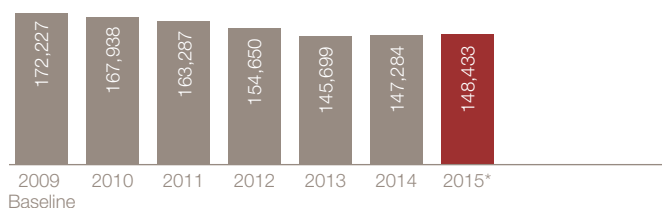
CO₂ Equivalent Emissions (Tonnes/£million)¹



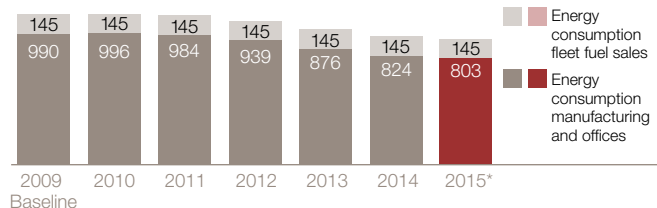
Absolute CO₂ Equivalent Emissions (Tonnes)¹



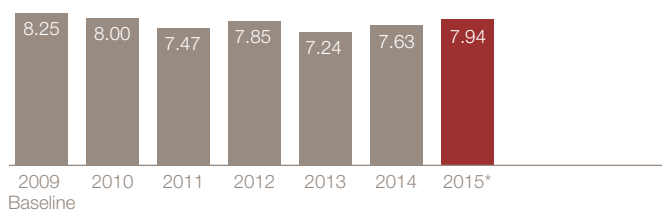
Energy Consumption (kWh/£million)¹



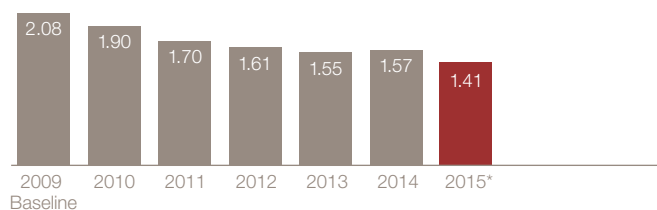
Absolute Energy Consumption (GWh)¹



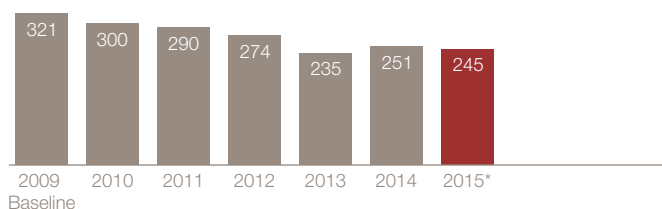
Waste (Tonnes/£million)¹



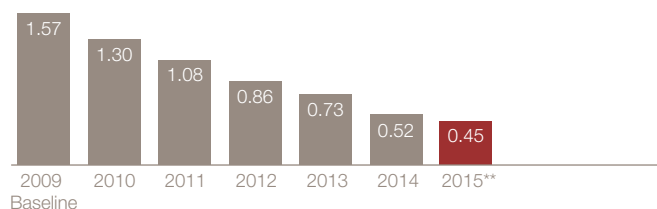
Waste to Landfill (Tonnes/£million)¹



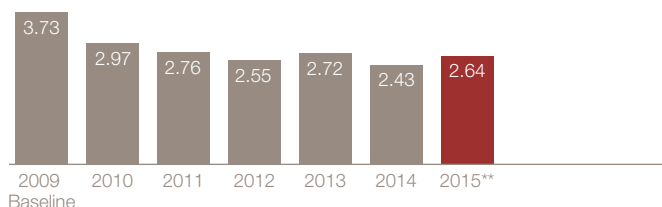
Water Consumption (m³/£million)¹



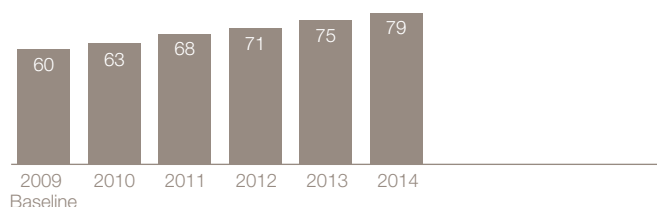
Lost Time Accident Frequency Rate (per 200,000 hours)²



Sickness Absence Rate (% of days worked)²



Social Responsibility in Tobacco Production Progress: Total Weighted Mean (%)³



1 Environmental data is reported 12 months in arrears to allow for data collection and verification. The monetary value '£ million' is for tobacco net revenue (or logistics distribution fees, where appropriate). FY14 data has been assured by PwC; see website for more information.

* Unverified FY15 data is estimated based on data from the last six months of FY14 and the first six months of FY15. Verified data for FY15 will be published next year.

2 Verified accident and absence data is reported 12 months in arrears to allow for data collection and verification. Sickness absence includes non-work related and work related absence. FY14 data has been assured by PwC; see website for more information.

** Provisional unverified FY15 data is provided. Verified data for FY15 will be published next year.

3 All our tobacco suppliers participated in the SRITP programme in 2014, which provides specific guidance for improvement against a variety of criteria. See our website for more information. Data for 2014 has been verified. We report 12 months in arrears to allow for the reporting and analysis of data.



Key data reported in the Annual Report and Accounts for the year to 30 September 2015 has been independently assured under the limited assurance requirements of the ISAE3000 standard by PwC. They have also been engaged to look at our description of alignment with AA1000APS (2008) principles of inclusiveness, materiality and responsiveness. Some of the selected information covered by this assurance is clearly highlighted within the Corporate Responsibility section of the Annual Report and all of the selected information is included in the Corporate Responsibility section of the website www.imperial-tobacco.com/cr where their limited assurance report can be found. PwC has provided Imperial Tobacco with CR assurance services from FY10. Earlier data was assured by another provider.

In this section we outline the risks we face across our business and our approach to managing them.

Our Approach

Our ability to achieve our strategic objectives and capitalise on growth opportunities requires effective management of the risks we face.

Our risk management system is designed to identify risks that could prevent the achievement of strategic objectives as early as possible, and to ensure that appropriate and agreed mitigation is in place. The approach seeks to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Where risks do crystallise, we respond immediately to reduce the impact of that risk and ensure that the causes and consequences have been evaluated and any wider implications assessed.

Our risk management approach provides a framework which allows for the identification and management of Group risks, and the risks specific to a location. In a business with a global market footprint as diverse as ours, it is imperative that resource is directed at the most relevant risks and locations and that our management are sufficiently supported to achieve positive outcomes. This approach is integrated into both our business planning, and viability assessment processes, ensuring that risks are considered in these activities.

In the current year we have made a number of improvements to the risk management approach, including the introduction of a control self-assessment process within the business which provides management with a means of understanding requirements and accountability for the effective operation of key controls.

The results of the self-assessment are reviewed by the relevant centres of excellence and reported to the Audit Committee.

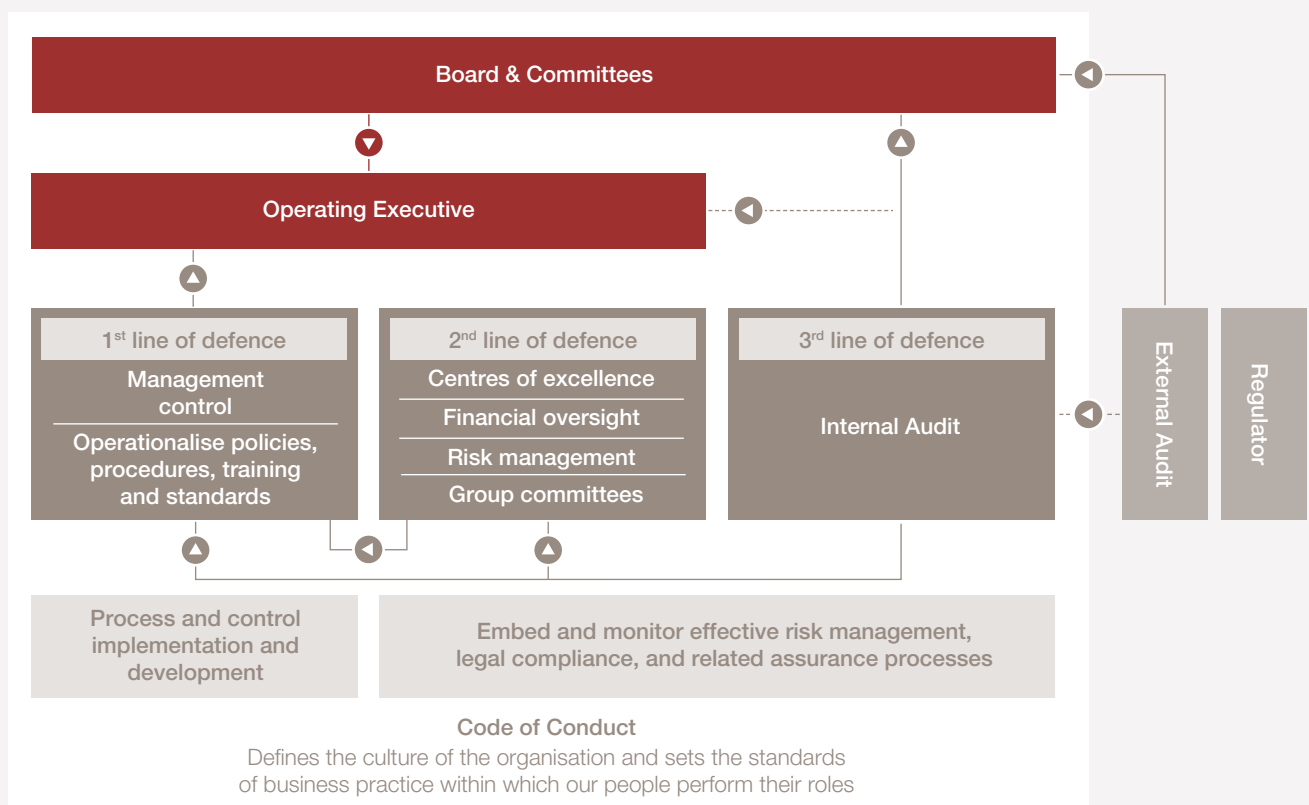
Additionally a year end certification process is completed, under which management confirms that risk mitigation controls have operated effectively throughout the year, or that appropriate further mitigating actions are being taken to address control weaknesses. This certification process also includes confirmation that entities have complied with our policies, including the Code of Conduct and anti-bribery requirements, as well as fraud prevention processes. As a separate exercise, all our senior managers are required to certify that related party transactions have been disclosed.

Our people have the opportunity to make confidential disclosures about suspected impropriety or wrongdoing via an independent external service (Speaking Up), details of which have been translated into 41 languages and can be found in the Investors section of our corporate website.

In accordance with the recommendations of the FRC's UK Corporate Governance code (formerly known as the Combined Code) for Directors, the Group's systems of internal control are designed and operated to support the identification, evaluation and management of risks affecting the Group. They facilitate the effective and efficient operation of our business, provide assurance regarding the integrity of our internal reporting and are designed to comply with relevant laws and regulations, across all areas of operations. These systems are subject to continuous review as circumstances change and new risks emerge.

Our risk management approach continues to develop, ensuring we continue to identify, manage and monitor the risks we face.

Risk Management Framework



Risk Management Framework

We operate an integrated approach, aligned to the “three lines of defence” model to ensure that our operational management has the tools, knowledge, and support to manage risks as part of its business as usual business processes.

Our Company Secretary is responsible for maintaining and developing the Group’s framework of governance, including our Code of Conduct, Group policies and Speaking Up (whistleblowing) process.

The Board and Audit Committee

The Board has ultimate responsibility for the Group’s strategy and related risk appetite. In addition, the Board is accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit Committee assisting in the discharge of this responsibility.

The Audit Committee monitors the effectiveness of the Group’s risk management and internal controls system and is assisted by the Group’s Finance department, which, through the Risk Management function, oversees the completion of the annual assessment of risk management and internal control. The Audit Committee reports to the Board on its activities and the process, and makes recommendations and escalates significant risks or issues to the Board as appropriate.

While risk management and the identification of existing and emerging risks are the responsibility of all our people, the Board is supported in the assessment of key risks through work facilitated by the Group’s Risk Management function.

An annual bottom-up review is undertaken by local management across the organisation which assesses our principal areas of risk and uncertainty across each part of the business. This assessment includes a review of both Group and local risks, along with an assessment of the mitigating controls in place to manage the risks. The separation of risks into Group and local classifications enables appropriate focus at both senior and local management level, and assists us in the identification of emerging risks.

The calibration of risks by the Board and Operating Executive ensures a consistent top-down method in how we identify, assess and prioritise risks, as well as assessing our existing measures to manage and mitigate those risks.

The Operating Executive (OPEX)

The OPEX is responsible for the effective operational management and mitigation of the Group’s key risks. The successful and effective implementation of Group strategies into our operational activities is the responsibility of OPEX and its functional and divisional management teams. These management teams are responsible for ensuring that the Group’s strategic goals are achieved in line with Group policies and standards, and that we conduct business in compliance with our Code of Conduct. This tone from the top extends to responsibility for the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment in their areas of responsibility.

Operational Management

Across the business, operational management is responsible for the implementation and monitoring of the Group’s processes and systems of control. This includes ensuring that our people have appropriate training and knowledge to perform their roles in accordance with the Group’s policies and standards and defined lines of accountability and delegation of authority.

The Group’s functional and divisional management structures enable a continuing process for the identification, evaluation and management of significant risks to the achievement of business objectives, and support the controls in place.

Centres of excellence

In addition to the oversight provided by our management structures the Group also benefits from the work carried out by subject matter experts it employs to manage specific financial, technical or legal and regulatory risks, set standards and policies, share best practice and provide related training to the business. These departments form a key part of our “second line of defence”.

These departments design and help implement appropriate control structures and monitoring in order to manage the relevant risks. They also act as centres of excellence, providing advice and assistance to the business to help facilitate local solutions where necessary.

Our Group Finance department is responsible for the financial policies and standards adopted within the Group. It also manages our financial reporting processes to ensure the timely and accurate provision of information, which enables the Board to discharge its responsibilities, including the production of our half-yearly and annual accounts.

Group Finance is supported by a network of finance managers throughout the Group who have the responsibility and accountability to provide information in keeping with our policies, procedures and internal best practices as documented in our Group Finance Manual.

Assurance

The Group Internal Audit department provides independent assessment on the robustness and effectiveness of the systems and processes of risk management and control across the Group. It achieves this through the completion of reviews which are approved by, and reported to, the Audit Committee.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks Overview

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the impact of these risks upon the business. Not all of these factors are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment.

As is common with most large organisations the Group is subject to general commercial risks; for example, geo-political and socio-economic developments, cyber-security breaches, failure of our IT infrastructure, the cost of our raw materials, and the impact of competition.

In addition, as with other multi-national organisations a large amount of the Group's revenue in the year was generated in markets outside the UK and the Group is therefore exposed to movements in foreign exchange rates which could impact the Group's financial results which are reported in pounds sterling. The Group is also exposed to movements in foreign exchange rates due to its foreign subsidiaries, its commercial trading transactions denominated in foreign currencies and foreign currency cash deposits, borrowings and derivatives.

Risk – Reduction in the size of the legitimate tobacco market

What affects us	What we do
<p>Changes in regulation</p> <p>Regulatory restrictions exist in many of our markets which impact our consumers by influencing availability, demand and freedom to use our products. The introduction of excessive and disproportionate regulation, both present and future, could have an adverse effect on consumer choice, potentially impacting the demand for our products, as well as the cost of continuing to comply with such increasing regulation.</p> <p>Several of the US cigarette brands acquired in the year are menthol brands or include menthol variants and any future Food and Drug Administration (FDA) regulation of menthol in cigarettes, in particular, may adversely affect our ability to derive the full benefits expected from the acquisition.</p>	<p>The Group's regulatory engagement strategy seeks to inform key stakeholders about our views, to ensure balanced debate and proportionate regulatory outcomes. This engagement includes:</p> <ul style="list-style-type: none">– consulting with external experts to provide advice and guidance;– engagement, where possible, with regulators;– providing industry-specific information to ensure that regulators have a more balanced fact base;– highlighting the unintended consequences of proposed regulatory change; and– making legal challenges against excessive regulation. <p>We prioritise the Group's expertise and resources according to the relevant key regulatory issues. Cross-market liaison is promoted within the Group to ensure best practice and opportunities from markets already impacted are identified, understood, and applied.</p>
<p>Increases in excise duty</p> <p>Governments across the world perceive the use of tobacco excise rates to be a means of raising additional public funding and/or the satisfying of public/private tobacco control agendas.</p>	<p>We engage with local tax and customs authorities as well as politicians/legislators and media where appropriate to provide informed input to the unintended consequences of disproportionate excise increases. The widening price differential between tobacco products in neighbouring countries increases both the availability and attractiveness to the consumer of purchasing non-domestic duty paid product.</p> <p>We take commercial steps to mitigate the impact of this issue through the monitoring and compilation of ongoing analysis to ensure strategic price and product offerings exist in the context of the excise duty structures in each market. Through our portfolio of products we are able to meet consumer preferences across different price points.</p>
<p>Illicit trade</p> <p>The consequence of excise and regulatory regimes is a widening gap between the price of legitimate and illegitimate product. As a result the legitimate tobacco industry continues to be subject to the significant impact and increasing threat of illicit trade. The sale of counterfeit product and smuggled "illicit whites" in our markets act as a direct competitor to legitimate domestic duty-paid, travel retail and duty-free products, eroding our volumes and market shares.</p>	<p>We seek to partner with governments and law enforcement agencies around the world on anti-illicit trade initiatives, and work alongside the European Commission's Anti-Fraud Office (OLAF) and law enforcement agencies both in the EU and elsewhere.</p> <p>In order to achieve this we employ specialist teams to provide effective support to the business, governments, and law enforcement agencies, performing market analysis and intelligence to provide appropriate and targeted solutions to the combating of illicit trade. We maintain strong business conduct standards and controls, both for our business and our first-line customers, in order to prevent our products being diverted.</p>
<p>Macro-economic conditions</p> <p>A material decline in the economic conditions affecting consumers, notably an impact upon disposable income, may change their consumption patterns, including an increased propensity to purchase illicit products.</p>	<p>We monitor and analyse consumption patterns and economic indicators in order to ensure that our current and future portfolio provides the consumer with a range of products across different price points. This analysis is a key input to our product development and pricing strategies.</p>

Risk – Marketplace

What affects us	What we do
<p>Marketplace</p> <p>The Group has a significant presence in mature European markets and any material change in the economic circumstances of, and/or our performance in, our key European markets may affect our future profit development and have an adverse impact on the Group's revenue or profits.</p> <p>Should concerns regarding the future of the euro, or the exit of one or more Eurozone countries, continue or increase, consumer spending patterns could be impacted. Such an event could also cause disruption to the business as a whole, including impact upon financing arrangements (both Group and local), and could also have a short-term impact on our manufacturing and supply chain operations.</p> <p>As with all businesses our route to the customer could be affected by political instability, civil unrest, and sanctions, and these could also have a detrimental effect on our manufacturing and supply chain operations.</p>	<p>We continuously monitor our exposure and review our portfolio and our existing processes and policies to minimise our economic exposure and to preserve our ability to operate in a range of potential conditions that may exist should one or more of these future events occur.</p> <p>Our international footprint and comprehensive portfolio, further enhanced by the US acquisition, provide an increasingly balanced exposure to both EU and non-EU markets, with the core of our market concentration being in countries with a lower risk of political instability and civil unrest.</p> <p>The alignment of our market management structures to key strategic drivers enables a more consistent approach to the evaluation of risks and opportunities.</p> <p>Our global manufacturing and supply chain operations have crisis management and contingency plans in place which are regularly reviewed in line with the risks to their ongoing requirements.</p>

Financing

What affects us	What we do
<p>Financial market risk</p> <p>We have a significant level of committed debt, financed in the debt capital markets and bank loan markets. We expect any future required refinancing of this debt prior to maturity to be obtained from these markets and for us to be able to rely on funds being available from our bank counterparties when requested to be drawn.</p> <p>A fall in certain of our credit ratings would raise the cost of our existing committed funding and could raise our cost of future funding and affect our ability to raise debt from the breadth of funders we currently enjoy.</p> <p>At 30 September 2015 approximately 44 per cent of the Group's debt was at fixed levels of interest, and therefore the Group is exposed to movements in interest rates which could result in higher funding costs and cash outflows on the remainder.</p> <p>We also place cash deposits with and enter into derivative financial transactions with a diversified group of financial institutions, and we would be affected if those counterparties did not honour their commitments.</p>	<p>We have a strong focus on cash generation and the reduction in our debt over time.</p> <p>Our Group Treasury Committee (GTC) oversees the operation of Group Treasury in accordance with the terms of reference set out by the Board.</p> <p>The GTC sets a framework for the treasury function to operate within. The framework, which is periodically fully reviewed, covers, amongst other things, financing, liquidity and risk management which includes interest rate, foreign exchange and counterparty risk. The GTC receives regular reporting on all matters covered by the framework.</p> <p>Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with business performance. This information is considered alongside conditions in the debt capital and bank loan markets to ensure we are well placed to meet the future financing needs of the Group and optimise its cost and the availability of finance.</p>

Legal and regulatory compliance

What affects us	What we do
<p>Failure to comply with legislation</p> <p>Failure to comply with local and international laws (including sanctions) may result in investigations. This could cause damage to our reputation and has the potential for financial and criminal penalties for both the Group and individuals.</p>	<p>We closely monitor developments in international sanctions and actively seek external advice to ensure that we remain compliant with them.</p> <p>The Group's policies and standards, including our Code of Conduct, mandate that all employees must comply with legislation relevant to a UK listed company and other legislation in the countries in which we operate. E-learning courses are provided to management and relevant employees to ensure understanding of key regulatory and compliance requirements.</p> <p>Additionally, senior management certify the compliance of their area of the business with the Code of Conduct as part of an annual certification process. Exceptions are reported and mitigating actions taken.</p> <p>Steering groups exist for key areas of legal compliance to provide expert advice in the development of policy, process, training and monitoring of compliance.</p>

Legal and regulatory compliance continued

What affects us	What we do
<p>Tobacco and e-vapour products litigation</p> <p>Tobacco litigation claims are pending against the Group in a number of countries.</p> <p>More claims may be brought in the future, including claims for personal injury and the recovery of medical costs allegedly incurred in treating smokers. Claims may also be brought against the Group in relation to the use of e-vapour products. The USA, the jurisdiction with the greatest prevalence of smoking and health-related litigation, is also now a key country for the Group. If any claim were to be successful, it might result in a significant liability for damages and might lead to further claims against us. Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable.</p>	<p>To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages.</p> <p>The American cigarette brands acquired in the year have been acquired without historic product liabilities and with an indemnity from Reynolds in respect of any liabilities relating to the period prior to acquisition.</p> <p>We employ internal and external lawyers specialising in the defence of product liability and consumer protection law litigation to provide advice and guidance on defence strategies and to direct and manage litigation risk and monitor potential claims around the Group.</p>

Significant market positions

Our significant market position in certain countries could result in investigations and adverse regulatory action by relevant competition authorities, including the potential for monetary fines and negative publicity.

The Group's policies and standards, including our Code of Conduct, mandate that all employees must comply with competition laws in the countries in which we operate.

We provide training and guidance to relevant employees detailing the obligations and requirements of competition laws.

We employ experienced internal and external lawyers specialising in competition law to provide advice and guidance regarding interpretation of and compliance with competition laws.

In the event of any investigation (which may or may not result in actions being brought against us), we cooperate fully with the relevant authority making the investigation.

Material strategic initiatives

What affects us	What we do
<p>In order to achieve its strategic objectives, the Group may be required to undertake material initiatives, including acquisitions and change programmes.</p> <p>The Group also operates within a regulatory environment that can require the implementation of material initiatives to address changing legal requirements.</p> <p>In particular, on 12 June 2015 we completed the acquisition of certain American cigarette and e-cigarette brands and assets previously owned by Reynolds and Lorillard. The integration of the acquired assets could involve particular challenges and require management attention that would otherwise be devoted to running our business, and we may be unable to realise the potential benefits of the acquisition to the extent envisaged and within the timeframe contemplated. This could have an adverse effect on the expected revenue, profit and financial condition of the Group.</p>	<p>The Group operates a formal project sign-off approach, ensuring an appropriate and transparent review and selection of project proposals aligned to the Group's strategic and operational objectives.</p> <p>To support the successful delivery of material initiatives within the organisation the Group has developed and implemented a standardised project management process that provides a robust framework to enable effective change management.</p> <p>This approach is adopted across the Group and provides a consistent and disciplined approach to the management of material initiatives, supported by the employment of project managers across the Group to ensure the right skills are available to successfully deliver such initiatives.</p> <p>The majority of the Group's material change programmes are coordinated under a single umbrella programme, ensuring alignment of deliverables management of interdependencies, and limiting the impact of change upon our operational activities.</p> <p>The OPEX receives regular reporting on the progress of key projects. This provides a continuing assessment of deliverables in changing markets, and the evaluation of interdependencies across the business.</p> <p>In respect of the USA acquisition, we have a strong track record of successfully integrating acquired businesses into the Group and, building on this previous experience, we put in place senior integration resources and a strong management team for the enlarged USA business. We were also able to utilise the period since entering into the acquisition agreement in July 2014 to put in place detailed and comprehensive integration plans that we were then able to begin execution of immediately upon completion.</p>

Viability Statement

The Board has assessed the prospects of the Company over a longer period than the 12 months required by the going concern requirements of the Code. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, made on page 20.

The Group's annual corporate planning processes include completion of a strategic review, preparation of a three-year business plan and a rolling re-forecast of current year business performance and prospects. During the year, additional business plans and financial projections were prepared to specifically consider the prospects of the enlarged USA business, and its impact on the Group's future performance and funding requirements, both prior to and following completion of the acquisition of certain USA assets in June 2015.

The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios, including those relevant to maintaining our investment grade ratings.

Where appropriate, sensitivity analysis is undertaken to stress-test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. This stress-testing takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on page 40, is taken into account.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2018. This period reflects the period used for the Group's business plans and has been selected because, together with the planning process set out above, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

The Board confirms that its assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks and Uncertainties section on pages 25 to 30 was robust.

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2018.



Mark Williamson Chairman

“Acting with honesty and integrity underpins the sustainable delivery of our sales growth strategy.”

This was another year of significant achievement for the Group and I am particularly pleased that, following many months of negotiation and planning by both the Board and management, we successfully completed the acquisition of a number of assets in the USA, one of our key Growth Markets. Following completion we made a number of senior management changes to ensure that we have the right structure in place to lead the enlarged Group. At Board level Matthew Phillips, previously Corporate Affairs Director, was appointed Chief Development Officer. In this new role, Matthew retains his corporate and legal affairs responsibilities whilst taking on responsibility for corporate development and our standalone subsidiary Fontem Ventures, including the e-cigarette brand blu.

The Board is responsible to shareholders and other stakeholders for the strategy, activities and financial performance of the Group, together with the efficient use of its resources and social, environmental and ethical matters.

In this report we provide an overview of the work of the Board and its Committees and our governance framework, which incorporates our Code of Conduct (available on our website) and sets the tone for the way we work both in respect of relationships between colleagues and with our customers and suppliers.

I am committed to ensuring we act with honesty and integrity, which we achieve through our embedded governance framework, transparent approach and having the right leadership. Accordingly our Board is composed of Directors from differing international backgrounds combined with a wide range of professional and sector-specific experience. This ensures that we have a balanced Board with the right skills and experience to contribute fully to effective decision making.

The standards of behaviour we require from our employees are often more stringent than those required by local regulations. Our policies and Code of Conduct cover key issues such as acceptable business practices, ethical and legal compliance matters, physical and data security as well as regulatory, governance, and occupational health, safety and environmental issues.

More details of our governance framework, including how our sound and effective corporate governance practices support our strategy, are set out in the following sections and in the discussion on effectively managing the risks we face on page 25.

Mark Williamson
Chairman

Ensuring our Annual Report is fair, balanced and understandable

A key requirement of our Annual Report is that it is fair, balanced and understandable. When considering this requirement the Audit Committee and the Board considered a number of long-established and embedded processes used in the preparation of the Annual Report, including:

- reviewing the use of adjusted measures and their appropriateness in aiding users of our financial statements to better understand our performance year on year;
- the drafting of the Annual Report by appropriate senior management, who regularly monitor regulatory changes, and have been formally briefed regarding the fair, balanced and understandable regulations, with overall co-ordination by the Director of Group Communications to ensure consistency both across sections and with other external statements;
- the extensive verification process undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report undertaken by members of the OPEX and other senior management;
- the consideration and review of an advanced draft by Group Internal Audit and the Disclosure Committee;
- the Audit Committee discussed the draft Annual Report with both management and PwC and, where appropriate, challenged the content and any judgements and assumptions used;
- all Audit Committee and Board members received drafts of the Annual Report with sufficient time for review and comment prior to the year-end meetings in October 2015; and
- the Audit Committee reviewed the final draft at its meeting in October 2015 on which it is required to express its opinion prior to consideration by the Board.

After consideration of the above processes and review of the Annual Report, the Directors confirm that they consider, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

BOARD OF DIRECTORS



1. Mark Williamson, CA (SA) Chairman of the Board

Skills and experience Mark is a qualified accountant, who brings considerable financial and general managerial experience to our Board. Mark was Chief Financial Officer of International Power plc until 2012 and is experienced in managing relationships with the investor and financial communities. Prior to joining International Power plc, Mark was Group Financial Controller and Group Chief Accountant of Simon Group.

Appointment Mark joined the Board in July 2007 and was appointed Senior Independent Non-Executive Director in February 2012. He was subsequently appointed Deputy Chairman of the Board in January 2013 before being made Chairman in February 2014.

External appointments Senior Independent Non-Executive Director and Chairman of the Audit Committees of National Grid plc and of Alent plc.

D N Chairman

2. Alison Cooper, BSC, ACA Chief Executive Officer

Skills and experience Since being appointed as Chief Executive Officer Alison has led the development and implementation of the Group's sustainable sales growth strategy. Alison joined the Group in 1999 and, through a number of senior roles, has contributed significantly to the international expansion of the Group.

Appointment Appointed Director in July 2007. Appointed Chief Executive in May 2010.

External appointments Non-Executive Director, Inchcape plc since July 2009.

E

3. Oliver Tant, BSc, CA (Scotland) Chief Financial Officer

Skills and experience Oliver held a number of senior positions in a 32-year career at KPMG, including Global Managing Director Financial Advisory and Private Equity Division and Head of UK Audit.

He was also a member of both the UK and German boards of KPMG. Oliver has international experience in change management, organisational restructuring, corporate finance and mergers and acquisitions.

Appointment Appointed to the Board of Directors in October 2013 and became Chief Financial Officer in November 2013.

External appointments No external Director appointments.

E

4. Matthew Phillips, LLB Chief Development Officer

Skills and experience Matthew held a number of senior roles prior to his appointment to the Board as Corporate Affairs Director in June 2012 and has been integral to the development and implementation of the Group's strategy. In his current role he is responsible for Group Strategy, Corporate Development and Fontem Ventures and corporate, legal and regulatory affairs.

Appointment Appointed Director in June 2012. Appointed Chief Development Officer, June 2015.

External appointments No external Director appointments.

E

5. Ken Burnett, MA, MBA, PhD, M Inst M Non-Executive Director

Skills and experience Ken, an independent management consultant, brings significant experience of the consumer goods sector in the Asia Pacific region. He was President, Asia Pacific of Allied Domecq from 1996 until its acquisition by Pernod Ricard in 2005.

Prior to joining Allied Domecq, he held senior management positions in the Asia Pacific region with Seagram, Interbrew and International Distillers & Vintners Ltd (now part of Diageo plc).

Appointment Appointed Non-Executive Director in April 2006.

External appointments Non-Executive Chairman of Elemental Energy Technologies Limited. Director of Elemental Energy Technologies (Asia) Pte Limited and New Zealand Quality Waters (2006) Limited.

D A N R

6. David Haines Non-Executive Director

Skills and experience David brings considerable senior level board experience and is currently Chairman and Chief Executive Officer of Grohe Group Sárl and Chief Executive Officer of Lixil Water Technology Group and he joined Grohe in 2004 from Vodafone Group PLC where he was Global Marketing Director. He is also a former Chairman of Vimpelcom A/O.

Appointment Appointed Non-Executive Director in February 2012, and Chairman of the Remuneration Committee in April 2012.

External appointments Chairman and Chief Executive Officer of Grohe Group Sárl and Chief Executive Officer of Lixil Water Technology Group.

D A N R Chairman

7. Michael Herlihy, MA (Oxon), Solicitor Senior Independent Non-Executive Director

Skills and experience Michael is General Counsel for Smiths Group plc. He was formerly General Counsel and Head of Mergers and Acquisitions for ICI PLC with overall responsibility for corporate acquisitions and divestments and has extensive experience of both private and public market transactions.

Appointment Appointed Non-Executive Director in July 2007. In February 2014 he was appointed as Senior Independent Non-Executive Director.

External appointments Serves on the board of Compass Partners International LLP and is currently General Counsel of Smiths Group plc.

D A N R

8. Karen Witts, FCA Non-Executive Director

Skills and experience Karen brings significant financial and management expertise to the Board. She is currently Chief Financial Officer and Executive Director of Kingfisher plc and was previously Chief Financial Officer of the Africa, Middle East, Asia and Asia Pacific Region, at Vodafone plc. Prior to that Karen held a number of senior positions at BT, including Chief Financial Officer of BT Retail and Managing Director Operations Openreach.

Appointment Appointed Non-Executive Director in February 2014.

External appointments Chief Financial Officer and Executive Director of Kingfisher plc.

D A N R

9. Malcolm Wyman, CA (SA) Non-Executive Director

Skills and experience As a qualified accountant and former Chief Financial Officer of SAB Miller plc, with responsibility for the group's financial operations, corporate finance and development and group strategy, Malcolm brings not only a wealth of financial expertise but also considerable general management experience to the Board. He also meets the recent and relevant financial experience requirements of the UK Corporate Governance Code.

Appointment Appointed Non-Executive Director in October 2011 and Chairman of the Audit Committee in February 2012.

External appointments Senior Independent Non-Executive Director and Chairman of the Audit Committee of Nedbank Group Limited, listed on the Johannesburg Stock Exchange, and a Non-Executive Director and Chairman of the Audit Committee of Serco Group plc.

D A Chairman **N R**

10. John Downing, MA, Solicitor Company Secretary

Skills and experience John joined Imperial in 2005 having worked for the law firm Linklaters.

He has had a number of senior legal roles in Imperial and was appointed Head of Group Legal in 2010 and played a leading role in the Altadis acquisition. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters.

Appointment Appointed Company Secretary in June 2012.

S

Key

E Executive Director

D Non-Executive Director

S Company Secretary

N Succession and Nominations Committee

A Audit Committee

R Remuneration Committee

Skills and experience of our Board

The in-depth tobacco experience of our Executive Directors is complemented by the diverse global experience of our Non-Executive Directors, which includes FMCG, finance, mergers and acquisitions, and sales and marketing.

THE BOARD AND ITS COMMITTEES

Board



Mark Williamson Chairman

“The continued focus on our growth strategy and business transition creates sustainable value for shareholders.”

Members

Mark Williamson
Chairman
Alison Cooper
Ken Burnett
David Haines
Michael Herlihy

Matthew Phillips
Oliver Tant
Karen Witts
Malcolm Wyman

John Downing
Company Secretary

Focus in 2015

- completing the acquisition of assets, including a portfolio of USA cigarette brands and the e-cigarette brand blu, and commencing the integration of our enlarged USA business
- investment prioritisation in our market and brand portfolios
- continuing to support our standalone subsidiary Fontem Ventures, including the integration of the acquired e-cigarette brand blu
- implementing new ways of working to simplify the business and improve our effectiveness and agility
- continuation of our cost optimisation programme
- focus on capital discipline to enhance cash conversion

- ensuring regulatory engagement and preparedness
- maintaining focus on our people agenda including building capabilities and succession
- viability and risk management

Focus for 2016

- investment prioritisation to generate quality growth from key brands and markets and create new opportunities for Fontem
- continue implementing new ways of working to simplify the business and improve our effectiveness and agility
- drive further cost savings and capital discipline
- further investment in our people including building capabilities and succession and improving engagement
- continue the integration of the USA business and deliver against our business plan

Overview

The Directors are collectively responsible and accountable to our shareholders for the long-term sustainable success of the Group. The Board’s role is to provide leadership to the Group, set its strategy and oversee its implementation.

The Board has a key role in ensuring that in achieving our strategy management operates responsibly within our governance framework whilst clearly demonstrating our values and high ethical standards. The Directors are also mindful of their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders whilst having regard to the interests of other stakeholders.

As part of the governance framework the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group’s strategy, business plans, dividends and major financial announcements. The Board is also responsible for approving the acquisition or disposal of assets exceeding defined thresholds.

Within this framework the Board delegates responsibility for developing and implementing strategy and for day-to-day management to our Chief Executive, Alison Cooper, who is supported by the Operating Executive (OPEX), which she chairs. The Board also delegates matters to Board Committees. Clearly defined terms of reference and written limits support these delegations.

The OPEX consists of senior executives from across the business. It oversees operational execution and delivers our strategic and financial plans. The OPEX and Audit Committee also ensure that appropriate internal controls, which function effectively, are in place and effective risk management processes operate throughout the Group.

Matters Considered by the Board in 2015

Five principal scheduled Board meetings were held during the year

2014	2015	2014	2015	2014	2015	2014	2015	
Oct	Nov-Dec	Jan	Feb-Mar	Apr	May	Jun	Jul-Aug	Sep
<ul style="list-style-type: none"> • Report and accounts • Dividend • Business performance • Business planning • Corporate development • US acquisition class 1 circular • Group funding • Operating model • Group footprint development • Cost optimisation • Capital discipline 		<ul style="list-style-type: none"> • First quarter results • Business performance • Corporate development • AGM • Operating model • Brand strategies • Viability and risk management • Shareholder audit 		<ul style="list-style-type: none"> • Half year report • Dividend • Business performance • Corporate development • Group funding • US acquisition update • Overseas visit – research and development facility, Hamburg • Cost optimisation • Capital discipline • Viability and risk management 		<ul style="list-style-type: none"> • Strategy meeting • Business performance • US acquisition integration 		<ul style="list-style-type: none"> • Business performance • Business plan • Corporate development • Board evaluation • Chairman and NED fees • Viability and risk management

Succession and Nominations Committee



Mark Williamson Chairman

“Having the right people in place and appropriate succession plans ensures we can continue delivering significant returns to our shareholders.”

Members

Mark Williamson <i>Chairman</i> ¹	Karen Witts Malcolm Wyman
Ken Burnett	
David Haines	John Downing <i>Company Secretary</i>
Michael Herlihy	

¹ Unless dealing with the succession to the Chairman.
Executive Directors are invited to attend when appropriate.

Focus in 2015

- the appointment of Matthew Phillips to the role of Chief Development Officer
- increasing the Committee’s focus on succession planning
- identifying the skillset required for a new NED appointment and instructing Korn/Ferry Whitehead Mann² to identify appropriate candidates

Focus for 2016

- ongoing review of skillset and composition of the Board
- continuing business updates and education for NEDs
- Board and senior management succession planning

² Korn/Ferry Whitehead Mann also provides online assessments to our sales function with a total value in the year of £40,000.

Overview

Role

The Committee keeps under review and evaluates the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence to enable them to function effectively. Succession plans for the NEDs, Executive Directors and Group’s senior management, in particular the OPEX, are also kept under review.

The Committee also retains an overview of the development of OPEX members together with the wider organisational structure and talent management.

To reflect the Committee’s increased focus on succession planning it changed its name to the Succession and Nominations Committee.

The Committee’s terms of reference are available on our website.

Boardroom Diversity

To maintain the appropriate balance of skills, diversity of knowledge, professional and geographic backgrounds and experience we look ahead to upcoming retirements to identify potential gaps and appoint individuals who are best suited to fill any vacancy. The Committee is mindful of the Davies Review on gender diversity but continues to embrace diversity in the widest sense, including diversity of thought. Appointing the best people to our Board is critical to the success of the Company; the search for candidates and any subsequent appointments are, therefore, made purely on merit regardless of gender, race, religion, age or disability. Given our commitment to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group, we do not think it is appropriate to set targets for Board appointments.

Women, including our Chief Executive, make up 22 per cent of our Board. We also have 22 per cent women on our OPEX.

[Further details on our workforce diversity are set out on page 21.](#)

Director Development

We are committed to the continuing development of our Directors in order to build on their expertise and develop an ever more detailed understanding of the business and the markets in which we operate.

In addition to the ongoing ‘NEDucation’ and training discussed on page 43, we held our April 2015 Board meeting in Hamburg and devoted a day to providing NEDs with insights into the local market strategy and the Group’s research and development activities. They also received updates on projects focused on building the brand equity of our tobacco products, discussed current product development strategies and received an introduction to our growing innovation pipeline.

Succession and Nominations Committee continued

Succession and Nominations Committee in 2015

Election and re-election of Directors

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Committee.

The performance of each Director is considered as part of the annual Board evaluation process. Following the 2015 evaluation, a review of the independence of each NED, particularly in respect of those who have served six years or more, and consideration of attendance, the Board recommends the re-election of all Directors at our 2016 AGM, with the exception of Ken Burnett who, having served on the Board for nine years, will be retiring at the AGM.

Board succession

During the year the Committee identified the profile and skillset required for a NED and instructed Korn/Ferry Whitehead Mann to identify appropriate candidates. Within the Company's policy of appointing the best people Korn/Ferry Whitehead Mann were requested to give consideration to candidates who, in addition to meeting the profile and skillset, add to the overall diversity of the Board.

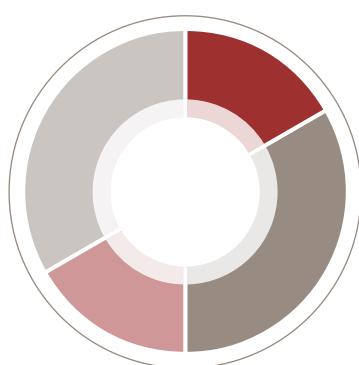
Meetings of the Board, Board Committees and AGM

	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting and General Meeting
Total number of meetings in Financial Year	5	2	4	3	1
Number of meetings attended in Financial Year					
Executive Directors					
Alison Cooper	5/5	–	–	–	1/1
Oliver Tant	5/5	–	–	–	1/1
Matthew Phillips	5/5	–	–	–	1/1
Non-Executive Directors					
Mark Williamson	5/5	2/2	–	–	1/1
Ken Burnett	5/5	2/2	4/4	3/3	1/1
David Haines ¹	5/5	2/2	2/4	3/3	1/1
Michael Herlihy	5/5	2/2	4/4	3/3	1/1
Karen Witts	5/5	2/2	4/4	3/3	1/1
Malcolm Wyman	5/5	2/2	4/4	3/3	1/1

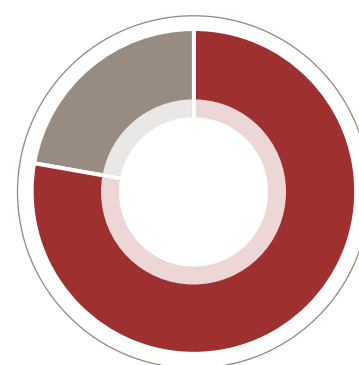
¹ David Haines was unable to attend two Audit Committee Meetings, however, he fully considered the papers before the meeting and provided his thoughts and recommendations to the Audit Committee Chairman.

The maximum number of meetings for each individual Director is the number which they were eligible to attend.

Tenure of Non-Executive Directors



Board gender balance



Audit Committee



Malcolm Wyman Chairman

“The Committee maintained its focus on its key priorities throughout the year including ensuring high standards of financial governance and the enhancement of the risk management framework and systems of internal control.”

Members¹

Malcolm Wyman ² <i>Chairman</i>	Michael Herlihy Karen Witts ²
Ken Burnett David Haines	John Downing <i>Company Secretary</i>

Other regular attendees

Board Chairman	Director of Group Internal Audit ³
Chief Financial Officer	Deputy Company Secretary
Director of Finance and Planning Group Financial Controller	Representatives from PwC our external auditors ³

¹ All members are independent NEDs.

² Malcolm Wyman and Karen Witts meet the Code's requirement of having "recent and relevant" financial experience.

³ At each meeting, both the Director of Group Internal Audit and PwC have the opportunity to meet with the Committee without management present.

This report provides insight into the Audit Committee's major activities and its deliberations in respect of the 2015 financial year to ensure the Group's financial governance processes remain relevant, robust and of a high standard. Set out on page 39 are the key matters we considered during the year and our conclusions.

We meet at key times within the Group's reporting calendar, with comprehensive agendas covering all significant matters to be considered by the Committee. I also meet with management on an ad-hoc basis.

Our auditors, both internal and external, provide the Committee with detailed reports on their audit work. These reports are reviewed and discussed and, where appropriate, challenged to ensure the Committee fully understands all issues and, if required, appropriate action can be instigated. I also meet with the Director of Group Internal Audit and the lead Audit Partner of our external auditors, PricewaterhouseCoopers (PwC), on a regular basis between Committee meetings.

Management prepared and presented to the Committee a wide range of papers on key matters, which provided a sufficient understanding of each matter to facilitate discussions and enable effective decisions to be taken.

Following updates to the UK Corporate Governance Code (the Code) the Committee spent time ensuring that additional requirements introduced by the Code were met by the Group. In particular the enhancements to the risk management framework and processes, and systems of internal control, were a focus area for the Committee. We also spent time considering the processes supporting the assessment of the Group's longer-term solvency and liquidity which underlie the new viability statement. Following which we agreed that the appropriate period over which the assessment should be made for the viability statement is that of the Group's business plan, being three years.

I am satisfied our activities provided the Committee with a good understanding of the key matters impacting the Group during the year and, in conjunction with its oversight of the governance and operation of the Group's significant controls and processes, ultimately enabled the Committee to draw the conclusions set out on page 40.

Malcolm Wyman
Chairman of the Audit Committee

THE BOARD AND ITS COMMITTEES

Audit Committee continued

Main objective

To assist the Board in fulfilling its corporate governance responsibilities relating to the Group's external financial reporting, internal control systems, risk management process and framework, the internal audit function and the external audit. During the year we, as a Committee, achieved this by:

- ensuring the integrity of our financial reporting and confirming that, taken as a whole, our Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- monitoring and evaluating the effectiveness of our risk management and internal control systems and speaking-up process;





- maintaining appropriate oversight over the work and effectiveness of the Internal Audit department, including reviewing its audit findings and monitoring management's responses;
- scrutinising the independence, objectivity and effectiveness of PwC, including reviewing and approving the annual external audit plan, reviewing the audit findings, monitoring compliance with ethical and professional guidance and approving PwC's terms of engagement; and
- throughout the year, considering the key matters, detailed below, including taking account of PwC's views.

The Committee's full terms of reference can be found on our website: www.imperial-tobacco.com

Audit Committee Meetings held in respect of the 2015 financial year

Four Committee meetings were held in respect of the 2015 financial year, at key times within our reporting and audit calendar and included the following matters on the agenda:

2015

Jan	Feb – Mar	Apr	May – Aug	Sept	Oct
<ul style="list-style-type: none"> • Audit planning • Group Internal Audit and Risk Management updates • Treasury update • External Auditors' effectiveness • US acquisition accounting • Internal control • Segmental reporting 		<ul style="list-style-type: none"> • Half Year Report • Impairment review • External Auditors' review of Half Year Report • Tax • External Auditors' fees and independence • US acquisition accounting • Group Internal Audit and Risk Management updates • Internal control • Tobacco related litigation • Audit tendering • Restructuring costs and benefits • Foreign Exchange management 		<ul style="list-style-type: none"> • Impairment review • Tax • US acquisition accounting • Group Internal Audit and Risk Management updates • Complex supplier and customer agreements • External Auditors' report and independence • Going concern and viability • Foreign Exchange management • Internal control • Distributable reserves • Restructuring costs • Segmental reporting 	<ul style="list-style-type: none"> • Annual report and accounts • Foreign Exchange management • Impairment review • Going concern and viability statement • External Auditors' report • Group Internal Audit and Risk Management updates • US acquisition accounting • External Auditors' fees and independence • Internal control • Tobacco related litigation • Retirement benefits • Revenue recognition • Use of adjusted measures • Restructuring costs and benefits • Distributable reserves 





Key Matters Considered

The Committee considered the appropriateness of the following areas of significant judgement, complexity or estimation in connection with the financial statements, as set out below.

Focus area	Why this area is significant	How we as a Committee addressed this area
<p>1 Goodwill and intangible asset impairment reviews</p> <p>see Note 11 of the financial statements for further information.</p>	<p>Goodwill and intangible assets form a major part of the Group's balance sheet and their current valuations must be supported by future prospects.</p>	<p>We regularly received and considered detailed reports from management and challenged the methodology applied, the achievability of underlying business forecasts, and macro-economic assumptions used. For the cash generating units with the lowest headroom (Drive Growth Division and Other Premium Cigars), we examined different scenarios and sensitivities to assess whether management's conclusions were fair and balanced. The Committee also considered detailed reporting from, and held discussions with, PwC. Resulting from the above, we concluded that management's assertion that goodwill and intangible assets were not impaired was reasonable and, therefore, approved the disclosures in our financial statements.</p>
<p>2 Accounting for our USA acquisition</p> <p>see Note 29 for further information.</p>	<p>The fair values and asset lives used in accounting for the assets acquired have an effect on the future earnings of the business.</p>	<p>We reviewed and challenged the detailed reports management had prepared to support the value of goodwill, intangible assets and other major asset categories, together with the asset lives ascribed to them. We also considered the appropriateness of the adjusting items in the reporting of the acquisition and, in particular, we concluded that the determination of acquisition and integration costs was appropriate, consistent with our adjusted measures guidelines and treatment of prior acquisitions. We also reviewed and discussed PwC's detailed report on this area noting that it supported the proposed accounting treatments.</p>
<p>3 Use of adjusted measures</p> <p>see Note 1 for further information.</p>	<p>Non-GAAP or adjusted measures provide a useful assessment of business performance and reflect the way in which the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors.</p>	<p>The Committee considered whether adjusted performance measures had been prepared in accordance with our policy on the use of adjusted measures set out in Note 1 to the financial statements. We also reviewed and challenged papers prepared by management which considered the appropriateness of our policy in the light of both the practice of other companies and externally published guidelines. In addition, this topic was discussed with PwC. We concluded that the Group's policy continues to be appropriate and that it has been applied consistently.</p>
<p>4 Treatment of restructuring costs</p> <p>see Note 5 for further information.</p>	<p>Restructuring costs is one of the main items affecting our adjusted measures. There is a risk that restructuring costs are treated or presented inappropriately within the Group's financial statements.</p>	<p>We periodically reviewed papers from management on actual and forecast levels of restructuring costs. The restructuring costs disclosure for inclusion within the Group's financial statements and half-year results were also reviewed and discussed with management and PwC. Following these detailed reviews and discussions, we concluded that determination of restructuring costs was consistently applied and that, notwithstanding the duration of some restructuring projects, costs were disclosed appropriately.</p>
<p>5 Going concern and viability statement</p> <p>see page 30 for further information.</p>	<p>The Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period.</p>	<p>We examined the Group's committed funding, its ability to generate cash and its ability to raise further funding. We challenged management's cash projections and sensitivity analysis including mitigating actions. In addition, in assessing the Group's longer-term viability we considered outputs of the annual corporate planning processes including the strategic review, a three year business plan and a rolling re-forecast of current year business performance and prospects. We also considered the resilience of the Group to the potential impact of the Group's principal risks and mitigating actions. We concluded that it was appropriate to prepare the financial statements on a going concern basis and that the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2018.</p>

THE BOARD AND ITS COMMITTEES

Audit Committee continued

	Focus area	Why this area is significant	How we as a Committee addressed this area
6	Revenue recognition  see Note 1 for further information.	There is a risk that arrangements could be made to recognise sales that do not meet the Group's criteria for revenue recognition.	We reviewed management's report on complex supplier and customer arrangements and noted the enhanced policy wording on revenue recognition. The Committee is satisfied that the Group's criteria for revenue recognition are appropriate. Discussions were held with management and PwC and no breaches of the Group's revenue recognition policy were brought to the Committee's attention.
7	Segmental reporting  see Note 3 for further information.	As a result of the USA acquisition, changes to management reporting lines and the increased importance of new business areas we reviewed segmental reporting.	Having considered detailed papers from management, we agreed with its conclusion that it is appropriate to report the USA business as a separate segment.
8	Taxation  see Notes 8 and 21 for further information.	The Group is subject to taxation in a number of jurisdictions and significant judgement is required in relation to taxation provisions which could materially affect the Group's reported results.	We received and discussed reports from management in respect of the taxation affairs of the Group, including the structuring of the USA acquisition and the potential impact on the Group of various UK and foreign taxation reform proposals. Following consideration and discussion of these reports and a review of the report provided by PwC, we remain satisfied that the taxation provisions are appropriate.
9	Tobacco-related litigation  see further details on page 47.	The Group is exposed to litigation arising from claimants alleging smoking related health effects.	We considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings and concluded that risks in respect of tobacco-related litigation are appropriately disclosed in the Annual Report and Accounts.

Risk Management and Internal Control

During the year, the Group continued to refine its risk management framework and processes to further formalise and embed the evaluation of risks across the business. This approach is designed to provide greater consistency in the identification and assessment of risks, at both a Group and local level.

The Committee received updates during the year on the embedding of the risk management framework and on the risk management systems and processes operating within the Group. Additionally, the Committee has reviewed the process for identification, assessment, and reporting of the Company's principal risks set out on pages 27 to 29. The Committee has also considered and confirmed to the Board that this work is in accordance with the provisions in the 2014 UK Corporate Governance Code and the Financial Reporting Council's (FRC) associated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Group is aware of the risks to its information technology systems, and employs subject matter experts, including a Chief Information Security Officer to manage these risks. Assurance over compliance with Group requirements is achieved through our Group Internal Audit plan which includes specific reviews to assess compliance with the Group's relevant information technology standards and policies. In line with the reporting of all internal audit issues, any significant matters are reported to the Committee and their resolution monitored.

The above processes and those described in the Risk Management section on pages 25 to 26 enable the Board, either directly or through the Audit Committee, to review regularly the effectiveness of the key procedures which have been established in order to provide appropriate internal controls. They also enable the Board to confirm that an ongoing process for identifying, evaluating and managing the Group's principal risks has operated throughout the year and up to the date of the approval of the Annual Report and Accounts.

Group Internal Audit

In January 2015, the Corporate Assurance function was restructured to establish Group Internal Audit (GIA) as a standalone department with a stronger, more independent identity and a remit to increase the level of challenge provided to management across the full range of the internal control framework. GIA continued to extend its coverage across the Business Transformation agenda, incorporate higher levels of strategic insight into all audit work and increase the level of engagement with senior stakeholders. GIA introduced its "Guest Auditor" programme which allows selected staff from across the business to participate in audits, both harnessing their specialist expertise and widening their experience of the broader business.

The Committee reviews the annual internal audit plan, including its scope and extent, and reviews reports from GIA at each quarterly Committee meeting to monitor the function's achievements against plan. The Committee considered the results of the audits undertaken by GIA and monitored management responses to the audit matters raised. Satisfaction surveys are completed by management following each audit and feedback on GIA performance during the year has been broadly positive.

GIA conducted a self-assessment of effectiveness against the best practice standards of both the Institute of Internal Auditors (IIA) and the Institute of Chartered Accountants of England and Wales (ICAEW). Whilst highlighting some areas for continual improvement the self-assessment reflected an improving level of GIA performance.

Independence of our External Auditors

In order to ensure the independence and objectivity of PwC, the Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that our External Auditors may and may not provide and can be found on our website.

PwC, and its predecessor firms, has been the Company's Auditors since its demerger in 1996. In line with our Auditor Independence Policy, the Group Audit partner is required to rotate after a maximum of five years (seven years for subsidiary companies). John Maitland, our Audit Partner, has been in post since 2013.

PwC may only provide non-audit services where those services do not conflict with its independence. The policy establishes a formal authorisation process, including the tendering for individual non-audit services expected to generate fees in excess of £250,000, and pre-approval by the Committee for allowable non-audit work that they may perform. Guidelines for the recruitment of employees or former employees of PwC, and for the recruitment of our employees by PwC, are contained in the policy. During the year, the only non-audit fee in excess of £250,000 was in relation to work undertaken in connection with the USA cigarette brand and e-cigarette acquisition.

During the year PwC undertook non-audit. This non-audit work was awarded to PwC due to its knowledge of the Group and it being deemed best placed to provide effectively the services required. This non-audit work included:

- regulatory assurance work pursuant to the USA acquisition
- tax advisory and tax compliance work
- verification of our corporate social responsibility reporting and underlying processes
- agreed upon processes in respect of the performance criteria of our employee share plans

In the current year non-audit fees were 87 per cent (2014: 64 per cent) of total audit fees (see note 4 on page 87). This ratio is significantly impacted by the work undertaken in connection with the USA cigarette brands and e-cigarette acquisition. The Committee considers that the level of non-audit fees is appropriate in the light of the above activities, and is comparable with those disclosed by similar companies with international activities, and does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

To ensure compliance with this policy, during the year the Committee carried out two auditor independence reviews including consideration of the remuneration received by PwC for audit services, audit-related services and non-audit work. The Committee also considered reports by both management and PwC which did not raise any concerns in respect of PwC's independence and confirmed that PwC maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by PwC was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work. The Committee, therefore, confirmed that the Company and Group continues to receive an independent audit service.

Audit Quality and Approach to Audit Tender

We place great importance on ensuring that we receive a high standard and effective external audit. To assist the Committee to assess the performance of our external auditors, during the year audit effectiveness questionnaires, covering the audit scope and planning, quality and delivery, challenge and communication and independence, were completed by members of both the Committee and Logista's Audit Committee as well as by senior managers and finance executives

from across the Group. Responses indicated that, as with previous reviews, there was a consistently high perception of auditor effectiveness, with no pervasive Group-wide concerns identified.

Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of PwC's reports to the Committee and its interaction with the audit partner, and taking into account the audit quality inspection report issued by the FRC in regard to PwC in May 2015, the Committee remains satisfied with the efficiency and effectiveness of the audit.

Following the introduction of the audit tendering provisions in the Code, the Committee annually considers if the audit should be put out to tender. The result of this year's review was not to put the audit out to tender. The audit has not been put to tender since PwC were appointed as the Company's Auditors in 1996.

The new European Union Audit Directive has been finalised and its requirements have to be in place in the UK by 16 June 2016. Although the UK legislation has yet to be published we anticipate that it will set significant restrictions on the non-audit services our auditors will be able to supply to the Group from 1 October 2016. We also anticipate that these requirements will make audit firm rotation mandatory for the Group by 2023. We believe it is in the interest of both the Group and its stakeholders to ensure that the pool of major accountancy firms with the capacity to be appointed as auditor is maximised. As part of our tender planning we have, therefore, established a number of processes including the pre-approval of any future services by appropriate accountancy firms to maintain an adequate level of independence to allow them to tender. During the auditor independence reviews, detailed above, we also considered the remuneration for audit services, audit-related services and non-audit work undertaken by such accountancy firms.

There are no contractual or similar obligations restricting the Group's choice of external auditors.

Statement of Auditors' Responsibilities

PwC is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Tobacco Group PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report as required by legislation or regulation and reports its opinion to members.

 PwC's opinions are included on pages 68 and 116.

Auditors and Disclosure of Information to Auditors

Each of the Directors in office at the date of approval of this Annual Report confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by PwC in connection with preparing its report) of which PwC is unaware; and
- each has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish PwC is aware of that information.

The Board accepted at its October 2015 meeting the Committee's recommendation to put to shareholders at the forthcoming AGM a resolution to reappoint PwC as Auditors to the Company.

Application of the UK Corporate Governance Code

The latest revision of the UK Corporate Governance Code (the Code) was published by the FRC in September 2014, together with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The 2014 amendments are applicable to reporting periods beginning on or after 1 October 2014.

We are pleased to confirm that the Company has complied in full with the Code, including the 2014 amendments, throughout this financial year. The Company has not, however, tendered for audit services in the last ten years.

We detail below how, in practice, the Company has applied the Code's principles and complied with its detailed provisions.

Specifically, the 2014 amendments include the requirement for additional statements by the Directors in respect of the longer-term viability of the Company and that they have made a robust assessment of the principal risks facing the Company. These new requirements are addressed in the new Viability Statement that follows the disclosures of Principal Risks and Uncertainties on page 30.

Board and its Committees

Each of our Board Committees has specific written terms of reference issued by the Board and adopted by the relevant Committee. All Committee chairmen report on the proceedings of their Committee at the next meeting of the Board and, where appropriate, make recommendations to the Board. In addition, minutes of all Committee meetings are circulated to Board members.

To ensure Directors are kept up-to-date on developing issues and to enhance the overall effectiveness of the Board and its Committees, our Chairman and Committee chairmen communicate regularly with the Chief Executive and other Executive Directors.

Our NEDs play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee are considered on pages 35, 37 and 49. The open atmosphere at our Committee meetings enables our NEDs to use their judgement, experience and independence to review critically and, where appropriate, challenge constructively strategies proposed by management. This ensures the further development of our business, effective use of our resources and maintenance of our high standards of conduct.

Matters Reserved for the Board

In order to retain control of key decisions the Board has adopted a schedule of matters on which it must make the final decision including approval of the Group and parent company financial statements, the Group's business strategy, the annual capital expenditure plan, major capital projects, major changes to the Group's management and control structure, material investments or disposals, risk management strategy, sustainability and environmental policies, the appointment or removal of Directors and the Company Secretary and treasury policies.

Division of Responsibilities of our Chairman and Chief Executive

Whilst retaining a close working relationship, our Chairman and Chief Executive have clearly defined and separate responsibilities divided between running the Board and the business. They meet regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making. They are responsible to our shareholders for the successful delivery of our strategy.

Board Composition and Roles

Chairman	Mark Williamson	Leads the Board and creates an environment that ensures there are strong links between the Board and our shareholders and management. Mark met the independence criteria of the Code on appointment and there have been no significant changes to his external commitments subsequent to his appointment.
Chief Executive	Alison Cooper	Supported by the Executive Directors and the OPEX, has day-to-day management responsibility for the Group, for recommending the Group's strategy to the Board and, once agreed, its implementation. Alison promotes the Group's values, culture and high standards of conduct and behaviour which underpin our reputation and support the delivery of our sustainable sales growth.
Executive Directors	Oliver Tant Matthew Phillips	Support the Chief Executive in devising and implementing our strategy and overseeing the operations and development of the entire Group, in addition to specific responsibility for managing their own areas of the business.
Senior Independent Director	Michael Herlihy	Responsible for assisting the Chairman with effective shareholder communication and is available to them should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. No such concerns were raised during the year. Michael is available to our NEDs should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman. He also acts as a sounding board for the Chairman and carries out the Chairman's performance evaluation.
Non-Executive Directors	Ken Burnett David Haines Karen Witts Malcolm Wyman	Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse range of business and financial expertise which complements and supplements the experiences of the Executive Directors.

Conflicts of Interest and Independence

Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. In accordance with the Companies Act 2006 (the Act), our Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit.

Directors are required to give notice of any potential situational and/or transactional conflicts, which are considered at the following Board meeting and, if appropriate, situational conflicts are authorised. We do not allow any Director to participate in such considerations or to vote regarding their own conflicts.

The Board has considered and authorised a number of situations all of which relate to the holding of external directorships and have been entered in our Conflicts Register. No actual conflicts have been identified. The Board considers that these procedures operate effectively.

As part of our annual review process, during the Board meeting in September 2015 we reviewed and reconsidered all situations entered in the Conflicts Register and the Board is satisfied that the independence of those Directors who have external board appointments has not been compromised. At this meeting, and taking into account the annual Board performance evaluation discussed below, the Board concluded that all our NEDs continue to contribute effectively and constructively to Board debate, demonstrate commitment to their role, challenge objectively and question management robustly and at all times have the best interests of our shareholders in mind.

We confirm, therefore, that, with the exception of our Chairman who met the independence criteria of the Code on appointment, our NEDs remained independent throughout the year as defined in the Code.

External Appointments

NEDs, including the Chairman, may serve on a number of other boards provided they continue to demonstrate the requisite commitment to discharge effectively their duties. The Succession and Nominations Committee reviews the extent of the NEDs' other interests throughout the year. The Board is satisfied that each of the NEDs commits sufficient time to their duties in relation to the Company. Each of the NEDs has confirmed they have sufficient time to fulfil their obligations to the Company.

The Board is supportive of Executive Directors and members of the OPEX accepting non-executive directorships of other companies in order to widen their experience and knowledge for the benefit of the Company. Accordingly, subject to the agreement of the Board, Executive Directors and members of the OPEX are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment.

Information and Training

Following their appointment to the Board, Directors are briefed on the legal and other duties they owe to the Company. Tailored induction programmes are arranged which include industry-specific training, visits to the Group's businesses and meetings with senior management. They are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance related matters.

Through its 'NEDucation' programme the Company is also committed to the continuing development of its NEDs in order that they may build on their expertise and develop their understanding of the business and the markets in which we operate.

Through this programme ongoing training is available to NEDs to meet their individual needs. We also provide regular briefings to all Directors on matters such as legislation and regulation changes and corporate governance developments. Members of our Audit and Remuneration Committees also received briefings from PwC and New Bridge Street respectively. No specific training needs were identified in 2015.

The Board and its Committees are supplied with full and timely information, including detailed financial information, to enable them to discharge their responsibilities.

The Company Secretary is responsible for advising the Board, through the Chairman, on matters of corporate governance. In addition, all Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters.

Independent professional advice is available to Directors, in appropriate circumstances, at the Company's expense.

Performance Evaluation

To enhance the effectiveness of the Board, during the year it undertook a review of its performance, that of its Committees and of individual Directors.

This review considered the overall functioning of the Board and its Committees, the balance and range of Directors' skills, diversity, succession and how the Board works as a unit.

As part of the evaluation, the Chairman held meetings with the NEDs to consider, amongst other things, the performance of the Executive Directors.

The Senior Independent Director also held separate meetings with the NEDs and the Board, both without the Chairman present, to consider the performance of the Chairman.

The feedback obtained was collated into a report which was presented to the Board at its September 2015 meeting and used as the basis for one-to-one development discussions between the Chairman and each Director.

The evaluation showed that the Board and its Committees continue to operate effectively and neither significant areas for concern nor any requirement to provide extra training for our Directors were identified. Consequently, the Board and its Committees are satisfied they are operating and performing effectively. The evaluation confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees and that they remain appropriately constituted.

Areas identified for further consideration were potentially increasing the number of NEDs on the Board, increasing the NEDs' understanding of the Group's priorities within its divisions and ensuring the Board has adequate time to consider appropriately all matters requiring its attention.

We have addressed the issues identified in the 2014 Board evaluation including enhancing our 'NEDucation' programme as outlined above and on page 35.

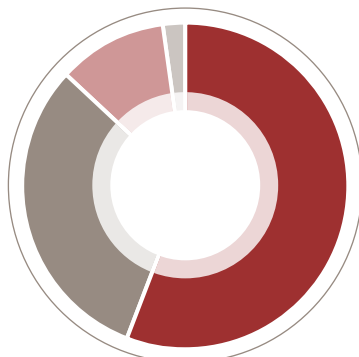
Insurance and Indemnities

We have purchased and maintain appropriate insurance cover in respect of directors' and officers' liabilities. The Company has also entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Act. These indemnities were in force throughout the year and up to the date of this Annual Report.

Dialogue with our Investors

Geographical Analysis of Shareholders (as at 30 September 2015)

- UK – 56%
- USA – 31%
- Rest of Europe – 11%
- Rest of the World – 2%



We aim to provide balanced, clear and transparent communications which allow shareholders to understand how we see our prospects and the market environments in which we operate.

We maintain an active engagement with our key financial audiences, including institutional shareholders and sell side analysts as well as potential shareholders. During the year we made regular presentations to, and had meetings with, institutional investors in the UK, Europe, Canada and the USA to communicate progress towards achieving our sales growth strategy and to answer questions. Throughout the year our senior management team presented at industry conferences organised by investor bodies and investment banks for their institutional investor bases. Our Investor Relations team managed the interaction with these audiences and provided additional regular presentations during the year.

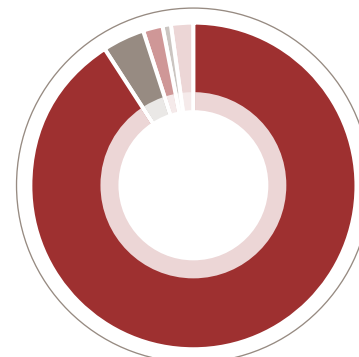
The primary means of communication with the majority of our shareholders is via our Annual Report and Accounts, Half-Year Report and website on which we publish Interim Management Statements. These were supported by a combination of presentations, conference calls, one-to-one meetings and investor meetings.

NEDs, including our Senior Independent Director, were available throughout the year to meet with major shareholders if requested and are kept up-to-date with investor opinion including via our annual survey of investor opinions.

We offer our shareholders the choice of submitting proxy votes, including abstentions, either electronically or in paper format and ensure our Annual Report and Accounts and Notice of the AGM are made available at least 20 working days prior to the meeting to allow shareholders time to consider them fully before submitting their proxy votes.

Shareholder Composition (as at 30 September 2015)

- Institutional – 91%
- Non-institutional – 4%
- Retail – 2%
- Employees – 1%
- Miscellaneous – 2%



At the AGM our Chairman and Chief Executive give presentations on our performance and current business activities and all Directors make themselves available to meet shareholders after the conclusion of the formal business of the AGM.

To ensure compliance with the Code, at all general meetings separate resolutions are proposed on each subject and all resolutions are put to a poll. At the AGM the number of proxy votes for, against and abstentions for each resolution are provided. Votes received at the AGM are added to the proxy votes and the final results published through a Regulatory Information Service, on our website and via OTCQX.

At our 2015 AGM and the General Meeting to consider the acquisition of certain USA cigarette and e-cigarette brands and other assets we received votes representing approximately 79 per cent of our issued share capital (excluding shares held in treasury at the date of the meetings).

Our next AGM will be held on Wednesday 3 February 2016, full details of which are contained in the Notice of Meeting available on our website and, where applicable, posted with this Report.

Other Information – Introduction

One of the Board's primary responsibilities is to ensure the Company is run in the best long-term interests of its shareholders and wider stakeholders. We believe this can only be achieved if the activities of the Group are supported by appropriate governance processes applied across the Group.

These processes are illustrated below and in the individual Committee reports.

In accordance with the UK Companies Act 2006 (the Act) the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Act, is included in the Strategic Report. The information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the Chief Executive's Review;
- information relating to our people is included in the Rewarding Workplace section;
- our principal risks as detailed on page 27 to 30;
- the Directors of the Company during the financial year are listed on pages 32 and 33.

Share Capital

Details of our share capital are shown in note 24 to the Financial Statements. All shares other than those held in treasury are freely transferable and rank *pari passu* for voting and dividend rights.

At our AGM on 28 January 2015 shareholder authority for the buyback of up to 95,709,000 shares was obtained.

As at 30 September 2015 we held 78,909,137 shares in treasury, which represented 7.62 per cent of issued share capital and had an aggregate nominal value of £7,890,914.

We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve and they represent a deduction from equity shareholders' funds.

At 30 September 2015 we had been notified of the following interests in 3 per cent or more of our shares.

	Number of ordinary shares (millions)	Percentage of issued share capital
BlackRock Inc	53	5.59 ²
Invesco Limited	47	4.94 ¹
Morgan Stanley Investment Management Limited	42	4.44 ¹
Franklin Resources Inc	41	4.30 ²
Capital Group Companies Inc	39	4.03 ²

At 30 November 2015 we had been notified of the following interests in 3 per cent or more of our shares.

	Number of ordinary shares (millions)	Percentage of issued share capital
BlackRock Inc	53	5.59 ²
Capital Group Companies Inc	48	5.01 ²
Invesco Limited	47	4.94 ¹
Morgan Stanley Investment Management Limited	42	4.44 ¹
Franklin Resources Inc	41	4.30 ²

1 Direct holding.

2 Indirect holding.

We have not received notification that any other person holds 3 per cent or more of our shares.

The share interests of the Directors, their families and any connected persons are shown on page 60. Other than as disclosed on page 53, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

Information concerning employees and their remuneration is given in note 6 to the Financial Statements and in the Directors' Remuneration Report.

Financial Results and Dividends

We include a review of our operational and financial performance, current position and future developments in our Strategic Report: Strategy, Risks, Performance and Governance sections.

The profit attributable to equity holders of the Company for the financial year was £1,691 million, as shown in our consolidated income statement. Note 3 to the Financial Statements gives an analysis of revenue and operating profit.

An analysis of net assets is provided in the Consolidated Balance Sheet and the related notes to the Financial Statements.

We moved to quarterly dividend payments with effect from financial year 2015. The first and second dividends for financial year 2015 were paid on 30 June 2015 and 30 September 2015 respectively. The third dividend will be paid on 31 December 2015 and, subject to AGM approval, the final dividend will be paid on 31 March 2016 to our shareholders on the Register of Members at the close of business on 5 February 2016. The associated ex-dividend date will be 4 February 2016.

The Directors have declared and proposed dividends as follows:

£ million	2015	2014
Ordinary Shares		
Interim paid – June 2015, 21.4p per share	204	–
Interim paid – August 2014, 38.8p per share	–	370
Interim paid – September 2015, 21.4p per share	204	–
Proposed interim – December 2015, 49.1p per share	468	–
Final paid – February 2015, 89.3p per share	–	851
Proposed final – March 2016, 49.1p per share	468	–
Total ordinary dividends, 141.0p per share (2014: 128.1p)	1,344	1,221

Relations With Other Stakeholders

Charitable and Political Donations

As part of our responsible approach and commitment to reinvesting in society, we continued to support the communities in which we operate by allocating £2.55 million (2014: £3.28 million) to partnership and community investments, in addition to in-kind activities including management time, volunteering, gifts in-kind and localised activities. This amount was less than in 2014 as some partner payment commitments have been scheduled for later in the calendar year, after the end of our financial year.

Although difficult to quantify in monetary terms, our in-kind activities have increased in 2015 including the launch of our first global volunteering initiative, which achieved 50,000 hours of employees' time in support of charitable activities.

Through the UK Charities Aid Foundation we apportioned £1.7 million to registered charities, supporting the Eliminating Child Labour in Tobacco Growing Foundation, our Altadis Foundation and a small number of UK charities.

We also apportioned £0.7 million to our leaf sustainability partnerships which seek to help rural tobacco growing communities, predominantly in sub-Saharan Africa.

More detailed information on our approach to supporting community livelihoods can be found on our website www.imperial-tobacco.com/cr.

All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to EU political parties, organisations or candidates (2014: Nil). This approach is aligned with our Group Policy and Code of Conduct.

Pension Fund

Our main pension fund, the Imperial Tobacco Pension Fund, is not controlled by the Board but by a trustee company, the board of which consists of five directors nominated by the Company, one director nominated by employee members and two nominated by current and deferred pensioners. This trustee company looks after the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose.

 Further details are contained in our Remuneration Report.

Articles of Association

The Company's Articles of Association do not contain any entrenchment provisions and, therefore, may be altered or added to or completely new articles may be adopted by special resolution subject to the provisions of the Companies Act 2006.

Significant Agreements That Take Effect, Alter or Terminate on Change of Control

The agreements summarised below are those which we consider to be significant to the Group as a whole and which contain provisions giving the other party a specific right to terminate them if we are subject to a change of control following a takeover bid.

The Group has ten credit facility agreements that provide that, unless the lenders otherwise agree, if any person or group of associated persons acquires the right to exercise more than 50 per cent of the votes at a general meeting of the Company, the respective borrowers must repay any outstanding utilisation made by them under the respective facility agreement and the total commitments under that facility agreement will be cancelled.

The ten credit agreements are:

- a credit facilities agreement dated 15 July 2014 under which certain banks and financial institutions make available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited: (a) committed acquisition credit facilities across three tranches of \$4,100 million, \$1,500 million and \$1,500 million, for a maximum period of up to three years, four years and six years respectively; (b) committed credit facilities of €1,000 million for a period of up to three years; and (c) committed credit facilities in two tranches of €2,835 million and £500 million for a period of five years. The \$4,100 million three-year tranche of the committed acquisition credit facilities was subsequently repaid in full in July 2015, while the \$1,500 million five-year tranche has been partially repaid such that this tranche has now reduced to \$450 million as at 30 September 2015; and
- eight deeds of counter-indemnity each dated 3 June 2014 made on substantially the same terms under which certain insurance companies and financial institutions each make available to Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £400 million, until 3 December 2019; and
- a credit facility agreement dated 9 June 2015 in which Bank of America Merrill Lynch Limited makes available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited a committed credit facility of \$300 million for a maximum period of up to five years.

In the event that any of the listed credit facility agreements are subject to any such repayment and cancellation, we would expect the Group to replace these agreements with similar arrangements in order to satisfy its existing funding commitments, ongoing working capital and similar requirements, as well as its long-term and strategic plans.

Imperial Tobacco Finance PLC (the Issuer) has issued bonds under a Euro Medium Term Notes (EMTN) Debt Issuance Programme (as noted below). The Company acted as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer of a tax call, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at its nominal value if: (a) any person, or persons acting in concert or on behalf of any such person(s) becomes interested in: (i) more than 50 per cent of the issued or allotted ordinary share capital of the Company; or (ii) such number of shares in the capital of the Company carrying more than 50 per cent of the voting rights normally exercisable at a general meeting of the Company; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds issued in such manner are as follows:

- 15 September 2008 £600,000,000 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000,000,000 9 per cent guaranteed notes due 2022;
- 17 February 2009 €1,500,000,000 8.375 per cent guaranteed notes due 2016;
- 24 June 2009 £500,000,000 7.75 per cent guaranteed notes due 2019;
- 5 July 2011 €850,000,000 4.5 per cent guaranteed notes due 2018;

- 26 September 2011 £500,000,000 5.5 per cent guaranteed notes due 2026;
- 1 December 2011 €750,000,000 5 per cent guaranteed notes due 2019;
- 28 February 2014 €1,000,000,000 2.25 per cent guaranteed notes due 2021;
- 28 February 2014 €650,000,000 3.375 per cent guaranteed notes due 2026; and
- 28 February 2014 £500,000,000 4.875 per cent guaranteed notes due 2032.

Imperial Tobacco Finance PLC has also issued bonds in the United States of America under the provisions of Section 144a and Regulation S respectively of the US Securities Act (1933). The Company acted as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer of a tax call, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at 101 per cent of its nominal value if: (a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock; or (ii) there is a transfer (other than by merger, consolidation or amalgamation) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act); or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds issued in such manner are as follows:

- 11 February 2013 \$1,250,000,000 2.05 per cent guaranteed notes due 2018;
- 11 February 2013 \$1,000,000,000 3.50 per cent guaranteed notes due 2023;
- 21 July 2015 \$500,000,000 2.05 per cent guaranteed notes due 2018;
- 21 July 2015 \$1,250,000,000 2.95 per cent guaranteed notes due 2020;
- 21 July 2015 \$1,250,000,000 3.75 per cent guaranteed notes due 2022; and
- 21 July 2015 \$1,500,000,000 4.25 per cent guaranteed notes due 2025.

Update on Tobacco-Related Litigation

Ireland

In the Republic of Ireland, the number of tobacco-related claims has fallen to only five. In four of these cases, the claimants are deceased and their solicitors have been unsuccessful in their efforts to contact their families. The fifth case has been inactive since 2003 and can be assumed to have been abandoned. If any of these claims reactivate, it is very likely that they would be struck out on grounds of delay.

Italy

We are currently facing two claims in Italy. The first is against Logista, which is the subject of a challenge on grounds of jurisdiction and the admission of evidence. This challenge was heard in 2006 but judgement is still awaited.

The second claim has been brought in the Court of Messina by two individuals claiming €800,000 in total. We have denied liability. Two procedural hearings took place on 17 September 2014 and 24 June 2015 respectively. The next hearing has been scheduled for 13 November 2015.

Morocco

Our Moroccan subsidiary, Société Marocaine des Tabacs (SMT), is facing a claim in the Casablanca Court brought by the heirs of a deceased individual. The total amount of compensation sought is not yet known. The first substantive hearing is scheduled for 3 November 2015.

To date, no action has been successful or settled in favour of any claimant in any tobacco-related litigation against Imperial Tobacco or any of its subsidiaries. Imperial Tobacco has been advised by its lawyers that it has meritorious defences to the legal proceedings set out above. We will continue vigorously to contest all such litigation against us.

Other Information – Listing Rules

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found on the pages set out below:

Section	Information	Page
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	51, 57, 58, 63 and 64
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	Not applicable
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Non pre-emptive issue by a major subsidiary undertakings	Not applicable
(9)	Listed subsidiary	Not applicable
(10)	Contracts of significance	46 and 47
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	See below
(13)	Shareholder waivers of future dividends	See below
(14)	Agreements with controlling shareholders	Not applicable

In respect of LR 9.8.4R(12) and (13) the trustee of the Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust agrees to waive dividends payable on the Group's shares it holds for satisfying awards under various Imperial Tobacco Group PLC share plans. In accordance with Section 726 of the Act no dividends can be paid to the Company in respect of the shares it holds in treasury.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom GAAP (United Kingdom Accounting Standards and Applicable Law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Each of the Directors, whose names and functions are listed on pages 32 and 33, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Strategic Report and the Directors' Report were approved and signed by order of the Board.



John Downing
3 November 2015

Imperial Tobacco Group PLC
Incorporated and domiciled in England and Wales No: 3236483

DIRECTORS' REMUNERATION REPORT

Remuneration Committee



David Haines Chairman

“Our remuneration policy supports our strategy and incentivises management to maximise opportunities for long-term sustainable growth.”

Members

David Haines *Chairman*
Ken Burnett
Michael Herlihy

Karen Witts
Malcolm Wyman
Trevor Williams
Committee Secretary

Other regular attendees

Board Chairman¹
Chief Executive¹
Company Secretary
Group Human Resources Director¹

Group Reward Director
New Bridge Street, the
Committee's principal advisor²

1 Specifically excluded when their own remuneration or conditions of service are under discussion.
2 Appointed by the Committee.

Focus in 2015

- implementing the revised remuneration policy following shareholder approval comprising:
 - consolidating all long term awards into a single LTIP. The LTIP is a five year plan, having a three year performance period and an additional two year holding period for vested awards;
 - implementing mandatory deferral of bonus to require 50 per cent of bonus paid to be deferred into shares and released after three years; and
 - strengthening claw back and malus provisions
- review of Matthew Phillips' remuneration package in light of his significantly increased responsibilities
- consideration and review of performance conditions following the acquisition of assets in the USA

Focus for 2016

- no changes to the remuneration policy are proposed for 2016
- following the acquisition of assets in the USA, ongoing monitoring of performance conditions to ensure incentive pay-out levels appropriately reflect the intentions of the Committee and the remuneration policy at the time of grant
- review of reward strategy and positioning in light of the changed profile of the business following the USA acquisition

Remuneration Summary

The Committee's aim

Our remuneration policy incentivises management to deliver our strategy, building on its track record of delivering significant returns to our shareholders.

Our remuneration packages comprise

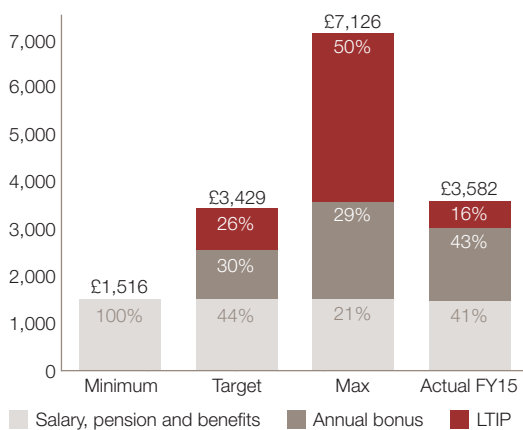
Fixed elements:	Variable elements:
– salary	– annual bonus
– pension	– long term incentive plan
– benefits	

See a summary of our remuneration policy on page 51.

Balance of elements

Packages are weighted towards performance related variable elements with targets aligned to the key performance indicators we use to measure the progress we make in delivering our strategy.

The potential reward opportunity for Alison Cooper, our Chief Executive in the current financial year, is:



See the full scenario analysis on page 53.

Summary of Total Remuneration for each Executive Director

£'000	Salary	Taxable benefits	Annual bonus	Share plans vesting	Share-save vesting	Pension benefits	Total
Executive Directors							
Alison Cooper	965	16	1,544	571	6	480	3,582
Oliver Tant	630	16	1,008	–	–	163	1,817
Matthew Phillips	478	23	705	169	4	296	1,675
	2,073	55	3,257	740	10	939	7,074

Read the full details in our Remuneration Report on page 56.

Dear Shareholder

To maintain alignment with the Group's long-term strategic priorities we have, over recent years, made a number of changes to our remuneration policy, including further increasing the focus of our executives' pay towards the long-term. We aim to ensure that executive remuneration is not excessive but is fair and competitive, and enables the Group to attract and retain the talented individuals needed to drive our large and complex business forward.

The changes we proposed to our remuneration policy last year, which included the consolidation of two long-term incentive arrangements, were approved by shareholders at our AGM on 28 January 2015 and I was pleased with the 94 per cent vote in support.

The 2014 UK Corporate Governance Code (the Code) places greater emphasis on ensuring that remuneration policies are designed to promote each company's long-term success. It also emphasises that arrangements should be in place to enable withholding or recovery of variable pay, when appropriate, and holding periods for deferred remuneration.

I am confident that the strong links between our performance targets and key performance indicators used to measure the progress in delivering our strategy, the deferral and holding periods we have introduced and the robust malus and clawback provisions within the annual bonus and LTIP fully meet the Code's enhanced provisions.

We are not proposing any changes to the policy for the year ahead and have, therefore, set out a short summary of our policy on page 51 with the full policy contained within our 2014 Annual Report and Accounts available on our website, <http://ar14.imperialtobacco.com>

Whilst the external environment remained challenging, we continued to deliver against strategy; of particular note we drove our Growth Brands to outperform the market by 14.4 per cent enabling us to stabilise market share and exceed earnings expectations. Strong financial discipline also enabled us to increase cash conversion to 97 per cent. Delivery against strategy resulted in an annual bonus pay-out for Executive Directors of 80 per cent. This continued progress has yet to be reflected in the outcomes of the long-term plans; there will be only partial vesting of LTIP awards made in December 2012 and no vesting of SMS awards made in February 2013.

During the year we delivered a major acquisition of USA cigarette and e-cigarette brands from Reynolds American. This increases our share of the USA market to approximately 10 per cent and will be earnings accretive and delivers return on invested capital of approximately 10 per cent in the first year. In light of this change to the profile of the business, the Committee will commence a review of remuneration strategy and positioning in 2016, ensuring remuneration continues to support the creation of a stronger, more agile business and enhances our ability to generate sustainable shareholder returns.

Following the acquisition we realigned management responsibilities including appointing Matthew Phillips to the new role of Chief Development Officer. In this role he assumed responsibility for Group strategy, corporate development and our standalone Fontem Ventures business (including blu), whilst retaining his existing responsibilities for corporate, legal and regulatory affairs. Subsequent to informing our major shareholders, the Committee reviewed his remuneration (detailed on page 59).

In light of the positive impact of the acquisition on Group net revenue, the Committee will use its powers of discretion to increase net revenue targets for existing LTIPs as necessary to ensure the appropriateness of future vesting levels.

The Committee continues to review incentive measures annually. For financial year to 30 September 2016 it does not intend to amend the measures, as these continue to be aligned with our strategy and the

interests of our investors, but targets for 2016 have been set based on the higher performance expectations of the enlarged business.



David Haines
Chairman of the Remuneration Committee

Governance

The role of the Remuneration Committee

The Board recognises that it is ultimately accountable for executive remuneration but has delegated this responsibility to the Committee.

The Committee's principal function is to support the Group's strategy by ensuring its delivery is incentivised by the remuneration policy. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives.

The Committee held three meetings during the financial year.

The Committee's responsibilities include:

- ensuring remuneration arrangements support our strategy, align with our values and drive performance;
- maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract and retain high calibre individuals;
- aligning senior executives' remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive;
- assessing the output from the Board evaluation process insofar as it relates to the Committee;
- making recommendations to the Board in respect of our Chairman's fees;
- setting targets for performance related elements;
- oversight of our overall policy for senior management remuneration and of our employee share plans; and
- ensuring appropriate independent advisors are appointed to provide advice and guidance to the Committee.

The Committee's full terms of reference provide further details of the role and responsibilities of the Committee and are available on our website.

All members of the Committee are independent Non-Executive Directors which we consider fundamental in ensuring Executive Directors' and senior executives' remuneration is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed.

To reinforce this independence, a standing item at each Committee meeting allows the members to meet without any Executive Director or other manager being present.

This Report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this Report we describe how the principles of good governance relating to directors' remuneration, as set out in the UK Corporate Governance Code 2014 (the Code), are applied in practice. The Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.

The Regulations require our Auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The Auditors' opinion is set out on page 68 and we have clearly marked the audited sections of the Report.

Summary Remuneration Policy for Executive Directors

There are no changes proposed to the policy approved by shareholders at our 2015 AGM, a summary of which is set out below. It does not replace or override the full approved policy, which is available on the Group's website <http://ar14.imperial-tobacco.com/pdfs/imperial-tobacco-annual-report-2014-governance.pdf>.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Salary	Attract and retain high performing individuals, reflecting market value of role and the Executive Director's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Committee taking into account each Executive Director's performance together with changes in role and responsibility, general increases for the UK wider management population and with reference to external market comparators. Salary increases, if any, are generally effective from 1 October.	No prescribed maximum annual increase.
Benefits	Competitive benefits taking into account market value of role and benefits offered to the wider UK management population.	Benefits include provision of company car, health insurance, life insurance and permanent health insurance which are provided directly or through the Company pension scheme. Opportunity to join the Sharesave Plan. Provision of relocation assistance upon appointment if/when applicable.	The level of benefit provision is fixed.
Annual Bonus Plan	Incentivise delivery of Group strategic objectives and enhance performance.	At least 60% of the annual bonus is linked to key financial metrics and no more than 15% will be linked to individual measures. Performance below the threshold results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any annual bonus is paid in deferred shares which must be held for a minimum of three years. The other half is paid in cash. Malus provisions apply before payment and claw back provisions are in place for the three years following payment of annual bonus.	200% of base salary or such lower sum as determined by the Committee.
Long-Term Incentive Plan	Incentivise long-term Group financial performance in line with the Group's strategy and long-term shareholder returns. Align Executive Directors' interests with those of long-term shareholders.	Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 20% on relative total shareholder return (TSR) vs a peer group and 80% on financial measures. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Claw back and malus provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. Any awards which vest will be subject to a further two year holding requirement.	Chief Executive Officer: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Committee. Plus shares equivalent to the value of the dividend roll-up.
Pensions	Attract and retain high performing Executive Directors.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors who joined the Fund prior to 1 October 2010 are members of the defined benefit section whereas Executive Directors joining the Fund on or after this date are offered membership of the defined contribution section. Members of the defined benefit section of the fund accrue pension at a rate between 1/47 th and 1/60 th of pensionable salary. Further detail is provided on page 58. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.	Current policy is for a defined contribution and cash supplement limit of 26% of salary. Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary.

Note: Legacy awards – In accordance with the Remuneration Policy, subject to the achievement of applicable performance conditions, Executive Directors remain eligible to receive payments, and existing awards may vest, in accordance with the terms of any such award (including the Share Matching Scheme) made prior to its implementation.

Committee discretions relating to variable pay schemes

The Committee operates each of the Company's incentive plans for which it has responsibility according to their respective rules and, where relevant, in accordance with the Listing Rules. The Committee has discretion, consistent with market practice, in respect of, but are not limited to:

- participants;
- the timing of grant of an award and/or payment;
- the size of an award (subject to the maxima set out in our policy);
- the performance measures and targets;
- the determination of vesting and confirmation that the calculation of performance is made in an appropriate manner, with due consideration of whether and, if so, how adjustments should be made (subject to the provision that any adjustments to targets set should result in the revised target being no less challenging than the original target);
- discretion required when dealing with a change of control and any adjustments required in special circumstances (eg rights issues, corporate restructuring events and special dividends); and
- determination of a good/bad leaver for plan purposes based on the rules of the plan and the appropriate treatment chosen.

In relation to the Annual Bonus, LTIP and legacy SMS awards, the Committee retains the ability to adjust the targets set if events occur which cause it to determine that the conditions are no longer appropriate and amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy than was intended. Adjustment may also be made for any changes to accounting policy over the performance period. Any use of discretion beyond the normal operation of the plan would be justified in the Annual Report on Remuneration and, if appropriate, be subject to consultation with the Company's major shareholders. The use of discretion in relation to the Company's Sharesave plan is as permitted under HMRC rules.

Performance Measure Selection

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives.

The Committee reviews the performance measures annually and considers the combination of measures in the LTIP, ie adjusted EPS, net revenue and relative TSR, remain the most appropriate measures of long-term performance for the Group. TSR aligns with the Company's focus on shareholder value creation and rewards management for out performance of sector peers. EPS provides strong line-of-sight for Executive Directors and supports the Group's long-term strategy. Net revenue supports the Company's focus on organic growth.

Performance measures are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment.

Remuneration Policy for Other Employees

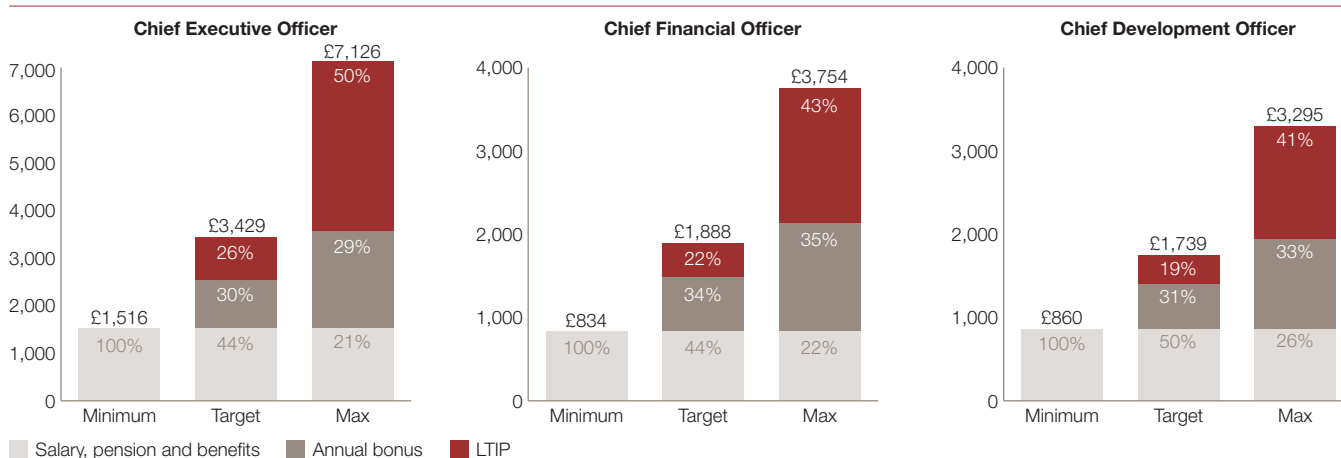
The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

All managers are eligible to participate in an annual bonus plan with similar metrics to those used for the Executive Directors. Other employees are eligible to participate in performance led annual bonus plans. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Senior executives are eligible to participate in the LTIP (c.60 individuals) and the majority of members of the Corporate Management Group are eligible to participate in the SMS (c.1,100 individuals).

Total remuneration of the Executive Directors for a minimum, target and maximum performance is presented in the chart below.

Total remuneration by performance scenario for 2015/16 financial year (£'000)



The charts are indicative as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

- Minimum: fixed remuneration only (ie salary, benefits and pension).
- Target: fixed remuneration plus half of maximum annual bonus opportunity plus 25 per cent vesting of LTIP awards. Note that Imperial Tobacco does not have a stated 'target' for either its financial measures or incentive pay-outs.
- Maximum: fixed remuneration plus maximum annual bonus opportunity plus 100 per cent vesting of LTIP awards.

Executive Directors' Service Agreements and Loss of Office Payments

The Company's policy is that Executive Directors' service agreements normally continue until their agreed retirement date or such other date as the parties agree, are terminable on no more than one year's notice and contain no liquidated damages provisions nor any other entitlement to the payment of a predetermined amount on termination of employment in any circumstances. In addition, in some limited cases career counselling may be provided after the cessation of employment for a defined period. Under the terms of our Articles of Association, all Executive Directors are subject to annual re-election by shareholders.

Executive Directors' service agreements contain provisions for payment in lieu of notice in respect of base salary, pension contributions and 5 per cent of base salary in respect of other benefits but these are at the Committee's sole discretion. The Company is unequivocally against rewards for failure. The circumstances of any termination (including performance) and an individual's duty and opportunity to mitigate losses would be taken into account in every case; our policy is to stop or reduce compensatory payments to former Executive Directors to the extent that they receive remuneration from other employment during the compensation period and any such payments would be paid monthly in arrears.

For Executive Directors leaving employment for specified reasons (including death, redundancy, retirement, ill health and disability, the business or company in which they are employed ceasing to be part of the Group or on a change of control) annual bonus awards will be based on performance, adjusted for time served, and paid at the same time as for other employees. The Committee has discretion to adjust the timing and pro-rating to take account of any prevailing exceptional circumstances.

Under the rules of both the LTIP and the legacy SMS, outstanding awards vest if an Executive Director leaves for the specified reasons as detailed above. In these circumstances awards vest as the Committee determines having regard to the time the award has been held and the achievement of the performance criteria. Awards will vest either on termination of employment or, for awards granted under the policy approved by shareholders in 2014 or later, at the normal vesting date, as the Committee determines in its absolute discretion. If the termination of employment is not for one of the specified reasons and the Committee does not exercise its discretion to allow an award to vest, awards lapse entirely.

Executive Directors service agreements

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Alison Cooper	1 July 2007	Terminable on 12 months' notice	No provisions
Oliver Tant	1 October 2013	Terminable on 12 months' notice	No provisions
Matthew Phillips	31 May 2012	Terminable on 12 months' notice	No provisions

Recruitment of Executive Directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment. The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and, therefore, shareholders. Any such buyout awards would be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism (ie cash, shares, options), time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such awards at the time of appointment. The Committee may need to avail itself of the current Listing Rule 9.4.2 R if required in order to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual. The Committee confirms that this provision would only be used to compensate for remuneration lost.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay-out according to its terms on grant. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the Committee.

Shareholding Guidelines

Whilst placing significant weight on our annual performance, our policy aligns the interests of our shareholders and other stakeholders with those of management by incentivising the growth in the value of the business over the long-term. To support this alignment, we have share ownership guidelines as we believe Executive Directors and other senior managers should be encouraged to hold a substantial portion of their personal wealth in our shares.

Over a period of five years from appointment, Executive Directors are expected to build a holding in the Group's shares to a minimum value broadly equivalent to three times their respective base salary. Other senior management are expected to invest at a level equivalent to between once and twice base salary, dependent upon grade. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for LTIP awards.

Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in shares which they are required to retain for the duration of their appointment.

Consultation with Employees

Although the Committee does not consult directly with employees on the remuneration policy, the Committee does consider the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining the remuneration policy for Executive Directors.

Differences in Remuneration Policy for Executive Directors Compared to Other Employees

The remuneration policy for Executive Directors is designed having regard to the remuneration policy for employees across the Group. However, there are some differences in the structure of the remuneration policy for the Executive Directors and other senior employees, which the Committee believes are necessary to reflect the different levels of responsibility. The key difference is the increased emphasis on long-term performance related pay for Executive Directors.

Consideration of Shareholder Views

The Committee considers shareholder feedback received in relation to the AGM each year at its first meeting following the AGM. This feedback, as well as any additional feedback received during any other meetings with shareholders, is considered as part of the Company's annual remuneration policy review.

The Committee notes that shareholders do not speak with a single voice, but we engage with our largest shareholders to ensure we understand the range of views which exist on remuneration issues. When any material changes are made to the remuneration policy the Committee chairman will inform major shareholders in advance, and will offer a meeting to discuss these.

Policy in Respect of External Board Appointments

We recognise that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship and may not serve as the chairman of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Alison Cooper is a Non-Executive Director of Inchcape PLC and was permitted to retain the £55,000 fee received from this position in the financial year.

Summary of Policy for Non-Executive Directors

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	Attract and retain high performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders.	Reviewed, but not necessarily increased, annually by the Board (after recommendation by the Committee in respect of the Chairman). Fee increases, if applicable, are normally effective from 1 October. The Board and, where appropriate, the Committee considers pay data at comparator companies of similar scale. The Senior Independent Director and the chairmen of the Audit and Remuneration Committees receive additional fees. No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans.	No prescribed maximum annual increase. Aggregate annual fees limited to £2.0 million by Articles of Association.
Benefits	Travel to the Company's registered office.	Travel to the Company's registered office is recognised as a taxable benefit.	Grossed-up costs of travel.

Non-Executive Directors' Letters of Appointment

The Chairman and Non-Executive Directors do not have service agreements but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at our registered office during normal business hours and both prior to and at the AGM.

In line with our annual review policy, the Chairman's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 27 January 2015. There are no provisions regarding notice periods in their letters of appointment which state that the Chairman and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination. Under the terms of our Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

Annual report on remuneration – How the Committee implemented the Remuneration Policy for Financial Year Ended 30 September 2015

Linking Remuneration with Strategy.

We focus on delivering high quality sustainable sales growth whilst effectively managing our costs and cash flows. Ensuring that our sales growth drivers and key enablers are supported and their delivery incentivised by our remuneration policy is key to maximising long-term returns to shareholders.

Alignment with our Strategy	Sustainable growth is at the heart of our strategy. This is supported by the inclusion of the drivers of growth within our variable remuneration – both the annual bonus and LTIP. Stretching performance targets incentivise the delivery of sales and the creation of shareholder value. Managing our costs and cash flows are the other elements of our strategic focus. Profitability, mainly in the form of earnings per share, forms a major part of the measurement in both the annual bonus and LTIP whilst cash conversion forms a measure for the annual bonus.
Alignment with our Shareholders	To align their interest with shareholders, employees at all levels are encouraged to have an interest in the Company's shares through both direct shareholdings (supported by shareholding requirements for senior executives) and through our share plans, with the value of the Corporate Management Group's overall remuneration being heavily influenced by the performance of our share price.
Attracting and Retaining the Right People	Our Remuneration Policy is designed to ensure a high quality pool of talented employees at all levels who are engaged and incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks. We believe it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we neither pay more than necessary nor reward failure. Our policy is, therefore, significantly weighted towards performance based elements.

Implementing Executive Policy and Practice

In implementing the Company's Remuneration Policy (as summarised on page 51 and detailed on pages 48 to 53 of the Company's Annual Report and Accounts 2014 available on our website), the Committee recognises that striking the right balance in finding a fair outcome in setting a competitive level of total remuneration is a matter of judgement. In forming this judgement, the Committee considers pay data at comparator companies of similar scale and operating in a similar sector. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most, serve to define a "playing field" within which an individual's rewards need to be positioned. In determining that positioning, the primary factors taken into account are the scale of the challenges intrinsic to that individual's role, their ability, experience and performance.

We align the interests of long-term shareholders and employees at all levels by, wherever possible, giving our employees the annual opportunity to build a shareholding in the Company through our employee share plans, with over 30 per cent of eligible employees participating in one or more plans.

DIRECTORS' REMUNERATION REPORT continued

Single Total Figure of Remuneration for each Director (Audited)

£'000	2015 Salary and fees	2014 Salary and fees	2015 Taxable benefits ¹	2014 Taxable benefits	2015 Annual bonus ²	2014 Annual bonus	2015 Share plans vesting ³	2014 Share plans vesting ³	2015 Share- save vesting ⁴	2014 Share- save vesting	2015 Pension benefits ⁵	2014 Pension benefits	2015 Total	2014 Total
Executive Directors														
Alison Cooper	965	920	16	16	1,544	1,270	571	165	6	–	480	293	3,582	2,664
Oliver Tant	630	575	16	16	1,008	595	–	–	–	–	163	150	1,817	1,336
Matthew Phillips	478	435	23	22	705	375	169	28	4	–	296	134	1,675	994
	2,073	1,930	55	54	3,257	2,240	740	193	10	–	939	577	7,074	4,994
Non-Executive Directors														
Mark Williamson ⁶	450	338	4	3	–	–	–	–	–	–	–	–	454	341
Ken Burnett	75	73	29	28	–	–	–	–	–	–	–	–	104	101
David Haines ⁷	100	86	5	11	–	–	–	–	–	–	–	–	105	97
Michael Herlihy ⁷	100	96	4	3	–	–	–	–	–	–	–	–	104	99
Karen Witts ⁸	75	47	3	1	–	–	–	–	–	–	–	–	78	48
Malcolm Wyman ⁷	100	98	9	5	–	–	–	–	–	–	–	–	109	103
	900	738	54	51	–	–	–	–	–	–	–	–	954	789

1 Taxable benefits principally include an allowance (£15,000 in respect of Alison Cooper and Oliver Tant) in lieu of or the provision of a company car (£21,376 in respect of Matthew Phillips), fuel and health insurance. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.

2 Annual bonus earned for performance over the financial year ending 30 September 2015. In line with policy half of the net value is deferred in shares for three years; no further performance conditions apply.

3 Share plans vesting represent the value of SMS and LTIP awards where the performance period ends in the year and are based on a share price of £32.647 being the three months average to 30 September 2015. The 2014 estimated figure has been restated to reflect actual share price at the date of vesting.

4 Gains made on exercise are calculated as the difference between the option price and the market price on the date of exercise. These sharesave options were the only options exercised in the year; 440 shares in respect of Alison Cooper and 264 shares in respect of Matthew Phillips.

5 Further details are contained in the Executive Directors' pension section on page 58.

6 Mark Williamson succeeded Iain Napier as Chairman on 5 February 2014.

7 Includes payment in respect of Senior Independent Director fee of £25,000 per annum and chairmanship of Board Committees at an annual rate of £25,000 in respect of the Remuneration Committee and £25,000 in respect of the Audit Committee.

8 Karen Witts was appointed to the Board on 6 February 2014.

All expense payments made to Directors were made on the basis of reimbursement of expenses incurred grossed up for tax where expenses represent a taxable benefit. No payments were made by way of taxable expenses allowances. No Directors waived their fees. No payments were made to former directors nor were any payment made for loss of office during the year.

Additional Notes to the Single Total Figure of Remuneration (Audited)

This section sets out supporting information for the single total figure columns relating to annual bonus, share plans and pension benefits. In particular, it details the extent to which performance conditions have been satisfied for the annual bonus and for each share plan, namely the SMS and LTIP.

Determination of 2015 Annual Bonus

Management delivered a good performance in the year to 30 September 2015, strengthening our brands and market footprint and increasing cash conversion. As a result, we are a stronger business and continued to deliver a 10 per cent increase in annual dividend.

The annual bonus payment, determined with reference to performance over the financial year ending 30 September 2015, is 80 per cent of maximum opportunity (2014: 69 per cent). The Committee believes this to be an appropriate reflection of the performance and progress made through the year.

Performance against individual measures is set out below.

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency) ^{KPI}	Performance is measured based on EPS growth at constant currency. Increases in top line revenues together with a strong focus on cost and cash opportunities provided growth in EPS of 8.2 per cent against a maximum target of 6.8 per cent.	35	35
Cash conversion ^{KPI}	Performance is measured as cash flow as a percentage of adjusted operating profit. Instilling a more cost conscious culture, efficiently managing our cost base and our commitment to capital discipline enabled Cash Conversion of 97 per cent against a maximum target of 92 per cent.	25	25
Volume growth in Growth Brands ^{KPI}	Performance is measured based on volume growth of our growth brands relative to the market. Consistent focus on developing our Growth Brands, through investments, migrations and choices in market has enabled us to further optimise our brand portfolio and build the strength of our key brand assets. Growth Brand volumes increased by 14.4 per cent relative to the market against a maximum target of 18 per cent relative growth.	15	11
Non-financial	Non-financial measures consisted of an aggregate market share target. We showed strong results across a broad spread of markets, with resilience in Returns markets and positive performance across Growth markets. However, the threshold target was not met.	15	0
Individual objectives		10	9
Achievement of bonus for 2015		100	80

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on page 12.

No element of the annual bonus is guaranteed. Annual bonuses for Executive Directors and certain key executives are subject to malus provisions before payment and claw back during the three years following the end of the financial year in which they are earned. Claw back may be applied in the event of gross misconduct by the employee or misstatement of results where this had the effect of increasing the level of bonus that would otherwise have been paid.

Share Matching Scheme

SMS awards were made to Alison Cooper and Matthew Phillips in February 2013 which will vest in February 2016 based on an EPS performance condition measured over the three financial years to 30 September 2015 as set out below.

Performance target	Actual performance	Threshold vesting of award	Maximum level of vesting	Actual percentage vesting	
Adjusted EPS ^{KPI}	3% – 6% average annual growth over UK inflation	(0.5%)	50%	100%	0

Long Term Incentive Plan

LTIP awards were made to Alison Cooper and Matthew Phillips in December 2012 which will vest in December 2015 based on performance conditions, measured over the three years, as set out below.

Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Actual percentage of award	
Adjusted EPS ^{KPI}	3% – 10% average annual growth over UK inflation	(0.5%)	6.25	50	0
TSR against comparator group ¹	Threshold exceeds bottom 6 companies Maximum exceeds bottom 9 companies	6 companies exceeded	7.5	25	7.5
TSR against FTSE 100 ^{KPI}	Threshold exceeds 50% of companies Maximum when 75% of companies exceeded	62% of companies exceeded	7.5	25	16.25
Achievement of LTIP for 2015			100	23.75	

¹ The companies comprising the comparator group are:

Anheuser-Busch NV InBev	Altria Group Inc.	British American Tobacco PLC	Carlsberg A/S
Diageo PLC	Heineken NV	Imperial Tobacco Group PLC	Japan Tobacco Inc.
Philip Morris International Inc.	Pernod Ricard SA	Reynolds American	SABMiller PLC

KPI Key performance indicator used to measure the progress we make in delivering our strategy – see how we measure our performance on page 12.

DIRECTORS' REMUNERATION REPORT continued

The TSR calculations, performed independently by Alithos Limited, use the share prices of each comparator group company, averaged over a period of three months, to determine the initial and closing prices. Dividend payments are recognised on the date shares are declared ex dividend. The Committee considers this method gives a fairer and less volatile result as improved performance has to be sustained for several weeks before it effectively impacts on the TSR calculations. PwC performs agreed upon procedures in respect of the EPS performance conditions for both the SMS and LTIP performance assessments.

Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our long-term shareholders. Annually we offer as many employees as practicable, together with our Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent of the closing mid-market price of our shares on the day prior to invitation. The Sharesave Plan allows participants to save up to £250 per month over a period of three years, and in the UK only three or, for grants in 2013 and earlier, five years, and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2015, Alison Cooper and Matthew Phillips had Sharesave plans vesting (2014: nil) and details are included in the single figure table on page 56.

Total Pension Entitlements (Audited)

The Executive Directors who served during the financial year are all members of the Imperial Tobacco Pension Fund (the Fund), which is the principal retirement benefit scheme operated by the Group in the UK.

Members who joined before 1 October 2010 are included in the defined benefit section of the Fund. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis, in the defined contribution section of the Fund.

Alison Cooper and Matthew Phillips are in receipt of a salary supplement. Prior to 6 April 2006 their pension benefits were limited by the effect of HMRC's earnings cap. Although this cap was removed as from 6 April 2006, the Fund did not disapply it in respect of past pensionable service but maintained its own earnings cap going forward. For service from 6 April 2006 onwards and for pensionable salary in excess of the Fund's earnings cap, the standard Fund benefit is a pension at the lower accrual rate of 1/60th with a 50 per cent spouse's pension, and member contributions of 5 per cent of this top slice of salary are payable. As an alternative to extra pension accrual on this top slice of salary through an unfunded unapproved retirement benefit scheme (UURBS), Alison Cooper and Matthew Phillips each receive a salary supplement of 12 per cent of this amount.

Oliver Tant is also in receipt of a salary supplement equal to 12 per cent of his basic salary. In addition, under the rules of the defined contribution section of the Fund, Oliver Tant has opted to limit total contributions (Member and Company) to the Fund to a level which should not result in him incurring an Annual Allowance charge. As a result, any additional Company contribution which would have been due to be paid to the Fund, had Oliver Tant not opted to cap contributions, is paid to him as a salary supplement and is included in the figures in the table on page 59.

In each case these salary supplements have been calculated by the independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable.

Matthew Phillips elected to use the Fund's scheme pays facility to settle his Annual Allowance charge for the 2011/12, 2012/13 and 2013/14 tax years. His accrued pension was reduced by £11,428.63 a year (including revaluation) to offset these Annual Allowance charge payments. This reduction to pension is reflected in the accrued pension figure as at 30 September 2015 (it is also reflected in the value of the benefits as at 30 September 2015).

The following table provides the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and gives details for each Executive Director of:

- the annual accrued pension payable on retirement calculated as if he/she had left service at the year-end (any potential UURBS entitlement is included);
- the normal retirement ages;
- the value of the pension benefits at the start and end of the year, as calculated in accordance with the Regulations;
- the value of the pension benefits earned over the year, excluding any director's contributions and any increases for inflation, calculated in accordance with the Regulations; and
- any payments in lieu of retirement benefits.

None of the Executive Directors has made additional voluntary contributions.

Executive Directors' Pension Disclosures (Audited)

£'000	Age at 30/09/2015	Pensionable service at 30/09/2015	Accrued pension		Single Figure numbers			Extra information to be disclosed under 2013 Directors Remuneration Regulations		
			01/10/2014	30/9/2015	Payment in lieu of retirement benefits (ie pension supplement)	Value x 20 over year (net of director's contributions)	Total pension benefits	Normal retirement age	Value x 20 at start of year	Value x 20 at end of year
			£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Alison Cooper	49	16	168	192	91	386	480	60	3,360	3,840
Matthew Phillips	44	15	86	98	32	264	296	60	1,720	1,960
Oliver Tant ¹	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

¹ Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He received a pension contribution into the defined contribution section of £40,000 (made up of £363 Company contribution plus £39,637 in respect of a salary sacrifice by Mr Tant in lieu of his personal contribution). In addition a salary supplement of £75,600, representing 12 per cent of Mr Tant's basic salary, was paid to him together with an additional supplement of £87,836 in lieu of Company pension contributions which were not made to the Imperial Tobacco Pension Fund in order to maintain Mr Tant's total contributions within the Annual Allowance for pensions savings).

Management Changes on Completion of Acquisition of USA Assets

In June 2015 we completed the acquisition of a number of cigarette and e-cigarette brands and assets in the USA. This acquisition transforms our position in the USA and increases our opportunity for leadership and international expansion in e-cigarettes through blu. Following completion of the acquisition we made a number of key management changes to ensure we had the right management structure in place to lead the enlarged Group including the appointment of Matthew Phillips to the role of Chief Development Officer. As well as retaining his responsibilities for group legal, corporate affairs, communications, market regulation and countering illicit trade, Matthew became responsible for corporate and strategic development and for the enlarged Fontem Ventures, including blu. In this new role, he will provide a focus on the Group's ongoing international development.

The Remuneration Committee changed Matthew's remuneration to reflect this new role and significantly increased responsibilities, with a base salary of £525,000 and a bonus and LTIP opportunity of 200 per cent and 250 per cent respectively. This provides a remuneration opportunity, subject to performance, that is at the median when compared to similar roles in comparable organisations.

Statement of Change in Pay of Chief Executive Compared With Other Employees

	Chief Executive		All Employees ¹	
	to 30 September 2015	Percentage change (2015 vs 2014)	Percentage change (2015 vs 2014)	Percentage change (2015 vs 2014)
Salary	£965,000	4.9	3.3	
Benefits	£16,000	0	0	
Bonus	£1,544,000	21.6	5.0	

¹ Based on members of our Corporate Management Group.

Relative Importance of Spend on Pay

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividend plus share buybacks.

£million unless otherwise stated	2015	2014	Percentage change
Overall expenditure on pay ¹	811	899 ^R	(9.8)
Dividend paid in the year	1,259	1,149	9.6
Share buyback ²	0	341	N/A

¹ Excludes employers' social security costs.

² Share buybacks were stopped in July 2014.

^R Restated on adoption of IFRS 11: joint arrangements.

DIRECTORS' REMUNERATION REPORT continued

Share Interests and Incentives (Audited)

All Executive Directors who served in the financial year currently meet the Company's shareholding policy by either holding shares in excess of their requirement or being within five years of appointment. Current shareholdings are summarised in the following table:

	Shares held		Options held			Shareholding required (% salary)	Current shareholding (% salary) ¹	Requirement met ²
	Owned outright	Vested but subject to holding period	Unvested and subject to performance conditions	Unvested and subject to continued employment	Vested but not exercised			
Executive Directors								
Alison Cooper	161,708	7,150	339,783	354	–	300	565	Yes
Oliver Tant	829	389	88,275	441	–	300	7	In role for less than five years
Matthew Phillips	43,765	105	103,179	407	–	300	277	In role for less than five years
Non-Executive Directors								
Mark Williamson	9,237	–	–	–	–	–	–	N/A
Ken Burnett	2,772	–	–	–	–	–	–	N/A
David Haines	843	–	–	–	–	–	–	N/A
Michael Herlihy	4,956	–	–	–	–	–	–	N/A
Karen Witts	312	–	–	–	–	–	–	N/A
Malcolm Wyman	3,767	–	–	–	–	–	–	N/A

¹ Based on a share price of £34.13 being the closing price on 30 September 2015.

² Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in Imperial Tobacco Group PLC shares which they are required to retain for the duration of their appointment.

Variable Award Grants Made During the Year (Audited)

Following shareholder approval of the revised Remuneration Policy, no further awards to Executive Directors under the SMS will be made and the historic award levels have been consolidated into the Group's LTIP.

To allow for the changes to be considered by shareholders the award which would normally have been granted in November 2014 was delayed and granted during February 2015. It is intended that future LTIP awards will be made in February each year in order for any change in policy to be considered by shareholders immediately prior to grant.

The resulting number of LTIP shares and the associated performance conditions are set out below.

	Number of nil cost options	Face value ¹	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance condition ^{2, 3}
Alison Cooper	111,652	£3,377,500	350%	30 September 2017	25%	50%	3 year adjusted EPS growth
					25%	30%	3 year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
Oliver Tant	52,066	£1,575,000	250%	30 September 2017	25%	50%	3 year adjusted EPS growth
					25%	30%	3 year net revenue growth
					25%	20%	TSR relative to bespoke comparator group
Matthew Phillips	31,586	£955,500	210%	30 September 2017	25%	50%	3 year adjusted EPS growth
					25%	30%	3 year net revenue growth
					25%	20%	TSR relative to bespoke comparator group

¹ Valued using the share price at the date of grant (15 February 2015) being £30.25 per share.

² Vesting occurs as per the vesting schedule below.

³ Key performance indicators used to measure the progress we make in delivering our strategy – see how we measure our performance on page 12.

Performance Criterion – EPS Element

This criterion is used for 50 per cent of the LTIP award. Vesting of awards on this element would occur as per the following vesting schedule.

Compound annual adjusted EPS growth	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 8% per annum	Between 25% and 100% (pro rata)
8% per annum or higher	100%

Performance Criterion – Net Revenue Growth Element

The net revenue growth criterion is used for 30 per cent of the LTIP award. Vesting of awards on this element would occur as per the following vesting schedule.

Compound annual growth in net revenue	Shares vesting (as a percentage of element)
Less than 1% per annum	nil
1% per annum	25%
1% to 4% per annum	Between 25% and 100% (pro rata)
4% per annum or higher	100%

Performance Criterion – TSR Element

The performance criterion for the TSR element is based on a single comparator group of companies across a broadly defined consumer goods sector and is applied to 20 per cent of the LTIP award.

The companies within the comparator group are currently:

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithkline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc	Pernod Ricard SA
Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rexam PLC	Reynolds American	Rolls-Royce PLC
SAB Miller PLC	J Sainsbury PLC	Smith & Nephew PLC	Shire PLC	Tate & Lyle PLC
Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC	WM Morrison Supermarkets PLC

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Under the rules of the LTIP, should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.

Remuneration decisions taken in 2014/15

Salary

The Committee sets base salaries having regard to individual and Company performance, changes to the individual's role and market data for each position based on several comparator groups which reflect the Company's size, sector and global reach. Consideration is given to the effect any amendment to an individual's base salary would have on their total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

An above inflation increase has been awarded to Alison Cooper reflecting the Group's strong performance in the year. As previously communicated, on her appointment Alison's salary was set significantly below market levels with the intention to increase it over time; the increase is consistent with this approach.

An increase of 3 per cent, in line with other UK management, is awarded to the other Executive Directors.

There was no increase in Non-Executive Directors' fees, with the exception of the Chairman whose fee was brought closer to market levels through an increase from £450,000 to £500,000. This being the first increase in Chairman's fees since 1 October 2011.

	Salary 2014/15	Salary 2015/16	Percentage Change
Alison Cooper	£965,000	£1,020,000	5.7
Oliver Tant	£630,000	£649,000	3.0
Matthew Phillips	£525,000 ¹	£541,000	3.0

¹ Salary following significant increase in responsibilities. Matthew Phillips's base salary for his previous role was £455,000.

Annual Bonus

Our shareholders and other stakeholders place significant weight on our annual performance. We, therefore, think it is appropriate to have a major element of Executive Directors' remuneration targeted at incentivising delivery of the Group's annual objectives and enhancing performance against key financial and non-financial targets.

Following Matthew Phillips' appointment as Chief Development Officer, his maximum bonus opportunity was increased to 200 per cent.

	Revised maximum percentage of salary	Former maximum percentage of salary
Alison Cooper	200	200
Oliver Tant	200	200
Matthew Phillips	200	175

Fifty per cent of net bonus paid will be in the form of the Group's shares deferred for a three year period; the remaining fifty per cent will be paid in cash.

For the next financial year the performance measures have been set out in the table below.

	Performance target	Maximum of bonus
Adjusted EPS growth	Commercially confidential	35%
Cash conversion	Commercially confidential	25%
Volume growth in Growth Brands	Out-performance of market growth	15%
Non-financial	Market share targets	15%
Individual objectives	Commercially confidential	10%

At this point, the above performance targets are considered commercially confidential but, to the extent that any bonuses are paid, further details will be provided retrospectively in the 2016 Annual Report. The Committee is not of the view that such targets will necessarily always be confidential but will review this on a year-by-year basis.

Share Plan Awards

Following Matthew Phillips' appointment as Chief Development Officer, his maximum LTIP opportunity was increased to 250 per cent.

	Revised maximum opportunity – percentage of salary	Former maximum opportunity – percentage of salary
Alison Cooper	350	350
Oliver Tant	250	250
Matthew Phillips	250	210

The awards will be subject to performance criteria as summarised below.

Performance criteria	Weighting in LTIP
Adjusted EPS growth	50%
TSR	20%
Net revenue growth	30%

When setting the performance criteria the Committee takes account of the Group's long-term plans and analysts' forecasts.

Performance Criterion – EPS Element

This criterion is used for 50 per cent of the LTIP awards. Vesting of awards on this element would occur in accordance with a vesting schedule agreed by the Committee on an annual basis. The proposed vesting schedule for the awards to be granted in February 2016 is set out below. The EPS target for this award has been exceptionally increased to reflect the positive impact of the USA acquisition on EPS growth in 2016.

Compound annual adjusted EPS growth	Shares vesting (as a percentage of element)
Less than 5% per annum	nil
5% per annum	25%
5% to 10% per annum	Between 25% and 100% (pro rata)
10% per annum or higher	100%

Performance Criterion – TSR Element

The performance criterion for the TSR element will be based on a single comparator group including 40 companies across a broadly defined consumer goods sector and will be applied to 20 per cent of the LTIP.

The companies within the comparator group are:

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithkline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Lorillard Inc	Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc
Pernod Ricard SA	Reckitt Benckiser Group PLC	Reed Elsevier PLC	Reynolds American	Rolls-Royce PLC
SAB Miller PLC	J Sainsbury PLC	Smith & Nephew PLC	Shire PLC	Tate & Lyle PLC
Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC	WM Morrison Supermarkets PLC

DIRECTORS' REMUNERATION REPORT continued

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Performance Criterion – Net Revenue Growth Element

This criterion will be used for 30 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below. This year the net revenue growth target for this award has been exceptionally increased to reflect the positive impact of the USA acquisition on net revenue growth in 2016.

Compound annual net revenue growth	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 6% per annum	Between 25% and 100% (pro rata)
6% per annum or higher	100%

Under the rules of the LTIP, should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.

Voting on the Remuneration Report at the 2015 AGM

At the 2015 AGM a small number of shareholders expressed concerns with various aspects of our remuneration. These concerns included the performance criteria used for our variable remuneration and above inflation increases in executive remuneration. Some shareholders also raised their expectation that incentive targets should be adjusted following the USA acquisition. Shareholder views were taken into account by the Committee when reviewing remuneration and adjusting and setting LTIP targets. The targets within our LTIPs have been adjusted in line with policy to ensure that they are no more materially difficult to achieve than originally intended.

Votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld	Total votes cast including votes withheld
Directors' Remuneration Report	711,696,277	94.52	41,277,055	5.48	752,973,332	9,694,951	762,668,283
Directors' Remuneration Policy	704,892,593	93.57	48,447,661	6.43	753,340,254	9,328,030	762,668,284

Votes withheld are not included in the final figures as they are not recognised as a vote in law.

Advice Provided to the Committee

New Bridge Street (NBS) is retained, having been appointed following a tendering process, by the Committee as its principal, and only material, external advisor. NBS advises on all aspects of our remuneration policy and practice and reviews our structures against corporate governance best practice. NBS also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Committee members up-to-date with new developments and evolving best practice.

NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. NBS' parent companies, Aon Hewitt Limited and Aon plc, provide other human resources and insurance services respectively to the Group. Having reviewed the structures in place to ensure the independence of NBS' advice to the Committee, it is satisfied that the other work provided by the wider Aon group does not impact on NBS' independence.

During the year NBS was paid fees of £152,000.

Other companies which provided advice to the Committee are as follows:

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR related matters. During the year it was paid fees of £19,500. Alithos Limited provided no other services to the Group;
- Allen & Overy LLP is available to provide legal advice to the Committee as and when required. It was not used for remuneration-related advice during the financial year. Allen & Overy LLP also provided other legal services to the Group;
- Pinsent Masons LLP provided legal advice in respect of the operation of the Group's employee share plans;
- PricewaterhouseCoopers LLP (PwC), our Auditors, perform agreed upon procedures on earnings per share (EPS) calculations used in relation to our employee share plans' performance criteria. During the financial year PwC was paid £1,800 in respect of services to the Committee; and
- Towers Watson provided market pay data to ensure the consistent application of our Remuneration Policy for executives. During the year it was paid fees of £54,000 for these services. Towers Watson also provided actuarial services to the Group.

All of these advisors were appointed by the Committee which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee.

The Group Human Resources Director and the Group Reward Director also attended and provided internal support and advice on market and regulatory developments in remuneration practice and on our employee share plans. Their attendance ensured the Committee was kept fully abreast of pay policies throughout the Group, which it then takes into account when determining the remuneration of the Executive Directors and our most senior executives.

Other Information

Our middle market share price at the close of business on 30 September 2015, being the last trading day of the financial year, was £34.13 and the range of the middle market price during the year was £25.02 to £35.14.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

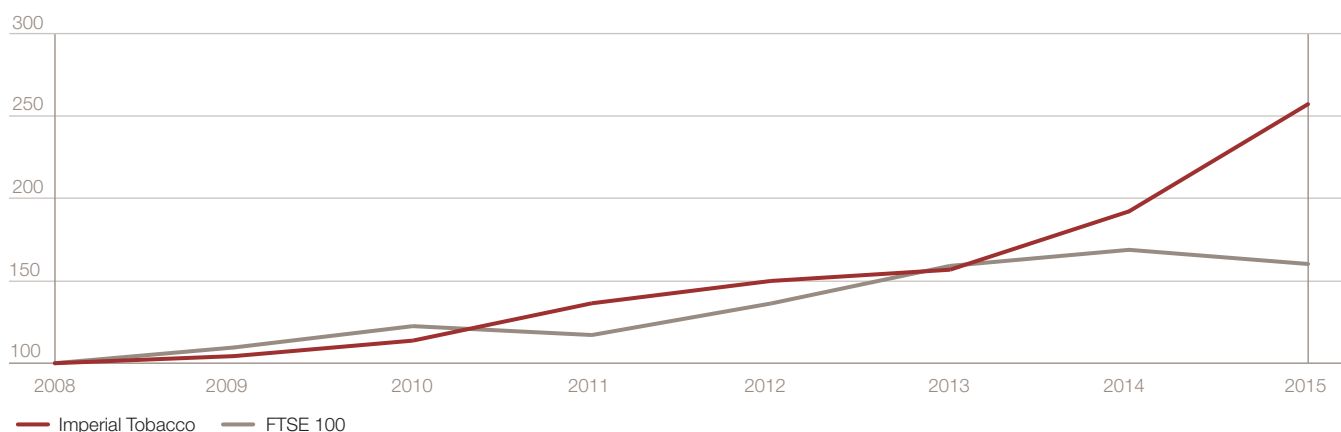
Award Dates

Our policy is to grant awards under all our employee share plans on predetermined dates based on an annual cycle.

Review of Past Performance

The chart below shows the value of £100 invested in the Company on 1 October 2008 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year ends to 30 September 2015. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a seven year period.

Total Return Indices – Imperial Tobacco and FTSE 100



Change in Chief Executive Remuneration

	2015 Alison Cooper	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper ¹	2011 Alison Cooper ¹	2010 Alison Cooper ¹	2010 Gareth Davis ^{2,3}	2009 Gareth Davis
Total remuneration £'000	3,582	2,686	2,011	2,793	2,737	1,347	5,453	5,099
Annual Bonus as a percentage of maximum	80	69	34	51.2	33.1	84.7	84.7	85.2
Shares vesting as a percentage of maximum	15.8	5.8	nil	58.0	71.6	80.8	46.93	74.5

1 Total remuneration includes value of share plans vesting that were granted prior to appointment as Chief Executive.

2 Total remuneration includes value of share plans vesting on retirement.

3 Based on performance conditions applicable on date of retirement.

Operating Executive (excluding Executive Directors)

£'000	2015	2014
Base salary	2,221	2,143
Benefits	189	160
Pension salary supplement	261	218
Bonus	2,572	1,291
LTIP annual vesting ¹	402	90
SMS annual vesting ²	nil	nil
	5,645	3,902

1 Value of LTIP shares vesting in the year based on the prevailing closing share price on the day of exercise.

2 Value of SMS shares vesting on maturity based on the prevailing closing share price on the day of vesting.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges, was £14,526,087 (2014: £11,073,194).

Key Management* Compensation for the Year Ended 30 September 2015 (Audited)

£'000	2015	2014
Short-term employee benefits	11,681	9,575
Post-employment benefits	1,182	1,186
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment (in accordance with IAS 24)	2,722	833
	15,585	11,594

* Key management includes Directors, members of the OPEX and the Company Secretary.

Employee Benefit Trusts

Our policy is to satisfy options and awards under our employee share plans from either market purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: The Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2015, we held 78,909,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

	Balance at 01/10/2014	Acquired during year	Distributed during year	Balance at 30/09/2015	Ordinary shares under award at 30/09/2015	Surplus/ (shortfall)
Executive Trust	698,894	nil	(23,431)	675,463	829,281	(153,818)
2001 Trust	3,458,219	nil	(968,327)	2,489,892	4,296,501	(1,806,609)

Share Plan Flow Rates

The Trust Deeds of the Employee Benefit Trusts and the rules of each of our employee share plans contain provisions limiting options and awards to 5 per cent of issued share capital in five years and 10 per cent in 10 years for all employee share plans, with an additional restriction to 5 per cent in 10 years for executive share plans. Currently, an aggregate total of 0.5 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under the Group's executive and all employee share plans.

Summary of Options and Awards Granted

Limit on awards	Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury)	Options and awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	1.8	0.2
5% in 5 years	0.8	0.2
5% in 10 years (executive plans)	1.3	0.1

For the Board



David Haines

Chairman of the Remuneration Committee

3 November 2015

FINANCIAL STATEMENTS AND NOTES – CONTENTS

GROUP FINANCIAL STATEMENTS

Independent Auditors' Report to the Members of Imperial Tobacco Group PLC	68
Consolidated Income Statement	74
Consolidated Statement of Comprehensive Income	75
Consolidated Balance Sheet	76
Consolidated Statement of Changes in Equity	77
Consolidated Cash Flow Statement	78

NOTES TO THE FINANCIAL STATEMENTS

1	Accounting Policies	79
2	Critical Accounting Estimates and Judgements	84
3	Segment Information	85
4	Profit Before Taxation	87
5	Restructuring Costs	87
6	Directors and Employees	88
7	Net Finance Costs and Reconciliation to Adjusted Net Finance Costs	88
8	Taxation	89
9	Dividends	90
10	Earnings Per Share	90
11	Intangible Assets	91
12	Property, Plant and Equipment	93
13	Joint Ventures	94
14	Inventories	95
15	Trade and Other Receivables	95
16	Cash and Cash Equivalents	95
17	Trade and Other Payables	95
18	Borrowings	96
19	Financial Risk Factors	97
20	Derivative Financial Instruments	102
21	Deferred Tax Assets and Liabilities	104
22	Retirement Benefit Schemes	105
23	Provisions	110
24	Share Capital	110
25	Share Schemes	110
26	Treasury Shares	113
27	Commitments	113
28	Legal Proceedings	113
29	Acquisitions	113
30	Net Debt	114
31	Reconciliation of Cash Flow to Movement in Net Debt	115
32	Changes in Non-Controlling Interests	115

PARENT COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report to the Members of Imperial Tobacco Group PLC	116
Imperial Tobacco Group PLC Balance Sheet	117
Notes to the Financial Statements of Imperial Tobacco Group PLC	118
Related Undertakings	121
Shareholder Information	131

Report on the group financial statements

Our opinion

In our opinion, Imperial Tobacco Group PLC's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 30 September 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- The Consolidated Balance Sheet as at 30 September 2015;
- The Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended;
- The Consolidated Statement of Changes in Equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

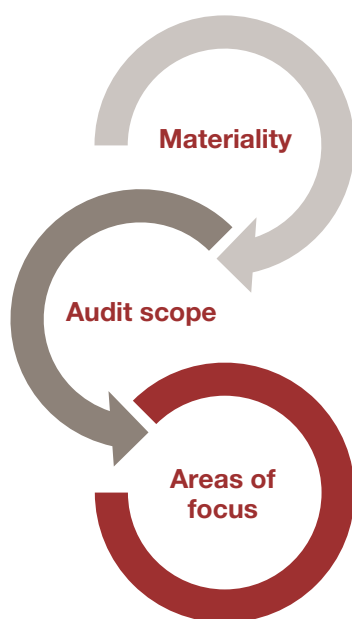
The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Context

The context for our audit was set by Imperial Tobacco Group PLC's major activities in 2015. The principal change which affected our audit was the completion of a £4,613 million acquisition in the USA, as a result of which we brought in a new component team in Greensboro in the USA and focused on the acquisition accounting for the business combination.

Overview



- Overall Group materiality: £115 million which represents 4.4% of adjusted Group profit before taxation.
- Following our assessment of the risk of material misstatement we selected 22 reporting entities which represent the principal business units.
- We conducted full scope audit work at 21 of these reporting entities which included significant operations in the UK, Germany, Netherlands, Spain, USA, Morocco, Australia, France and five other locations. We also conducted specific audit procedures in Russia.
- In addition certain central reporting entities and Group functions, including those covering treasury, taxation and retirement benefits, and the Parent Company were subject to a full scope audit.
- Goodwill and intangible assets impairment assessment.
- Acquisition accounting.
- Revenue recognition.
- Accounting for restructuring provisions.
- Tax accounting and the level of tax provisions held against risks.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “areas of focus” in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus

Goodwill and intangible assets impairment assessment

We focused on this area because the determination of whether elements of goodwill and intangible assets are impaired involves complex and subjective judgements by the Directors about the future results of the relevant parts of the business.

At September 2015 the Group had £10,380 million of goodwill and £509 million of intangible assets with indefinite lives and reasonable headroom in the majority of the Group’s groupings of cash generating units (CGU’s).

We focused on the valuation of the Growth Markets reporting segment (£1,953 million of goodwill and intangible assets with indefinite lives). Growth Markets is made up of a number of operating segments and individual CGU’s, including the Drive Growth CGU grouping and the Other Premium Cigar CGU grouping. For both of these goodwill is analysed separately and management’s assessment indicated low headroom (£69 million and £17 million respectively).

For the Drive Growth CGU grouping we focused on the valuation of both the Russian and Italian businesses, which represent the most material parts of this CGU grouping. In particular we considered the robustness of short term growth included in the impairment models, together with discount rates and long term growth rates.

For the Other Premium Cigar CGU grouping the valuation is dependent on continuing steady profit growth. As such we focused on the assumptions the Directors made about the growth rates in the context of constraints which could reasonably impact their ability to meet forecast.

Acquisition accounting

During the year the Group acquired certain USA cigarette and e-cigarette brands and assets for £4,613 million. The acquisition is accounted for as a business combination in relation to which there are a number of significant and complex judgements involved in the determination of the fair value of the assets and liabilities acquired.

A purchase price allocation exercise has been performed by management, assisted by external experts. The primary element of the valuation exercise assessed the fair value of intangible assets in the form of acquired brands (£4,053 million) and goodwill (£381 million). The allocation also considered the fair values of property, plant and equipment, inventory, post retirement obligations and scheme assets, other liabilities and tax.

How our audit addressed the area of focus

We challenged the Directors’ analysis around the key drivers of the cash flow forecasts including the ability to achieve sustained price increases, market size and market share. We also evaluated the appropriateness of the key assumptions including discount rates, short term and long term growth rates and performed sensitivities across the reporting segments.

For the Russian and Italian businesses we considered the evidence supporting the expected ability of the market to absorb future price increases relative to anticipated volume declines. We also considered the impact of current and expected legislative and duty changes on the business and considered the accuracy of management’s current year forecasts.

For the Other Premium Cigar CGU, we evaluated the reasonableness of the Directors’ forecast by challenging key assumptions about growth strategies including supply constraints, opportunities in new markets and changes in the relationship between the USA and Cuba. We also considered the accuracy of management’s current year forecasts.

As a result of our work we determined that the judgement by management that no impairment was required in respect of Drive Growth and Other Premium Cigar was reasonable. We note however that goodwill and intangibles held by these businesses remain sensitive to changes in key assumptions and, in the case of Russia, to adverse changes in macro-economic factors. Given this management has disclosed relevant sensitivities (see note 11).

For the intangible assets, we assessed the methodology adopted by management and their experts for calculating the brand allocation, particularly in respect of the:

- cash flow forecasts used in the valuation process
- assumed useful lives of the brands
- allocation and impact of working capital movements
- discount rate applicable to the transaction
- impact of synergies in respect of the existing USA business

Further to this we analysed management’s future projections and assessed the total asset assigned to each brand and goodwill.

We tested the remaining acquired items, for example, by attending inventory counts, and examining third party valuations in respect of fixed assets. In respect of post retirement obligations we tested the demographic data used by the reporting actuaries and assessed the assumptions applied. For the pension scheme assets we confirmed existence with custodians and tested the valuation by reference to external price data or, where necessary, used our specialists to independently re-perform the valuation of the asset.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC continued

Area of focus

Revenue recognition

Revenue recognition is, under normal Group terms and conditions, not complex with accounts receivable converted to cash in a timely manner. Returns have historically been immaterial and our testing did not identify any evidence of significant levels of returns.

We also focused on the timing of revenue recognition because of the risk associated with the levels of inventory sold into, and held in, distribution channels and the contractual terms those goods were sold under.

Accounting for restructuring provisions

The Group has partially completed a significant multi-year cost optimisation programme including factory closures, organisational rationalisation and the establishment of shared service centres. The Group is also integrating the recent US acquisition. Management has indicated they expect these programmes will require several years to complete. In 2015 the charge in the Consolidated Income Statement relating to these programmes was £328 million and there is a total restructuring provision held on the Consolidated Balance Sheet of £278 million. The restructuring charge is separately identified on the face of the income statement and excluded from the non-GAAP earnings measure Adjusted Operating Profit. The recognition of restructuring costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the Group is externally committed. The presentation in the financial statements also requires consideration of whether the amounts included in the charge are fair and whether their separate presentation is helpful in understanding financial performance.

How our audit addressed the area of focus

We tested the timing of revenue recognition, and whether the Group appropriately recorded revenue taking into account contractual terms and obligations with distributors and other customers. For certain key distributors we obtained confirmation of the volume of Imperial Tobacco Group PLC products held in their year-end inventory. We compared this to prior period levels and trends in sales volumes over the year. We noted no instances of inappropriate revenue recognition arising in our testing.

We evaluated contractual terms around the year end, including consideration of any complex or judgemental elements included in contractual arrangements, and tested accounts receivable balances through a combination of third party confirmations and subsequent remittances, with no material exceptions noted from our testing. We evaluated evidence of the level of returns received after the year end and noted no material issues arising.

We also used a combination of manual and computer assisted audit techniques in order to extract and test journal entries posted to revenue and other general ledger accounts, which did not identify unexplained unusual or irregular items.

The cost optimisation programme operates predominantly through a series of distinct projects incorporating centralised governance and project management supporting local execution. This process gives rise to a series of specific restructuring charges being booked either at head office level or in individual component businesses. We conducted audit testing through our Group team on centrally held charges and through local testing of charges at component businesses. Because the total restructuring cost also included some costs incurred at business units not included in our full scope audits the Group team tested these on a sample basis.

Using this approach we tested the valuation, accuracy and completeness of the individual restructuring costs. These primarily consisted of redundancies and related costs, consulting and professional fees and asset impairments. We found no material exceptions in our testing.

The principal areas of judgement underlying this work related to:

- the estimation of uncertain liabilities and impairment losses,
- the extent to which costs incurred on projects were sufficiently distinct and incremental to warrant inclusion in the restructuring charge and,
- projects which did not fit readily into the major elements of the programme but were considered by management to be appropriate for inclusion within the overall restructuring charge.

We challenged management over the basis for their judgements in these areas and determined that the amounts included in the charge were reasonable.

We also considered the merits of separate disclosure of the restructuring charge and discussed this with management and the Audit Committee. We concurred with their conclusion that the extensive scale and cost of the programme, its duration over several years and the level of centralised Group wide control and Board focus, indicated that separate disclosure was acceptable.

Area of focus***Tax accounting and the level of tax provisions held against risks***

There are a number of significant judgements involved in the determination of tax balances, specifically in relation to the recognition of tax losses and the assessment of deferred taxation liabilities in relation to the distribution of reserves held in overseas subsidiaries. The Group also has a number of uncertain tax positions in relation to which management apply judgement in setting provisions.

Given the number of judgements involved and the complexities of dealing with tax rules and regulations in numerous jurisdictions, this was an area of focus for us.

How our audit addressed the area of focus

In the calculation of deferred taxes, we assessed the adequacy of tax loss recognition and the level of provision established in relation to a number of uncertain tax positions primarily in Europe. We determined that the position adopted in the financial statements was reasonable based on our consideration of management's assessment of the recoverability of tax losses and the basis for their provision for uncertain tax outcomes.

How we tailored the audit scope

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

The Group is structured along two business lines being Tobacco and Logistics. The Group financial statements are a consolidation of 272 legal entities represented by 236 reporting entities, comprising the Group's operating businesses and centralised functions.

The Group's accounting process is structured around a local or regional finance function for each of the territories in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol through an integrated consolidation system. In our view, due to their significance and/or risk characteristics, 21 of the 236 reporting entities, including the Logistics sub-group, required an audit of their complete financial information and we used component auditors from other PwC network firms, and other firms operating under our instruction, who are familiar with the local laws and regulations in each of these territories to perform this audit work. We also conducted specific audit procedures in Russia based on our assessment of the risk of misstatement and the scale of operations at this business unit.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group engagement team visits the component teams on a rotational basis. In the current year the Group team visited the USA (the legacy business and the new acquisition), Morocco, the Middle East, Turkey and the Netherlands, as well as in-scope UK reporting locations. Video conferences were held at least once with the component auditors and management of every in-scope reporting entity and those undertaking specific procedures to discuss the results of the work performed. In addition the Group engagement team reviewed working papers of the auditors of the more significant components.

We also met the other auditors used on the Logistics sub-group and reviewed their working papers during the year.

The Group consolidation, financial statement disclosures and a number of complex items were audited by the Group engagement team at the head office. These included derivative financial instruments, net investment hedge accounting, treasury, taxation and retirement benefits. The Parent Company was also subject to a full scope audit.

Taken together, the reporting entities and Group functions where we performed audit work accounted for approximately 83% of Group revenues and in excess of 90% of both Group profit before tax and Group adjusted profit before tax.

Materiality

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

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

<i>Overall Group materiality</i>	£115 million (2014: £110 million).
<i>How we determined it</i>	4.4% of adjusted Group profit before taxation.
<i>Rationale for benchmark applied</i>	We believe that adjusted profit before tax is the primary measure used by shareholders and other users in assessing the performance of the Group, and that by excluding items (including finance costs and restructuring costs) it provides a clearer view on the performance of the underlying business.
<i>Component materiality</i>	For each component in our audit scope, we allocated a materiality that was less than our overall Group materiality. The range of materiality allocated across components was between £10 million and £30 million for the trading entities and £80 million for the financing and treasury entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2014: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC continued

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 20, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are also required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– the statement given by the Directors on page 31, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report on pages 37 – 40, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the Directors' explanation in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to longer-term viability of the Group, set out on page 30. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Parent Company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.



John Maitland (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

3 November 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 30 September

£ million unless otherwise indicated	Notes	2015	2014 (Restated)
Revenue	3	25,289	26,460
Duty and similar items		(12,585)	(12,928)
Other cost of sales		(7,533)	(8,351)
Cost of sales		(20,118)	(21,279)
Gross profit		5,171	5,181
Distribution, advertising and selling costs		(1,857)	(1,929)
Acquisition costs	29	(40)	(13)
Amortisation of acquired intangibles	11	(697)	(644)
Restructuring costs	5	(328)	(305)
Other expenses		(261)	(271)
Administrative and other expenses		(1,326)	(1,233)
Operating profit	3	1,988	2,019
Investment income		948	516
Finance costs		(1,209)	(1,059)
Net finance costs	7	(261)	(543)
Share of profit of investments accounted for using the equity method	13	29	49
Profit before taxation	4	1,756	1,525
Taxation	8	(33)	(80)
Profit for the year		1,723	1,445
Attributable to:			
Owners of the parent		1,691	1,422
Non-controlling interests		32	23
Earnings per ordinary share (pence)			
– Basic	10	177.4	148.5
– Diluted	10	176.9	148.1

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

£ million	Notes	2015	2014 (Restated)
Profit for the year		1,723	1,445
Other comprehensive income			
Exchange movements		(198)	(581)
Items that may be reclassified to profit and loss		(198)	(581)
Net actuarial (losses)/gains on retirement benefits	22	(28)	45
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	21	5	(1)
Items that will not be reclassified to profit and loss		(23)	44
Other comprehensive income for the year, net of tax		(221)	(537)
Total comprehensive income for the year		1,502	908
Attributable to:			
Owners of the parent		1,489	900
Non-controlling interests		13	8
Total comprehensive income for the year		1,502	908

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2015	2014 (Restated)
Operating profit		1,988	2,019
Acquisition costs	29	40	13
Amortisation of acquired intangibles	11	697	644
Restructuring costs	5	328	305
Adjusted operating profit	3	3,053	2,981

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2015	2014 (Restated)
Net finance costs		(261)	(543)
Net fair value and exchange gains on financial instruments	7	(226)	(12)
Post-employment benefits net financing cost	7	20	40
Adjusted net finance costs	7	(467)	(515)

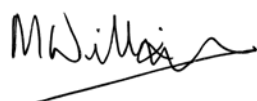
Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

CONSOLIDATED BALANCE SHEET

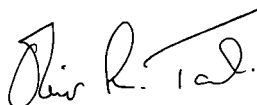
at 30 September

£ million	Notes	2015	2014 (Restated)	2013 (Restated)
Non-current assets				
Intangible assets	11	18,690	15,334	16,855
Property, plant and equipment	12	1,768	1,854	2,069
Investments accounted for using the equity method	13	598	561	546
Retirement benefit assets	22	92	44	5
Trade and other receivables	15	84	69	80
Derivative financial instruments	20	901	605	312
Deferred tax assets	21	533	241	153
		22,666	18,708	20,020
Current assets				
Inventories	14	2,842	2,875	3,239
Trade and other receivables	15	2,454	2,761	2,899
Current tax assets	8	56	96	72
Cash and cash equivalents	16	2,042	1,413	1,793
Derivative financial instruments	20	74	38	245
		7,468	7,183	8,248
Total assets		30,134	25,891	28,268
Current liabilities				
Borrowings	18	(1,957)	(429)	(3,236)
Derivative financial instruments	20	(25)	(46)	(219)
Trade and other payables	17	(6,795)	(6,957)	(7,303)
Current tax liabilities	8	(167)	(128)	(137)
Provisions	23	(197)	(175)	(89)
		(9,141)	(7,735)	(10,984)
Non-current liabilities				
Borrowings	18	(12,250)	(9,462)	(7,857)
Derivative financial instruments	20	(735)	(645)	(531)
Trade and other payables	17	(13)	(21)	(17)
Deferred tax liabilities	21	(1,170)	(1,430)	(1,779)
Retirement benefit liabilities	22	(909)	(824)	(1,055)
Provisions	23	(220)	(311)	(406)
		(15,297)	(12,693)	(11,645)
Total liabilities		(24,438)	(20,428)	(22,629)
Net assets		5,696	5,463	5,639
Equity				
Share capital	24	104	104	107
Share premium and capital redemption		5,836	5,836	5,833
Retained earnings		(315)	(756)	(791)
Exchange translation reserve		(298)	(119)	447
Equity attributable to owners of the parent		5,327	5,065	5,596
Non-controlling interests	32	369	398	43
Total equity		5,696	5,463	5,639

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1. The financial statements on page 74 to 115 were approved by the Board of Directors on 3 November 2015 and signed on its behalf by:



Mark Williamson
Chairman



Oliver Tant
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2014 (Restated)	104	5,836	(756)	(119)	5,065	398	5,463
Profit for the year	–	–	1,691	–	1,691	32	1,723
Exchange movements	–	–	–	(179)	(179)	(19)	(198)
Net actuarial losses on retirement benefits	–	–	(28)	–	(28)	–	(28)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	5	–	5	–	5
Other comprehensive income	–	–	(23)	(179)	(202)	(19)	(221)
Total comprehensive income	–	–	1,668	(179)	1,489	13	1,502
Transactions with owners							
Cash from employees on maturity/ exercise of share schemes	–	–	7	–	7	–	7
Costs of employees' services compensated by share schemes	–	–	22	–	22	–	22
Current tax on share-based payments	–	–	3	–	3	–	3
Dividends paid	–	–	(1,259)	–	(1,259)	(42)	(1,301)
At 30 September 2015	104	5,836	(315)	(298)	5,327	369	5,696
At 1 October 2013 (Restated)	107	5,833	(791)	447	5,596	43	5,639
Profit for the year	–	–	1,422	–	1,422	23	1,445
Exchange movements	–	–	–	(566)	(566)	(15)	(581)
Net actuarial gains on retirement benefits	–	–	45	–	45	–	45
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(1)	–	(1)	–	(1)
Other comprehensive income	–	–	44	(566)	(522)	(15)	(537)
Total comprehensive income	–	–	1,466	(566)	900	8	908
Transactions with owners							
Cash from employees on maturity/ exercise of share schemes	–	–	6	–	6	–	6
Purchase of shares by Employee Share Ownership Trusts	–	–	(2)	–	(2)	–	(2)
Costs of employees' services compensated by share schemes	–	–	20	–	20	–	20
Current tax on share-based payments	–	–	3	–	3	–	3
Increase in own shares held as treasury shares	–	–	(341)	–	(341)	–	(341)
Cancellation of own shares held as treasury shares	(3)	3	–	–	–	–	–
Changes in non-controlling interests	–	–	(363)	–	(363)	363	–
Proceeds, net of fees, from the disposal of Logista IPO	–	–	395	–	395	–	395
Dividends paid	–	–	(1,149)	–	(1,149)	(16)	(1,165)
At 30 September 2014 (Restated)	104	5,836	(756)	(119)	5,065	398	5,463

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September

£ million	2015	2014 (Restated)
Cash flows from operating activities		
Operating profit	1,988	2,019
Dividends received from investments accounted for under the equity method	24	2
Depreciation, amortisation and impairment	940	919
(Profit)/loss on disposal of property, plant and equipment	(2)	6
Profit on disposal of intellectual property	(31)	–
Loss on disposal of software	–	3
Post-employment benefits	(50)	(156)
Costs of employees' services compensated by share schemes	25	22
Movement in provisions	(67)	17
Operating cash flows before movement in working capital	2,827	2,832
Decrease in inventories	21	121
Decrease/(increase) in trade and other receivables	218	(29)
Increase in trade and other payables	89	29
Movement in working capital	328	121
Taxation paid	(408)	(451)
Net cash generated from operating activities	2,747	2,502
Cash flows from investing activities		
Interest received	10	10
Purchase of property, plant and equipment	(194)	(255)
Proceeds from sale of property, plant and equipment	39	59
Proceeds from the sale of intellectual property	31	–
Purchase of intangible assets – software	(44)	(37)
Purchase of intangible assets – intellectual property rights	–	(46)
Internally generated intellectual property rights	(16)	(4)
Purchase of brands and operations (see note 29)	(4,613)	–
Net cash used in investing activities	(4,787)	(273)
Cash flows from financing activities		
Interest paid	(459)	(543)
Cash from employees on maturity/exercise of share schemes	7	6
Purchase of shares by Employee Share Ownership Trusts	–	(2)
Increase in borrowings	4,720	2,303
Repayment of borrowings	(380)	(3,200)
Repayment of loan to joint ventures	–	52
Cash flows relating to derivative financial instruments	139	(121)
Purchase of treasury shares	–	(341)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 32)	–	395
Dividends paid to non-controlling interests	(42)	(16)
Dividends paid to owners of the parent	(1,259)	(1,149)
Net cash generated from/(used in) financing activities	2,726	(2,616)
Net increase/(decrease) in cash and cash equivalents	686	(387)
Cash and cash equivalents at start of year	1,413	1,793
Effect of foreign exchange rates on cash and cash equivalents	(57)	7
Cash and cash equivalents at end of year	2,042	1,413

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

1 Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions. This could affect future financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

A summary of the more important Group accounting policies is set out below.

Basis of Consolidation

The consolidated financial statements comprise the results of Imperial Tobacco Group PLC (the Company) and its subsidiary undertakings.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

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

Joint Ventures

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

Foreign Currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intragroup loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

Revenue Recognition

For the Tobacco business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales of services, which include fees for distributing certain third party products, are recognised in the accounting period in which the services are rendered.

For the Logistics business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. The Logistics business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Customer rebates and discounts may be offered to promote sales. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (ie excluded from revenues reported in the Group's consolidated income statement).

Duty and Similar Items

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Payments due in the USA under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

1 Accounting Policies continued

Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns where the applicable tax regulation is subject to interpretation and establishes provisions on the basis of amounts expected to be paid to the tax authorities only where it is considered more likely than not that an amount will be paid or received. This test is applied to each individual uncertain position which is then measured on the single most likely outcome.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Tax is recognised in the consolidated income statement, except where it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity.

Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

Intangible Assets – Goodwill

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible Assets – Other

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

These assets consist mainly of acquired trademarks, intellectual property, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment.

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

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 5 years	straight line

Property, Plant and Equipment

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

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

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/ reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

Financial Instruments and Hedging

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the consolidated income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

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

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IAS 39) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are net-settled and are therefore netted off the carrying value of those derivatives in the consolidated balance sheet.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

Provisions

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

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

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

Retirement Benefit Schemes

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

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

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

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

Share-Based Payments

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

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

Treasury Shares

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

1 Accounting Policies continued

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 costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related 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 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported taxation in note 8, and adjusted and reported earnings per share in note 10.

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

The items excluded from adjusted results are those which are one-off in nature or 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 Costs

Adjusted measures exclude costs associated with major acquisitions as they do not relate to the day to day operational performance of the Group.

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

Tax Matters

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. The recognition and utilisation of deferred tax assets relating to losses not historically generated as a result of the underlying business performance are excluded on the same basis.

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 and the fair value of derivative financial instruments providing commercial cash flow hedges.

New Accounting Standards and Interpretations

The following standards became effective for the current reporting period:

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

Only the application of IFRS 11 had a material effect on the net assets or results of the Group. The impact on the Group's results and net assets is as follows:

Income Statement

£ million	Year ended 30 September 2014		
	Previously reported	Adjustment	Restated
Revenue	26,625	(165)	26,460
Duty and similar items	(12,928)	–	(12,928)
Other cost of sales	(8,422)	71	(8,351)
Cost of sales	(21,350)	71	(21,279)
Gross profit	5,275	(94)	5,181
Distribution, advertising and selling costs	(1,946)	17	(1,929)
Amortisation of acquired intangibles	(644)	–	(644)
Other expenses	(621)	32	(589)
Administrative and other expenses	(1,265)	32	(1,233)
Operating profit	2,064	(45)	2,019
Investment income	517	(1)	516
Finance costs	(1,061)	2	(1,059)
Net finance costs	(544)	1	(543)
Share of profit of investments accounted for using the equity method	–	49	49
Profit before taxation	1,520	5	1,525
Taxation	(69)	(11)	(80)
Profit for the year	1,451	(6)	1,445
Attributable to:			
Owners of the parent	1,422	–	1,422
Non-controlling interests	29	(6)	23

Balance Sheet

£ million	At 30 September 2014			At 30 September 2013		
	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated
Non-current assets						
Intangible assets	15,859	(525)	15,334	17,382	(527)	16,855
Investments accounted for using the equity method	–	561	561	–	546	546
Other non-current assets	2,844	(31)	2,813	2,652	(33)	2,619
Current assets	7,306	(123)	7,183	8,388	(140)	8,248
Total assets	26,009	(118)	25,891	28,422	(154)	28,268
Current liabilities	(7,813)	78	(7,735)	(11,082)	98	(10,984)
Non-current liabilities	(12,719)	26	(12,693)	(11,688)	43	(11,645)
Total liabilities	(20,532)	104	(20,428)	(22,770)	141	(22,629)
Net assets	5,477	(14)	5,463	5,652	(13)	5,639
Equity						
Share capital	104	–	104	107	–	107
Share premium and capital redemption	5,836	–	5,836	5,833	–	5,833
Retained earnings	(756)	–	(756)	(791)	–	(791)
Exchange translation reserve	(119)	–	(119)	447	–	447
Non-controlling interests	412	(14)	398	56	(13)	43
Total equity	5,477	(14)	5,463	5,652	(13)	5,639

Other New Standards

A number of new standards and interpretations issued, but not yet effective, have not been applied in the preparation of these consolidated financial statements. Management has yet to fully assess the impact of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers which are both effective for the Group for its 2019 financial statements.

There are no other standards or interpretations that are not yet effective that are expected to have a material effect on the Group's net assets or results.

2 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions 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 assumptions. The estimates and assumptions 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 below.

Legal Proceedings and Disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisors; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

A summary of significant legal cases in which the Group is currently involved is disclosed in note 28.

Intangible Assets and Property, Plant and Equipment

The Group allocates the purchase price of acquired businesses to their identifiable tangible and intangible assets. For major acquisitions we engage external consultants to assist in the valuation of identifiable intangible assets. The valuation process is based on discounted forecast cash flows and is dependent on assumptions about cash flows, economic factors and business strategy.

On acquisition intangible assets and property, plant and equipment are valued at fair value – intangible assets using the income method and property, plant and equipment using assessments of independent valuers. Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Intangible assets (other than goodwill, the Davidoff cigarette trademark and certain premium cigar trademarks) and property, plant and equipment are amortised or depreciated over their useful lives which are based on management's estimates of the period over which the assets will generate revenue, and are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of intangible assets and property, plant and equipment subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, goodwill arising on acquisitions and indefinite lived assets are subject to impairment review. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review of intangible assets and/or property, plant and equipment include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets and property, plant and equipment affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements.

See notes 11 and 12 to these financial statements.

Income Taxes

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Provisions

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

3 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.

The Tobacco business is managed 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 market shares below 15 per cent and where our total tobacco approach provides many opportunities for share and profit growth both now and in the future. Following the 2015 acquisition, the USA has become a significant market and is therefore disclosed separately.

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 Ventures), USA 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 reportable segments are:

Returns Markets North – Australia, Belgium, Germany, Netherlands, Poland, United Kingdom;

Returns Markets South – France, Spain and our African markets including Algeria, Ivory Coast, Morocco;

Growth Markets – Iraq, Norway, Russia, Saudi Arabia, Taiwan;

USA.

Tobacco

£ million unless otherwise indicated	2015	2014 (Restated)
Revenue	19,011	19,501
Net revenue	6,251	6,421
Operating profit	1,910	1,925
Adjusted operating profit	2,895	2,805
Adjusted operating margin %	46.3	43.7

Logistics

£ million unless otherwise indicated	2015	2014 (Restated)
Revenue	7,025	7,774
Distribution fees	749	838
Operating profit	74	84
Adjusted operating profit	154	166
Adjusted distribution margin %	20.6	19.8

Revenue

£ million	2015		2014 (Restated)	
	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Returns Markets North	12,332	12,303	12,939	12,915
Returns Markets South	2,245	1,576	2,497	1,753
Growth Markets	3,019	2,970	3,192	3,145
USA	1,415	1,415	873	873
Total Tobacco	19,011	18,264	19,501	18,686
Logistics	7,025	7,025	7,774	7,774
Eliminations	(747)	–	(815)	–
Total Group	25,289	25,289	26,460	26,460

3 Segment Information continued

Tobacco net revenue

£ million	2015	2014 (Restated)
Returns Markets North	2,649	2,801
Returns Markets South	1,446	1,600
Growth Markets	1,449	1,513
USA	707	507
Total Tobacco	6,251	6,421

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco-related products of £175 million (2014: £152 million).

Adjusted operating profit and reconciliation to profit before tax

£ million	2015	2014 (Restated)
Tobacco		
Returns Markets North	1,475	1,511
Returns Markets South	636	724
Growth Markets	409	334
USA	375	236
Total Tobacco	2,895	2,805
Logistics	154	166
Eliminations	4	10
Adjusted operating profit	3,053	2,981
Acquisition costs – Tobacco	(40)	(13)
Amortisation of acquired intangibles – Tobacco	(617)	(562)
Amortisation of acquired intangibles – Logistics	(80)	(82)
Restructuring costs – Tobacco	(328)	(305)
Operating profit	1,988	2,019
Net finance costs	(261)	(543)
Share of profit of investments accounted for using the equity method	29	49
Profit before tax	1,756	1,525

Other information

£ million	2015		2014 (Restated)	
	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Returns Markets North	93	61	100	69
Returns Markets South	35	31	54	41
Growth Markets	32	31	73	34
USA	20	13	12	8
Total Tobacco	180	136	239	152
Logistics	14	29	16	31
Total Group	194	165	255	183

Additions to property, plant and equipment exclude those obtained as part of acquisitions (see note 12).

Additional geographic analysis

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

£ million	2015		2014 (Restated)	
	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,498	119	4,750	163
Germany	3,408	3,123	4,003	3,350
France	3,300	2,597	3,661	2,857
USA	1,536	7,308	1,024	2,727
Other	12,547	7,909	13,022	8,652
Total Group	25,289	21,056	26,460	17,749

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

4 Profit Before Taxation

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

£ million	2015	2014 (Restated)
Raw materials and consumables used	1,012	1,265
Changes in inventories of finished goods	6,276	6,938
Operating lease charges	52	56
Net foreign exchange gains	(122)	(110)
Write down of inventories	29	26
(Profit)/loss on disposal of property, plant and equipment	(2)	6
Impairment of trade receivables	3	2

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2015	2014
Audit of Parent Company and consolidated financial statements	0.9	1.0
Audit of the Company's subsidiaries	3.6	3.7
Audit related assurance services	0.2	0.1
	4.7	4.8
Tax advisory services	1.0	0.7
Tax compliance services	0.1	0.2
Other services	3.0	2.1
	8.8	7.8

5 Restructuring Costs

£ million	2015	2014
Employment related	100	149
Asset impairments	113	71
Other charges	115	85
	328	305

The charge for the year of £328 million (2014: £305 million) relates mainly to our cost optimisation programme announced in 2013 (£159 million) and integration costs relating to the businesses acquired in the year (£139 million). The balance of £30 million relates primarily to the closure of our UK vending operation and the restructuring of our Chinese operations.

The cost optimisation programme is expected to have a cash implementation cost in the region of £600 million and generate savings of £300 million by 2018. In 2015 the cash cost of the programme was £169 million (2014: £81 million) bringing the cumulative net cash cost of the programme to £340 million.

The total restructuring cash flow in the year ended 30 September 2015 was £256 million (2014: £120 million).

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

6 Directors and Employees

Employment costs

£ million	2015	2014 (Restated)
Wages and salaries	811	889
Social security costs	161	175
Pension costs (note 22)	75	(21)
Share-based payments (note 25)	25	22
	1,072	1,065

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2015		2014 (Restated) ¹	
	At 30 September	Average	At 30 September	Average
Tobacco	30,500	29,300	28,800	29,400
Logistics	5,900	5,800	5,900	5,900
	36,400	35,100	34,700	35,300

Number of people employed by the Group by location during the year

	2015		2014 (Restated) ¹	
	At 30 September	Average	At 30 September	Average
European Union	16,500	16,600	16,700	16,800
Americas	9,800	8,300	7,600	7,800
Rest of the World	10,100	10,200	10,400	10,700
	36,400	35,100	34,700	35,300

¹ 2014 employee numbers have been restated to include all employees (previously just included those who were operative), ie including those on long term sick, maternity leave, unpaid leave and early retirement plans.

7 Net Finance Costs and Reconciliation to Adjusted Net Finance Costs

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2015	2014 (Restated)
Reported net finance costs	261	543
Fair value gains on derivative financial instruments	691	271
Fair value losses on derivative financial instruments	(578)	(358)
Exchange gains on financing activities	113	99
Net fair value and exchange gains on financial instruments	226	12
Interest income on net defined benefit assets	138	138
Interest cost on net defined benefit liabilities	(157)	(174)
Unwind of discount on redundancy and other long-term provisions	(1)	(4)
Post-employment benefits net financing cost	(20)	(40)
Adjusted net finance costs	467	515
Comprising:		
Interest on bank deposits	(6)	(9)
Interest on bank and other loans	473	524
Adjusted net finance costs	467	515

8 Taxation

Analysis of charge in the year

£ million	2015	2014 (Restated)
Current tax		
UK corporation tax	36	7
Overseas taxation	449	405
Total current tax	485	412
Deferred tax		
Origination and reversal of temporary differences	(452)	(332)
Total tax charged to the consolidated income statement	33	80

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 10.

£ million	2015	2014 (Restated)
Reported taxation	33	80
Deferred tax on amortisation of acquired intangibles	149	281
Tax on net fair value and exchange movement on financial instruments	(11)	13
Tax on post-employment benefits net financing cost	6	12
Tax on restructuring costs	91	84
Tax on unrecognised losses	273	51
Adjusted tax charge	541	521

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 20.5 per cent (2014: 22.0 per cent) as follows:

£ million	2015	2014 (Restated)
Profit before tax	1,756	1,525
Tax at the UK corporation tax rate	360	335
Tax effects of:		
Differences in effective tax rates on overseas earnings	(66)	(103)
Remeasurement of deferred tax balances	(310)	(260)
Remeasurement of deferred tax balances arising from changes in tax rates	(13)	64
Permanent differences	68	61
Adjustments in respect of prior years	(6)	(17)
Total tax charged to the consolidated income statement	33	80

Movement on current tax account

£ million	2015	2014 (Restated)
At 1 October	(32)	(65)
Charged to the consolidated income statement	(485)	(412)
Charged to equity	(3)	(3)
Cash paid	408	451
Other movements	1	(3)
At 30 September	(111)	(32)

Analysed as:

£ million	2015	2014 (Restated)
Assets	56	96
Liabilities	(167)	(128)
	(111)	(32)

9 Dividends

Distributions to ordinary equity holders

£ million	2015	2014	2013
Paid interim of 42.8p per share (2014: 38.8p, 2013: 35.2p)			
– Paid August 2013	–	–	341
– Paid August 2014	–	370	–
– Paid June 2015	204	–	–
– Paid September 2015	204	–	–
Interim dividend paid	408	370	341
Proposed interim of 49.1p per share (2014: nil, 2013: nil)			
– To be paid December 2015	468	–	–
Interim dividend proposed	468	–	–
Proposed final of 49.1p per share (2014: 89.3p, 2013: 81.2p)			
– Paid February 2014	–	–	779
– Paid February 2015	–	851	–
– To be paid March 2016	468	–	–
Final dividend	468	851	779
Total ordinary share dividends of 141.0p per share (2014: 128.1p, 2013: 116.4p)	1,344	1,221	1,120

The third interim dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend of £468 million, which will be paid in December 2015.

The proposed final dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend payment of £468 million in March 2016 based on the number of shares ranking for dividend at 30 September 2015, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2015 will be £1,344 million (2014: £1,221 million). The dividend paid during 2015 is £1,259 million (2014: £1,149 million).

10 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	2015	2014
Earnings: basic and diluted – attributable to owners of the parent Company	1,691	1,422

Millions of shares

Weighted average number of shares:		
Shares for basic earnings per share	953.4	957.4
Potentially dilutive share options	2.5	2.5
Shares for diluted earnings per share	955.9	959.9

Pence

Basic earnings per share	177.4	148.5
Diluted earnings per share	176.9	148.1

Reconciliation from reported to adjusted earnings and earnings per share

£ million unless otherwise indicated	2015		2014	
	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	177.4	1,691	148.5	1,422
Acquisition costs	4.2	40	1.4	13
Amortisation of acquired intangibles	57.5	548	35.8	343
Net fair value and exchange gains on financial instruments	(22.7)	(215)	(2.5)	(25)
Post-employment benefits net financing cost	1.5	14	2.8	28
Restructuring costs	24.9	237	23.1	221
Tax on unrecognised losses	(28.6)	(273)	(5.3)	(51)
Adjustments above attributable to non-controlling interests	(1.7)	(16)	(0.4)	(4)
Adjusted	212.5	2,026	203.4	1,947
Adjusted diluted	211.9	2,026	202.8	1,947

11 Intangible Assets

£ million	2015				
	Goodwill	Intellectual property	Supply agreements	Software	Total
Cost					
At 1 October 2014 (Restated)	11,675	6,757	1,239	202	19,873
Additions	–	16	–	44	60
Acquisitions (see note 29)	381	4,053	–	8	4,442
Exchange movements	(358)	(154)	(60)	(10)	(582)
At 30 September 2015	11,698	10,672	1,179	244	23,793
Amortisation and impairment					
At 1 October 2014 (Restated)	1,386	2,432	597	124	4,539
Amortisation charge for the year	–	603	94	23	720
Impairment charge for the year	–	19	–	–	19
Exchange movements	(68)	(71)	(29)	(7)	(175)
Accumulated amortisation	–	2,609	662	140	3,411
Accumulated impairment	1,318	374	–	–	1,692
At 30 September 2015	1,318	2,983	662	140	5,103
Net book value					
At 30 September 2015	10,380	7,689	517	104	18,690
2014 (Restated)					
£ million	Goodwill	Intellectual property	Supply agreements	Software	Total
Cost					
At 1 October 2013	12,416	7,094	1,330	175	21,015
Additions	–	63	–	37	100
Reclassifications	–	–	–	6	6
Disposals	–	–	–	(4)	(4)
Exchange movements	(741)	(400)	(91)	(12)	(1,244)
At 30 September 2014	11,675	6,757	1,239	202	19,873
Amortisation and impairment					
At 1 October 2013	1,489	2,025	535	111	4,160
Amortisation charge for the year	–	540	104	24	668
Disposals	–	–	–	(1)	(1)
Exchange movements	(103)	(133)	(42)	(10)	(288)
Accumulated amortisation	–	2,077	597	124	2,798
Accumulated impairment	1,386	355	–	–	1,741
At 30 September 2014	1,386	2,432	597	124	4,539
Net book value					
At 30 September 2014	10,289	4,325	642	78	15,334

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

Supply agreements include Logistics customer relationships and exclusive supply arrangements in Cuba. All were acquired under the purchase of Altadis.

In November 2013, the Group acquired e-vapour intellectual property rights from the Hong Kong based company Dragonite for £46 million.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software are treated as reconciling items between reported operating profit and adjusted operating profit.

11 Intangible Assets continued

Goodwill and intangible asset impairment review

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

£ million	2015		2014 (Restated)	
	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	3,745	168	3,948	177
Returns Markets South	1,415	88	1,484	93
Growth	1,700	253	1,760	252
USA	2,071	–	1,572	–
Tobacco	8,931	509	8,764	522
Logistics	1,449	–	1,525	–
	10,380	509	10,289	522

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

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGU, or group of CGUs as appropriate, is based on value-in-use calculations. These calculations use cash flow projections derived from three year financial plans which are approved by the Board annually and are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

Growth rates and discount rates used

The compound annual growth rates implicit in these value-in-use calculations are shown below.

%	2015		
	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Returns Markets North	9.0	2.6	1.8
Returns Markets South	11.3	(0.8)	1.8
Growth Markets	8.9-16.7	5.4-13.5	1.8-4.0
USA	10.0	3.5	2.5
Logistics	9.6	8.0	1.8

Cash flows from the three year plan period are extrapolated out to year five using the growth rate implicit in the three year plan, shown in the table above as the initial growth rate. Estimated long-term weighted average compound annual growth rates of between 1.8 per cent and 4.0 per cent per annum are used beyond year five.

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

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs.

Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Growth markets

Within our Growth Markets reporting segment, there are a number of CGU groupings based on our operating segments, including Drive Growth and Other Premium Cigar.

The Drive Growth CGU grouping includes our markets in Russia, Italy and Japan. The major market in this CGU grouping is Russia. Our impairment test for this CGU grouping indicated headroom of £69 million, and assumed a compound annual growth rate for Russia over the first five years of 11.4 per cent. The test also assumed a discount rate for the Russian market of 16.7 per cent reflecting recent political uncertainty and a long-term growth rate of 3.0 per cent. A reduction of 12 per cent in overall forecast cash flows, or an increase in the discount rate by 190 basis points, or a reduction in the long-term growth rate of 310 basis points, or a further 14 per cent devaluation of the Russian rouble would cause the carrying value to equal the recoverable amount.

The impairment test for our Other Premium Cigar CGU grouping that includes our non-Cuban Premium Cigar business indicated headroom of £17 million. A reduction in overall forecast cash flows of 3 per cent, or an increase in the discount rate by 20 basis points from 10.0 per cent, or a reduction in the short-term growth rate of 70 basis points from 5.4 per cent, or a reduction in the long-term growth rate of 30 basis points from 2.2 per cent would cause the carrying value to equal the recoverable amount.

Other CGU groupings

For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

12 Property, Plant and Equipment

£ million	2015			Total
	Property	Plant and equipment	Fixtures and motor vehicles	
Cost				
At 1 October 2014 (Restated)	985	1,865	407	3,257
Additions	13	140	41	194
Acquisitions (see note 29)	34	58	14	106
Disposals	(77)	(80)	(69)	(226)
Reclassifications	12	(11)	(8)	(7)
Exchange movements	(41)	(156)	(19)	(216)
At 30 September 2015	926	1,816	366	3,108
Depreciation and impairment				
At 1 October 2014 (Restated)	214	923	266	1,403
Depreciation charge for the year	11	98	33	142
Impairment	–	58	1	59
Disposals	(42)	(64)	(63)	(169)
Reclassifications	–	3	(7)	(4)
Exchange movements	(14)	(63)	(14)	(91)
At 30 September 2015	169	955	216	1,340
Net book value				
At 30 September 2015	757	861	150	1,768

£ million	2014 (Restated)			Total
	Property	Plant and equipment	Fixtures and motor vehicles	
Cost				
At 1 October 2013	1,140	1,851	437	3,428
Additions	38	175	42	255
Disposals	(129)	(44)	(17)	(190)
Reclassifications	1	16	(26)	(9)
Exchange movements	(65)	(133)	(29)	(227)
At 30 September 2014	985	1,865	407	3,257
Depreciation and impairment				
At 1 October 2013	254	851	254	1,359
Depreciation charge for the year	17	105	37	159
Impairment	30	54	8	92
Disposals	(70)	(39)	(16)	(125)
Reclassifications	1	(2)	(1)	(2)
Exchange movements	(18)	(46)	(16)	(80)
At 30 September 2014	214	923	266	1,403
Net book value				
At 30 September 2014	771	942	141	1,854

The impairment charges in 2015 and 2014 were mainly due to the proposed closure of our Nottingham and Nantes manufacturing facilities, as announced in 2014.

13 Joint Ventures

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

£ million	2015			
	Corporación Habanos	Altabana	Others	Total
Revenue	46	114	31	191
Profit after taxation	14	16	4	34
Non-current assets	181	7	10	198
Current assets	35	69	36	140
Total assets	216	76	46	338
Current liabilities	(46)	(24)	(33)	(103)
Non-current liabilities	(6)	(2)	–	(8)
Total liabilities	(52)	(26)	(33)	(111)
Net assets	164	50	13	227

£ million	2014			
	Corporación Habanos	Altabana	Others	Total
Revenue	35	106	24	165
Profit after taxation	9	19	1	29
Non-current assets	173	12	7	192
Current assets	30	70	22	122
Total assets	203	82	29	314
Current liabilities	(35)	(23)	(19)	(77)
Non-current liabilities	(5)	(1)	–	(6)
Total liabilities	(40)	(24)	(19)	(83)
Net assets	163	58	10	231

Transactions and balances with joint ventures

£ million	2015	2014
Sales to	59	61
Purchases from	60	63
Accounts receivable from	8	10
Current loans to	–	8
Accounts payable to	(7)	(11)

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

See note 1 for details of the impact on the reported results at 30 September 2014 and 30 September 2013.

14 Inventories

£ million	2015		2014 (Restated)	
Raw materials	1,028		1,000	
Work in progress	51		52	
Finished inventories	1,609		1,691	
Other inventories	154		132	
	2,842		2,875	

Other inventories mainly comprise duty-paid tax stamps.

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £358 million (2014: £250 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

15 Trade and Other Receivables

£ million	2015		2014 (Restated)	
	Current	Non-current	Current	Non-current
Trade receivables	2,278	–	2,609	–
Less: provision for impairment of receivables	(54)	–	(54)	–
Net trade receivables	2,224	–	2,555	–
Other receivables	103	66	86	63
Prepayments and accrued income	127	18	120	6
	2,454	84	2,761	69

Trade receivables may be analysed as follows:

£ million	2015		2014 (Restated)	
	Current	Non-current	Current	Non-current
Within credit terms	2,137	–	2,465	–
Past due by less than 3 months	52	–	57	–
Past due by more than 3 months	35	–	33	–
Amounts that are impaired	54	–	54	–
	2,278	–	2,609	–

16 Cash and Cash Equivalents

£ million	2015		2014 (Restated)	
Cash at bank and in hand	2,018		1,404	
Short-term deposits and other liquid assets	24		9	
	2,042		1,413	

£137 million (2014: £153 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

17 Trade and Other Payables

£ million	2015		2014 (Restated)	
	Current	Non-current	Current	Non-current
Trade payables	987	–	990	–
Other taxes, duties and social security contributions	5,075	–	5,236	–
Other payables	171	–	210	–
Accruals and deferred income	562	13	521	21
	6,795	13	6,957	21

18 Borrowings

The Group's borrowings are held at amortised cost. Current and non-current borrowings include interest payable of £95 million (2014: £1 million) and £208 million (2014: £291 million) respectively as at the balance sheet date. Interest payable on capital market issuances are at the fixed rates of interest outlined below and interest payable on bank loans and overdrafts are at floating rates of interest.

£ million	2015	2014 (Restated)
Current borrowings		
Bank loans and overdrafts	53	108
Capital market issuance:		
European commercial paper (ECP)	359	321
€500m 4.0% notes due December 2015	380	–
€1,500m 8.375% notes due February 2016	1,165	–
Total current borrowings	1,957	429
Non-current borrowings		
Bank loans	1,479	–
Capital market issuance:		
€500m 4.0% notes due December 2015	–	394
€1,500m 8.375% notes due February 2016	–	1,226
£450m 5.5% notes due November 2016	471	471
\$1,250m 2.05% notes due February 2018	825	773
€850m 4.5% notes due July 2018	634	667
\$500m 2.05% notes due July 2018	330	–
£200m 6.25% notes due December 2018	210	210
£500m 7.75% notes due June 2019	510	510
€750m 5.0% notes due December 2019	576	606
\$1,250m 2.95% notes due July 2020	826	–
€1,000m 2.25% notes due February 2021	745	785
£1,000m 9.0% notes due February 2022	1,054	1,054
\$1,250m 3.75% notes due July 2022	827	–
\$1,000m 3.5% notes due February 2023	660	618
£600m 8.125% notes due March 2024	626	626
\$1,500m 4.25% notes due July 2025	986	–
€650m 3.375% notes due February 2026	488	514
£500m 5.5% notes due September 2026	499	499
£500m 4.875% notes due June 2032	504	509
Total non-current borrowings	12,250	9,462
Total borrowings	14,207	9,891
Analysed as:		
Capital market issuance	12,675	9,783
Bank loans and overdrafts	1,532	108

Non-current bank loans contain committed USD term loan facilities with maturities expiring between one and four years, with interest payable at floating rates.

In June 2015 the Group utilised \$7,056 million of committed bank facilities to finance the purchase of certain US brands and assets from Reynolds American Inc. subsequent to its acquisition of Lorillard Inc. \$4,500 million was subsequently refinanced in the US debt capital markets in tranches of \$500 million, \$1,500 million and two tranches of \$1,250 million, with maturities between three and ten years.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2014: no defaults).

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current financial liabilities as at 30 September (including net derivative financial liabilities detailed in note 20) is as follows:

£ million	2015			2014 (Restated)		
	Borrowings	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:						
Between one and two years	1,457	67	1,524	1,620	(47)	1,573
Between two and five years	4,405	(127)	4,278	2,631	26	2,657
In five years or more	6,388	(106)	6,282	5,211	61	5,272
	12,250	(166)	12,084	9,462	40	9,502

Fair value of borrowings

The fair value of borrowings as at 30 September 2015 is estimated to be £15,004 million (2014: £10,887 million restated). £13,472 million (2014: £10,779 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

£ million	2015		2014	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	3,874	4,518	3,879	4,576
EUR	4,347	4,493	4,513	4,826
USD	4,454	4,461	1,391	1,377
Total capital market issuance	12,675	13,472	9,783	10,779

Undrawn borrowing facilities

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

£ million	2015	2014
Amounts maturing:		
Between one and two years	739	3,310
Between two and five years	2,594	3,631
In five years or more	–	927
	3,333	7,868

19 Financial Risk Factors

Financial risk management

Overview

In the normal course of business, the Group is exposed to financial risks including market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for managing external and internal funding requirements and financial risks in support of the Group's strategic objectives, specifically its exposure to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The Group operates on a global basis and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity.

The Group's Treasury activities are monitored by the Group Treasury Committee (GTC), which meets regularly throughout the year and comprises the Chief Financial Officer, the Company Secretary and other senior management from Group Finance, Manufacturing and Group Treasury. The GTC operates in accordance with the terms of reference set out by the Board and a framework (the GTC framework) which sets out the expectations and boundaries to assist in the effective oversight of Group Treasury activities. The Group Treasurer reports on a regular basis to the Board, and to the GTC on a monthly basis.

The Board reviews and approves all major treasury decisions and Group Treasury does not operate as a profit centre, nor does it enter into speculative transactions.

19 Financial Risk Factors continued

The Group's management of market, credit and liquidity risk is as follows:

Market risk

Price risk

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 22. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions denominated in foreign currencies, as well as the translation of cash investments, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. At 30 September 2015, after the effect of derivative financial instruments, approximately -2 per cent (2014: 17 per cent) of the Group's reported net debt was denominated in sterling, 60 per cent in euro (2014: 76 per cent), 45 per cent in US dollars (2014: 10 per cent), and -3 per cent in other currencies (2014: -3 per cent).

Management of the Group's foreign exchange transaction and translation risk is as follows.

Transaction risk

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group's sterling dividends to external shareholders are primarily sourced from foreign subsidiary earnings. Foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

Translation risk

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

Foreign exchange sensitivity analysis

IFRS 7 requires a sensitivity analysis showing the impact of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities on the Group's Income Statement and Other Comprehensive Income.

The tables below illustrate on an indicative basis, the Group's sensitivity to foreign exchange rates attributable to the translation of monetary items held by Group companies in currencies other than their functional currencies. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2015. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

£ million	2015 Increase in income	2014 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2014: 10%)	60	251
10% appreciation of US dollar (2014: 10%)	13	22
10% appreciation of sterling (2014: 10%)	7	3

An equivalent depreciation in the above currencies would cause a decrease in income of £73 million, £16 million and £8 million for euro, US dollar and sterling exchange rates respectively (2014: £307 million, £26 million and £3 million).

Movements in equity in the table below relate to hedging instruments designated as net investment hedges in hedging the Group's euro denominated assets.

£ million	2015 Change in equity	2014 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2014: 10%)	751	923
10% appreciation of US dollar (2014: 10%)	101	-

An equivalent depreciation in the above currencies would result in a change in equity of -£918 million and -£124 million for euro and US dollar exchange rates respectively (2014: -£1,129 million and £0 million).

Interest rate risk

The Group's interest rate risk arises from borrowings net of cash and cash equivalents. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group's financial results are primarily exposed to gains or losses arising from fluctuations in euro and US dollar interest rates. As at 30 September 2015, after adjusting for the effect of derivative financial instruments detailed in note 20, approximately 46 per cent (2014: 50 per cent) of the Group's borrowings were at fixed rates of interest.

The Group manages the interest rate risk on its borrowings by issuing debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency and interest denomination and subsequently entering into derivative financial instruments, primarily cross-currency and interest rate swaps, to change the currency and interest rate mix to the desired position and in line with the GTC framework. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and fair value movements of derivative financial instruments. The Group's debt maturity profile is detailed in the contractual cash flows tables overleaf.

Interest rate sensitivity analysis

IFRS 7 requires a sensitivity analysis showing the impact of hypothetical changes of interest rates in respect of financial assets and liabilities on the Group's Income Statement.

The table below illustrates on an indicative basis, the Group's sensitivity to interest rates on its euro, US dollar and sterling monetary items which are primarily external borrowings, cash and cash equivalents. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2015, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

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

The movement in interest rates is considered reasonable for the purpose of this analysis and the estimated effect assumes a lower limit of zero for interest rates where relevant.

£ million	2015 Change in income	2014 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2014: 1%)	72	32
+/- 1% increase in US dollar interest rates (2014: 1%)	53	13
+/- 1% increase in sterling interest rates (2014: 1%)	3	12

Credit risk

The Group is primarily exposed to credit risk arising from trade receivables due from its customers, cash deposits and financial instruments held with external financial counterparties. The maximum aggregate credit risk to these sources was considered to be £5,296 million at 30 September 2015 (2014: £4,665 million restated).

Trade and other receivables

The Group has some significant concentrations of customer credit risk. In order to manage its exposure to customer credit risk, policies have been implemented to ensure that sales of products are made to customers with an appropriate credit history and that credit support or guarantees are obtained where appropriate. Analysis of trade and other receivables is provided in note 15.

Financial instruments

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the GTC framework. Utilisation of counterparty credit limits is regularly monitored by Group Treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In very limited cases, collateral is deposited against derivative financial liabilities and supported by an ISDA Credit Support Annex.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2015. Management does not expect these counterparties to default on their current obligations at the balance sheet date. The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

Counterparty exposure	2015		2014	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	AA-	153	A	179
2nd highest	AA-	131	A	134
3rd highest	AA-	114	A+	129
4th highest	A	114	A	112
5th highest	A+	112	A+	111

19 Financial Risk Factors continued

Liquidity risk

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

The Group borrows centrally in order to meet forecast funding requirements, and Group Treasury is in regular dialogue with subsidiaries to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, loans from central finance companies, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries in order to minimise external borrowing requirements and interest costs. Group Treasury invests surplus cash in bank deposits and uses forward currency contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2015, the Group held liquid assets of £2,042 million (2014: £1,413 million restated).

The table below summarises the Group's financial liabilities by maturity based on their remaining contractual cash flows as at 30 September 2015. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 20.

£ million	2015					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	1,532	1,573	71	1,000	502	–
Capital market issuance	12,675	15,897	2,374	1,022	5,061	7,440
Trade and other payables	987	987	987	–	–	–
Total non-derivative financial liabilities	15,194	18,457	3,432	2,022	5,563	7,440
	2014 (Restated)					
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	108	108	108	–	–	–
Capital market issuance	9,783	12,677	834	1,994	3,621	6,228
Trade and other payables	990	990	990	–	–	–
Total non-derivative financial liabilities	10,881	13,775	1,932	1,994	3,621	6,228

Capital management

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

The Group continues to target an investment grade credit rating which it monitors by reference to a number of key financial ratios. The framework within which the Group's capital base is managed includes the return of capital to shareholders through an appropriate mix of share buybacks and dividends. In order to accelerate the pace of debt repayment associated with the purchase of certain US brands and assets from Reynolds American Inc. subsequent to its acquisition of Lorillard Inc. in June 2015, the Group has ceased its share buyback programme and no shares (2014: c£14.2 million) were repurchased during the financial year.

As at 30 September 2015 the Group was rated Baa3/negative outlook by Moody's Investors Service Ltd, BBB/stable outlook by Standard & Poor's Credit Market Services Europe Limited and BBB/negative outlook by Fitch Ratings Limited.

Hedge accounting

The Group hedges its underlying exposures in an efficient, commercial and structured manner in line with the policies outlined above, although 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 IAS39, the Group has decided not to apply cash flow or fair value hedge accounting in respect of these transactions.

The Group does apply net investment hedge accounting where appropriate, and certain permanent intragroup loans are treated as a reduction in investment in the Group's foreign operations in line with IAS 21. As at 30 September 2015 the Group had designated external euro borrowings with a carrying value of €5,237 million (2014: €5,165 million), US dollar borrowings with a carrying value of \$6,750 million (2014: nil), and cross-currency swaps with a notional value of €3,871 million (2014: €2,461 million) as hedges of a net investment in the Group's foreign operations.

Intragroup loans with a notional value of €2,077 million (2014: €5,440 million) and US dollar loans with a notional value of \$5,077 million (2014: nil) were treated as a reduction in investment in the Group's foreign operations at the balance sheet date.

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 20. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered to approximate to their carrying amount as outlined in note 18.

Netting arrangements of financial instruments

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

£ million	2015				Net
	Gross financial assets/liabilities	Gross financial assets/liabilities set off	Net financial assets/liabilities per balance sheet	Related amounts not set off in the balance sheet	
Assets					
Derivative financial instruments	1,016	(41)	975	(607)	368
Cash and cash equivalents	3,281	(1,239)	2,042	–	2,042
	4,297	(1,280)	3,017	(607)	2,410
Liabilities					
Derivative financial instruments	(801)	41	(760)	607	(153)
Bank loans and overdrafts	(1,292)	1,239	(53)	–	(53)
	(2,093)	1,280	(813)	607	(206)

£ million	2014 (Restated)				Net
	Gross financial assets/liabilities	Gross financial assets/liabilities set off	Net financial assets/liabilities per balance sheet	Related amounts not set off in the balance sheet	
Assets					
Derivative financial instruments	745	(102)	643	(451)	192
Cash and cash equivalents	3,436	(2,023)	1,413	–	1,413
	4,181	(2,125)	2,056	(451)	1,605
Liabilities					
Derivative financial instruments	(793)	102	(691)	451	(240)
Bank loans and overdrafts	(2,131)	2,023	(108)	–	(108)
	(2,924)	2,125	(799)	451	(348)

20 Derivative Financial Instruments

The Group's derivative financial instruments are held at fair value, which was estimated to be a £215 million net asset at 30 September 2015 (2014: £48 million net liability). Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 19.

£ million	2015			2014		
	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments						
Interest rate swaps	55	(20)	35	27	(41)	(14)
Forward foreign currency contracts	13	(5)	8	7	(7)	–
Cross-currency swaps	6	–	6	4	–	4
Total current derivatives	74	(25)	49	38	(48)	(10)
Collateral ¹	–	–	–	–	2	2
	74	(25)	49	38	(46)	(8)
Non-current derivative financial instruments						
Interest rate swaps	666	(753)	(87)	521	(692)	(171)
Cross-currency swaps	235	(23)	212	84	(53)	31
Total non-current derivatives	901	(776)	125	605	(745)	(140)
Collateral ¹	–	41	41	–	100	100
	901	(735)	166	605	(645)	(40)
Total carrying value of derivative financial instruments	975	(760)	215	643	(691)	(48)
Analysed as:						
Interest rate swaps	721	(773)	(52)	548	(733)	(185)
Forward foreign currency contracts	13	(5)	8	7	(7)	–
Cross-currency swaps	241	(23)	218	88	(53)	35
Collateral ¹	–	41	41	–	102	102
Total carrying value of derivative financial instruments	975	(760)	215	643	(691)	(48)

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

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Group's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2015. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2015. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non-derivative financial instruments are detailed in note 19.

£ million	2015					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(20)	(183)	18	(7)	(13)	(181)
Gross settled derivatives	235					
– receipts		4,660	921	528	752	2,459
– payments		(5,405)	(976)	(550)	(974)	(2,905)
	215	(928)	(37)	(29)	(235)	(627)
£ million	2014					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(149)	271	51	24	25	171
Gross settled derivatives	101					
– receipts		4,036	1,194	48	812	1,982
– payments		(4,507)	(1,222)	(76)	(866)	(2,343)
	(48)	(200)	23	(4)	(29)	(190)

Derivatives as hedging instruments

As outlined in note 19, the Group hedges its underlying interest rate and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross-currency swaps. Forward currency contracts are used to manage the Group's short term liquidity requirements in line with cash flow forecasts as appropriate. Given that the Group does not apply cash flow or fair value hedge accounting, as permitted under IAS 39, fair value gains and losses attributable to derivative financial instruments are recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

Interest rate swaps

Interest rate risk on the Group's borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency and interest denomination, and then using derivative financial instruments, primarily interest rate swaps, to change the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage the Group's interest rate risk over the short, medium and long term in accordance with the GTC framework. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2015, the notional amount of interest rate swaps outstanding that were entered into to change fixed rate borrowings into floating rates of interest at the time of raising new finance were £11,667 million equivalent (2014: £9,141 million equivalent) with a fair value of £721 million asset (2014: £524 million asset). The fixed interest rates vary from 2.0 per cent to 8.7 per cent (2014: 2.0 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

The notional amount of interest rate swaps outstanding at the balance sheet date that were entered into to change the Group's debt into the appropriate proportion of fixed and floating rates to manage the Group's interest rate risk over the short, medium and long term in accordance with the GTC framework were £10,692 million equivalent (2014: £7,942 million equivalent) with a fair value of £741 million liability (2014: £672 million liability). The fixed interest rates vary from 0.8 per cent to 5.2 per cent (2014: 0.8 per cent to 5.2 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £4,990 million equivalent (2014: £2,729 million equivalent) with tenors extending between three and 12 years, starting between October 2015 and October 2020.

Cross-currency swaps

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

As at 30 September 2015, the notional amount of cross-currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was £650 million (2014: £650 million) and the fair value of these swaps was £5 million net liability (2014: £30 million net liability).

The notional amount of cross-currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest at the balance sheet date was £3,100 million (2014: £2,000 million) and the fair value of these swaps was £232 million net asset (2014: £71 million net asset).

Hedges of net investments in foreign operations

As at 30 September 2015 cross-currency swaps with a notional amount of €3,871 million (2014: €2,461 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £202 million (2014: £153 million gains) were recognised in other comprehensive income in respect of cross-currency swaps that had been designated as hedges of a net investment in foreign operations.

Forward foreign currency contracts

The Group enters into forward currency contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2015 the notional amount of these contracts was £867 million equivalent (2014: £1,146 million equivalent) and the fair value of these contracts was a net asset of £8 million (2014: nil).

21 Deferred Tax Assets and Liabilities

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

Deferred tax assets

£ million	2015				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2014	1	101	1	138	241
Credited/(charged) to consolidated income statement	42	(3)	(1)	268	306
Charged to other comprehensive income	–	(7)	–	–	(7)
Transfers	43	(41)	–	(20)	(18)
Other movements	–	–	–	4	4
Exchange movements	18	(1)	–	(10)	7
At 30 September 2015	104	49	–	380	533

£ million	2014				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2013	(52)	156	2	47	153
Credited/(charged) to consolidated income statement	7	(12)	(1)	94	88
Transfers	20	(48)	–	5	(23)
Exchange movements	26	5	–	(8)	23
At 30 September 2014	1	101	1	138	241

Deferred tax liabilities

£ million	2015				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2014	(1,600)	52	–	118	(1,430)
Credited/(charged) to consolidated income statement	97	(4)	–	53	146
Credited to other comprehensive income	–	12	–	–	12
Acquisitions	–	26	–	10	36
Transfers	122	40	–	(144)	18
Exchange movements	47	(1)	–	2	48
At 30 September 2015	(1,334)	125	–	39	(1,170)

£ million	2014 (Restated)				Total
	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	
At 1 October 2013	(1,967)	58	–	130	(1,779)
Credited/(charged) to consolidated income statement	319	(33)	–	(42)	244
Charged to other comprehensive income	–	(1)	–	–	(1)
Transfers	(54)	32	–	47	25
Exchange movements	102	(4)	–	(17)	81
At 30 September 2014	(1,600)	52	–	118	(1,430)

Deferred tax expected to be recovered within 12 months

£ million	2015	2014 (Restated)
Deferred tax assets	188	59
Deferred tax liabilities	(227)	(233)
	(39)	(174)

Deferred tax expected to be recovered in more than 12 months

£ million	2015	2014 (Restated)
Deferred tax assets	345	182
Deferred tax liabilities	(943)	(1,197)
	(598)	(1,015)

Within other temporary differences, deferred tax assets of £331 million (2014: £92 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance and the impact of the acquisition completed in the year. Consequently we have increased deferred tax assets of £308 million relating to tax losses (2014: £90 million increase) previously not recognised on the basis that it is more likely than not that these are recoverable.

As at the balance sheet date, deferred tax assets of £78 million (2014: £373 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets, £29 million losses are expected to expire in 2016, £15 million (2014: £11 million) are expected to expire within five years and £26 million (2014: £27 million) are expected to expire between 2022 and 2026.

Also within other temporary differences, deferred tax assets of £2 million (2014: £10 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £143 million (2014: £229 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. These unrecognised deferred tax assets are expected to expire between 2021 and 2027.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £5 billion (2014: £7 billion). A provision of £50 million (2014: £4 million) has been made for taxation expected to arise on a planned future remittance of earnings totalling £1.7 billion from various subsidiaries. No liability has been recognised in respect of other differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

The rate of UK corporation tax was reduced by 1 per cent from 21 per cent to 20 per cent from 1 April 2015. No further reductions had been enacted at the balance sheet date. However, as announced in the Chancellor's Budget on 8 July 2015 the UK corporation tax rate is expected to reduce to 19 per cent from 1 April 2017 and to 18 per cent from 1 April 2020. The effect of these reductions, if applied to the deferred tax balance at 30 September 2015 would be to reduce the deferred tax asset by £3 million.

22 Retirement Benefit Schemes

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands Hourly scheme in the US; these schemes represent 65 per cent, 10 per cent and 7 per cent of the Group's total retirement benefit obligations and 53 per cent, 19 per cent and 4 per cent of the current service cost respectively.

Imperial Tobacco Pension Fund

The UK scheme – the Imperial Tobacco Pension Fund or ITPF – is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF is offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 16 years. The population comprises 62 per cent in respect of pensioners, 35 per cent in respect of deferred members and 3 per cent in respect of active employees. New employees in the UK are now offered a defined contribution scheme. Should surplus funds arise in the defined benefit section they may be used to finance defined contribution section contributions with company contributions reduced accordingly.

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

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

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

22 Retirement Benefit Schemes continued

The latest valuation of the ITPF was carried out as at 31 March 2013 when the market value of the invested assets was £2,957 million. Based on the ongoing funding target the total assets were sufficient to cover 100 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, Imperial Tobacco Limited and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly.

Following the valuation, the level of employer's contributions to the scheme was increased from £31 million per year. The Company paid £47.5 million on 31 March 2014 and £52.5 million in the year to 31 March 2015 and agreed to pay £57.5 million in the year to 31 March 2016 and £65 million each year for the subsequent 12 years. Further contributions were agreed to be paid by the Company in the event of a downgrade in the credit rating of Imperial Tobacco Group's senior unsecured long-term debt. In addition, surety guarantees with a total value of £400 million and a parental guarantee with ITG have been put in place. The contributions agreed, plus the surety guarantees, cover the expected discontinuance cost as at the valuation date.

The Scheme Actuary prepares an annual update of the funding position as at 31 March each year. The latest annual update on an ongoing basis was carried out as at 31 March 2015 and showed a surplus of £329 million in relation to past service accrued benefits.

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

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

The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 18 years. The scheme population comprises 53 per cent in respect of pensioners, 16 per cent in respect of deferred members and 31 per cent in respect of active employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £19 million in respect of benefits.

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

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

ITG Brands Hourly Pension Plan

The USA pension scheme, the ITG Brands Hourly Pension Plan (ITGBH), is a defined benefit pension plan that is open to new entrants. It has a weighted average maturity of 11 years. The population comprises 66 per cent in respect of pensioners, 3 per cent in respect of deferred members and 31 per cent in respect of active employees.

The plan is funded and benefits are paid from the plan assets. Over the next year the plan expects to pay £23 million in respect of benefits. Contributions to the plan are determined based on US regulatory requirements.

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

The IAS19 liability measurement of the defined benefit obligation and the service cost are sensitive to assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

Other plans

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

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2015 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

Defined benefit plans

£ million	2015			2014		
	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(4,315)	3,535	(780)	(4,400)	3,350	(1,050)
Consolidated income statement expense						
Current service cost	(48)	–	(48)	(49)	–	(49)
Past service credit – Spanish free tobacco settlement	–	–	–	52	–	52
Past service credit – curtailment	2	–	2	69	–	69
Cost of termination benefits	(8)	–	(8)	(32)	–	(32)
Net interest (expense)/income on net defined benefit (liability)/asset	(157)	138	(19)	(174)	138	(36)
Administration costs paid from plan assets	–	(2)	(2)	–	(3)	(3)
(Cost)/income recognised in the income statement			(75)			1
Remeasurements						
Actuarial gain due to liability experience	37	–	37	38	–	38
Actuarial loss due to financial assumption changes	(121)	–	(121)	(202)	–	(202)
Actuarial (loss)/gain due to demographic assumption changes	(2)	–	(2)	22	–	22
Return on plan assets excluding amounts in net interest income above	–	58	58	–	187	187
Remeasurement effects recognised in OCI			(28)			45
Cash						
Employer contributions	–	101	101	–	116	116
Employee contributions	(2)	2	–	(2)	2	–
Benefits paid directly by the company	36	(36)	–	46	(46)	–
Benefits paid from plan assets	175	(175)	–	181	(181)	–
Net cash			101			116
Other						
Obligations and assets of acquired operations	(437)	367	(70)	–	–	–
Spanish free tobacco settlement	–	–	–	48	–	48
Exchange movements	50	(15)	35	88	(28)	60
Total other			(35)			108
At 30 September	(4,790)	3,973	(817)	(4,315)	3,535	(780)

Termination benefits in the year ended 30 September 2015 mainly relate to restructuring activity in Germany.

In the year ended 30 September 2014, there were a number of special events that have impacted the liabilities and the costs of the Group's retirement benefit schemes.

The announcement of the proposed closure of the Nottingham factory gave rise to a curtailment gain of £55 million and termination costs of £25 million. Other redundancies in the United Kingdom and Germany gave rise to termination costs of £7 million.

We reached an agreement in Spain with around 70 per cent of pensioners who had previously received payments in respect of former entitlements to free cigarettes to accept a one-off cash payment in full settlement. This has given rise to a past service credit of £52 million. The cash settlement of £48 million was paid at the beginning of October 2014 and the liability was recognised in the balance sheet at 30 September 2014 in other liabilities.

In the Netherlands the defined benefit scheme has been replaced by a multi-employer scheme for most employees (which is accounted for as a defined contribution scheme under IAS 19, because it is not possible to determine the Group's share of the plan assets) and by a defined contribution plan for some employees. As a consequence of these changes a curtailment gain of £14 million was recognised in the year to 30 September 2014.

22 Retirement Benefit Schemes continued

Retirement benefit scheme costs charged to operating profit

£ million	2015	2014
Defined benefit costs/(credit) in operating profit	56	(37)
Defined contribution costs in operating profit	21	19
Total retirement benefit scheme costs/(credit) in operating profit	77	(18)

Split as follows in the consolidated income statement:

£ million	2015	2014
Cost of sales	27	31
Distribution, advertising and selling costs	30	15
Administrative and other expenses	20	(64)
Total retirement benefit scheme costs/(credit) in operating profit	77	(18)

Assets and liabilities recognised in the consolidated balance sheet

£ million	2015	2014
Retirement benefit assets	92	44
Retirement benefit liabilities	(909)	(824)
Net retirement benefit liability	(817)	(780)

Key figures and assumptions used for major plans

£ million unless otherwise indicated	2015			2014	
	ITPF	RCPP	ITGBH	ITPF	RCPP
Benefit obligation (DBO)	3,093	482	361	3,066	502
Fair value of scheme assets	(3,178)	–	(355)	(3,094)	–
Net defined benefit (asset)/liability	(85)	482	6	(28)	502
Current service cost	26	9	2	30	7
Employer contributions	53	19	–	48	21
Principal actuarial assumptions used (% per annum)					
Discount rate	3.7	2.3	4.3	4.0	2.5
Future salary increases	3.5	2.9	n/a	3.7	3.1
Future pension increases	3.0	1.8	n/a	3.2	2.0
Inflation	3.0	1.8	n/a	3.2	1.9

	2015					
	ITPF		RCPP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.6	23.0	18.9	22.9	19.0	23.1
Member currently aged 50	22.9	24.5	20.9	24.8	21.0	25.0

	2014			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65			21.5	22.9
Member currently aged 50			22.8	24.4
			18.9	22.9
			20.9	24.8

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS All Pensioner Male Amounts table with a 109.8 per cent multiplier. An allowance for improvements in longevity is made using the CMI improvement rates with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for key assumption at the end of the reporting period

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

% increase in DBO	2015			2014	
	ITPF	RCPP	ITGBH	ITPF	RCPP
Discount rate: 0.5% decrease	8.1	9.1	5.7	8.1	8.8
Rate of inflation: 0.5% decrease	(6.6)	(6.3)	n/a	(6.6)	(5.4)
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.7	3.3	3.5	4.5

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

We estimate that a 0.5 per cent decrease/(increase) in the discount rate at the start of the reporting period would have increased/(decreased) the consolidated income statement pension expense by approximately £15 million.

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

£ million unless otherwise indicated	2015		2014	
	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	1,380	43	1,361	44
Bonds – index linked government	762	24	650	21
Bonds – corporate and other	536	17	495	16
Property	455	15	402	13
Absolute return pooled funds	–	–	155	5
Other – including derivatives, commodities and cash	45	1	31	1
	3,178	100	3,094	100

The majority of the assets are quoted. Absolute return pooled funds are in overseas, non-quoted assets.

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco PLC amounted to £2 million (2014: £3 million).

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

£ million unless otherwise indicated	2015	
	Fair value	Percentage of ITGBH scheme assets
Investment funds	312	88
Equities	6	2
Bonds – fixed government	23	6
Bonds – corporate and other	2	1
Other – including derivatives, commodities and cash	12	3
	355	100

The majority of the assets are non-quoted.

23 Provisions

£ million	2015		
	Restructuring	Other	Total
At 1 October 2014 (Restated)	320	166	486
Additional provisions charged to the consolidated income statement	95	22	117
Acquisitions (see note 29)	–	16	16
Unwind of discount on redundancy and other long-term provisions	1	–	1
Amounts used	(103)	(34)	(137)
Unused amounts reversed	(25)	(21)	(46)
Exchange movements	(10)	(10)	(20)
At 30 September 2015	278	139	417

Analysed as:

£ million	2015	2014 (Restated)
Current	197	175
Non-current	220	311
	417	486

Restructuring provisions relate mainly to our cost optimisation programme (see note 5).

Other provisions principally relate to commercial legal claims and disputes and are expected to be used over a period of up to 10 years.

24 Share Capital

£ million	2015	2014
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2014: 1,036,000,000)	104	104

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve.

25 Share Schemes

The Group operates three types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

Share Matching Scheme

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in Imperial Tobacco Group PLC shares for a period of three years, after which additional shares are awarded on a 1:1 ratio.

Long Term Incentive Plan (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria.

Sharesave Plan

Options are granted to eligible employees who participate in a designated savings scheme for a three or five year period.

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

Analysis of charge to the consolidated income statement

£ million	2015	2014
Share Matching Scheme	19	19
Long Term Incentive Plan	3	1
Sharesave Plan	3	2
	25	22

The awards are predominantly equity-settled. The balance sheet liability in respect of cash-settled schemes at 30 September 2015 was £3 million (2014: £2 million).

Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated	2015			Sharesave weighted average exercise price £
	Share matching awards	LTIP awards	Sharesave options	
Outstanding at 1 October 2014	2,708	769	1,578	19.36
Granted	827	404	442	25.40
Lapsed/cancelled	(170)	(197)	(94)	19.64
Exercised	(635)	(17)	(407)	19.72
Outstanding at 30 September 2015	2,730	959	1,519	21.05
Exercisable at 30 September 2015	-	-	47	17.66

Thousands of shares unless otherwise indicated	2014			Sharesave weighted average exercise price £
	Share matching awards	LTIP awards	Sharesave options	
Outstanding at 1 October 2013	2,723	936	1,737	18.12
Granted	1,120	320	453	20.40
Lapsed/cancelled	(274)	(484)	(133)	18.44
Exercised	(861)	(3)	(479)	16.10
Outstanding at 30 September 2014	2,708	769	1,578	19.36
Exercisable at 30 September 2014	-	-	46	16.60

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £29.71 (2014: £23.60). The weighted average fair value of sharesave options granted during the year was £5.84 (2014: £4.28).

Summary of awards/options outstanding at 30 September 2015

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2013	898	4	n/a
2014	1,035	16	n/a
2015	797	28	n/a
Total awards outstanding	2,730		
Long Term Incentive Plan			
2013	239	2	n/a
2014	316	13	n/a
2015	404	29	n/a
Total awards outstanding	959		
Sharesave Plan			
2010	1	-	15.63
2011	36	-	17.80
2012	77	2	20.45
2013	552	12	18.40
2014	416	22	20.40
2015	437	34	25.40
Total options outstanding	1,519		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

25 Share Schemes continued

Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme and Sharesave Plan. A summary of the assumptions used in the Black-Scholes model for 2015 and 2014 is as follows.

	2015		2014	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	1.1	0.3-1.5	1.5	0.4-1.5
Volatility (based on 3 or 5 year history) %	22.0	22.5-23.0	22.5	22.5-23.0
Expected lives of options granted years	3	3	3	3
Dividend yield %	5.2	5.1-5.2	5.1	5.1
Fair value £	25.88	5.33-6.18	21.88	4.18-4.52
Share price used to determine exercise price £	30.25	31.75-32.63	25.50	25.50
Exercise price £	n/a	25.40	n/a	20.40

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2015 and 2014 are given in the following table.

	2015	2014
%		
Future Imperial Tobacco Group share price volatility	18.0	18.0
Future Imperial Tobacco Group dividend yield	5.2	5.1
Share price volatility of the tobacco and alcohol comparator group	14.0-32.0	14.0-37.0
Share price volatility of the FTSE 100 comparator group	n/a	n/a
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	30.0	35.0
Correlation between Imperial Tobacco and the FTSE 100 comparator group	n/a	n/a

Employee Share Ownership Trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £181.9 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2015. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

Shares held by Employee Share Ownership Trusts

Millions of shares	2015	2014
At 1 October	4.2	3.3
Distribution of shares held by Employee Share Ownership Trusts	(1.0)	(1.1)
Gift of treasury shares	-	2.0
At 30 September	3.2	4.2

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.4 million (2014: 0.3 million) shares acquired in the open market at a cost of £7.9 million (2014: £7.8 million) and 2.8 million (2014: 3.9 million) treasury shares gifted to the Trusts by the Group. There were no shares gifted in the financial year 2015 (2014: 2.0 million).

26 Treasury Shares

Shares purchased under the Group's buyback programme are normally held in a separate treasury reserve and represent a deduction from equity shareholders' funds (see Consolidated Statement of Changes in Equity) and are only cancelled if the number of treasury shares approaches 10 percent of issued share capital. During the year the Group purchased no shares (2014: 14,163,486 at a cost of £341 million) and cancelled no shares (2014: 31,942,881 shares).

Millions of shares unless otherwise indicated

	2015	2014
At 1 October	78.9	98.7
Gift to Employee Share Ownership Trusts	-	(2.0)
Purchase of treasury shares	-	14.1
Cancellation of treasury shares	-	(31.9)
At 30 September	78.9	78.9
Percentage of issued share capital	7.6	7.6

27 Commitments

Capital commitments

£ million

	2015	2014
Contracted but not provided for:		
Property, plant and equipment and software	133	177

Operating lease commitments

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

£ million	2015			2014		
	Property	Other	Total	Property	Other	Total
Within one year	36	10	46	37	12	49
Between one and five years	88	11	99	86	17	103
Beyond five years	32	-	32	29	-	29
	156	21	177	152	29	181

28 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.

29 Acquisitions

On 12 June 2015 the Group completed the purchase of the Winston, Salem, Kool and Maverick cigarette brands and the blu e-cigarette brand from Reynolds, together with the national sales force, office and production facilities previously owned by Lorillard for a cash consideration of \$7,056 million (£4,613 million).

The acquisition builds on Imperial's strategy of investing in Growth Markets, making Imperial a major US competitor with around 10 per cent of the cigarette market share and national distribution.

Total acquisition costs of £40 million (2014: £13 million) have been recorded in the income statement. These have been excluded from the Group's adjusted operating profit and adjusted earnings per share (see notes 3 and 10).

In the period from 12 June 2015, the acquisition has contributed £657 million to revenue and generated an operating loss after restructuring and amortisation of £84 million. If the acquisition had taken place on 1 October 2014, Group revenue would have been £26,958 million and Group operating profit would have been £1,939 million.

Provisional fair values represent management's current best estimates. We engaged external consultants to assist in the valuation of the cigarette and e-cigarette brands, which make up the most significant element of the assets acquired and have been valued using the income method. Property valuations have been based on the assessments of independent valuers. Assets have been acquired without historic product liabilities for cigarette brands.

29 Acquisitions continued

Goodwill of £381 million represents the value of the accumulated sales and manufacturing workforces and synergies expected to be realised following the acquisition.

£ million	Provisional fair values
Intangible assets	4,053
Property, plant and equipment	106
Software	8
Retirement benefit assets	7
Deferred tax assets	36
Total non-current assets	4,210
Inventories	152
Trade and other receivables	91
Total current assets	243
Trade and other payables	(128)
Total current liabilities	(128)
Retirement benefit liabilities	(77)
Provisions	(16)
Total non-current liabilities	(93)
Total identifiable net assets	4,232
Consideration	4,613
Goodwill on acquisition	381

30 Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2014 (Restated)	1,413	(429)	(9,462)	(48)	(8,526)
Reallocation of current borrowings from non-current borrowings	–	(1,620)	1,620	–	–
Cash flow	686	33	(4,373)	(139)	(3,793)
Accretion of interest	–	–	(13)	14	1
Change in fair values	–	–	–	388	388
Exchange movements	(57)	59	(22)	–	(20)
At 30 September 2015	2,042	(1,957)	(12,250)	215	(11,950)

Analysis by denomination currency

£ million	2015				Total
	GBP	EUR	USD	Other	
Cash and cash equivalents	341	737	598	366	2,042
Total borrowings	(3,858)	(4,390)	(5,942)	(17)	(14,207)
	(3,517)	(3,653)	(5,344)	349	(12,165)
Effect of cross-currency swaps	3,782	(3,570)	–	–	212
	265	(7,223)	(5,344)	349	(11,953)
Derivative financial instruments					3
Net debt					(11,950)

£ million	2014 (Restated)				Total
	GBP	EUR	USD	Other	
Cash and cash equivalents	247	396	342	428	1,413
Total borrowings	(3,870)	(4,625)	(1,396)	–	(9,891)
	(3,623)	(4,229)	(1,054)	428	(8,478)
Effect of cross-currency swaps	2,691	(2,661)	–	–	30
	(932)	(6,890)	(1,054)	428	(8,448)
Derivative financial instruments					(78)
Net debt					(8,526)

Adjusted net debt

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

£ million	2015	2014 (Restated)
Reported net debt	(11,950)	(8,526)
Accrued interest	279	280
Fair value of derivatives providing commercial hedges	25	134
Adjusted net debt	(11,646)	(8,112)

31 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2015	2014 (Restated)
Increase/(decrease) in cash and cash equivalents	686	(387)
Cash flows relating to derivative financial instruments	(139)	121
Increase in borrowings	(4,720)	(2,303)
Repayment of borrowings	380	3,200
Change in net debt resulting from cash flows	(3,793)	631
Other non-cash movements including revaluation of derivative financial instruments	389	16
Exchange movements	(20)	320
Movement in net debt during the year	(3,424)	967
Opening net debt	(8,526)	(9,493)
Closing net debt	(11,950)	(8,526)

32 Changes in Non-Controlling Interests

There have been no changes in non-controlling interests in the current year.

In July 2014 the Group completed the IPO of the Logistics business, with 30 per cent of the shares of Compañía de Distribución Integral Logista Holdings SA being listed on Spanish stock exchanges. This increased non-controlling interest by £363 million. Sales proceeds were €518 million. Net proceeds after fees and costs were £395 million and were used to reduce the Group's debt. A gain of £32 million was recognised in equity.

Report on the Parent Company financial statements

Our opinion

In our opinion, Imperial Tobacco Group PLC's Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- The Balance Sheet as at 30 September 2015; and
- The Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2015.



John Maitland (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Bristol

3 November 2015

IMPERIAL TOBACCO GROUP PLC BALANCE SHEET

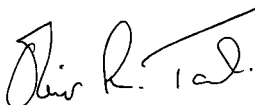
at 30 September

£ million	Notes	2015	2014
Fixed assets			
Investments	iii	7,968	7,968
Current assets			
Debtors: amounts falling due within one year	iv	67	–
Current liabilities			
Cash at bank and in hand		(1)	(1)
Creditors: amounts falling due within one year	v	–	(163)
Net current assets/(liabilities)		66	(164)
Total assets less current assets/(liabilities)		8,034	7,804
Net assets		8,034	7,804
Capital and reserves			
Called up share capital	vi	104	104
Capital redemption reserve	vii	3	3
Share premium account	vii	5,833	5,833
Profit and loss account	vii	2,094	1,864
Total shareholders' funds		8,034	7,804

The financial statements on pages 117 to 130 were approved by the Board of Directors on 3 November 2015 and signed on its behalf by:



Mark Williamson
Chairman



Oliver Tant
Director

i Accounting Policies

Basis of Preparation

The financial statements have been prepared on the going concern basis in accordance with the historical cost convention, the Companies Act 2006 and UK Generally Accepted Accounting Principles.

As permitted by Section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company. As permitted by FRS 29, the Company has elected not to present FRS 29 Financial Instruments: Disclosures in the notes to its individual financial statements as full equivalent disclosures are presented in the consolidated financial statements. As permitted by FRS 8 Related Party Disclosures the Company has not disclosed transactions with wholly owned subsidiaries.

The principal accounting policies, which have been applied consistently, are set out below.

Investments

Investments comprise the Company's investment in subsidiaries and are shown at cost less any provision for impairment.

Dividends

Final dividends payable are recognised as a liability in the period in which the dividends are approved by shareholders whereas interim dividends payable are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

Financial Instruments

Non-derivative financial assets are classified as cash and debtors. Debtors are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the profit and loss account. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method.

Treasury Shares

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

ii Dividends

Distributions to ordinary equity holders

£ million	2015	2014	2013
Paid interim of 42.8p per share (2014: 38.8p, 2013: 35.2p)			
– Paid August 2013	–	–	341
– Paid August 2014	–	370	–
– Paid June 2015	204	–	–
– Paid September 2015	204	–	–
Interim dividend paid	408	370	341
Proposed interim of 49.1p per share (2014: nil, 2013: nil)			
– To be paid December 2015	468	–	–
Interim dividend proposed	468	–	–
Proposed final of 49.1p per share (2014: 89.3p, 2013: 81.2p)			
– Paid February 2014	–	–	779
– Paid February 2015	–	851	–
– To be paid March 2016	468	–	–
Final dividend	468	851	779
Total ordinary share dividends of 141.0p per share (2014: 128.1p, 2013: 116.4p)	1,344	1,221	1,120

The third interim dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend of £468 million, which will be paid in December 2015.

The proposed final dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend payment of £468 million in March 2016 based on the number of shares ranking for dividend at 30 September 2015, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2015 will be £1,344 million (2014: £1,221 million). The dividend paid during 2015 is £1,259 million (2014: £1,149 million).

iii Investments

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2015	2014
At 1 October	7,968	7,968
At 30 September	7,968	7,968

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

A list of the subsidiaries of the Company is shown on pages 121 to 130.

iv Debtors: Amounts Falling Due Within One Year

£ million	2015	2014
Amounts owed from Group undertakings	67	–

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

v Creditors: Amounts Falling Due Within One Year

£ million	2015	2014
Amounts owed to Group undertakings	–	163

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

vi Called Up Share Capital

£ million	2015	2014
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2014: 1,036,000,000)	104	104

vii Reserves

£ million	Share premium account	Capital redemption reserve	Profit and loss account
At 1 October 2014	5,833	3	1,864
Profit for the year	–	–	1,489
Dividends	–	–	(1,259)
At 30 September 2015	5,833	3	2,094

As permitted by Section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £1,489 million (2014: £1,434 million). This is after charging an audit fee of £0.9 million (2014: £1.0 million).

Treasury shares

In 2011, the Company recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are retained in issue and represent a deduction from shareholders' funds. The share buyback programme was halted on 15 July 2014. During 2014 the Company purchased 14,163,000 shares under the programme at a cost of £341 million, and on 6 March 2014 31,942,881 shares held in Treasury were cancelled, creating a capital redemption reserve.

Millions of shares unless otherwise indicated	2015	2014
At 1 October	78.9	98.7
Gift to Employee Share Ownership Trusts	–	(2.0)
Purchase of treasury shares	–	14.1
Cancellation of treasury shares	–	(31.9)
At 30 September	78.9	78.9
Percentage of issued share capital	7.6	7.6

viii Reconciliation of Movements in Shareholders' Funds

£ million	2015	2014
Profit for the year	1,489	1,434
Dividends	(1,259)	(1,149)
Purchase of own shares	–	(341)
Movements in total shareholders' funds	230	(56)
Opening total shareholders' funds	7,804	7,860
Closing total shareholders' funds	8,034	7,804

ix Guarantees

Imperial Tobacco Group PLC has guaranteed various borrowings and liabilities of certain UK and overseas subsidiary undertakings, including various Dutch and Irish subsidiaries. At 30 September 2015, the contingent liability totalled £14,123 million (2014: £9,965 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2015 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, Imperial Tobacco Group PLC has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2015. The Irish companies, namely John Player & Sons Limited and Imperial Tobacco Mullingar, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

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

x Related Party Disclosures

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. These disclosures form part of the financial statement.

RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2015 is disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries are held directly by the Company.

Subsidiaries: Registered in England and Wales, wholly owned

Name	Principal activity
Attendfriend Limited	Dormant
British Tobacco Company Limited	Dormant
Congar International UK Limited	Dormant
Fontem UK Limited	Sales and marketing of tobacco products in the UK
Imperial Brands Limited	Dormant
Imperial Investments Limited	Dormant
Imperial Tobacco Altadis Limited	Provision of finance to other Group companies
Imperial Tobacco Capital Assets (1)	Provision of finance to other Group companies
Imperial Tobacco Capital Assets (2)	Provision of finance to other Group companies
Imperial Tobacco Capital Assets (3)	Provision of finance to other Group companies
Imperial Tobacco Capital Assets (4)	Provision of finance to other Group companies
Imperial Tobacco Enterprise Finance Limited	Providing treasury services to other Group companies
Imperial Tobacco Finance PLC	Providing treasury services to other Group companies
Imperial Tobacco Holdings (1) Limited ^(iv)	Holding investments in subsidiary companies
Imperial Tobacco Holdings (2007) Limited ^(iv)	Holding investments in subsidiary companies
Imperial Tobacco Holdings Limited	Holding investments in subsidiary companies
Imperial Tobacco Initiatives	Provision of finance to other Group companies
Imperial Tobacco International Limited	Export and marketing of tobacco products
Imperial Tobacco Lacroix Limited	Provision of finance to other Group companies
Imperial Tobacco Limited	Manufacture, marketing and sale of tobacco products in the UK
Imperial Tobacco Overseas (Polska) Limited	Holding investments in subsidiary companies
Imperial Tobacco Overseas Holdings (1) Limited ^(viii)	Holding investments in subsidiary companies
Imperial Tobacco Overseas Holdings (2) Limited	Holding investments in subsidiary companies
Imperial Tobacco Overseas Holdings (3) Limited	Holding investments in subsidiary companies
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies
Imperial Tobacco Overseas Limited ^(ix)	Holding investments in subsidiary companies
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant
Imperial Tobacco Pension Trustees Limited ^(iv)	Dormant
ITG Brands Limited	Holding investments in subsidiary companies
Joseph & Henry Wilson Limited	Licensing rights for the manufacture and sale of tobacco products
La Flor de Copan UK Limited	Holding investments in subsidiary companies
Park Lane Tobacco Company Limited	Dormant
Rizla UK Limited	Entity ceased trading
Sinclair Collis Limited ^(iv)	Distributor of tobacco products in England, Scotland and Wales
Tabacalera de Garcia UK Limited	Holding investments in subsidiary companies

Subsidiaries: Incorporated overseas, wholly owned

Name	Country of incorporation	Principal activity
800 JR Cigar Inc	United States of America	Holding investments in subsidiary companies
Altadis Canarias SAU ⁽ⁱⁱⁱ⁾	Spain	Marketing and sale of tobacco products in the Canary Islands
Altadis Emisiones Financieras SAU	Spain	Provision of finance to Altadis SA and its subsidiaries
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies
Altadis Luxembourg SA	Luxembourg	Holding investments in subsidiary companies
Altadis Management Services Corporation	United States of America	Trademark service company
Altadis Mayotte SAS	France, Mayotte Island	Sales and distribution of tobacco products in Mayotte Island
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East
Altadis Ocean Indien SAS	France (La Réunion Island)	Sales and distribution of tobacco products in la Réunion Island
Altadis Retail Corporation	United States of America	Trademark owner
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the US
Altadis USA Inc	United States of America	Manufacture and sale of cigars in the US
Association pour la Recherche sur les Nicotianées (ARN)	France	Research and development
Athena IP Vermögensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner
Badische Tabakmanufaktur Roth-Händle GmbH,	Germany	Trademark owner
Cacique, SA – Comércio, Importação e Exportação	Brazil	Dormant
Casa Blanca Inc	United States of America	Restaurant
CBHC Inc	United States of America	Dormant
Cigar Savor Enterprises LLC	United States of America	Manufacture of tobacco products
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the US
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the US
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies
Consolidated Cigar Holdings Inc ^(viii)	United States of America	Holding investments in subsidiary companies
Coralma International SAS	France	Holding investments in subsidiary companies
Cuban Cigar Brands BV ^(vi)	Netherlands Antilles	Trademark owner
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies
Dunkerquoise des Blends SAS	France	Tobacco processing
East Side Cigar, Inc	United States of America	Production and distribution of cigars
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium
Fontem (Beijing) Technology Solutions Limited ⁽ⁱ⁾	People's Republic of China	Research and development
Fontem Holdings 1 B.V.	The Netherlands	Holding investments in subsidiary companies
Fontem Holdings 2 B.V.	The Netherlands	Holding investments in subsidiary companies
Fontem Holdings 3 B.V.	The Netherlands	Holding investments in subsidiary companies
Fontem Holdings 4 B.V.	The Netherlands	Holding investments in subsidiary companies
Fontem Holdings B.V.	The Netherlands	Holding investments in subsidiary companies
Fontem International GmbH	Germany	Holding investments in subsidiary companies
Fontem US, Inc.	United States of America	Sales and marketing of tobacco products in the US
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies
Gauloises Inc.	United States of America	Dormant
Huotraco International Limited	Cambodia	Production and marketing of tobacco products
Imperial Nominees Limited ⁽ⁱⁱ⁾	New Zealand	Trustee Company
Imperial Tobacco (Asia) Pte. Ltd	Singapore	Trading of tobacco-related products
Imperial Tobacco (Beijing) Limited ⁽ⁱ⁾	People's Republic of China	Holding investments in subsidiary companies
Imperial Tobacco Australia Holdings B.V.	The Netherlands	Holding investments in subsidiary companies
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria
Imperial Tobacco BH doo ^(o)	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia
Imperial Tobacco Brasil Comércio de Produtos de Tabaco Ltda	Brazil	Co-ordinating and monitoring of WEST license productions and distribution of tobacco products

Name	Country of incorporation	Principal activity
Imperial Tobacco Bulgaria EOOD ⁽¹⁾	Bulgaria	Manufacture and sale of tobacco products in Bulgaria
Imperial Tobacco China Limited ⁽¹⁾	People's Republic of China	Marketing of tobacco products in China
Imperial Tobacco CR s.r.o.	Czech Republic	Sales and marketing of tobacco products in the Czech Republic
Imperial Tobacco Denmark ApS	Denmark	Distribution of tobacco products in Denmark and Greenland
Imperial Tobacco Distribution EOOD ⁽¹⁾	Bulgaria	Marketing and distribution of tobacco products in Bulgaria
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies
Imperial Tobacco Estonia OÜ	Estonia	Sales of tobacco products
Imperial Tobacco Finance France SAS	France	Provision of finance to other Group companies
Imperial Tobacco Finland Oy	Finland	Sales and marketing of tobacco products in Finland
Imperial Tobacco Germany Finance GmbH	Germany	Holding investments in subsidiary companies
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies
Imperial Tobacco Ireland Unlimited Company	Ireland ⁽⁴⁾	Provision of finance to other Group companies
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy
Imperial Tobacco Italy S.r.l.	Italy	Holding investments in subsidiary companies
Imperial Tobacco Japan Kabushiki Kaisha	Japan	Sales and marketing of tobacco products in Japan
Imperial Tobacco Kyrgyzstan LLC ⁽¹⁾	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan
Imperial Tobacco Magyarország Dohányforgalmazó Kft. (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary
Imperial Tobacco Management (1) Limited	Guernsey	Holding investments in subsidiary companies
Imperial Tobacco Management (2) Limited	Guernsey	Holding investments in subsidiary companies
Imperial Tobacco Management Luxembourg (3) sarl	Luxembourg	Holding investments in subsidiary companies
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products
Imperial Tobacco Mullingar	Ireland	Manufacture of fine cut tobacco in the Republic of Ireland
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand
Imperial Tobacco Norway AS	Norway	Sales and marketing of tobacco products in Norway
Imperial Tobacco Polska Manufacturing SA	Poland	Manufacture of tobacco products in Poland
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management
Imperial Tobacco Sales & Marketing LLC	Russia	Sales and marketing of tobacco products in Russia
Imperial Tobacco SCG doo Beograd ⁽¹⁾	Serbia	Marketing and distribution of tobacco products in Serbia
Imperial Tobacco Sigara ve Tutunculuck Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic
Imperial Tobacco South Africa S.A.	Panama	Provision of services to other Group companies
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey
Imperial Tobacco Ukraine ⁽¹⁾	Ukraine	Sales and marketing of tobacco products un Ukraine
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies
Imperial Tobacco Volga LLC ⁽¹⁾	Russia	Manufacture of tobacco products in Russia
Imperial Tobacco West Africa SAS ⁽¹⁾	Cote D'Ivoire	Holding investments in subsidiary companies
Imperial Tobacco Yaroslavl CJSC ⁽¹⁾	Russia	Manufacture of tobacco products in Russia
Imperial Tobacco Zagreb doo ⁽¹⁾	Croatia	Marketing and distribution of tobacco-related products in Croatia

Subsidiaries: Incorporated overseas, wholly owned continued

Name	Country of incorporation	Principal activity
IMPTOB South Africa (Pty) Limited	South Africa	Manufacture of tobacco products in South Africa
International Marketing Promotional Services Limited	Nigeria	Sales and marketing and of tobacco products in Nigeria
ITB Corporation Limited	Bahamas	Trademark owner
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the US
ITG Holdings USA Inc ⁽⁶⁾	United States of America	Holding investments in subsidiary companies
ITI Cigars SL	Spain	Holding investments in subsidiary companies
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco-related products
J & R Tobacco (New Jersey) Corp	United States of America	Sales of tobacco and tobacco-related products
JAW-Invest Oy	Finland	Trademark owner
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company
JR Cigar (DC) Inc	United States of America	Sales of tobacco and tobacco-related products
JR Cigars.com, Inc.	United States of America	Sales of tobacco and tobacco-related products
JR Mooresville, Inc	United States of America	Sales of tobacco and tobacco-related products
JR Tobacco NC, Inc	United States of America	Sales of tobacco and tobacco-related products
JR Tobacco of America Inc	United States of America	Sales of tobacco and tobacco-related products
JR Tobacco of Burlington Inc	United States of America	Sales of tobacco and tobacco-related products
JR Tobacco of Michigan Inc	United States of America	Sales of tobacco and tobacco-related products
JR Tobacco Outlet Inc	United States of America	Sales of tobacco and tobacco-related products
JSNM SARL	France	Trademark owner
La Flor de Copan SAS	France	Manufacture of cigars in Honduras
Los Olvidados SRL	Dominican Republic	Manufacture and distribution of cigars
Max Rohr, Inc	United States of America	Trademark owner
MC Management, Inc.	United States of America	Provision of services to other Group companies
Meccarillos France, SA	Luxembourg	Holding investments in subsidiary companies
Meccarillos International, SA	Luxembourg	Holding investments in subsidiary companies
Meccarillos Suisse, SA	Luxembourg	Holding investments in subsidiary companies
Midtown Cigar, Inc.	United States of America	Sales of tobacco and tobacco-related products
Millennium Tobacco	Ireland	Provision of finance to other Group companies
Newglade International Unlimited Company	Ireland	Provision of finance to other Group companies
Phillippine Bobbin Corporation	Phillippines	Manufacture of tobacco-related products
PT Reemtsma Indonesia	Indonesia	Manufacture of tobacco-related products
Real Club de Golf la Herrería S.A.	Spain	Management of golf course
REEMARK Gesellschaft für Markenkooperation GmbH	Germany	Dormant
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany
Reemtsma Mexico SA de CV IL	Mexico	In liquidation
Rizla International B.V.	The Netherlands	Holding investments in subsidiary companies
Robert Burton Associates Limited	United States of America	Marketing of papers in the US
Santa Clara Inc	United States of America	Distribution of cigars
Seita Participations SAS	France	Holding investments in subsidiary companies
Seita senegal Sarl	Senegal	Dormant
Skruf Snus AB	Sweden	Manufacture, marketing and sales of tobacco products in Sweden
Société Centrafricaine de Cigarettes SA ⁽⁹⁾	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic

Name	Country of incorporation	Principal activity
Société Centrafricaine de Distribution Sarl ⁽ⁱ⁾	Central African Republic	Dormant
Société du Mont Nimba Sarl ⁽ⁱ⁾	Guinee Conakry	Dormant
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products
Société pour le Développement du Tabac en Afrique SAS	France	Purchasing company
System Designed to Africa Sarl	Morocco	Distribution of tobacco products
Tabacalera Brands Inc	United States of America	Trademark owner
Tabacalera Brands SLU	Spain	Holding investments in subsidiary companies
Tabacalera de Garcia Limited	Bermunda	Holding investments in subsidiary companies
Tabacalera de Garcia SAS	France	Manufacture of cigars in the Dominican Republic
Tabacalera SLU	Spain	Holding investments in subsidiary companies
Tahiti Tabacs SASU	France, Papeete (Tahiti)	Distribution of tobacco products in Denmark and Greenland
Tobacco Products Fulfillments, Inc.	United States of America	Fulfilment services
Tobaccor SAS ^(iv)	France	Holding investments in subsidiary companies
Tobakarna 3DVA, trgovsko podjetje, d.o.o.	Slovenia	Retail of products in Slovenia
Tobakarna Grosist d.o.o.	Slovenia	Marketing and distribution in Slovenia
Tobakarna Ljubljana d.o.o. ^(v)	Slovenia	Sales and marketing tobacco products in Slovenia
Tobamark International SA	France	Trademark owner
Urex Inversiones SA	Spain	Holding investments in subsidiary companies
Van Nelle Canada Limited ^(vii)	Canada	Import and distribution of tobacco and tobacco-related products in Canada
Van Nelle Tabak Nederland B.V. ^(x)	The Netherlands	Manufacture and sale of tobacco products in the Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco-related products
West Park Tobacco Inc.	United States of America	Purchase company for US tobaccos

Subsidiaries: Incorporated overseas, partly owned

Name	Country of incorporation	Principal activity	Percentage owned
Be To Be Pharma, S.L	Spain	Distribution of pharmaceuticals	70.0
Caribbean Investment Corporation, SA ⁽ⁱ⁾	Switzerland	Holding investments in subsidiary companies	50.0
Comercial Iberoamericana SA ⁽ⁱ⁾	Spain	Wholesale and distribution of tobacco products	50.0
Compagnie Agricole et Industrielle des Tabacs Africains SAS	France	Management company	99.9
Compagnie Agricole et Industrielle des Tabacs de Côte d'Ivoire SA, IL ⁽ⁱ⁾	Côte d'Ivoire	In liquidation	74.6
Compagnie Réunionnaise des Tabacs SAS	France, St Pierre (La Réunion)	Manufacture of cigarettes	98.6
Compañía de Distribución Integral de Publicaciones Logista SLU ^(iv)	Spain	Distribution of published materials and other products	70.0
Compañía de Distribución Integral Logista Holdings, S.A. ⁽ⁱⁱⁱ⁾	Spain	Holding investments in subsidiary companies	70.0
Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL)	Poland	Distribution of tobacco products in Poland	70.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain	70.0
Coprova SAS ⁽ⁱ⁾	France	Distribution of Cuban cigars in the Caribbean	50.0
Cuba Cigar, S.L. ⁽ⁱ⁾	Spain	Distribution of Cuban cigars in the Canary Islands	50.0
Cubacigar ⁽ⁱ⁾	Belgium	Distribution of cigars in Belgium	50.0
Cyberpoint, S.L.U.	Spain	Distribution of POS software	70.0
Dalso, S.A. ⁽ⁱ⁾	Dominican Republic	Distribution of Cuban cigars in Dominican Republic	50.0
Distribérica SA	Spain	Holding investments in subsidiary companies	70.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain	56.0
Distribuidora de Ediciones SADE, SAU	Spain	Distribution of published materials and other products in Spain	70.0
Distribuidora de las Rias SA	Spain	Distribution of published materials and other products in Spain	70.0
Distribuidora del Este S.A.U.	Spain	Distribution of published materials and other products in Spain	70.0
Distribuidora del Noroeste SL	Spain	Distribution of published materials and other products in Spain	70.0
Dronas 2002, SLU	Spain	Industrial parcel and express delivery service	70.0
Empor – Importação e exportação, SA ⁽ⁱ⁾	Portugal	Distribution of tobacco products in Portugal	50.0
Gauloises (Pty) Limited IL	South Africa	In liquidation	50.0
Habanos Nordic AB ⁽ⁱ⁾	Sweden	Distribution of Cuban cigars in Scandinavia	50.0
Imperial Tobacco Production Ukraine ⁽ⁱ⁾	Ukraine	Manufacture of tobacco products in Ukraine	99.9
Imperial Tobacco TKS a.d. ⁽ⁱ⁾	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia	99.1
Imprimerie Industrielle Ivoirienne SA ⁽ⁱ⁾	Côte d'Ivoire	Printing company	72.8
Infifon APS ⁽ⁱ⁾	Denmark	Holding investments in subsidiary companies	50.0
Infifon Hong Kong Limited ⁽ⁱ⁾	China	Distribution of Cuban cigars in China	50.0
Infifon I, BV ⁽ⁱ⁾	The Netherlands	Holding investments in subsidiary companies	50.0
Infifon II NV ⁽ⁱ⁾	Netherlands Antilles	Distribution of Cuban cigars in Russia	50.0
ITB Corporation y Cía., S.R.C.	Spain	Trademark owner	80.0
La Mancha 2000, S.A., Sociedad Unipersonal	Spain	Logistics services	70.0
Lao Tobacco Limited ⁽ⁱ⁾	Laos	Manufacture and distribution of cigarettes in Laos	53.0
Logesta Deutschland GmbH, Sociedad Unipersonal	Germany	Long-haul transportation in Germany	70.0
Logesta France SARL	France	Long-haul transportation in France	70.0
Logesta Gestión de Transporte SAU	Spain	Long-haul transportation services in Spain	70.0
Logesta Italia, S.R.L., Sociedad Unipersonal	Italy	Long-haul transportation in Italy	70.0
Logesta Lusa LDA	Portugal	Long-haul transportation in Portugal	70.0

Name	Country of incorporation	Principal activity	Percentage owned
Logesta Maroc SA IL	Morocco	In liquidation	89.8
Logesta Polska Sp Zoo	Poland	Long-haul transportation in Poland	70.0
Logista France Holding SA	France	Holding investments in subsidiary companies	70.0
Logista France SAS	France	Holding investments in subsidiary companies	70.0
Logista Italia Spa	Italy	Long-haul transportation in Italy	70.0
Logista Pharma SA	Spain	Distribution of pharmaceuticals	70.0
Logista Promotion et Transport SAS	France	Marketing and distribution of tobacco products in France	70.0
Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical logistics in Portugal	70.0
Logista-Dis SAU	Spain	Sale of tobacco products in Spain	70.0
MABUCIG (Manufacture Burkinabe de Cigarettes)	Burkina Faso	Manufacture of cigarettes in Burkina Faso	72.7
Macotab SAS (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes	99.9
Manufacture de Cigarettes du Tchad SA	Tchad	Manufacture and distribution of cigarettes in Chad	95.0
Midsid – Sociedade Portuguesa de Distribuição, S.A., Sociedad Unipersonal	Portugal	Wholesale of tobacco and other products	70.0
MTOA SA ⁽ⁱ⁾	Senegal	Manufacture and sales of cigarettes in Senegal	97.3
NITAF Limited, IL ⁽ⁱ⁾	Nigeria	In liquidation	50.0
Promotora Vascongada de Distribuciones SA	Spain	Distribution of published materials and other products in Biscay and Santander	70.0
Publicaciones y Libros SA	Spain	Publishing company	70.0
Puro Tabaco SA ⁽ⁱ⁾	Argentina	Distribution of Cuban cigars in Argentina and Chile	50.0
Reemtsma Kyrgyzstan OJSC ⁽ⁱ⁾	Kyrgyzstan	Manufacture and sale of tobacco products in Kyrgyzstan	98.6
S3T Pte Ltd ⁽ⁱ⁾	Singapore	Holding investments in subsidiary companies	51.0
SACIMEM SA ⁽ⁱ⁾	Madagascar	Manufacture of cigarettes in Madagascar	65.4
SITAB Industries SA ⁽ⁱ⁾	Côte d'Ivoire	Manufacture of cigarettes in Côte d'Ivoire	80.5
SITAR Holding SAS	Ile de la Réunion	Holding investments in subsidiary companies	98.6
Société Africaine d'Impression Industrielle SA ⁽ⁱ⁾	Senegal	Manufacture and distribution of cigarettes in Senegal	99.8
Société Allumettiere Française SAS	France	Manufacture and distribution of cigarettes	70.0
Société de Distribution Sénégalaise SA ⁽ⁱ⁾	Senegal	Dormant	97.5
Société des Cigarettes Gabonaises SA ⁽ⁱ⁾	Gabon	Manufacture and distribution of cigarettes in Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical SA ⁽ⁱ⁾	Congo	Manufacture and distribution of cigarettes in Congo	89.6
Société Ivoirienne des Tabacs SA ⁽ⁱ⁾⁽ⁱⁱⁱ⁾	Côte d'Ivoire	Manufacture and distribution of cigarettes in Côte d'Ivoire	74.1
Société Marocaine des Tabacs SA	Morocco	Manufacture and distribution of cigarettes in Morocco	99.9
SOCTAM SA ⁽ⁱ⁾	Madagascar	Manufacture and distribution of cigarettes in Mali	50.5
Supergroup SAS	France	Wholesale of tobacco products	70.0
T2 Gran Canaria SA	Spain	Pharmaceutical products logistics in Canary Islands	70.0
Top Cigars Corporation LLC ⁽ⁱ⁾	Russia	Distributor of Habanos in Russia	50.0
Universal Brands, S.A.	Spain	Trademark owner	80.0
Urecor Comunicación y Medios, S.A.	Spain	Dormant	75.0
Xinet SA ⁽ⁱ⁾	Uruguay	Distribution of Cuban cigars in Uruguay	50.0

Associates: Registered in England and Wales

Name	Principal activity	Percentage owned
C H (Downton) Limited ^(ix)	Dormant	25.0
F J (Downton) Limited	Dormant	25.0
Hunters & Frankau Limited	Dormant	25.0
Incentive Marketing Services (UK) Limited	Dormant	25.0
Jacon Financial Services Limited ^(ix)	Dormant	25.0
Joseph Samuel & Son Limited	Dormant	25.0
Knight Brothers Cigar Shippers Limited	Dormant	25.0
Lancha House Limited	Dormant	25.0
Melbourne Hart & Company Limited	Dormant	25.0
Melbourne Hart Holdings Limited ^(ix)	Dormant	25.0
Morris & Morris Limited	Dormant	25.0
Tabaco Torcido Traders Limited	Dormant	25.0
The English Import Company Limited	Dormant	25.0
Tropic Tobacco Company Limited	Dormant	25.0

Associates: Incorporated overseas

Name	Country of incorporation	Principal activity	Percentage owned
5th Avenue Products Trading GmbH ^{(ix)(iv)}	Germany	Distribution of Cuban cigars in Germany	27.5
Avanza Libros S.L.U., Sociedad Unipersonal,IL	Spain	In liquidation	35.0
Azur Finances SA	Cameroon	Holding investments in subsidiary companies	20.0
Caribbean Cigars Corporation NV ⁽ⁱ⁾	Curacao	Distribution of Cuban cigars in the Caribbean	25.0
Compañía Española de Tabaco en Rama SA (Cetarsa) ⁽ⁱ⁾	Spain	Production and sale of raw tobacco	20.8
Diadema Spa ⁽ⁱ⁾	Italy	Distribution of Cuban cigars in Italy	30.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products	35.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia	35.0
Entreprises des Tabacs en Guinée ⁽ⁱ⁾	Guinée Conakry	Dormant	34.0
Havana House Cuban Products Specialist Limited ⁽ⁱ⁾	New Zealand	Distribution of Cuban cigars in New Zealand	25.0
Havana House Limited ⁽ⁱ⁾	Canada	Distribution of Cuban cigars in Canada	25.0
Importadora y Exportadora de Puros y Tabacos SA DE CV (IEPT) ⁽ⁱ⁾	Mexico	Marketing and distribution of Cuban cigars in Mexico	25.0
Intertabak AG ⁽ⁱ⁾	Switzerland	Distribution of Cuban cigars in Switzerland and Liechtenstein	25.0
Lippoel Tobacco Corporation International NV	Netherlands Antilles	Distributor of Cuban leaf	27.5
Logista Libros SL	Spain	Distribution of books	35.0
Manufacture Mauritanienne des Tabacs	Mauritanie	Manufacture and import of tobacco products	34.6
Maori Tabacs, S.A. ⁽ⁱ⁾	Andorra	Distribution of Cuban cigars in Andorra	25.0
Marfany I Mas Industria Tobacco SA (Mitsa) (MARFANY MAS INDUSTRIA TABAQUERA, S.A.)	Andorra	Manufacture of Cuban cigars in Andorra	24.0
New Mentality Limited ⁽ⁱ⁾	British Virgin Islands	Dormant	25.0
Pacific Holding (Thailand) Company Limited ^{(i)(iv)}	Thailand	Holding investments in subsidiary companies	25.0
Phoenicia Beirut SAL ⁽ⁱ⁾	Lebanon	Retail in Lebanon	25.0
Phoenicia TAA Cyprus Ltd ⁽ⁱ⁾	Cyprus	Distribution of Cuban cigars in the Middle East and Africa	25.0
Pit Stop Limited ⁽ⁱ⁾	British Virgin Islands	Dormant	25.0
Promotion et Distribution a Madagascar ⁽ⁱ⁾	Madagascar	Distribution of cigarettes in Madagascar	33.4
SITABAC S.A.	Cameroon	Manufacture and distribution of tobacco products in Cameroon	34.5
Société Internationale des Tabacs Malgaches ⁽ⁱ⁾	Madagascar	Leaf processing	47.9

Name	Country of incorporation	Principal activity	Percentage owned
Société Nationale des Tabacs et Allumettes du Mali SA ⁽ⁱ⁾	Mali	Manufacture and distribution of cigarettes in Mali	28.0
Terzia SPA	Italy	Wholesale to tobacconists in Italy	47.6
The Pacific Cigar (Thailand) Co Limited ^{(i)(iv)}	Thailand	Distribution of Cuban cigars in Thailand	25.0
The Pacific Cigar Co. (Singapore) Pte Limited ⁽ⁱ⁾	Singapore	Distribution of Cuban cigars in Singapore	25.0
The Pacific Cigar Company (Australia) Pty Limited ⁽ⁱ⁾	Australia	Distribution of Cuban cigars in Australia	25.0
The Pacific Cigar Company (Macau) Limited ⁽ⁱ⁾	Macau	Distribution of Cuban cigars in Macau	25.0
The Pacific Cigar Company (Malaysia) SDN BHD ⁽ⁱ⁾	Malaysia	Dormant	25.0
The Pacific Cigar Company (New Zealand) Limited ⁽ⁱ⁾	New Zealand	Distribution of Cuban cigars in New Zealand	25.0
The Pacific Cigar Company Limited ⁽ⁱ⁾	China	Distribution of Cuban cigars in Asia	25.0
The Pacific Cigar International Co Limited ⁽ⁱ⁾	Taiwan	Distribution of Cuban cigars in Asia	25.0

Joint Ventures: Incorporated overseas

Name	Country of incorporation	Principal activity	Percentage owned
Altabana SL ⁽ⁱ⁾	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars	50.0
Corporación Habanos SA ⁽ⁱ⁾	Cuba	Export of cigars manufactured in Cuba	50.0
International Cubana de Tabaco SA ⁽ⁱ⁾	Cuba	Manufacture of cigarillos in Cuba	50.0
Intertab SA ⁽ⁱ⁾	Switzerland	Holding investments in subsidiary companies	50.0
NITAF Holding BV, IL ^(iv)	The Netherlands	In liquidation	50.0
Promotora de Cigarros SL ⁽ⁱ⁾	Spain	Sales and marketing of cigars manufactured in Cuba	50.0
West Tobacco Pte Ltd ⁽ⁱ⁾	Singapore	Dormant	50.0
Compañía de Distribución Integral Logista S.A.U. y GTECH Global Lottery, S.L.U., U.T.E.	Spain	Services and distribution	50.0

Partnerships

The Group also owns the following partnerships:

Name	Country	Principal activity
Fabrica de Tabacos La Flor de Copan S de R.L. de CV	Honduras	Holding investments in subsidiary companies Principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras
Imperial Tobacco (Efka) GmbH & Co. KG	Germany	Manufacture of tubs in Germany Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany
Imperial Tobacco Kazakhstan LLP ⁽ⁱ⁾	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Principal place of business: 9th Floor, block C and D, Tole bi street 101, Almalinskyi district Street, 050012 Almaty City, Kazakhstan
ITG Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Principal place of business: 327 Hillsborough Street, Raleigh, NC 27603, North Carolina, United States of America

RELATED UNDERTAKINGS continued

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified.

Unless otherwise stated the entities are unlisted, have one type of ordinary share capital and a reporting period ended on 30 September each year.

- (i) December year end
- (ii) March year end
- (iii) Listed entity
- (iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue)
- (v) Holding of two types of ordinary share (where more than one type of ordinary share is authorised / in issue)
- (vi) Holding of preference shares only
- (vii) Holding of ordinary and preference shares
- (viii) Holding of ordinary and redeemable shares
- (ix) Holding of ordinary and deferred shares
- (x) Holding of two types of ordinary share and redeemable shares

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, are held by a number of Group companies, and Compañía de Distribución Integral Logista SAU, Logista France SAS, and Logista Italia SpA which are 100 per cent owned subsidiaries of Compañía de Distribución Integral Logista Holdings SA, which is itself 70 per cent owned by Altadis SAU.

SHAREHOLDER INFORMATION

Registered Office

121 Winterstoke Road
Bristol BS3 2LL
+44 (0)117 963 6636
Incorporated and domiciled in England and Wales No: 3236483

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
0371 384 2037*
+44 (0)121 415 7009
0371 384 2255* text phone for shareholders with hearing difficulties

* Lines are open 8:30am to 5:30pm, Monday to Friday excluding UK public holidays.

ADR Depository

Shareholder Services for ADR Holders
Citibank Shareholder Services
PO Box 43077
Providence, RI 02940-3077
USA
Toll-free number in the USA: 1-877-CITI-ADR (1-877-248-4237)
email: citibank@shareholders-online.com

Stockbrokers

Credit Suisse International
One Cabot Square
Canary Wharf
London E14 4QJ
+44 (0)20 7888 8000

Morgan Stanley & Co International Limited
20 Bank Street
Canary Wharf
London E14 4AD
+44 (0)20 7425 8000

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol BS2 0FR

Lawyers

Allen & Overy LLP
One Bishops Square
London E1 6AD

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Financial Calendar and Dividends

Half-year results are expected to be announced in May 2016 and the full year's results in November 2016.

The Annual General Meeting of the Company will be held on Wednesday 3 February 2016 at the Bristol Marriott Hotel City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2015 final dividend, if approved, will be on 31 March 2016 to shareholders on the Register of Members at the close of business on 5 February 2016. The associated ex dividend date will be 4 February 2016.

Shareholders who do not currently mandate their dividends and who wish to do so should complete a mandate instruction form obtainable from our Registrars, Equiniti Limited, at the address shown.

Share Dealing Service

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Tobacco Group PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Tobacco Group PLC ordinary shares, you will need your shareholder reference number which you can find on your share certificate.

Individual Savings Account

Investors in Imperial Tobacco Group PLC ordinary shares may take advantage of a low cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Tobacco Group ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £12.50 and £1.75 respectively for the sale and purchase of shares.

For a brochure or to apply for an ISA or Investment Account go online to www.shareview.co.uk/dealing or call Equiniti on 0345 300 0430.

Dividend Reinvestment Plan

Imperial Tobacco Group PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Tobacco Group PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2268 (+44 (0)121 415 7173) or online at www.shareview.co.uk.

American Depositary Receipt Facility

Imperial Tobacco Group PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'ITYBY'. Each ADS represents two Imperial Tobacco Group PLC ordinary shares. The ADS facility is administered by Citibank, N.A. and enquiries should be directed to them at the address shown.

Website

Information on Imperial Tobacco Group PLC is available on our website: www.imperial-tobacco.com

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk



Printed by Park Communications.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Inaset Plus Offset, a paper containing fibre sourced from well managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Designed and produced by Black Sun Plc.



Registered Office
Imperial Tobacco Group PLC
121 Winterstoke Road
Bristol BS3 2LL
UK
www.imperial-tobacco.com