IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the offering memorandum following this notice (the **Offering Memorandum**), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

This Offering Memorandum has been prepared in connection with the proposed offer and sale of the Notes described therein. The Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES AND THE GUARANTEES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the Notes, investors must be either (1) Qualified Institutional Buyers within the meaning of Rule 144A under the Securities Act (**QIBs**) or (2) non-U.S. persons within the meaning of Regulation S under the Securities Act. By accepting this e-mail and accessing the Offering Memorandum, you shall be deemed to have represented to us that:

1. you consent to delivery of such Offering Memorandum by electronic transmission; and
2. you and any customers you represent are either:
   A. QIBs; or
   B. non-U.S. persons eligible to purchase securities under Regulation S.

Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers (as defined herein) or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Initial Purchasers, nor any person who controls the Initial Purchasers, nor any of their or its directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CONFIDENTIAL

Imperial Tobacco Finance PLC

(incorporated with limited liability in England and Wales with registered number 03214426)

US$4,500,000,000 Senior Notes

consisting of

US$500,000,000 2.050 percent Senior Notes due 2018
US$1,250,000,000 2.950 percent Senior Notes due 2020
US$1,250,000,000 3.750 percent Senior Notes due 2022
US$1,500,000,000 4.250 percent Senior Notes due 2025

guaranteed by

Imperial Tobacco Group PLC

(incorporated with limited liability in England and Wales with registered number 03236483)

Imperial Tobacco Limited

(incorporated with limited liability in England and Wales with registered number 01860181)

Imperial Tobacco Finance PLC (the **Issuer**) is offering US$500,000,000 2.050 percent Senior Notes due 2018 (the **2018 Notes**), US$1,250,000,000 2.950 percent Senior Notes due 2020 (the **2020 Notes**), US$1,250,000,000 3.750 percent Senior Notes due 2022 (the **2022 Notes**) and US$1,500,000,000 4.250 percent Senior Notes due 2025 (the 2025 **Notes**, and, together with the 2018 Notes, the 2020 Notes and the 2022 Notes, the **Notes**) (the **Offering**). Subject to the provisions of the Indenture (as defined herein), Imperial Tobacco Group PLC (**Imperial Tobacco** and, together with its subsidiaries, the **Imperial Tobacco Group** or the **Group**) and Imperial Tobacco Limited (**ITL**) are fully guaranteeing all payments by the Issuer in respect of any sums due under the Indenture and the Notes.

Interest on the 2018 Notes is payable semi-annually in arrears on 20 July and 20 January of each year, commencing on 20 January 2016. Interest on the 2020 Notes, the 2022 Notes and the 2025 Notes is payable semi-annually in arrears on 21 July and 21 January of each year, commencing on 21 January 2016. The 2018 Notes, the 2020 Notes, the 2022 Notes and the 2025 Notes will mature on 20 July 2018, 21 July 2020, 21 July 2022 and 21 July 2025, respectively (each, a **Maturity Date**). The Notes will be the Issuer's unsecured and unsubordinated obligations and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law). The guarantees of the Notes (the **Guarantees**) will be unsecured and unsubordinated obligations of the Guarantors (as defined herein) and will rank *pari passu* in right of payment among themselves and with their other unsecured and unsubordinated indebtedness (save for certain obligations required to be preferred by law). The Issuer may redeem the Notes in whole or in part at any time at the redemption prices specified herein. See "*Description of the Notes and the Guarantees—Optional Redemption*". For a more detailed description of the Notes, see "*Description of the Notes and the Guarantees*".

Investing in the Notes involves risks. For a discussion of these risks, see "*Risk Factors*" beginning on page 21.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or any state or other securities laws, and the Notes are being offered within the United States only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act (**Rule 144A**)) (**QIBs**) under Rule 144A and in offshore transactions outside the United States under Regulation S of the Securities Act (**Regulation S**). Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see "*Transfer Restrictions*".

Issue Price: 99.530 percent of the principal amount of the 2018 Notes.

Issue Price: 98.917 percent of the principal amount of the 2020 Notes.

Issue Price: 98.385 percent of the principal amount of the 2022 Notes.

Issue Price: 97.886 percent of the principal amount of the 2025 Notes.

Imperial Tobacco has a solicited long-term debt rating of Baa3 (negative outlook) by Moody's Investors Service Limited (**Moody's**), BBB (stable outlook) by Standard & Poor's Credit Market Services Europe Limited (**S&P**) and BBB (negative outlook) by Fitch Ratings Limited (**Fitch**). It is expected that the Notes will be rated Baa3 by Moody's and BBB by S&P. Moody's, S&P and Fitch are established in the European Union and are registered under Regulation (EC) No. 1060/2009 (as amended). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Application has been made to the UK Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) (the **UK Listing Authority**) for the Notes described in this offering memorandum (the **Offering Memorandum**) to be admitted to the official list (the **Official List**) of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's Professional Securities Market (the **Professional Securities Market**). The Professional Securities Market is not a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). Admission to the Official List together with admission to trading on the Professional Securities Market constitutes official listing on the London Stock Exchange.

The Initial Purchasers expect to deliver the Notes to purchasers in book-entry form through the facilities of The Depository Trust Company (**DTC**) and its participants, including Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**), against payment in immediately available funds on or about 21 July 2015.

Joint Book-Running Managers

BofA MERRILL LYNCH **BNP PARIBAS** **HSBC** **MIZUHO SECURITIES**

Co-managers

BANCA IMI **CREDIT AGRICOLE CIB** **MUFG** **RBS** **SMBC NIKKO** **UNICREDIT BANK**

17 July 2015

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This Offering Memorandum comprises approved listing particulars with regard to the Issuer, the Guarantors and the Notes in accordance with the listing rules made under section 73A of the FSMA. No prospectus is required in accordance with Directive 2003/71/EC (the **Prospectus Directive**) for the issue of the Notes.

This Offering Memorandum has been prepared by the Issuer and the Guarantors solely for use in connection with the Offering of the Notes described in this Offering Memorandum, and you are authorized to use this Offering Memorandum solely for the purpose of considering the purchase of the Notes. You should rely only on the information contained in this Offering Memorandum. The Issuer and the Guarantors have not authorized anyone to provide you with different information. You should not assume that the information contained in this Offering Memorandum is accurate as at any date other than the date on the front of this Offering Memorandum. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this Offering Memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without the Issuer's and the Guarantors' prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no copies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

In addition to the Guarantee provided by Imperial Tobacco, the Notes are guaranteed by ITL (together with Imperial Tobacco, the **Guarantors**). The Guarantee of ITL may be terminated at the option of ITL at any time, and under certain circumstances, other members of the Group may be substituted as Guarantors for Imperial Tobacco and/or ITL, in each case without the consent of Noteholders, provided that in any such termination or substitution, (i) each Rating Agency shall have confirmed the Notes will have the same or better solicited long-term public credit rating as immediately prior to such termination or substitution, as applicable and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject. See "*Description of the Notes and the Guarantees—Status of the Notes and Guarantees*".

Merrill Lynch, Pierce, Fenner & Smith Incorporated, BNP Paribas Securities Corp., HSBC Securities (USA) Inc., Mizuho Securities USA Inc., Banca IMI S.p.A., Credit Agricole Securities (USA) Inc., Mitsubishi UFJ Securities (USA), Inc., RBS Securities Inc., SMBC Nikko Capital Markets Limited and UniCredit Bank AG (collectively, the **Initial Purchasers**) and their respective affiliates make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past or future. The Issuer and the Guarantors have furnished the information contained in this Offering Memorandum. The Initial Purchasers have not independently verified all of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of any such information.

In making an investment decision, prospective investors must rely on their own examination of the Issuer, the Guarantors and the terms of the Offering, including the merits and risks involved. Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. The laws of certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the Notes. Persons into whose possession this Offering Memorandum or any of the Notes come must inform themselves about, and observe, any such restrictions. This Offering Memorandum does not constitute an offer or an invitation to purchase any of the Notes in any jurisdiction in which such offer or sale would be unlawful. None of the Issuer, the Guarantors, the Initial Purchasers or their respective affiliates or representatives is making any representation to any offeree or any purchaser of the Notes regarding the legality of any investment in the Notes by such offeree or purchaser under applicable legal investment or similar laws or regulations. Investors also acknowledge that they have not relied, and will not rely, on the Initial Purchasers in connection with their investigation of the accuracy of any information or their decision whether to invest in the Notes.

The Initial Purchasers reserve the right to withdraw this Offering of Notes at any time and to reject any commitment to subscribe for the Notes, in whole or in part. The Initial Purchasers also reserve the right to allot less than the full amount of the Notes sought by a prospective investor. The Initial Purchasers and certain related entities may acquire a portion of the Notes for their own account.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this Offering Memorandum entitled "*Plan of Distribution*" and "*Transfer Restrictions*".

Notwithstanding anything in this Offering Memorandum to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of any offering and all materials of any kind (including opinions and other tax analyses) that are provided to the prospective investor relating to such U.S. tax treatment and U.S. tax structure, other than any information for which non-disclosure is reasonably necessary in order to comply with applicable securities laws.

The Issuer and the Guarantors accept responsibility for the information contained in this Offering Memorandum. To the best of the Issuer's and the Guarantors' knowledge and belief, having taken all reasonable care to ensure that such is the case, as at the date of this Offering Memorandum the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum contains summaries of certain documents. Investors should make reference to the actual documents for complete information. Copies of certain documents referred to herein will be made available to prospective investors upon request to the Issuer or the Initial Purchasers.

In connection with the issuance of the Notes, Merrill Lynch, Pierce, Fenner & Smith Incorporated (the **Stabilizing Manager**) (or persons acting on behalf of the Stabilizing Manager) may over-allot notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes (as defined herein) and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) in accordance with all applicable laws and rules.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

This Offering is being made in reliance upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, investors are deemed to have made the acknowledgements, representations, warranties and agreements set forth under "*Transfer Restrictions*".

The Notes and the Guarantees have not been and will not be registered with, or recommended or approved by, the U.S. Securities and Exchange Commission (the **SEC**) or any other U.S. federal or state or foreign securities commission or regulatory authority, nor has any such commission or regulatory authority reviewed or passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See "*Plan of Distribution*" and "*Transfer Restrictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Each of the Issuer and Imperial Tobacco is a public limited company registered in England and Wales and ITL is a private limited company registered in England and Wales. A majority of the directors of Imperial Tobacco and all of the directors of the Issuer and ITL and certain of the experts named in this Offering Memorandum are not residents of the United States and a substantial portion of the assets of the Group and its directors and officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons with respect to matters arising under the Securities Act or to enforce against them judgments of courts of the United States predicated upon civil liability under the Securities Act.

The United States and United Kingdom currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability could not be enforced by registration in the English courts but the judgment would generally be treated as constituting a cause of action against the Group and could be sued upon summarily in the English courts.

The English courts should enter judgment against the Group in such proceedings, without re-examination of the merits of the original judgment, provided that:

(i) the original court was of competent jurisdiction and the original judgment is final and conclusive;

(ii) the original judgment is not for multiple damages or on a claim of contribution in respect of multiple damages (as defined by the Protection of Trading Interests Act 1980);

(iii) the original judgment is for a fixed sum of money and not for a tax, fine or penalty;

(iv) the original judgment was not obtained by fraud, or in proceedings contrary to natural justice or the principles of the Convention on Human Rights and its enforcement is not contrary to English public policy;

(v) enforcement proceedings are instituted within six years after the date of the judgment; and

(vi) the original judgment is not inconsistent with an English judgment in respect of the same point at issue.

Consequently, the Issuer and the Guarantors cannot assure you that judgments in civil and commercial matters obtained from U.S. federal or state courts will be enforceable in England. In addition, there is doubt as to the enforceability in England and Wales of U.S. judgments in respect of civil judgments predicated purely on U.S. securities laws. No account has been taken of the future exercise of powers by the UK government pursuant to section 5(4) of the Protection of Trading Interests Act 1980.

The Notes and the Guarantees thereof are governed by the laws of the state of New York. Each of the Issuer, Imperial Tobacco and ITL has expressly submitted to the non-exclusive jurisdiction of the state of New York and U.S. federal courts sitting in New York City for the purpose of any suit, action or proceeding arising out of the Notes and has appointed CT Corporation System at 111 Eighth Avenue, New York, New York, 10011 as its agent to accept service of process in any such action.

AVAILABLE INFORMATION

The Issuer is not currently subject to the periodic reporting and other information requirements of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**). If you purchase the Notes from the Initial Purchasers, you will be furnished with a copy of this Offering Memorandum and, to the extent provided by the Issuer to the Initial Purchasers for such purposes, any related amendments or supplement to this Offering Memorandum. Where you receive this Offering Memorandum you acknowledge that:

- you have been afforded an opportunity to request from us, and to review and have received, all additional information (including documents incorporated by reference herein) considered by you to be necessary to verify the accuracy and completeness of the information herein;
- you have not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with your investigation of the accuracy of such information or your investment decision; and
- except as provided pursuant to the first bullet point above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by the Issuer, the Guarantors or the Initial Purchasers.

While any Notes remain outstanding, the Issuer and each Guarantor of the Notes will make available, upon request, to any holder and any prospective purchaser of Notes, any information required pursuant to Rule 144A(d)(4) under the Securities Act in order to permit sales under Rule 144A, if, at the time of such request, the Issuer or such Guarantor is neither a reporting company pursuant to the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to

Rule 12g3-2(b) thereunder. As of the date of this Offering Memorandum, Imperial Tobacco is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains statements that may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements appear in a number of places throughout this Offering Memorandum, including, without limitation, under "*Risk Factors*", "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Group and its Business*", and "*Description of the Acquisition*".

Forward-looking statements also may be identified by words such as "believes", "expects", "anticipates", "projects", "intends", "should", "seeks", "estimates", "probability", "risk", "target", "goal", "objective", "future" or similar expressions or variations on such expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward- looking statements include, but are not limited to, the risks identified under "*Risk Factors*", as well as, among other things, the following:

- the declining demand for tobacco products encouraged by increasing government regulation, government funded anti-smoking campaigns, and frequent and substantial increases in the excise duty on tobacco products;
- anticipated financial and other benefits resulting from the Acquisition and the Group's plans and objectives following the Acquisition;
- achievement and/or sustainability of cost-optimization targets;
- increases in illicit trade;
- exposure to economic conditions in Western Europe and the United States;
- smoking and health-related litigation;
- competitive product and pricing pressures;
- foreign currency and interest rate fluctuations; and
- the continued organic growth of the business, which is underpinned by the Group's key markets.

The Issuer and the Guarantors have identified additional risks inherent in forward-looking statements under "*Risk Factors*" in this Offering Memorandum. Other factors could also adversely affect the Group's results or the accuracy of forward-looking statements in this Offering Memorandum, and you should not consider the factors discussed above or under "*Risk Factors*" to be a complete set of all potential risks or uncertainties.

Potential investors should not place undue reliance on any forward-looking statements. The Issuer and the Guarantors do not have any intentions or obligations to update forward-looking statements to reflect new information, future events or risks that may cause the forward-looking events discussed in this Offering Memorandum not to occur or to occur in a manner different from what was expected.

PRESENTATION OF FINANCIAL, MARKET AND OTHER INFORMATION

The following financial information is included in this Offering Memorandum starting on page F-1 or incorporated by reference into this Offering Memorandum, as indicated below:

1. the audited consolidated annual financial statements of Imperial Tobacco Group PLC as at and for the year ended 30 September 2014 (and comparative information for the year ended 30 September 2013) (the **2014 Financial Statements**), together with the audit report on the year ended 30 September 2014, are included herein;

2. the audited consolidated annual financial statements of Imperial Tobacco Group PLC as at and for the year ended 30 September 2013 (and comparative information for the year ended 30 September 2012) (the **2013 Financial Statements**), together with the audit report on the year ended 30 September 2013, are included herein;

3. the audited consolidated annual financial statements of Imperial Tobacco Group PLC as at and for the year ended 30 September 2012 (the **2012 Financial Statements**), together with the audit report on the year ended 30 September 2012, are incorporated by reference;

4. the unaudited consolidated interim financial statements of Imperial Tobacco Group PLC as at and for the six months ended 31 March 2015 (and comparative information for the six months ended 31 March 2014) (the **2015 Interim Financial Statements**), are included herein;

5. the audited annual financial statements of Imperial Tobacco Finance PLC as at and for the year ended 30 September 2014 (and comparative information for the year ended 30 September 2013) (the **2014 ITF Financial Statements**), together with the audit report on the year ended 30 September 2014, are incorporated by reference;

6. the audited annual financial statements of Imperial Tobacco Finance PLC as at and for the year ended 30 September 2013 (and comparative information for the year ended 30 September 2012) (the **2013 ITF Financial Statements**), together with the audit report on the year ended 30 September 2013, are incorporated by reference;

7. the audited annual financial statements of Imperial Tobacco Limited as at and for the year ended 30 September 2014 (and comparative information for the year ended 30 September 2013) (the **2014 ITL Financial Statements**), together with the audit report on the year ended 30 September 2014, are incorporated by reference;

8. the audited annual financial statements of Imperial Tobacco Limited as at and for the year ended 30 September 2013 (and comparative information for the year ended 30 September 2012) (the **2013 ITL Financial Statements**), together with the audit report on the year ended 30 September 2013, are incorporated by reference;

9. the historical financial information relating to the assets acquired from Reynolds American Inc. (the **Reynolds Business**) as at and for the years ended 31 December 2012 and 2013, as presented in Section B of Part 5 of the Circular to Shareholders and Notice of General Meeting of Imperial Tobacco dated 15 December 2014 (the **Circular**), is incorporated by reference, together with the accountants' report thereon, as presented in Section A of Part 5 of the Circular, and the historical financial information relating to the Reynolds Business as at and for the year ended 31 December 2014, together with the accountant's report thereon, is included herein (collectively, the **Reynolds Business Historical Financial Information**); and

10. the historical financial information relating to the assets acquired from Lorillard, Inc. (the **Lorillard Business**) as at and for the years ended 31 December 2012 and 2013, as presented in Section E of Part 5 of the Circular is incorporated by reference, together with the

accountants' report thereon, as presented in Section D of Part 5 of the Circular, and the historical financial information relating to the Lorillard Business as at and for the year ended 31 December 2014, together with the accountant's report thereon, is included herein (collectively, the **Lorillard Business Historical Financial Information**).

All documents incorporated by reference herein have been previously published or are published simultaneously with this Offering Memorandum and have been approved by the U.K. Financial Conduct Authority or filed with it. Such documents shall be incorporated in, and form part of, this Offering Memorandum, save that any statement contained therein shall be deemed to be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained in this Offering Memorandum or any supplement hereto modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Memorandum.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Offering Memorandum.

Copies of documents incorporated by reference in this Offering Memorandum may be obtained without charge from the registered office of the Issuer and are available on the website of the National Storage Mechanism at www.morningstar.co.uk/uk/NSM.

No information on the Group's website (http://www.imperial-tobacco.com) should be deemed to be incorporated in, or form a part of, this Offering Memorandum.

Please see "*—Presentation of Financial Information Relating to the Reynolds Business and Lorillard Business*" below for important information relating to the Reynolds Business Historical Financial Information and the Lorillard Business Historical Financial Information.

Presentation of the Group's Financial Information

Financial Statements of the Group

Unless otherwise indicated:

(i) the unaudited balance sheet as at, and the statement of income and cash flow financial information of the Group for the six months ended 31 March 2015, included in this Offering Memorandum, has been derived from the 2015 Interim Financial Statements;

(ii) the audited balance sheet as at, and the statement of income and cash flow financial information of the Group for the years ended 30 September 2014, 2013 and 2012, included in this Offering Memorandum, has been derived from the 2014 Financial Statements, 2013 Financial Statements and the 2012 Financial Statements, respectively;

(iii) the restated unaudited balance sheet as at, and the statement of income and cash flow financial information of the Group for the year ended 30 September 2014 and the six months ended 31 March 2014, included in this Offering Memorandum, has been derived from the 2015 Interim Financial Statements; and

(iv) the restated unaudited balance sheet as at, and the statement of income and cash flow financial information of the Group for the year ended 30 September 2013, included in this Offering Memorandum, has been derived from the 2014 Financial Statements.

The 2012 Financial Statements, the 2013 Financial Statements, the 2014 Financial Statements and the 2015 Interim Financial Statements were prepared in accordance with International Financial

Reporting Standards as adopted by the European Union (**IFRS**) and the 2012 Financial Statements, the 2013 Financial Statements and the 2014 Financial Statements were audited by the independent auditors of the Group, PricewaterhouseCoopers LLP.

Investors should read the whole of this document, including the financial information and financial statements included and incorporated by reference herein, and not rely solely on the summary consolidated financial information.

As further described below, the Group adopted IFRS 11 (Joint Arrangements) on 1 October 2014 and IAS 19 (Revised) (Employee Benefits) on 1 October 2013. In accordance with IFRS, the Group has only made limited restatements of financial information to reflect such accounting standards. As a result, certain financial information of the Group presented in this Offering Memorandum is not fully comparable between the periods.

Adoption of IFRS 11

From 1 October 2014, the Group adopted and applied IFRS 11 (Joint Arrangements) to its financial position at and its results for the six months ended 31 March 2015. Accordingly, its financial position at and its results for the year ended 30 September 2014 and for the six months ended 31 March 2014 were restated in the 2015 Interim Financial Statements on a comparative basis to reflect the impact of the adoption of this standard. The "*Overview—Summary Consolidated Financial Information*" and "*Selected Consolidated Financial Information*" sections contained within this Offering Memorandum sets out both the originally reported financial information as at and for the year ended 30 September 2014 and the unaudited restated financial information for comparative purposes.

Unless otherwise indicated, the financial information for the year ended 30 September 2014 included in this Offering Memorandum is as that information was originally reported and not as restated to reflect the adoption of IFRS 11. The financial information for the years ended 30 September 2013 and 30 September 2012 included in this Offering Memorandum has not been restated to reflect the adoption of IFRS 11.

Note 1 to the 2015 Interim Financial Statements sets out the impact of the application of IFRS 11 on the consolidated income statement and statement of financial position as at and for the six months ended 31 March 2014 and the year ended 30 September 2014. The adoption of this standard has resulted in a reduction in revenue and operating profit and an increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share have not been affected by this change.

Adoption of IAS 19 (Revised)

From 1 October 2013, the Group applied amendments to IAS 19 (Revised) (Employee Benefits) to its financial position at and its results for the year ended 30 September 2014. Accordingly, its financial position at and its results for the year ended 30 September 2013 were restated in the 2014 Financial Statements on a comparative basis to reflect the impact of these amendments.

Unless otherwise indicated, the financial information as at and for the year ended 30 September 2013 included in this Offering Memorandum is as that information was originally reported and not as restated to reflect the IAS 19 (Revised) amendments. The financial information for the year ended 30 September 2012 included in this Offering Memorandum has not been restated to reflect the IAS 19 (Revised) amendments.

Note 1 to the 2014 Financial Statements sets out the impact of the application of these amendments on the consolidated statement of financial position for the year ended 30 September 2013. These amendments have resulted in the interest charge on retirement benefit liabilities and the expected return on pension plan assets being replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates.

Financial Statements of the Issuer and ITL

The 2013 ITF Financial Statements and the 2014 ITF Financial Statements were prepared in accordance with UK GAAP and audited by the independent auditors of the Issuer, PricewaterhouseCoopers LLP.

The 2013 ITL Financial Statements and the 2014 ITL Financial Statements were prepared in accordance with UK GAAP and audited by the independent auditors of ITL, PricewaterhouseCoopers LLP.

Presentation of Financial Information Relating to the Reynolds Business and Lorillard Business

The Reynolds Business Historical Financial Information included and incorporated by reference in this Offering Memorandum was prepared in accordance with IFRS and reported on by PricewaterhouseCoopers LLP, in accordance with Standards for Investment Reporting 2000 "Investment reporting standards applicable to public reporting engagements on historical financial information" (**SIR 2000 Procedures**) issued by the U.K. Auditing Practices Board.

The Lorillard Business Historical Financial Information included and incorporated by reference in this Offering Memorandum was prepared in accordance with IFRS and reported on by PricewaterhouseCoopers LLP, in accordance with SIR 2000 Procedures issued by the UK Auditing Practices Board.

IFRS does not provide for the preparation of combined financial information and accordingly in preparing the Reynolds Business Historical Financial Information and the Lorillard Business Historical Financial Information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 Procedures have been applied. SIR 2000 Procedures are not equivalent to an audit conducted in accordance with IFRS. Please refer to the "*Basis of Preparation*" included in the Reynolds Business Historical Financial Information and the Lorillard Business Historical Financial Information.

The Reynolds Business Historical Financial Information and the Lorillard Business Historical Financial Information were prepared using the Lorillard Business' and the Reynolds Business' historical records of their respective assets and liabilities, and include all sales, costs, assets and liabilities directly attributable to those businesses. See "*Risk Factors—Risks Relating to the Offering—The financial information in respect of the Acquired Assets included and incorporated by reference in this Offering Memorandum was prepared using the books and records of third parties and is not derived from the Group's systems, and does not comply with Regulation S-X*".

Pro Forma Financial Information Relating to the Acquisition

This Offering Memorandum presents certain pro forma financial information on an adjusted basis (the **Pro Forma Financial Information**) to give pro forma effect to the Acquisition.

The unaudited pro forma income statement of the Group is based on the unaudited and restated income statement of the Group for the year ended 30 September 2014 (as restated in the 2015 Interim Financial Statements) and has been prepared on the basis of the notes accompanying it to illustrate the effect of the Acquisition (and related financing) on the income statement of the Group as if it had been completed on 1 October 2013. For purposes of the Pro Forma Financial Information, the **Enlarged Group** refers to the Group and the Acquired Assets following completion of the Acquisition.

The unaudited pro forma statement of net assets of the Group is based on the unaudited statement of net assets of the Group as at 31 March 2015 and has been prepared on the basis of the notes accompanying it to illustrate the effect of the Acquisition (and related financing) on the net assets of the Group as if it had been completed on that date.

The pro forma financial information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. It is based on the available measures and certain assumptions and is not necessarily indicative of the results that would have been achieved if the Acquisition (and related financing) had been completed on 1 October 2013 (in the case of the income statement) or 31 March 2015 (in the case of the statement of net assets) or that may be achieved in the future, and is provided for informational purposes only.

The unaudited pro forma financial information has not been prepared in accordance with the requirements of Regulation S-X under the Securities Act.

Investors should read the whole of this document, including the financial information included and incorporated by the reference herein, and not rely solely on the summary pro forma financial information.

Presentation of Other Information

Certain operational and statistical information relating to the Group's operations included herein is unaudited and has been derived from its financial statements and/or accounting records.

Certain monetary amounts and other figures included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, any discrepancies in any tables between the totals and the sums of the amounts listed are due to rounding.

In this Offering Memorandum:

- **Acquired Assets** means the Brands and the associated assets, properties, licenses, rights, employees and certain associated liabilities which were acquired by ITG Brands and certain other members of the Group pursuant to the Asset Purchase Agreement;
- **Acquired Brands** or **Brands** means the Acquired Tobacco Cigarette Brands and the *blu* brand;
- **Acquired Tobacco Cigarette Brands** means the tobacco cigarette brands in the United States known as *Winston*, *Salem*, *Kool* and *Maverick*;
- **Acquisition** means the acquisition by ITG Brands and certain other members of the Group of the Acquired Assets by way of an asset purchase pursuant to the terms and conditions of the Asset Purchase Agreement and the Transfer Agreement which closed on 12 June 2015; for more details on the Acquisition, see "*Description of the Acquisition*";
- **Altadis** means Altadis, S.A.U.;
- **Altadis Group** means Altadis and its subsidiary undertakings (and, where the context requires, Habanos) and, where the context requires, each of them;
- **Americas** means the Group's tobacco operations in North and South America including in the United States, Canada, Mexico and Argentina;
- **Asset Purchase Agreement** means the asset purchase agreement entered into by Imperial Tobacco, ITG Brands and Reynolds on 15 July 2014, setting out the terms and conditions of the Acquisition, as described in more detail in "*Description of the Acquisition—Principal terms of the Acquisition—Asset Purchase Agreement*";

- **BAT** means British American Tobacco plc;
- **Board** or **Board of Directors** means the board of directors of Imperial Tobacco;
- **Clearstream, Luxembourg** means Clearstream Banking, *société anonyme*;
- **Code** means the UK Corporate Governance Code;
- **Commonwealth Brands** means CBHC Inc., the holding company of Commonwealth Brands Inc., a cigarette manufacturing and distribution business which Imperial Tobacco acquired on 2 April 2007;
- **Cuban Joint Ventures** means four joint ventures, each of which are 50 percent owned by Imperial Tobacco, including Habanos, Internacional Cubana de Tabaco, S.A., Altabana S.L. and Promotora De Cigarros, S.L.;
- **demerger** means the demerger (spin-off) of Hanson plc's tobacco interests to the Group on 1 October 1996;
- **Director** or **Directors** means a director of Imperial Tobacco;
- **DOJ** means the U.S. Department of Justice;
- **downtrading** means the purchase of a tobacco product by a consumer in a lower price segment to the one in which the consumer had previously purchased and includes a consumer purchasing the same type of product in a lower price segment or changing the type of tobacco product, for example, purchasing fine cut tobacco instead of cigarettes;
- **DTC** means The Depository Trust Company;
- **$**, **U.S. dollars**, **US$** and **dollars** refer to the currency of the United States;
- **EC** means the European Community, which comprises the member states of the EU;
- **ECP** means euro commercial paper;
- **Enlarged Group** refers to the Group and the Acquired Assets following completion of the Acquisition for purposes of the Pro Forma Financial Information;
- **EU** means the European Union, which includes Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, the Republic of Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK;
- **EURIBOR** means the Euro Interbank Offered Rate;
- **€** and **euro** refer to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
- **Euroclear** means Euroclear Bank S.A./N.V.;
- **EUTPD** means the EU Tobacco Products Directive (2001/37/EC);
- **Exchange Act** means the U.S. Securities Exchange Act of 1934, as amended;
- **Facilities Agreement** means the facilities agreement dated 15 July 2014 and made between, amongst others, the Issuer and Imperial Tobacco Enterprise Finance Limited as borrowers, Imperial Tobacco and ITL as guarantors and The Royal Bank of Scotland plc as facility agent;
- **FCTC** means the WHO's Framework Convention on Tobacco Control;

- **FDA** means the U.S. Food and Drug Administration;
- **fine cut tobacco** means loose tobacco, which is used with rolling papers or filter tubes;
- **Fontem Ventures** means the Group's non-tobacco company, collectively with its own subsidiaries, which launched the Puritane e-cigarette brand in the UK in February 2014;
- **FTC** means the U.S. Federal Trade Commission;
- **GAAP** means generally accepted accounting principles in the indicated country;
- **General Meeting** means the general meeting of Imperial Tobacco that was held on 28 January 2015 to approve the resolution approving the Acquisition;
- **Growth Brands** means the Group's key strategic and focus brands, specifically, *Davidoff*, *Gauloises Blondes*, *JPS*, *West*, *Fine*, *News*, *USA Gold*, *Bastos*, *Lambert & Butler* and *Parker & Simpson*;
- **Growth Markets** means the Group's tobacco business segment which includes markets where the Group typically has a share below 15 percent and targets opportunities for share and profit growth over the long term. Markets are generally characterized by large profit and/or volume pools. The segment includes selected markets in the EU, Eastern Europe, Asia, the Middle East and the USA, including Iraq, Russia, Saudi Arabia and Taiwan, as well as those targeted by the Cuban Joint Ventures and Fontem Ventures;
- **GTC** means the Group Treasury Committee;
- **Guarantors** means ITL and Imperial Tobacco;
- **Habanos** means Corporación Habanos, S.A., a company which distributes and sells cigars manufactured in Cuba and is owned 50 percent by Altadis and 50 percent by Empresa Cubana del Tabaco;
- **HMRC** means Her Majesty's Revenue and Customs of the United Kingdom;
- **HSR Act** means the Hart-Scott-Rodino Antitrust Improvements Act of 1976 passed by the U.S. Congress;
- **IAS** means International Accounting Standards;
- **IFRS** means International Financial Reporting Standards as prepared by the International Accounting Standards Board and as endorsed by the EU;
- **Imperial Tobacco** means Imperial Tobacco Group PLC;
- **Imperial Tobacco Group** and the **Group** means Imperial Tobacco Group PLC and its consolidated subsidiaries (including the Acquired Assets following completion of the Acquisition) unless otherwise indicated or the context otherwise requires;
- **Initial Purchasers** means Merrill Lynch, Pierce, Fenner & Smith Incorporated, BNP Paribas Securities Corp., HSBC Securities (USA) Inc., Mizuho Securities USA Inc., Banca IMI S.p.A., Credit Agricole Securities (USA) Inc., Mitsubishi UFJ Securities (USA), Inc., RBS Securities Inc., SMBC Nikko Capital Markets Limited and UniCredit Bank AG;
- **Initial State Settlements** means the four settlement agreements entered into in 1997 and 1998 between Mississippi, Florida, Texas and Minnesota and the OPMs, resolving claims brought by those states, as amended, supplemented or replaced;
- **IP** means intellectual property;
- **Issuer** means Imperial Tobacco Finance PLC;

- **ITG Brands** means ITG Brands, LLC, the entity formerly known as Lignum-2, L.L.C., a private tobacco company that sells fine cut tobacco and cigarettes in the United States, which the Group acquired on 12 May 2008;
- **ITL** means Imperial Tobacco Limited;
- **LIBOR** means the London Interbank Offered Rate;
- **Logista** means Compañía de Distribución Integral Logista Holdings, S.A.;
- **Lorillard** means Lorillard, Inc., a corporation incorporated under the laws of Delaware;
- **Lorillard Business** means the Acquired Assets that were owned by, or related to, the Lorillard Group prior to the closing of the Acquisition;
- **Lorillard Group** means Lorillard and its subsidiaries from time to time and, where the context requires, each one of them;
- **Member State** means a state which is a member of the European Union;
- **Merger** means the merger between Lorillard and Lantern Acquisition Co. upon the terms contemplated by the merger agreement dated 15 July 2014, which occurred on 12 June 2015 and pursuant to which Reynolds acquired 100 percent of the outstanding capital stock of Lorillard;
- **Merger Agreement** means the agreement and plan of merger agreement entered into by Lorillard, Reynolds and Lantern Acquisition Co. on 15 July 2014, setting out the terms and conditions of the Merger;
- **Moody's** means Moody's Investors Service Limited, or its successor;
- **MSA** means the Master Settlement Agreement, dated as of November 23, 1998, among the 46 states, the District of Columbia and five U.S. territories listed on the signature pages thereto, Phillip Morris USA, Inc. (as successor to Phillip Morris Incorporated), R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and various SPMs as listed on the National Associate of Attorneys General (**NAAG**) list of "Participating Manufacturers", as amended, supplemented or replaced;
- **MSA Allocable Share** has the meaning given to it in Exhibit A to the MSA;
- **Noteholder** and **Holder** mean the registered holder of any Note;
- **OLAF** means the European Commission's European Anti-Fraud Office;
- **Original Participating Manufacturers** or **OPMs** means Lorillard Tobacco Company, Phillip Morris USA, Inc. (as successor to Philip Morris Incorporated), Brown & Williamson Tobacco Corporation and RJR Tobacco;
- **Pension Fund** means the ITL Pension Fund constituted by the definitive trust deed and rules dated 1 March 1995 (as amended from time to time);
- **£**, **pounds sterling** and **sterling** refer to the currency of the United Kingdom;
- **Pro Forma Financial Information** means certain financial information presented on an adjusted basis to give pro forma effect to the Acquisition and related financing, including financial data as adjusted to reflect the effect of the Acquisition and related financing on the indebtedness of the Group as if they had completed as of 1 October 2013 (in the case of the income statement) or as of 31 March 2015 (in the case of the statement of net assets);
- **Professional Securities Market** means the Professional Securities Market of the London Stock Exchange;

- **Qualified Institutional Buyers** or **QIBs** means qualified institutional buyers as defined in Rule 144A under the Securities Act;
- **Rating Agency** or **Rating Agencies** means (1) each of Moody's and S&P; and (2) if either Moody's or S&P's senior unsecured long-term debt rating is not publicly available for reasons outside of the Issuer's or the Guarantors' control, a "nationally recognized statistical rating organization" within the meaning of the Exchange Act selected by the Issuer (as certified by a resolution of the Issuer's board of directors) as a replacement agency for Moody's or S&P, or both of them, as the case may be;
- **Reciprocal Manufacturing Agreement** is the reciprocal manufacturing agreement entered into between RJR Tobacco and ITG Brands upon completion of the Acquisition, as described in more detail in "*Description of the Acquisition—Principal terms of the Acquisition—Reciprocal Manufacturing Agreement*";
- **Reemtsma** means the cigarette manufacturing and distribution business of Reemtsma Cigarettenfabriken GmbH;
- **Regulation S** means Regulation S of the Securities Act;
- **Returns Markets** means the Group's tobacco business segment comprising markets in which the Group has relatively large shares, mostly above 15 percent. The Group's objective in these markets is to grow profit while actively managing its market share;
- **Returns Markets North** means the sub-division of the Returns Markets business segment including Australia, Belgium, Germany, the Netherlands, Poland, and the United Kingdom, among other markets;
- **Returns Markets South** means the sub-division of the Returns Markets business segment including markets in southern Europe, such as France and Spain, while also including Morocco and a number of the Group's African markets, among other markets;
- **Reynolds** means Reynolds American Inc., a corporation incorporated under the laws of North Carolina;
- **Reynolds Business** means the Acquired Assets that were owned by, or related to, the Reynolds Group immediately prior to the closing of the Acquisition;
- **Reynolds Group** means Reynolds and its subsidiaries from time to time and, where the context requires, each one of them;
- **Rizla** means Rizla International B.V., which the Group acquired on 27 January 1997;
- **RJR Tobacco** means R.J. Reynolds Tobacco Co., a North Carolina corporation and wholly owned subsidiary of Reynolds;
- **Rule 144A** means Rule 144A under the Securities Act;
- **S&P** means Standard & Poor's Credit Market Services Europe Limited, or its successor;
- **Securities Act** means the U.S. Securities Act of 1933, as amended;
- **SEITA** means Société Nationale d'Exploitation Industrielle des Tabacs et des Allumettes S.A.S.;
- **Shareholders** means the shareholders of Imperial Tobacco;
- **Specialist Brands** means a range of the Group's cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands;
- **Stabilizing Manager** means Merrill Lynch, Pierce, Fenner & Smith Incorporated;

- **State Settlement Agreements** mean the Initial State Settlements together with the MSA;
- **Subsequent Participating Manufacturers** or **SPMs** means companies other than the OPMs that were permitted to join the MSA even though most of them were not parties to the original actions;
- **Tons** means metric tons, equal to 1,000 kilograms or 2,204.6 pounds;
- **Transfer Agreement** means the transfer agreement entered into by ITG Brands and Lorillard on 15 July 2014;
- **United Kingdom** and **UK** mean the United Kingdom of Great Britain and Northern Ireland;
- **United States** and **U.S.** mean the United States of America; and
- **WHO** means the World Health Organization.

Presentation of Financial Data; Non-IFRS Measures

When managing the performance of the business, the Group's management uses non-IFRS measures, which are referred to as adjusted measures. The Group's management believes they provide a useful comparison of performance between periods. These adjusted measures are supplementary to, and should not be regarded as a substitute for, IFRS measures, which are referred to as reported measures.

The Group's management believes that reporting such measures provides a useful comparison of business performance and reflects the way in which the business is controlled. Accordingly, as outlined in Note 1 to the 2014 Financial Statements, the adjusted measures of operating profit, net finance costs, profit before tax, taxation and earnings per share, tobacco net revenue, various sales volumes measures, return on invested capital, and cash conversion rate exclude, where applicable, acquisition costs, amortization 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 underneath the Consolidated Statement of Comprehensive Income in the 2014 Financial Statements, between adjusted and reported net finance costs in Note 7, between adjusted and reported taxation in Note 8, and between adjusted and reported earnings per share in Note 10. These and other adjusted measures in this report such as adjusted net debt are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

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 the Group's non-U.K. operations are removed.

During the year ended 30 September 2014, the Group undertook a program to improve the efficiency of its route to market, working together with key distributors to remove inventory equal to around 9 billion stick equivalents from the trade, which was equivalent to approximately 3 percent of the Group's annual tobacco volume in that year. This specific program has now been completed. Following this initiative, the Group has presented certain volume and revenue metrics for the year ended 30 September 2014 on an adjusted basis to more accurately reflect underlying changes in operating conditions. These metrics are referred to as "underlying" and remove the impact of the Group's stock optimization program in order to reflect management's estimate of the underlying performance by adjusting for the one-off fall in sales arising from the reduction in stock held in distribution channels.

In addition, the Reynolds Business Historical Financial Information, the Lorillard Business Historical Financial Information and the Pro Forma Financial Information also include certain non-IFRS measures, including Adjusted EBITDA, Net Revenue (excluding logistics) and Brand Contribution. Reconciliations between these adjusted and reported metrics are included in the notes to the Reynolds Business Historical Financial Information, the Lorillard Business Historical Financial Information and the Pro Forma Financial Information.

World and Market Data and Estimates

World data and individual market data referred to in this Offering Memorandum with respect to Imperial Tobacco and its competitors are internally generated management estimates derived, where available, from importers, customs data, trade journals, publications and governmental statistics, as well as independently compiled market research statistics derived from point of sale surveys and trade questionnaires. Unless the context otherwise requires, market size and share data referred to in this Offering Memorandum with respect to the Group and its competitors refer to estimates of unit sales in each market in the relevant financial year.

Imperial Tobacco has also used internal data to make estimates, for example, when third-party data does not cover all retail outlets in a market, provides data for periods other than the Group's financial year or collects information on fine cut tobacco products in tons rather than stick equivalents, the Group's reporting unit of sales volume. The Issuer and the Guarantors have not independently verified any of the data from third-party sources nor ascertained the underlying economic assumptions relied upon therein. However, the Issuer and the Guarantors believe these estimates to be accurate as of the date of the Offering Memorandum.

Where third-party information has been used in this Offering Memorandum, the source of such information has been identified,

- the information relating to the pounds sterling Bloomberg composite rate on page 46 has been extracted from Bloomberg;
- the information relating to the size of the cigarette market in various geographies on page 97 has been extracted from Euromonitor; and
- the information relating to clearing and settlement on pages 158 to 160 (inclusive) has been extracted from DTC.

The Issuer and the Guarantors confirm that this information has been accurately reproduced, and as far as the Issuer and the Guarantors are aware and are able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Solely for the convenience of the reader, Imperial Tobacco has provided its website address and those of certain third parties in this Offering Memorandum. The Group does not take responsibility for the information contained in any third-party websites and, unless otherwise expressly indicated herein, no information in Imperial Tobacco's website or any third-party websites should be deemed to be incorporated in, or form a part of, this Offering Memorandum.

OVERVIEW

The following is a brief overview only and is qualified in its entirety by information contained elsewhere in this Offering Memorandum. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Notes. Accordingly, any decision by a prospective investor to invest in the Notes should be based on a consideration of this Offering Memorandum as a whole. Prospective investors should read this entire Offering Memorandum carefully, including the financial statements and related notes included or incorporated by reference herein and the information set forth under the headings "Special Note on Forward-Looking Statements" and "Risk Factors".

Overview

Imperial Tobacco is an international fast moving consumer goods company and is the world's fourth largest international tobacco company with a portfolio that spans the tobacco spectrum.

Imperial Tobacco Company (of Great Britain and Ireland) Limited was formed in 1901 by the merger of 13 independent British tobacco companies. As a result, the primary focus of the Group's business historically was the UK and Irish markets. Imperial Tobacco was incorporated on 6 August 1996 as a public limited company under the laws of England and Wales, and became listed on the London Stock Exchange on 1 October 1996, when Hanson plc spun off its tobacco business to Imperial Tobacco. Since 1996, Imperial Tobacco has pursued a strategy of international growth through targeted organic expansion and acquisitions. This international growth strategy has transformed Imperial Tobacco from a predominantly UK business into a leading international tobacco company with sales in over 160 countries worldwide, with particular strengths in the UK, Germany, Spain, France, Morocco, the United States, the Netherlands, Australia, Russia and Ukraine.

The core business of Imperial Tobacco is built around a tobacco portfolio that offers consumers comprehensive brand choice with a range of cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. In addition to the tobacco business, Imperial Tobacco is creating new consumer experiences through the non-tobacco Fontem Ventures group. The Group also owns a majority shareholding in a major logistics business in southern Europe, Logista, which is made up of two divisions: tobacco logistics, which is involved in the transportation of tobacco products primarily in Italy, Spain, Portugal, France and Poland, and other logistics, which provides transport services for various industries including publishing, pharmacy and cosmetics.

The Group's business is cash generative and for the six months ended 31 March 2015, Imperial Tobacco's tobacco net revenue, distribution fees, Group reported operating profit, Group adjusted operating profit and cash conversion were £2,945 million, £378 million, £959 million, £1,367 million and 102 percent (annualized) respectively. For the year ended 30 September 2014, Imperial Tobacco's tobacco net revenue, distribution fees, Group reported operating profit, Group adjusted operating profit and cash conversion were, each on a restated[(1)] basis, £6,421 million, £838 million, £2,019 million, £2,981 million and 91 percent respectively. For a description of the cash conversion calculation, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Indicators*".

Strategic Objectives

The Group has a diversified geographic profile and multi-product and multi-brand tobacco portfolio. Its portfolio is characterized by brands and products across price segments and categories,

(1) For more details regarding certain restatements of financial information of the Group, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

which provide considerable growth opportunities given the large and diverse number of markets in which the Group operates.

The Group's strategy is to maximize sales, cost and cash opportunities realizing the potential of its portfolio, market footprint and people, building a stronger platform for growth to enhance sustainability of earnings and generate sustainable returns for the Group's shareholders.

There are four key priorities that the Group focuses on to achieve these strategic goals:

- Strengthening its brand portfolio through investment in brands with the strongest equity;
- Developing its footprint, driving long-term share and profit growth in Growth Markets and sustaining profit while actively managing market share in Returns Markets;
- Continued management of its cost base in order to drive efficiencies; and
- Balance sheet efficiency and cash management as part of on-going capital discipline.

Each of these priorities is outlined in further detail below.

- **Strengthening Brand Portfolio:** The Group has a comprehensive tobacco portfolio with strong positions in all the main tobacco categories. This diverse product portfolio enables the Group to offer consumers a broad range of brands and products, including cigarettes, fine cut tobacco, cigars and snus across price points. This is particularly relevant to meeting the demands of consumers, whose preferences continue to evolve, driven by changes in regulation and the economic environment.

  The Group is currently optimizing its portfolio, focusing investment to drive the performance of its Growth Brands and Specialist Brands. These are Imperial Tobacco's most important brands and have consistently demonstrated the most potential for high quality, sustainable growth. They generate more than half of the Group's tobacco net revenue, at 54 percent for the financial year 2014, and 59 percent for the first half of the 2015 financial year. During the year ended 30 September 2014 the Group began a process of brand migration, aiming to transition consumers from selected portfolio or legacy brands into those with the strongest equity, our Growth Brands. As well as supporting the global development of its Growth Brands, the Group believes migrations play a key part in reducing the complexity of its business and supporting the cost optimization program.

  Imperial Tobacco is also investing in Fontem Ventures, its non-tobacco business, which seeks to develop opportunities for additional long-term revenue growth through innovative non-tobacco products.

- **Developing Footprint:** The Group's diverse market footprint spans more than 160 countries worldwide. Markets are managed based on the strategic role they play, rather than by geographic location with divisions focused on prioritizing either a growth or returns approach. This approach encourages more effective resource allocation and greater collaboration. Growth Markets include selected markets in the EU, Eastern Europe, Asia, the Middle East and the USA. The priority in Growth Markets is to build presence, aiming to drive long-term market share and profit growth. Returns Markets are split into Returns Markets North and Returns Markets South and include Australia and selected markets in the EU, Eastern Europe and Africa. The priority in Returns Markets is to grow profit sustainably while actively managing market share.

- **Management of Costs:** Efficiently managing cost supports the Group's sustainable growth agenda with an on-going drive for efficiencies through simplification and productivity initiatives. The Group's cost optimization program has targeted £300 million of savings per annum by September 2018. The Group calculates that more than £90 million of this has already been realized during the years ended 30 September 2013 and 2014, collectively, with £60 million realized in the year ended 30 September 2014. These savings have been re-invested to support topline growth. The Group is targeting estimated further savings of £85 million in the year ending 30 September 2015, and a further £125 million by September 2018. The Group estimates the cash cost of the cost optimization program to be approximately £600 million. The Group is continuing to drive initiatives that are reducing complexity in the business, including a simplification of the brand portfolio, operating and manufacturing efficiencies, and the alignment of financial processes.

- **Capital Discipline:** The Group's business is cash generative. A key focus is on effective working capital controls, disciplined capital expenditure and managing tax and interest costs to ensure cash flows are maximized. The Group's objective is to ensure that the cash it generates is used efficiently through disciplined investments to support its sales strategy, including any further acquisitions that create additional value for its shareholders. As part of this strategy, the Group engaged in part divestment from Logista, releasing £0.4 billion of cash from non-core assets.

In addition to the priorities outlined above, the Group continues to focus on strategically cultivating its sales growth. To this end, the Group applies consumer insights, focusing on four key sales growth drivers:

- **Portfolio management:** The Group's ability to build sales depends on effective portfolio management to meet the needs of consumers.
- **Innovation:** Relevant innovation is essential to sustaining sales levels and achieving the Group's growth targets.
- **Customer engagement:** The degree to which the Group develops even stronger connections with its retail partners to support their business supports its objective to maximize the availability and endorsement of its portfolio at the point of sale.
- **Pricing:** Pricing is a key component of revenue growth. The Group seeks to maximize these growth opportunities through the application of an enhanced approach to the way it evaluates pricing by brand, by pack size and by sales channel, and with reference to applicable excise structures.

The Acquisition

The Asset Purchase Agreement and interaction with the Merger Agreement

On 15 July 2014, Reynolds, Lorillard and Lantern Acquisition Co., a wholly owned subsidiary of Reynolds, entered into the Merger Agreement pursuant to which Lantern Acquisition Co. agreed to merge with and into Lorillard. As a result of the Merger, the separate corporate existence of Lantern Acquisition Co. ceased, and Lorillard is the surviving corporation in the merger such that Reynolds owns, directly or indirectly, 100 percent of the outstanding capital stock of Lorillard. The completion of the Merger occurred on 12 June 2015.

Concurrently with the execution of the Merger Agreement, Imperial Tobacco, ITG Brands (a wholly-owned subsidiary of Imperial Tobacco) and Reynolds entered into the Asset Purchase Agreement pursuant to which Reynolds agreed, immediately following completion of the Merger, to sell to ITG Brands (or another member of the Group) certain assets used primarily in, or arising directly or indirectly out of the operation or conduct of, the businesses of the cigarette brands known as *Winston*, *Kool*, *Salem* and *Maverick* and the e-cigarette brand *blu*. Reynolds also agreed, pursuant to the terms of the Asset Purchase Agreement, to transfer to ITG Brands for no additional consideration the cigarette brand known as *Doral* in the event that the aggregate market share in the U.S. of *Winston*, *Kool* and *Salem* for the three months ended prior to the month in which completion of the

Acquisition occurred fell below 4.9 percent. The latest available data for this period indicated that their aggregate market share had not fallen below this level. Accordingly, the Group does not expect to receive the *Doral* brand.

The completion of the Acquisition occurred immediately following the completion of the Merger on 12 June 2015.

Imperial Tobacco is a party to the Asset Purchase Agreement in the capacity of guarantor of certain of ITG Brands' obligations comprising: (i) the payment by ITG Brands of the purchase price when due; (ii) the full payment and performance of ITG Brands' obligations under the Asset Purchase Agreement to the extent such obligations were to be performed by ITG Brands at or prior to the completion of the Acquisition; and (iii) the payment by ITG Brands under any judgment against ITG Brands (or any related settlement) resulting from a breach of ITG Brands' obligations under certain agreements entered into between ITG Brands and Reynolds at completion of the Acquisition.

Consideration

The total cash consideration paid by ITG Brands to Reynolds was US$7,056 million. The present value of the expected U.S. tax savings from the step-up in amortization of intangibles is approximately US$1.5 billion, giving a net consideration of approximately US$5.6 billion.

Overview of key terms of the Asset Purchase Agreement

The *Winston*, *Kool*, *Salem* and *Maverick* Brands were acquired without historic product liabilities. An indemnity against such liabilities was provided by Reynolds in the Asset Purchase Agreement. RJR Tobacco, a subsidiary of Reynolds, and Lorillard Tobacco Company, a subsidiary of Lorillard, are parties to settlements with states, including the MSA and other state settlements, which resolved actions that the states had brought against Philip Morris Incorporated (as predecessor to Philip Morris USA, Inc.), RJR Tobacco, and Lorillard Tobacco Company, among others, seeking to recover alleged health care costs related to smoking. ITG Brands expects, subject to certain exceptions, to make similar payments on future cigarette sales under the MSA and other state settlements in respect of the Acquired Tobacco Cigarette Brands as RJR Tobacco and Lorillard Tobacco Company previously paid. ITG Brands and its affiliates (which had previously joined the MSA although they had not been party to the original actions by the states) expect to retain the "grandfathered share benefit" under the MSA for the current U.S. brands, under which they make no payments for certain market shares existing prior to the time they joined the MSA.

Subject to the terms and conditions set out in the Asset Purchase Agreement, ITG Brands and Reynolds have agreed to cooperate with each other and use their reasonable best efforts to obtain all required authorizations, consents, orders and approvals in connection with the Acquisition and to reflect the agreed treatment of the Acquired Tobacco Cigarette Brands both before and after completion of the Acquisition. The Asset Purchase Agreement contains various representations and warranties customary for a U.S. acquisition of the size and nature of the Acquisition.

Transfer Agreement

On 15 July 2014, ITG Brands and Lorillard entered into the Transfer Agreement, pursuant to which, immediately prior to the completion of the Merger, Lorillard transferred specified Acquired Assets, including certain real estate assets, to ITG Brands and ITG Brands assumed specified liabilities from Lorillard, including under certain employee benefit plans.

Ancillary agreements

On 15 July 2014, ITG Brands and Reynolds entered into an agreement (the **Route to Market Agreement**) pursuant to which they agreed that they will comply with certain obligations relating to the shelf space and wholesale channels in respect of the Acquired Tobacco Cigarette Brands before and after completion of the Acquisition.

On completion of the Acquisition, ITG Brands and RJR Tobacco entered into the Reciprocal Manufacturing Agreement pursuant to which, for a transitional period, RJR Tobacco will exclusively manufacture and supply ITG Brands' requirements for *Winston*, *Kool* and *Salem* brand products and ITG Brands will exclusively manufacture and supply RJR Tobacco's requirements for *Kent, Newport, Old Gold* and *True* brand products.

For further details on the acquisition, see *"Description of the Acquisition"*.

The Offering

The summary below describes the principal terms of the Notes and the Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes and the Guarantees" section of this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes. Terms used in this summary and not otherwise defined herein have the meanings given to them in "Description of the Notes and the Guarantees".

Issuer . . . . Imperial Tobacco Finance PLC, a public limited company incorporated under the laws of England and Wales on 14 June 1996. Its registered office and the business address of each of its directors is 121 Winterstoke Road, Bristol BS3 2LL, England, and its telephone number is +44 (0) 117 963 6636.

Under certain circumstances, other members of the Group may be substituted as the Issuer and principal debtor under the Notes without the consent of the Noteholders at any time, provided that (i) each Rating Agency shall have confirmed that the Notes will have the same or better solicited long-term public credit rating as immediately prior to such substitution, and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject. See "*Description of the Notes and the Guarantees—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*".

Guarantors . . . . Imperial Tobacco and ITL.

The Guarantee of ITL may be terminated at any time at its option and other members of the Group may be substituted as Guarantors for Imperial Tobacco and/or ITL in certain circumstances, in each case without the consent of Noteholders. See "*Description of the Notes and the Guarantees*".

The Notes . . . . US$500,000,000 aggregate principal amount of 2.050 percent Senior Notes due 2018 (the **2018 Notes**), US$1,250,000,000 aggregate principal amount of 2.950 percent Senior Notes due 2020 (the **2020 Notes**), US$1,250,000,000 aggregate principal amount of 3.750 percent Senior Notes due 2022 (the **2022 Notes**) and US$1,500,000,000 aggregate principal amount of 4.250 percent Senior Notes due 2025 (the **2025 Notes** and, together with the 2018 Notes, the 2020 Notes and the 2022 Notes, the **Notes**). The Notes will be the Issuer's unsecured and unsubordinated obligations and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law):

The Notes will be issued under an Indenture expected to be dated as of 21 July 2015 (the **Indenture**) between the Issuer, the Guarantors, The Bank of New York Mellon, acting through its London Branch (in its capacity as trustee, the

	Trustee, and in its capacity as paying agent, the **Paying Agent**) and The Bank of New York Mellon (collectively in its capacities as transfer agent and registrar, the **Transfer Agent and Registrar** and, together with the Paying Agent, the **Agent**).
The Guarantees	The guarantees of the Notes (the **Guarantees**) will be unsecured and unsubordinated obligations of the Guarantors (as defined herein) and will rank *pari passu* in right of payment among themselves and with their other unsecured and unsubordinated indebtedness (save for certain obligations required to be preferred by law). The Guarantee of ITL may be terminated at the option of ITL at any time, and under certain circumstances, other members of the Group may be substituted as Guarantors for Imperial Tobacco and/or ITL, in each case without the consent of Noteholders, provided that in any such termination or substitution, (i) each Rating Agency shall have confirmed that the Notes will have the same or better solicited long-term public credit rating as immediately prior to such termination or substitution, as applicable and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject. See "*Description of the Notes and the Guarantees—Status of the Notes and Guarantees*".
Issue Price	99.530 percent of the principal amount of the 2018 Notes, 98.917 percent of the principal amount of the 2020 Notes, 98.385 percent of the principal amount of the 2022 Notes, and 97.886 percent of the principal amount of the 2025 Notes.
The Offering	The Notes are being offered and sold by the Initial Purchasers (i) within the United States only to QIBs in reliance on Rule 144A and (ii) outside the United States to persons other than U.S. persons in reliance on Regulation S.
Issue Date	21 July 2015.
Maturity Date	The 2018 Notes will mature on 20 July 2018, the 2020 Notes will mature on 21 July 2020, the 2022 Notes will mature on 21 July 2022 and the 2025 Notes will mature on 21 July 2025. The Notes are redeemable prior to maturity as described under "*Description of the Notes and Guarantees—Optional Redemption*", "*Description of the Notes and Guarantees—Repurchase Upon a Change of Control Offer*" and "*Description of the Notes and Guarantees—Redemption for Tax Reasons*".
Interest Rate	The 2018 Notes will bear interest from the Issue Date at the rate of 2.050 percent per annum, payable semi-annually in arrears. The 2020 Notes will bear interest from the Issue Date at the rate of 2.950 percent per annum, payable semi-annually in arrears.

The 2022 Notes will bear interest from the Issue Date at the rate of 3.750 percent per annum, payable semi-annually in arrears.

The 2025 Notes will bear interest from the Issue Date at the rate of 4.250 percent per annum, payable semi-annually in arrears.

Interest Payment Dates . . . . Interest on the 2018 Notes will be paid semi-annually in arrears on 20 July and 20 January of each year, beginning on 20 January 2016. Interest on the 2020 Notes, the 2022 Notes and the 2025 Notes will be paid semi-annually in arrears on 21 July and 21 January of each year, beginning on 21 January 2016. (each, an **Interest Payment Date**).

Interest Periods . . . . The first interest period for the Notes will be the period from and including the Issue Date to, but excluding, the first Interest Payment Date. Thereafter, the interest periods for the Notes will be the periods from and including each Interest Payment Date to but excluding the immediately succeeding Interest Payment Date. The final interest period will be the period from and including the Interest Payment Date immediately preceding the Maturity Date to and including the Maturity Date.

Regular Record Dates . . . . In the case of the 2018 Notes, the close of business on 5 July or 5 January (whether or not a Business Day) and in the case of the 2020 Notes, the 2022 Notes and the 2025 Notes, the close of business on 6 July and 6 January (whether or not a Business Day) immediately preceding each Interest Payment Date.

Business Day . . . . Any day which is not, in London, England or New York City, United States, or any other Place of Payment (as defined herein), a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized or obligated by law or regulation to close (a **Business Day**).

Optional Redemption . . . . The Issuer may redeem the Notes, in whole or in part, at its option,

(1) in the case of the 2018 Notes and 2020 Notes, at any time, and in the case of the 2022 Notes, at any time prior to 21 May 2022 (two months prior to maturity), in the case of the 2025 Notes, at any time prior to 21 April 2025 (three months prior to maturity) and from time to time at a redemption price equal to the greater of (a) 100 percent of the principal amount of the Notes to be redeemed and (b) as determined by the Independent Investment Banker (as defined herein), the sum of the present values of the applicable Remaining Scheduled Payments discounted to the date of redemption (the **Redemption Date**) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days

	elapsed) at the Treasury Rate plus 20 basis points in the case of the 2018 Notes, 25 basis points in the case of the 2020 Notes, 30 basis points in the case of the 2022 Notes, or 35 basis points in the case of the 2025 Notes, together with accrued and unpaid interest on the principal amount of the Notes to be redeemed to the Redemption Date; and (2) in the case of the 2022 Notes, at any time on or after 21 May 2022, and in the case of the 2025 Notes, at any time on or after 21 April 2025 at a redemption price equal to 100 percent of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the principal amount being redeemed to but excluding the date of redemption.
Repurchase Upon a Change of Control Offer	If a Change of Control Triggering Event occurs (as described under "*Description of the Notes and the Guarantees—Repurchase Upon a Change of Control Offer*"), unless the Issuer has redeemed the Notes in full, it will be required to make an offer (a **Change of Control Offer**) to each Holder of the Notes to repurchase all or any part (equal to US$200,000 or an integral multiple of US$1,000 in excess thereof) of that Holder's Notes on the terms set forth in the Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101 percent of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased, to the date of repurchase.
Interest Rate Adjustment Based on Rating Events	The interest rate payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be (as described under "*Description of the Notes and the Guarantees—Interest Rate Adjustment Based on Rating Events*"). From and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the interest rate payable on the Notes shall be increased by 1.25 percent per annum. A Step Up Rating Change may only occur once during the term of the Notes. In the event of a Step Down Rating Change following a Step Up Rating Change, from and including the first Interest Payment Date following the date of such Step Down Rating Change, the interest rate payable on the Notes shall be decreased by 1.25 percent per annum.
Redemption for Tax Reasons	In the event of certain tax law changes that would require the Issuer or a Guarantor to pay Additional Amounts on the Notes, the Issuer may, under certain conditions, redeem in whole, but not in part, the Notes prior to maturity at a redemption price equal to 100 percent of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

Payment of Additional Amounts	If the Issuer or any Guarantor is required by a Relevant Taxing Jurisdiction (as defined herein) to deduct or withhold taxes in respect of any payment on the Notes the Issuer or such Guarantor will, subject to certain exceptions, pay additional amounts to Noteholders.
Covenants	The Issuer and Guarantors have agreed to certain covenants with respect to the Notes, including a negative pledge and limitation on mergers, consolidations, amalgamations and combinations. See "*Description of the Notes and the Guarantees—Covenants of the Issuer*".
Ranking of the Notes and Guarantees	*The Notes* The Notes will be unsecured and unsubordinated obligations of the Issuer (except for the provisions of *"Description of the Notes and the Guarantees—Covenants of the Issuer—Negative Pledge"*) and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law). *The Guarantees* The Guarantees will be unsecured and unsubordinated obligations of the Guarantors (except for the provisions of *"Description of the Notes and the Guarantees—Covenants of the Issuer—Negative Pledge"*) and will rank *pari passu* in right of payment among themselves and with the other unsecured and unsubordinated indebtedness of the relevant Guarantor (save for certain obligations required to be preferred by law). Because the Guarantors are holding companies, their rights and the rights of their respective creditors, including the Noteholders, to participate in the assets of any subsidiary upon the liquidation or recapitalization of any Guarantor will be subject to the prior claims of such subsidiary's creditors, except to the extent that such Guarantor itself may be a creditor with recognized claims against such subsidiary.
Denominations, Form and Registration of Notes	The Notes will be issued in fully registered form and only in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will be initially issued as global notes. DTC will act as depositary for the Notes. Except as set forth herein, global notes will not be exchangeable for certificated Notes. The global notes will be deposited with The Bank of New York Mellon, as custodian (the **Custodian**), for DTC and registered in the name of Cede & Co., as nominee of DTC. The Notes sold to QIBs in the United States in reliance on Rule 144A will be represented by the Rule 144A Global Note. The Notes sold outside the United States to persons other

	than U.S. persons in reliance on Regulation S will be represented by the Regulation S Global Note.
Governing Law of the Notes, the Guarantees and the Indenture	The State of New York.
Listing	Application has been made to obtain the listing of the Notes on the Official List of the UK Listing Authority and for the admission of the Notes to trading on the Professional Securities Market of the London Stock Exchange.
Defeasance	The Notes will be subject to defeasance and covenant defeasance provisions in the Indenture.
Further Issuances	The Issuer may, subject to certain conditions, from time to time, without notice to or the consent of the Noteholders, "reopen" the Notes and create and issue additional notes having identical terms and conditions to the Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes), so that the additional notes are consolidated and form a single series of notes with the Notes.
Use of Proceeds	The estimated net proceeds of the issue of the Notes, after deducting underwriting discounts and other estimated expenses payable in connection with the Offering, are expected to be approximately US$4,414 million. The Group intends to add the net proceeds to its general funds, which may be used: • to refinance a portion of the aggregate borrowings drawn under the committed bank facilities used to fund the Acquisition, and to reduce the aggregate commitments under the Facilities Agreement; and • for general corporate purposes. For more information, see "*Use of Proceeds*", "*Capitalization*" and "*Description of the Acquisition*".
Trustee and Paying Agent	The Bank of New York Mellon, acting through its London Branch.
Transfer Agent and Registrar	The Bank of New York Mellon.
Transfer Restrictions	The Notes and the Guarantees thereof have not been and will not be registered under the Securities Act and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws. The Notes are subject to certain restrictions on resale and transfer.
Timing and Delivery	The Issuer expects delivery of the Notes to occur on 21 July 2015 (T+4). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in

three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities prior to the fourth business day before the delivery of the securities will be required, by virtue of the fact that the securities initially will settle in T+4, to specify any alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the securities who wish to make such trades should consult their own advisors.

Ratings . . . . Imperial Tobacco has a solicited long-term debt rating of Baa3 (negative outlook) by Moody's, BBB (stable outlook) by S&P and BBB (negative outlook) by Fitch. It is expected that the Notes will be rated Baa3 by Moody's and BBB by S&P. A security rating is not a recommendation to buy, sell or hold the Notes. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by the relevant Rating Agency if, in its judgment, circumstances in the future so warrant. In the event that a rating initially assigned to the Notes is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes and the market value of the Notes is likely to be adversely affected.

CUSIPs and ISINs . . . . The CUSIP of the 2018 Notes to be sold pursuant to Regulation S is G4721V NR1 and the ISIN number is USG4721VNR17. The CUSIP of the 2018 Notes to be sold pursuant to Rule 144A is 453140 AC9 and the ISIN number is US453140AC99.

The CUSIP of the 2020 Notes to be sold pursuant to Regulation S is G4721V NS9 and the ISIN number is USG4721VNS99. The CUSIP of the 2020 Notes to be sold pursuant to Rule 144A is 453140 AD7 and the ISIN number is US453140AD72.

The CUSIP of the 2022 Notes to be sold pursuant to Regulation S is G4721V NT7 and the ISIN number is USG4721VNT72. The CUSIP of the 2022 Notes to be sold pursuant to Rule 144A is 453140 AE5 and the ISIN number is US453140AE55.

The CUSIP of the 2025 Notes to be sold pursuant to Regulation S is G4721V NU4 and the ISIN number is USG4721VNU46. The CUSIP of the 2025 Notes to be sold pursuant to Rule 144A is 453140 AF2 and the ISIN number is US453140AF21.

Risk Factors

The Issuer and the Guarantors believe that the following factors may affect their ability to fulfill their obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer and the Guarantors are not in a position to express a view on the likelihood of any such contingency occurring.

The summary factors below contain a description of all material risks that may affect the Issuer's and the Guarantors' abilities to fulfill their obligations to investors and those that are material to the securities to be admitted to trading in order for the investor to assess the market risk associated with the Notes. There may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effects set forth below.

The Issuer and the Guarantors believe that the factors identified below represent the principal risks inherent in investing in the Notes, but their inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer and the Guarantors do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Investors should carefully read the risk factors described below and the other information in this Offering Memorandum prior to deciding to invest in the Notes. The trading price of the Notes could decline due to any of these risks, and investors may lose all or part of their investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Imperial Tobacco Group, described below and elsewhere in this Offering Memorandum.

The Issuer and Guarantors are subject to the same general risks as many other businesses, for example, changes in general economic conditions, including currency and interest rate fluctuations, changes in taxation legislation, cyber-security breaches, failure of its information technology infrastructure, the cost of its raw materials, the impact of competition, political instability in some of the countries in which the Group operates and sources its raw materials, the impact of natural disasters and health and safety matters.

Potential investors are cautioned that the following list of important factors may not contain all of the material factors that are important to an investment decision. Potential investors are urged to read the sections elsewhere in this Offering Memorandum entitled "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Description of the Group and its Business*".

Risks Relating to the Group

- The Group may be adversely affected by declining consumption of legitimate tobacco products.
- Increased regulation of the tobacco industry may have an adverse effect on the demand for tobacco products or may increase compliance costs.
- The Group may be adversely affected by increases in illicit trade.
- Increased excise duty on tobacco products may have an adverse effect on the demand for tobacco products.
- The Group may be adversely affected by changes to the excise duty status of tobacco products.
- The Group is exposed to the economic conditions of the countries in which it operates, with a particular concentration in Western Europe and the United States.
- The Group is dependent on its key customer relationships.

- The Group may be subject to investigation for alleged abuse of their market position in certain countries.
- The Group could incur substantial damages and costs in connection with litigation.
- The Group operates in highly competitive markets.
- The Group may be unable to identify further acquisition opportunities.
- The Group may fail to manage growth.
- The Group may be adversely affected by the increased risks and uncertainties of doing business in developing markets.
- The Group conducts business in countries subject to international sanctions.
- The Group may be adversely affected by changes in taxation legislation.
- The Group is exposed to foreign exchange rate risk.
- The Group is exposed to interest rate fluctuations.
- The Group is exposed to tobacco leaf price fluctuations.
- The Group has significant borrowings, which may impair operational and financial flexibility.
- Following the entry into the borrowing arrangements for the Acquisition, the Group may find it difficult to obtain new financing or new financing may be at a higher cost and a downgrade in any of the Group's credit ratings could increase this risk.
- The Group has exposure to external counterparties.
- The Group's labor relations or labor unrest may affect operational and financial performance.
- The Group's products could be affected by failures in quality control and/or contamination.
- The Group could fail to attract or retain key personnel.
- The Group may not fully be able to protect or retain its intellectual property rights.
- As several of the Acquired Tobacco Cigarette Brands are menthol brands or include menthol products, the Group may be adversely affected by regulation of menthol in cigarettes.
- As one of the Acquired Brands is the *blu* brand, the Group may be adversely affected by regulation of e-cigarettes.
- The Group may be adversely affected by further regulation by the FDA.
- Substantial payment obligations under the MSA and other State Settlement Agreements, along with state certification requirements, may have an adverse effect on the cash flows and operating income of the Group.
- The U.S. Surgeon General has issued reports regarding health risks of cigarette smoking to non-smokers that could result in additional litigation against cigarette manufacturers, additional restrictions placed on cigarette smoking, and additional regulations placed on the manufacture or sale of cigarettes.
- Future demand for e-cigarettes and the nature of the e-cigarette market is uncertain.

Risks Related to the Acquisition and Associated Transactions

- The Group has been required to assume obligations under the MSA and potentially other state settlements in connection with the acquisition of the Acquired Tobacco Cigarette Brands, which may have unforeseen consequences.
- Imperial Tobacco may not realize the expected tax benefits of the Acquisition for the Group to the extent envisaged, or at all.
- In implementing the strategy for the enlarged U.S. business, the Group may fail to achieve the expectations of Imperial Tobacco, the Acquired Assets may not perform in line with expectations, and/or the integration of the Acquired Assets could result in operating inefficiencies and other adverse consequences.
- The Group may need to rely on certain key individuals of the Group in the U.S. to integrate the Acquired Assets.
- There is continued interdependence between the Reynolds Group and the Group for the manufacture of certain brands following completion of the Acquisition.
- The Greensboro factory and certain other storage and office facilities which are Acquired Assets could be affected by environmental and health and safety liabilities.

Risks Relating to the Offering

- There is an absence of a public market for the Notes and there are restrictions on the transfer of Notes.
- The Notes will initially be held in book-entry form and, therefore, you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.
- The Group may incur substantially more debt in the future.
- The Notes and the Guarantees will be unsecured, and therefore will effectively be subordinated to any secured debt.
- The Issuer or the Guarantors may be unable to raise funds necessary to finance the change of control repurchase offers required by the Indenture governing the Notes.
- Imperial Tobacco and ITL may be dependent on the performance of, and payments from, their respective subsidiaries, associates and joint ventures to fund payments to investors on the Notes and their ability to pay under their respective Guarantees may, therefore, be affected by the Group's organizational structure.
- The Issuer is an indirect finance subsidiary of Imperial Tobacco that has no external revenue-generating operations of its own and will depend on cash received from the Group or from external financings in order to make payments on the Notes.
- Investors in the Notes may have limited recourse against the independent auditors.
- The financial information in respect of the Acquired Assets included and incorporated by reference in this Offering Memorandum was prepared using the books and records of third parties and is not derived from the Group's systems, and does not comply with Regulation S-X.
- ITF and ITL are required to adopt a new framework for financial reporting which may differ in certain significant respects from UK GAAP.

Summary Consolidated Financial Information

The following summary consolidated financial information of the Group should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Consolidated Financial Information" included elsewhere in this Offering Memorandum, and the Group's consolidated financial statements, including the notes thereto, included in this Offering Memorandum.

The audited consolidated income statement data for the years ended 30 September 2012, 2013 and 2014 and the audited consolidated balance sheet data as at 30 September 2012, 2013 and 2014 have been derived from the Group's audited consolidated financial statements as at and for the years ended 30 September 2012, 2013 and 2014, respectively, except as indicated below.

The Group adopted IFRS 11 (Joint Arrangements) on 1 October 2014 and IAS 19 (Revised) (Employee Benefits) on 1 October 2013. In accordance with IFRS, the Group has only made limited restatements of its historical financial information to reflect such accounting standards. As a result, certain financial information of the Group presented in this Offering Memorandum is not fully comparable between the periods. The restated consolidated income statement data for the year ended 30 September 2013 and the restated consolidated balance sheet data as at 30 September 2013 presented below are derived from the 2014 Financial Statements and have been restated for IAS 19 (Revised) (Employee Benefits). The restated consolidated income statement data for the year ended 30 September 2014 and the six months ended 31 March 2014 and the restated consolidated balance sheet data as at 30 September 2014 presented below are derived from the 2015 Interim Financial Statements and have been restated for IFRS 11 (Joint Arrangements). For more detail, see "Presentation of Financial, Market and Other Information— Presentation of the Group's Financial Information".

The consolidated financial statements of the Group have been prepared in accordance with IFRS. The audited consolidated financial statements have been audited by PricewaterhouseCoopers LLP as stated in their audit reports included or incorporated by reference in this Offering Memorandum.

Key Income Statement Data

	For the year ended 30 September					For the six months ended 31 March	
	2012	2013	2013 Unaudited (Restated)(1)	2014	2014 Unaudited (Restated)(2)	2014 Unaudited (Restated)(2)	2015 Unaudited
				(in £ million)			
Revenue	28,574	28,269	28,269	26,625	26,460	12,634	12,129
Operating profit	1,518	1,958	1,958	2,064	2,019	978	959
Net finance costs	(437)	(697)	(739)	(544)	(543)	(350)	72
Share of profit of investments accounted for using the equity method	—	—	—	—	49	11	17
Profit before taxation	1,081	1,261	1,219	1,520	1,525	639	1,048
Taxation	(382)	(300)	(290)	(69)	(80)	(265)	(180)
Profit for the year	699	961	929	1,451	1,445	374	868
Profit attributable to owners of the parent	678	937	905	1,422	1,422	366	853
Profit attributable to non-controlling interests	21	24	24	29	23	8	15

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

Key Balance Sheet Data

	As at 30 September					As at 31 March
	2012	2013	2013 Unaudited (Restated)(1)	2014	2014 Unaudited (Restated)(2)	2015 Unaudited
	(in £ million)					
Share capital	107	107	107	104	104	104
Total assets	27,639	28,418	28,422	26,009	25,907	25,376
Equity attributable to owners of Imperial Tobacco	6,035	5,592	5,596	5,065	5,065	4,912

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 31 March 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of Financial Information*".

Summary Unaudited Pro Forma Financial Information

The following unaudited pro forma information relating to the Group should be read in conjunction with, and is extracted from, the unaudited pro forma statement of net assets and the unaudited pro forma income statement of the Group and the accountant's report thereon included elsewhere in this Offering Memorandum. The unaudited pro forma financial information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

The unaudited pro forma financial information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act.

The unaudited pro forma financial information gives pro forma effect to the Acquisition as if it had been completed as of 1 October 2013 (in the case of the income statement) or as of 31 March 2015 (in the case of the statement of net assets).

The pro forma income statement does not reflect the cost of the Notes being offered hereby.

For a detailed explanation of the transactions reflected in the following Summary Unaudited Pro Forma Financial Information, the basis of preparation and related assumptions, please see "Pro Forma Financial Information".

Key Unaudited Pro Forma Income Statement Data(1)

		Adjustments		
	Group for the year ended 30 September 2014 (Restated)(2)	Acquired Assets for the year ended 31 December 2014	Acquisition Accounting(3)	Enlarged Group for the year ended 30 September 2014
		(in £ million)		
Revenue	26,460	2,282	—	28,742
Operating profit	2,019	306	(40)	2,285
Net finance costs	(543)	—	(103)	(646)
Profit before taxation	**1,525**	**306**	**(143)**	**1,688**
Taxation	(80)	(105)	31	(154)
Profit for the year	**1,445**	**201**	**(112)**	**1,534**

(1) The pro forma income statement does not reflect the offering of the Notes offered hereby.

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 31 March 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(3) The Acquisition Accounting adjustments reflect the accounting for the Acquisition, and the related financing, on the following basis:

(a) Additional transaction fees of £40 million and a related tax benefit of £8 million.

(b) Additional finance charge of £103 million reflecting the cost of the bank credit facilities utilized to finance the Acquisition, and a related tax benefit of £23 million (at enacted UK corporate tax rates for the year of 22 percent).

(c) No adjustment has been made to reflect the trading results of the Group since 30 September 2014, or the Reynolds Business or the Lorillard Business since 31 December 2014.

Key Unaudited Pro Forma Statement of Net Assets Data

		Adjustments		
	Group as at 31 March 2015	Acquired Assets as at 31 December 2014	Acquisition Accounting(1)	Enlarged Group as at 31 March 2015
		(in £ million)		
Non-current assets	18,338	233	4,252	22,823
Current assets	7,038	162	(51)	7,149
Total assets	**25,376**	**395**	**4,201**	**29,972**
Current liabilities	(9,180)	—	—	(9,180)
Non-current liabilities	(10,907)	(114)	(4,519)	(15,540)
Total liabilities	**(20,087)**	**(114)**	**(4,519)**	**(24,720)**
Net assets	**5,289**	**281**	**(318)**	**5,252**

(1) The Acquisition Accounting adjustments reflect the goodwill arising on the Acquisition of £4,252 million, £51 million in additional transaction fees paid in cash, and the drawdown of bank credit facilities to settle the cash consideration of £4,533 million (US$7,056 million) payable to Reynolds net of £14 million of related fees.

RISK FACTORS

The Issuer and the Guarantors believe that the following factors may affect their ability to fulfill their obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer and the Guarantors are not in a position to express a view on the likelihood of any such contingency occurring.

The factors below contain a description of all material risks that may affect the Issuer's and the Guarantors' abilities to fulfill their obligations to investors and those that are material to the securities to be admitted to trading in order for the investor to assess the market risk associated with the Notes. There may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effects set forth below.

The Issuer and the Guarantors believe that the factors described below represent the principal risks inherent in investing in the Notes, but their inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer and the Guarantors do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Investors should carefully read the risk factors described below and the other information in this Offering Memorandum prior to deciding to invest in the Notes. The trading price of the Notes could decline due to any of these risks, and investors may lose all or part of their investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Imperial Tobacco Group, described below and elsewhere in this Offering Memorandum.

The Issuer and the Guarantors are subject to the same general risks as many other businesses, for example, changes in general economic conditions, including currency and interest rate fluctuations, changes in taxation legislation, cyber-security breaches, failure of its IT infrastructure, the cost of its raw materials, the impact of competition, political instability in some of the countries in which the Group operates and sources its raw materials, the impact of natural disasters and health and safety matters.

Defined terms used in the statements below have the meanings assigned to them elsewhere in this Offering Memorandum, including under "Description of the Notes and the Guarantees".

Risks Relating to the Group

The Group may be adversely affected by declining consumption of legitimate tobacco products

Since the 1990s there has been a general decline in the consumption of legitimate tobacco products in developed countries in which the Group operates. This decline in developed countries such as the UK, Germany and Spain, where the Group currently has significant operations, as well as the U.S., may be attributed to a variety of factors including, but not limited to, increasing government regulation, frequent and substantial increases in the excise duty on legitimate tobacco products or a substantial increase in costs attributable to a change in the manner of excise duty collection, increases in the trade of illicit tobacco products and growth of the e-cigarettes market.

Any future substantial decline in the demand for legitimate tobacco products could have an adverse effect on the Group's revenue, profits and financial condition which, in turn, could have an impact on Imperial Tobacco's and ITL's revenue, profits and financial condition or that of the Group. The Group may also have increased exposure to this risk in the U.S. following the Acquisition as it owns a greater share of tobacco brands in the U.S. market than it did previously. This, in turn, could have an adverse effect on the Group's, Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Increased regulation of the tobacco industry may have an adverse effect on the demand for tobacco products or may increase compliance costs

The advertising, sale and consumption of tobacco products have been subject to regulatory influence from governments, health officials and anti-smoking groups, principally due to their conclusion that cigarette smoking and tobacco products are harmful to health. This has resulted in substantial restrictions on the manufacture, development, testing, content, sale, distribution, packaging, labelling, display, marketing, advertising, product design and consumption of tobacco products, including limitations on where tobacco products can be used or smoked. These restrictions have been introduced by both regulation and voluntary agreements. In addition, anti-smoking groups continue to advocate the exclusion of the industry from consultation processes and seek to diminish the social acceptability of smoking. Anti-smoking groups are pursuing this agenda through petitioning individual governments and the World Health Organization.

Regulatory initiatives affecting the tobacco industry that have been proposed, introduced or enacted include: restrictions or bans on advertising, marketing and sponsorship; the display of larger health warnings, graphic health warnings and other labelling requirements on tobacco product packaging and restrictions on packaging design, including the use of colors and plain packaging; restrictions on pack content, including minimum quantity per pack; restrictions or bans on the display of tobacco product packaging at the point of sale and restrictions or bans on cigarette vending machines; restrictions on the types of retail outlet that are permitted to sell tobacco products; requirements regarding testing, verification and limits for tar, nicotine, carbon monoxide and other smoke constituent levels; requirements regarding reporting, evaluation and possible bans of certain tobacco product ingredients; requirements that products meet safety standards for ignition propensity; increased restrictions on smoking in public and work places and, in some instances, in private places and outdoors; implementation of measures restricting descriptive terms which might be argued to create an impression that one brand of cigarettes is less harmful than another; and requirements for the 'track and trace' of tobacco products to retail level. The Group, along with all other tobacco manufacturers, is sometimes excluded from consultation with regulators on these regulatory proposals. For example, the U.S. is a very heavily regulated environment with regulation at both the federal and state level and there is therefore a risk that either federal or state regulation or both may become materially more intrusive or adverse. Any future increases in the regulation of the tobacco industry in the U.S. or elsewhere could therefore result in a substantial decline in the demand for tobacco products (including, in the case of restrictions or bans on packaging, in the ability of consumers to differentiate brands) or in an increase in the costs of the Group in complying with these regulatory requirements, or require manufacturers to review and adapt their product portfolio as a result of restrictions or bans, either by way of developing innovative products or offers in other categories. Each of these may have an adverse effect on the Group's revenue, profits, business, financial condition or results and could contribute to an increase in the illicit trade in tobacco products. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

In addition to the general regulatory factors set out above, the Group may also be impacted by further specific regulatory actions in more specific industry sectors. See "*—As several of the Acquired Tobacco Cigarette Brands are menthol brands or include menthol products, the Group may be adversely affected by regulation of menthol in cigarettes*", "*—As one of the Acquired Brands is the* blu *brand, the Group may be adversely affected by regulation of e-cigarettes*" and "*—The Group may be adversely affected by further regulation by the FDA*".

The Group may be adversely affected by increases in illicit trade

Illegal cross-border trade, in the form of counterfeit products, locally manufactured products on which applicable local sales taxes are evaded and smuggled genuine products, is a significant and, in some cases, growing threat to the legitimate tobacco industry. Illicit trade could have an adverse effect on the Group's revenue, profits, business, financial condition or results in addition to damaging the Group's brand equity and undermining supply chain distribution investments, with potential damage to the Group's reputation. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

A number of factors could result in a significant decline in the demand for legally purchased tobacco products, including substantial increases in excise duties or a substantial increase in costs attributable to a change in the manner of excise duty collection. Any factor that increases the costs to consumers of tobacco products could encourage more consumers to switch to cheaper, illegal tobacco products and provide greater rewards for counterfeiters, smugglers and organized crime. In addition, additional regulatory initiatives, such as plain packaging or standardized appearance, taste or ingredients, may contribute to an increase in illicit trade of tobacco products.

Illicit trade creates a market that is uncontrolled. As a result, children can more easily obtain tobacco products, governments are deprived of tax revenues and livelihoods of independent tobacco retailers are threatened. Within such an environment, there is also a risk that criminal and civil sanctions, negative publicity and allegations of complicity in illegal cross-border trading and money laundering activities may be made against tobacco companies or their directors, executive officers, employees, agents and distributors.

Although the Group has implemented procedures and established controls to detect and control illegal trading of its tobacco products, these procedures and controls can provide only reasonable and not absolute assurance of detecting non-compliance by managing, rather than eliminating, risk. There is a risk that these procedures and controls may not adequately protect the Group against increases in illicit trade and the above-mentioned risks, which could have a material adverse effect on the Group's reputation, business, results of operation and financial condition and which, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Increased excise duty on tobacco products may have an adverse effect on the demand for tobacco products

Tobacco products are subject to excise duty which, in many of the markets in which the Group operates, represents a substantial percentage of the retail price, and has been steadily increasing in recent years. Increasing levels of excise duty, particularly substantial one-off increases, have encouraged consumers in affected markets to switch from higher price cigarettes to lower price cigarettes and fine cut tobacco or to purchase cigarettes or fine cut tobacco from the illicit market or to stop smoking and this could have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may be adversely affected by changes to the excise duty status of tobacco products

The Group is one of the world's leading manufacturers of tobacco products by volume and, as such, any unfavorable excise duty treatment of tobacco products, including fine cut tobacco, if widely adopted, could impact the Group's sales volumes and, therefore, could have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group is exposed to the economic conditions of the countries in which it operates, with a particular concentration in Western Europe and the United States

The Group has significant exposure to economic conditions in the United Kingdom, Germany, Spain and France, which constituted 54.6 percent of the Group's external revenue for the year ended 30 September 2014. As a result of the Acquisition, the U.S. has also become a key country for the

Group. The organic growth of the Group's business is underpinned by its positions in these and other key countries. Any future declines in these markets, including due to adverse changes in economic conditions in these countries, could have an adverse effect on the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group is dependent on its key customer relationships

The Group has a number of key customers under contractual arrangements which have relatively short durations and termination periods and are non-exclusive. The loss of any of these key customers, or their inability to pay material amounts owed, could have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact upon Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may be subject to investigation for alleged abuse of their market position in certain countries

The Group has significant market positions in certain countries in which it operates, including the UK, Germany, France, Spain and Morocco and, following the Acquisition, the United States. As a result, the Group may be subject to investigation for alleged abuse of its market position in these countries, which could result in adverse regulatory action by the relevant authorities, including the potential for monetary fines and negative publicity. There can be no assurances that, in the future, any investigation to which the Group is subject will not result in actions being brought against members of the Group or that any such investigations or publicity will not have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect upon Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group could incur substantial damages and costs in connection with litigation

Other than as noted below, before 2007, the Group had not sold cigarettes in the U.S., the jurisdiction with the greatest prevalence of smoking and health-related litigation. However, three subsidiaries, Reemtsma Cigarettenfabriken GmbH, SEITA and Altadis, sold relatively small quantities of cigarettes and/or fine cut tobacco in the U.S. domestic market up to 1999, up to 2005 and up to 2004, respectively. In 2007 and 2008, respectively, the Group acquired Commonwealth Brands and ITG Brands, both of which were and are manufacturers and sellers of tobacco products in the U.S., with Commonwealth Brands selling products in the U.S. since the early 1990s. As of the date of this Offering Memorandum, the Group has relatively limited sales in the U.S. duty free market.

The Acquired Assets include the Acquired Tobacco Cigarette Brands which are manufactured and primarily sold in the U.S. The Acquired Tobacco Cigarette Brands have been acquired without historic product liabilities and an indemnity in respect of any liabilities relating to the period prior to the Acquisition has been provided by Reynolds under the terms of the Acquisition. See "*Description of the Acquisition*".

The Group is responsible for the Acquired Tobacco Cigarette Brands and the *blu* brand following the Acquisition. It can be expected that legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of cigarettes, whether relating to cigarettes generally or menthol cigarettes, will be filed against the Group in the future (for further discussion relative to menthol products, please see "*—As several of the Acquired Tobacco Cigarette Brands are menthol brands or include menthol products, the Group may be adversely affected by regulation of menthol in cigarettes*" below). It is also possible that legal actions, proceedings and claims may be filed against the Group in respect of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of the *blu* brand or other e-cigarette or e-vapor products.

Such claims could be brought in federal, state or local courts, or by way of enforcement actions, and by individuals, as a class or group action by a number of parties (whether in actions in which a class has been certified or in which plaintiffs are seeking class certification or in which individual cases have been grouped for a consolidated trial), by national or local regulatory authorities or other public institutions, by corporations, unions, funds or other incorporated entities, or by political or social organizations (such as Native American tribes) and the claims could relate, *inter alia*, to claims for personal injury, addiction or death, costs of providing healthcare (including cost recovery actions) and costs of court-supervised health monitoring programs.

The damages sought in any such claims could be significant, and the Group may not be successful in defending all of the claims that may arise. In addition, regardless of the outcome of any litigation, the Group will incur costs defending claims which it will not be able to recover fully, irrespective of whether it is successful in defending such claims. Verdicts in favor of plaintiffs in individual actions regarding the health effects of smoking, or the settlement of such cases, whether by the Group or by other tobacco companies could also encourage the commencement of new actions and could have adverse effects on the ability of the Group to prevail in other smoking and health litigation.

An unfavorable outcome or settlement of any pending or future smoking and health-related or other litigation may have an adverse effect upon the Group's reputation, revenue, profits, business, financial condition or results. There can also be no assurance that legal aid or other funding will continue to be denied to claimants in smoking and health-related or other litigation in any jurisdiction in the future. If future claimants are able to obtain legal aid or funding to finance their litigation against the Group, this may increase the number of claims and claimants' likelihood of prevailing on such claims which may have an adverse effect on the Group's reputation, revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

A material increase in the number of pending claims could significantly increase the costs and management time for the Group to defend such claims. There can be no assurances that any future litigation against the Group, if successful, would not have an adverse effect on the revenue, profits, business, financial condition or results of the Group. In addition, even if the Group is not party to litigation, any adverse judgment against a tobacco manufacturer or in relation to the tobacco market could have an impact on market conditions which may adversely affect the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

To the extent that the Group's determinations at any time as to the likely outcome of any claim do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be affected, with an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

In addition to smoking and health-related litigation and other judicial matters, the Group is subject to regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business and operations. The results of these legal proceedings cannot be predicted with certainty, and there can be no assurance that these matters will not have an adverse effect on the Group's results of operations in any future period, and a substantial judgment may have an adverse effect on the Group's revenue, profits, business, financial condition or results. This, is in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group operates in highly competitive markets

The Group's competitors include Philip Morris International Inc., British American Tobacco plc, Japan Tobacco Inc., Altria Group Inc. and Liggett Vector Brands LLC. Following the Acquisition, the

Group's competitors also include the merged Reynolds and Lorillard group in the U.S. These companies may have greater financial resources than the Group. Significant increases in the competitive activity of these companies or other local manufacturers, in response to the Acquisition or otherwise, could lead to further competition and pricing pressure on the Group's brands and reduce the Group's profit margins and cash flows. The Group's ability to compete with these companies may be limited by the regulatory environment in which it operates, including advertising restrictions, and this may adversely impact the Group's efforts to strengthen its brand portfolio. Actions from the Group's competitors may also have an unfavorable impact on the Group's ability to meet its strategy of growing the Group organically and through acquisitions. These may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may be unable to identify further acquisition opportunities

Historically, the Group has engaged in acquisitions that have been complementary to the organic growth of the Group. The continuation of this expansion strategy is dependent on, among other things, identifying suitable acquisition or investment opportunities and successfully completing those transactions. Where the Group has identified acquisition opportunities, it has historically faced competition for these acquisitions. In the future, this could raise the price of acquisitions and make them less attractive. In addition, if the Group is unable to secure the necessary financing, it may not be able to grow its business through acquisitions.

Even if management is able to identify potential acquisition targets, it may be difficult to complete such transactions, given anti-trust or similar laws. In the future, this could limit the Group's ability to grow by this route. This could adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may fail to manage growth

The Group's strategy includes seeking opportunities to expand its business internationally, both through organic growth and by tobacco- and non-tobacco-related acquisitions. Among other things, acquisitions require the attention of management and the diversion of other resources away from organic growth. The Group's ability to integrate and manage acquired businesses effectively, including the Acquired Assets, and to handle any future growth will depend upon a number of factors including, but not limited to, the size of the acquired businesses, the nature and geographical locations of their operations, and the resulting complexity of integrating their operations into the Group, and failure to manage growth effectively may adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, may have an impact on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Furthermore, there can be no assurance that Imperial Tobacco will be able to identify all actual or potential liabilities of a business, including of the Acquired Assets, prior to its acquisition. If the Group acquires a business or assets which result in the Group assuming unforeseen liabilities in respect of which it has not obtained contractual protections or for which protection is not available, this could adversely affect the Group's revenue, profit and financial condition which, in turn, could adversely affect Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results. Additionally, in order to support its strategic objectives the Group may be required to undertake other material initiatives, such as change programs. Failure to manage such change programs effectively may adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, may have an impact on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may be adversely affected by the increased risks and uncertainties of doing business in developing markets

The Group's expansion into developing markets may present more challenging operating environments where margins in general may be lower and in which commercial practices may be less developed and of a lower standard than those in which the Group has historically operated.

The results and prospects for the Group's operations in these countries will be dependent, in part, on the political stability, economic activity, regulatory requirements, policies and judicial systems of those countries. Some of the countries in which the Group operates face the risk of civil unrest, regime changes, nationalization, terrorism, conflict and threat of war, as well as fraud and corruption, both externally and internally. Economic, political, legal, regulatory or other developments or uncertainties in developing markets could disrupt the Group's supply chain, compliance with applicable regulations, its distribution capabilities or its cash-flows. These developments could also lead to loss of property or equipment that are critical to the Group's business in certain markets which could adversely affect the Group's revenue, profits, business, financial condition and results which, in turn, could impact Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

As a result of its activities in developing markets, the Group currently is and may in the future be a party to further litigation in these markets. The outcome of legal proceedings in these jurisdictions may be particularly uncertain, as legal, administrative and judicial systems or judiciaries in some developing markets can be unpredictable. These proceedings could adversely affect the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group conducts business in countries subject to international sanctions

Some of the countries in which the Group does business or with whom it has or in the past had commercial dealings, such as Syria and Cuba, are targets of territory-wide economic sanctions.

Given the increased market share and enhanced profile in the United States that the Group has following the Acquisition, any international sanctions could impact the Group to a greater degree.

Historically, the Group's activities in these jurisdictions have been limited principally to selling tobacco products and to purchasing tobacco leaf and have not been material to the Group's revenue, profits or financial condition. However, the Group's business in Cuba, from which it had previously only sourced tobacco leaf prior to January 2008, grew as a result of the Group's acquisition of the Altadis Group which has ownership interests in the Cuban Joint Ventures which manufacture, market, distribute and sell cigars manufactured in Cuba. Although in May 2015 the U.S. Department of State removed Cuba from its list of state sponsors of terrorism and has signaled its intent to relax Cuba sanctions further, virtually all Cuban-related business remains prohibited for U.S. persons (as well as non-U.S. subsidiaries of U.S. corporations). Sanctions imposed by the U.S., the European Union and other government institutions also prohibit or significantly restrict Syria-related business. The Group suspended its Syria-related activities during 2015 due to difficult operating and compliance conditions.

The Group seeks to comply fully with international sanctions to the extent they are applicable to the Group. However, in doing so, it may be restricted in supplying products sourced from certain countries to relevant jurisdictions, by the nationality of the personnel that it involves in these activities or in its sources of funding. In particular, the cigar operations of the Cuban Joint Ventures could be materially limited by the operation of the United States Cuban Assets Control Regulations and by the United States Cuban Liberty and Democratic Solidarity (Libertad) Act 1996 (commonly known as the Helms-Burton Act).

Notwithstanding the expectation that Cuban sanctions will be further relaxed, there can be no guarantee regarding when such further easing may occur or whether it will occur at all. New sanctions or changes in existing sanctions could further restrict or entirely prevent the Group from doing business in, or from having commercial dealings with, certain jurisdictions, including Cuba, which may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Additionally, the Group's expansion into developing markets may present more challenging operating environments in which commercial practices may be less developed and of a lower standard than those in which the Group has historically operated. As such, although the Group seeks to comply fully with international sanctions to the extent they are applicable to the Group, it may be harder to do so in such markets. Furthermore, the Group may suffer from adverse public reaction or from reputational harm as a result of doing business in, or having commercial dealings through third parties with, countries that have been identified as state sponsors of terrorism by the U.S. State Department, including Syria, or that are subject to international sanctions, notwithstanding that the Group's activities comply with applicable international sanctions and regardless of the materiality of the Group's operations in such countries to its operations or financial condition. Any such reaction may have an adverse effect on the Group's revenue, profits, business, financial condition or results and, given the enhanced profile in the United States the Group has following the Acquisition, any adverse public reaction may have a greater impact on the Group in the future. The Group's activities in the countries subject to international sanctions could also restrict the sources of funding available to the Group. International sanctions may also limit the Group's ability to use existing funds to finance its operations in certain countries or to transfer funds between Group companies, which may have an adverse effect on the Group's revenue, profits, business, financial condition or results and in turn, this may have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may be adversely affected by changes in taxation legislation

Legislation relating to taxation, duties or levies may be subject to future changes that may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. Legislation relating to taxation may, in turn, have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group is exposed to foreign exchange rate risk

The Group is 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. For significant acquisitions of overseas companies, borrowings are raised in the appropriate currency (or are swapped via derivatives into the appropriate currency) to minimize the balance sheet translation risk.

In the year ended 30 September 2014, 82 percent of the Group's revenue (the year ended 30 September 2013, 82 percent) was generated in markets outside the UK. This revenue percentage is expected to increase following the Acquisition. Certain sales in these markets are invoiced in currencies other than the functional currency of the selling company.

In relation to the Acquisition, Imperial Tobacco reports its financial results in pounds sterling while the Acquired Assets trade in U.S. dollars. The Group expects to be exposed to greater movements in foreign exchange rates, in particular in respect of U.S. dollars, due to the increase in size, following completion of the Acquisition, of the Group's foreign subsidiaries, their commercial trading transactions denominated in foreign currencies and foreign currency cash deposits, borrowings and derivatives. This means that following the completion of the Acquisition, if the U.S. dollar appreciates against the pound sterling, such appreciation will increase the sterling equivalent value of the total investment and the cash flow generated by the Acquired Assets as reported in Imperial Tobacco's accounts. Conversely, if the U.S. dollar depreciates against the pound sterling, such depreciation will decrease the sterling equivalent value of the total investment and the cash flow generated by the Acquired Assets as reported in Imperial Tobacco's accounts.

As a result of the Acquisition, the Group is subject to an increased translation of the results of overseas subsidiaries into pounds sterling, as well as to the impact of increased trading transactions in foreign currencies, compared to what the Group was previously exposed to. Significant fluctuations in foreign exchange rates may therefore have an adverse effect on the revenue, profits, business, financial condition or results of the Group which is greater than that which the Group may have in the past been exposed to prior to the completion of the Acquisition.

The Group's material foreign currency denominated costs include the purchase of tobacco leaf, which is sourced from various countries, but purchased principally in U.S. dollars, and packaging materials, which are sourced from various countries and purchased in a number of currencies.

The Group has investments in foreign entities which operate in countries whose currency is different from the pound sterling (mainly in the European Union, as well as in Morocco, Russia, Cuba, Australia and the U.S.). Consequently, the Group is exposed to the translation of the results of overseas subsidiaries into pounds sterling, as well as to the impact of trading transactions in foreign currencies. Significant fluctuations in foreign exchange rates could have an adverse effect on the Group's revenue, profits, business, financial condition and results which, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group is exposed to interest rate fluctuations

The Group is exposed to fluctuations in interest rates on its borrowings and surplus cash balances. The most material risk is in respect of borrowings which have increased as a result of the Acquisition. As approximately half of the Group's borrowings (after adjusting for the effect of interest rate derivatives) outstanding as at 30 September 2014 were at fixed levels of interest (approximately 70 percent as at 31 March 2015); the Group is exposed to movements in interest rates which could result in higher cash outflows, reducing the capital available to the Group. As at 30 September 2014, the Group had reported net debt of £8,549 million (£9,263 million) as at 31 March 2015. Of this, approximately 17 percent was denominated in pounds sterling, 73 percent in euro and 10 percent in U.S. dollars (as at 31 March 2015: zero percent, 88 percent and 12 percent respectively). Accordingly, the Group's financial results as at 30 September 2014 were exposed to gains or losses arising from fluctuations in interest rates relating to pounds sterling, euro and U.S. dollars (as at 31 March 2015: euro and U.S. dollars). Significant fluctuations in interest rates may have an adverse effect on the Group's revenue, profits, financial condition or results which, in turn, could have an adverse effect on the Issuer's revenue, profits, business, financial condition or results and Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

In order to finance the Acquisition, further bank facilities have been entered into which provide facilities principally denominated in U.S. dollars. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Bank credit facilities*". As a result, following the completion of the Acquisition, the Group has greater exposure to significant fluctuations in interest rates which may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group is exposed to tobacco leaf price fluctuations

The Group has limited involvement in the cultivation of tobacco leaf and the Group's results will, therefore, be exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf and other commodities required in the manufacture of cigarettes. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical, as supply and demand considerations (including production costs and demand for other agricultural commodities such as foods or bio-energy crops) influence tobacco plantings in those countries where tobacco is grown. Different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. In addition, political situations may result in a significantly reduced tobacco crop in any affected country. This may also lead to increases in price that the Group may be unable to pass on to customers. Furthermore, the Group has in the past made a majority of its leaf purchasing commitments in United States dollars, thereby exposing the Group to exchange rate risks embedded in the cost of its tobacco purchasing. Fluctuations and/or inflation in the price of tobacco leaf may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Further, the Group is dependent on managing macro-financial risks, including inflation and commodity prices. Failure to manage financial risks may have an adverse effect on the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group has significant borrowings, which may impair operational and financial flexibility

The Group has a significant amount of indebtedness and debt service obligations, which may impair the Group's operating and financial flexibility and could adversely affect the Group's revenue, profits, business, financial condition or results. Limited ability to borrow additional funds may reduce the Group's flexibility in reacting to competitive or industry pressures or opportunities. As at 30 September 2014 and 31 March 2015, the Group had reported net debt of £8,549 million and £9,263 million, respectively (as at 30 September 2013 restated: £9,518 million).

In connection with the Acquisition, US$7.1 billion of committed bank term loan facilities were made available under the Facilities Agreement to finance the Acquisition. On 5 May 2015 and 10 June 2015, the Group cancelled a total of US$1.05 billion of these term loan facilities; the balance of US$6.05 billion was fully utilized to finance the Acquisition. Additionally, under the Facilities Agreement, committed bank facilities of €3,835 million and £500 million were made available to the Group to refinance certain of the Group's existing bank facilities and debt capital markets indebtedness, to provide working capital, to finance the payment of fees and expenses related to the Acquisition and for general corporate purposes. The Group utilized US$700 million of these facilities to finance the Acquisition and the Group further utilized US$300 million of a committed bank term loan facility made available by Bank of America Merrill Lynch International Limited. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness*". The Group's substantial indebtedness could potentially cause the Group to dedicate a significant portion of cash flow from operations to payments in order to service debt, depending on the level of borrowings, prevailing interest rates and exchange rate fluctuations, which would reduce the funds available to the Group for discretionary capital expenditure, acquisitions and other discretionary expenditure. The Group's indebtedness could also limit its ability to borrow additional funds for discretionary capital expenditure, acquisitions and other discretionary expenditure; limit flexibility in planning for, or reacting to, changes in technology, customer demand, competitive pressures and the industry in which the Group operate; place the Group at a competitive disadvantage compared to its competitors that are currently less leveraged than the Group; and increase the Group's vulnerability to both general and industry-specific adverse economic conditions and this may have an adverse effect on the revenue, profits, business, financial conditions or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group's debt facilities, as is usual for debt facilities of such nature, contain a number of financial, operating and other obligations that may limit the Group's operating and financial flexibility. The Group's ability to comply with these obligations will depend on the future performance of the business. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness*".

Following the entry into the borrowing arrangements for the Acquisition, the Group may find it difficult to obtain new financing or new financing may be at higher costs and a downgrade in any of the Group's credit ratings could increase this risk

The Group currently uses funds made available through various sources of financing, primarily issuances of capital markets debt, bank loan financing and ECP. Further borrowing arrangements have also been entered into by the Group in connection with the Acquisition. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Bank credit facilities*". Access to financing in the future will depend on, among other things, suitable market conditions and the maintenance of suitable long-term and short-term credit ratings. The Group's credit ratings may be adversely affected by various factors, including increased debt levels, decreased earnings, decreased customer demand, increased regulation, deterioration in general economic conditions, deterioration in business conditions and adverse publicity. If conditions in credit markets are unfavorable and/or the Group's credit ratings are downgraded, the marketability and trading value of the Notes may be materially diminished, and the Group may not be able to obtain new sources of financing and/or new sources of financing, together with the Group's existing financing sources, may be at higher costs which, in turn, could have a material adverse effect on Imperial Tobacco's, ITL's and the Group's revenue, profits, business, financial condition or results. Furthermore, the Group may be unable to refinance the Group's debt, when it matures, in the debt capital markets, bank loan markets or ECP market. In addition, the cost of refinancing the debt, prior to maturity or when it matures, may be materially higher than the current cost. These events may adversely affect the Group's borrowing costs and may therefore adversely affect the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group has exposure to external counterparties

The Group has financing made available from and, from time to time, places cash deposits with and has entered into derivative financial transactions with, a diversified group of financial institutions. Access to funds may be reduced due to the Group's counterparties being unable to honor their commitments. The Group's exposure to these external financial counterparties could have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact upon Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group's labor relations or labor unrest may affect operational and financial performance

The Group's management believes that all of the Group's operations have, in general, good relations with their employees, employee representatives and unions. However, there can be no assurance that the Group's business or operations will not be affected by labor-related problems in the future. In addition, there can be no assurance that any deterioration in labor or union relations, or any disputes or work stoppages or other labor-related developments (including problems experienced during any consultation procedures or programs or the introduction of new labor regulations in countries where the Group operates), including as part of the implementation of the Acquisition, will not adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, could adversely affect Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group's products could be affected by failures in quality control and/or contamination

The Group's products may become contaminated, for example, as a result of an accident during the manufacturing process or deliberately with malicious intent, or may otherwise fail to comply with the Group's quality standards. In these instances, significant costs may be incurred in recalling products from the market. In addition, consumers may lose confidence in the specific brand(s) affected by the contamination, resulting in a loss of sales volume which may take a long time to recover or may not recover fully. During this time, the Group's competitors may substantially increase their market share which would subsequently be difficult and costly to regain. Contamination of the Group's products may have an adverse impact on the Group's revenue, profits, business, financial condition or results which, in turn, could have an impact on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Additionally, should the Group's products become contaminated, the Group may therefore be subject to claims in respect of such contamination that may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group could fail to attract or retain key personnel

The loss of the services of certain key employees, particularly to competitors or other consumer product companies, may have an adverse effect on the Group's revenue, profits, business, financial condition or results which, in turn, could have a material adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results. In addition, management believes that as the Group's business develops and expands, the Group's future success will depend on its ability to attract and retain highly skilled and qualified personnel, which cannot be guaranteed.

The failure to attract or retain key personnel could significantly impede the Group's financial plans, growth, marketing and other objectives and adversely affect the Group's revenue, profits, business, financial condition or results which, in turn, could impact Imperial Tobacco's and/or ITL's financial plans, growth, marketing and other objectives. The Group's success will depend to a substantial extent on the ability and experience of its senior management.

Furthermore, the success of the Group's strategy is dependent on its ability to attract and retain talent and skills, including a qualified sales force, team of engineers and employees with managerial, technical, sales, marketing and information technology support skills. Employee retention may be particularly challenging following acquisitions or divestures, such as the Acquisition, as the Group must continue to motivate employees (of both the Group and the Acquired Assets) and keep them focused on its strategies and goals, which may be particularly difficult due to potential distractions related to integrating the Acquired Assets. Failure to retain or loss of the skills necessary to execute integration growth plans and deliver key customer programs may lead to reduced retailer confidence which may adversely affect the Group's revenue, profits, business, financial condition or results. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may not fully be able to protect or retain its intellectual property rights

The Group relies on trademarks, patents, registered designs, copyrights and trade secrets. The Group will attempt to protect its intellectual property rights, in the UK, the U.S. and elsewhere, through a combination of trademarks, patents, registered designs, copyrights and trade secret laws, as well as confidentiality agreements. Failure to obtain or maintain adequate protection of intellectual property rights for any reason may adversely affect the Group's revenue, profits, business, financial condition or results. Following completion of the Acquisition the Group has acquired various intellectual property rights relating to the Acquired Brands. This is expected to increase the exposure of the Group to injunctive relief or damages granted by courts in on-going litigation and to potential claims or litigation in respect of such intellectual property given the more litigious nature of the U.S. market, and regardless of the outcome of any claims, the Group may incur additional costs in defending its intellectual property rights following completion of the Acquisition. An unfavorable outcome or settlement in any current or future litigation may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

As several of the Acquired Tobacco Cigarette Brands are menthol brands or include menthol products, the Group may be adversely affected by regulation of menthol in cigarettes

As two of the Acquired Tobacco Cigarette Brands are menthol brands (*Kool* and *Salem*) and another of the Acquired Tobacco Cigarette Brands has menthol products (*Maverick*), any future FDA regulation of menthol in cigarettes or public concerns that menthol cigarettes may pose greater health risks than non-menthol cigarettes may adversely affect the revenue, profits, business, financial condition or results of the Group, Imperial Tobacco or ITL.

Background

Plaintiffs in various claims, as well as the FDA and other public health agencies, have claimed or expressed concerns that menthol cigarettes may pose greater health risks and may impact public health more than non-menthol cigarettes, including concerns that menthol cigarettes may make it easier to start smoking and harder to quit.

For example, via the Family Smoking Prevention and Tobacco Control Act (the **FSPTC Act**) in 2009, the FDA established the Tobacco Products Scientific Advisory Committee (the **TPSAC**) to evaluate, among other things, "the impact of the use of menthol in cigarettes on the public health, including such use among children, African-Americans, Hispanics, and other racial and ethnic minorities". In addition, the FSPTC Act permits the FDA to impose restrictions regarding the use of menthol in cigarettes, including a ban, if those restrictions would be appropriate for the public health. The findings of the TPSAC report, which is not binding on the FDA, included that menthol likely increases experimentation and regular smoking, menthol likely increases the likelihood and degree of addiction for youth smokers, non-white menthol smokers (particularly African-Americans) are less likely to quit smoking and are less responsive to certain cessation medications, and that consumers continue to believe that smoking menthol cigarettes is less harmful than smoking non-menthol cigarettes as a result of the cigarette industry's historical marketing. TPSAC's overall recommendation to the FDA was that "[r]emoval of menthol cigarettes from the marketplace would benefit public health in the United States".

On 27 June 2011, the FDA provided a progress report on its review of the science related to menthol cigarettes. In this report the FDA stated that "[e]xperts within the FDA Center for Tobacco Products are conducting an independent review of the science related to the impact of menthol in cigarettes on public health...". The FDA stated that it would submit its draft independent review of menthol science to an external peer review panel in July 2011. On 26 January 2012, the FDA provided a second progress report on its review of the science related to menthol cigarettes. In this update, the FDA stated that the "FDA submitted its report to external scientists for peer review, and the agency is revising its report based on their feedback".

On 24 July 2013, the FDA made available its preliminary scientific evaluation (**PSE**) of public health issues related to the use of menthol in cigarettes and peer review comments thereto. Although the FDA PSE found that menthol in cigarettes is not associated with increased smoke toxicity, increased levels of biomarkers of exposure or increased disease risk, the evaluation concluded that menthol in cigarettes is likely associated with increased initiation and progression to regular cigarette smoking, increased dependence, reduced success of smoking cessation, especially among African-American menthol smokers, altered physiological responses to tobacco smoke and particular patterns of smoking. In the PSE, the FDA concluded that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. The FDA also issued an Advance Notice of Proposed Rulemaking (**ANPRM**) seeking comments on the PSE and requesting additional information related to potential regulatory options it might consider for the regulation of menthol. The FDA has sought comments regarding, among other things, information on potential product standards for levels of menthol in cigarettes; the timeframe for compliance with any product standard enacted; whether a stepped approach to lowering or removing menthol from cigarettes would be appropriate; whether sales, distribution, advertising or promotion restrictions are appropriate; and evidence, including public health impact, of any potential illicit market in menthol cigarettes should they no longer be available. In addition, the FDA announced that it is funding new research on, among other things, the differences between menthol and non-menthol cigarettes to obtain information to assist the FDA in making informed decisions related to potential regulation of menthol in cigarettes. The FDA established a comment period, which ended on 22 November 2013, for the ANPRM and PSE, and said it will consider all comments and other information submitted to determine what, if any, regulatory action is appropriate. If the FDA determines that regulation of menthol is warranted, the FDA could promulgate regulations that, among other things, could result in a ban on, or restrictions on the use of, menthol in cigarettes, or further restrictions on the marketing and advertising of menthol cigarettes. The timing of the release of any such proposed regulation remains uncertain.

Following completion of the Acquisition of the Acquired Tobacco Cigarette Brands, the Group could face increased exposure to tobacco-related litigation as a result of such findings. Even if such claims are unsubstantiated, increased concerns about the health impact of menthol cigarettes could adversely affect sales of the Acquired Tobacco Cigarette Brands. Any ban or limitation on the use of menthol in cigarettes by the FDA could have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

As one of the Acquired Brands is the* blu *brand, the Group may be adversely affected by regulation of e-cigarettes

One of the Acquired Brands is *blu*, which is a leading e-cigarette brand in the United States. On 25 April 2014, the FDA published the draft deeming regulations (the **Draft Regulation**) which propose to bring all remaining tobacco products (including e-cigarettes) under the FSPTC Act. The Draft Regulation was subject to a public comment period, which closed on 8 August 2014, and the FDA is required to consider such comments as part of the final rule making process. The products that are "deemed" to be covered by the FSPTC Act as a result of the final regulation will be subject to, among other things, minimum age restrictions, health warning requirements, and a requirement to register product and ingredient information with the FDA. The final regulation is expected to also require all such products to be subject to FDA pre-market approval. If the language of the Draft Regulation remains unchanged, products introduced into commerce or modified after 15 February 2007 will be subject to a more rigorous pre-market review standard. However, the Draft Regulation allows products on the market as of the effective date of the regulation and introduced within two years after such date to remain in the market pending FDA review (please see "*—The Group may be adversely affected by further regulation by the FDA*" below in respect of potential FDA regulation).

It is not possible to predict the scope of such regulations (or any other regulation of e-cigarettes that may be proposed or implemented by other regulatory authorities) or the impact any such regulations may have on the e-cigarette business, though, if enacted, they may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may be adversely affected by further regulation by the FDA

While the FSPTC Act granted the FDA the authority to regulate all tobacco products, it had immediate effect over cigarettes, roll your own and smokeless products.

Key elements of the FSPTC Act regulate the annual registration of tobacco companies, product testing and the submission of ingredient information; require FDA pre-market approval for all new products, brands or product modifications; ban all characterizing artificial or natural flavors other than tobacco or menthol in cigarettes; establish 'user fees' to fund FDA regulation of tobacco products; allows for an increase to the health warning size on cigarette packs with the option to introduce pictorial health warnings; provide for implementation of good manufacturing practices; revise the labelling and advertising requirements for smokeless tobacco products; require the investigation of menthol (for further discussion relative to menthol products, please see "*—As several of the Acquired Tobacco Cigarette Brands are menthol brands or include menthol products, the Group may be adversely affected by regulation of menthol in cigarettes*" above); and allow the FDA to issue regulations deeming other tobacco products to be subject to the FSPTC Act.

On 25 April 2014, the FDA published the Draft Regulation that proposed to bring all remaining tobacco products (including cigars and e-cigarettes) under the regulatory authority of the FDA. The Draft Regulation was subject to a public comment period, which closed on 8 August 2014. Approximately 82,000 such comments have been received by the FDA. As part of the final rule making process, the FDA is required to consider such comments, and a final regulation is not expected until June 2015 or later. The products that are "deemed" to be covered by the FSPTC Act as a result of the final regulation will be subject to, among other things, minimum age restrictions, health warning requirements and a requirement to register product and ingredient information with the FDA. If implemented as originally drafted, the final regulation will require that all such products introduced into commerce or modified after 15 February 2007 be subject to FDA pre-market approval. Because most e-cigarettes were introduced into commerce after that date, the result will be that virtually all e-cigarettes will need to be submitted to the FDA for review, although products on the market as of the effective date of the regulation or introduced within two years after such date will be allowed to remain in the market pending FDA review, provided the manufacturer timely submits required information to the FDA. The final regulation, while expected to include most of the restrictions relating to cigarettes and smokeless tobacco products, may differ in its treatment of newly deemed products (for further discussion relative to e-cigarettes, please see "*—As one of the Acquired Brands is the* blu *brand, the Group may be adversely affected by regulation of e-cigarettes*" above in respect of potential FDA regulation).

The regulations under the FSPTC Act, and any further regulations introduced as part of the final regulation referred to above could result in a substantial decline in the demand for tobacco products (including, in the case of restrictions or bans on packaging, in the ability of the consumers to differentiate brands) or in an increase in the costs of the Group in complying with these regulatory requirements, or require manufacturers to review and adapt their product portfolio as a result of restrictions or bans, either by way of developing innovative products or offers in other categories. Each of these may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results. In addition, these regulations, including the need for pre-market approvals by the FDA, may limit Imperial Tobacco's ability to communicate with consumers (ITG Brands will conduct any communications in the United States), may restrict its ability to participate in the public discussion surrounding its products and may limit its ability to launch new or change existing products. There can be no certainty as to the timing or completion of such approvals, which may have an adverse effect on the future business opportunities, revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Substantial payment obligations under the MSA and other State Settlement Agreements, along with state certification requirements, may have an adverse effect on the cash flows and operating income of the Group

Annual payments under the MSA and the other State Settlement Agreements are required to be paid in perpetuity and are based, among other things, on domestic market share and unit volume, with respect to the MSA, in the year preceding the year in which payment is due, and, with respect to the other State Settlement Agreements for OPM brands, in the year in which payment is due.

Amounts due under the MSA and the other State Settlement Agreements are impacted by a number of factors, including, among others, industry volume, market share and (for OPM brands) industry operating profits. As such, it is possible that any adjustments to volume, market share and industry operating profits may have an adverse effect on the MSA and State Settlement Agreements' obligations, cash flows, revenue, profits, business, financial condition or results of the Group.

In addition, the states which are a party to the MSA have passed statutes requiring tobacco cigarette brands to be "certified" (approved for sale) by each state before they can be sold in that state. The Group may be adversely affected by decisions made by any state not to certify or to de-list brands. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The U.S. Surgeon General has issued reports regarding health risks of cigarette smoking to non-smokers that could result in additional litigation against cigarette manufacturers, additional restrictions placed on cigarette smoking, and additional regulations placed on the manufacture or sale of cigarettes

In a report entitled "The Health Consequences of Involuntary Exposure to Tobacco Smoke: A Report of the Surgeon General, 2006", the U.S. Surgeon General summarized conclusions from previous Surgeon General's reports concerning health risks to non-smokers from exposure to environmental tobacco smoke, also called second-hand smoke. The Surgeon General also addressed health risks to non-smokers from exposure to environmental tobacco smoke in reports published in 2010 and 2014. These reports could form the basis of or be used to support additional litigation against cigarette manufacturers, including against the Group. It is also possible that the Surgeon General's reports could result in additional restrictions being placed on cigarette smoking or in additional regulations being placed on the manufacture or sale of cigarettes which could have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Future demand for e-cigarettes and the nature of the e-cigarette market is uncertain

E-cigarettes, having been recently introduced to market, are at an early stage of development and are evolving rapidly. Competition in the e-cigarette industry is intense. The Group competes with many companies in the market for e-cigarettes and the nature of the Group's competitors are varied as the market is highly fragmented. For instance, the Group's competitors include large companies, such as Philip Morris and RJR Tobacco, as well as smaller companies with similar product offerings. The method of distribution for many competing companies is predominately over the internet, with only a small number of competitors currently having a significant presence at retail. Future sales and any future profits in the Group's e-cigarette business is substantially dependent upon the acceptance and use of e-cigarettes by adult smokers. In addition, the Group's ability to generate future sales will be dependent on a number of factors, many of which are beyond its control, including the pricing of competing products, overall demand for its products, changes in consumer preferences, market competition and government regulation. The Group may not be able to adapt as the e-cigarette industry and customer demand evolves, whether as a result of regulatory constraints or requirements or a failure to respond in a timely and/or effective manner to new technologies, customer preferences, changing market conditions or new developments in the industry, which may have an adverse effect on the Group's e-cigarette business. This risk has increased following the Acquisition as one of the acquired brands is *blu* which is a leading e-cigarette brand in the U.S. This may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Risks Related to the Acquisition and Associated Transactions

The Group has been required to assume obligations under the MSA and potentially other state settlements in connection with the acquisition of the Acquired Tobacco Cigarette Brands, which may have unforeseen consequences

As part of the Acquisition, ITG Brands has agreed to assume the obligations of an OPM with respect to the Acquired Tobacco Cigarette Brands under the MSA and, as a result, will make OPM payments with respect to these brands with certain limited exceptions. ITG Brands has also agreed to use its reasonable best efforts to reach agreements to assume the obligations of an OPM under the Initial State Settlements in respect of the Acquired Tobacco Cigarette Brands with certain limited exceptions. These matters are described in more detail below. It is anticipated that the current brands sold by Commonwealth Brands and ITG Brands will continue to be treated as SPM brands under the MSA after completion of the Acquisition (including retaining the benefit of the 'grandfathered share', which is an exemption to payment available to certain SPMs on that portion of market share they had when they joined the MSA).

The nature and extent of payment and other obligations for the Acquired Tobacco Cigarette Brands and the current brands sold by Commonwealth Brands and ITG Brands under the MSA and the other State Settlement Agreements cannot be predicted with certainty, and there can be no assurance that any such treatment will not have an adverse effect on the Group's revenue, profits, business, financial condition or results. This, in turn, could have an impact upon Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Background

In 1998, Lorillard Tobacco Company, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation and RJR Tobacco (the **Original Participating Manufacturers** or **OPMs**) entered the MSA to settle asserted and unasserted health care cost recovery and other claims of those states which were a party to the MSA (the **Settling States**). The OPMs had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (the **Initial State Settlements** and, together with the MSA, the **State Settlement Agreements**). The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the OPMs to avoid the further expense, inconvenience, burden and uncertainty of litigation.

Smaller companies were also permitted to join the MSA as **Subsequent Participating Manufacturers** (or **SPMs**) even though most of them had not been party to the original action by the states. Commonwealth Brands became an SPM in 1998, with SEITA and ITG Brands becoming SPMs in 1999. In November 2007, the Group received confirmation that the application of Imperial Tobacco and of several affiliated companies to become SPMs to the MSA had been approved.

The State Settlement Agreements require that the OPMs make annual payments of US$10.4 billion, subject to adjustment for several factors, including inflation, market share and industry volume. In addition, the OPMs are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of US$500 million, and were required to pay an additional amount of up to US$125 million in each year through 2008. The portion of on-going adjusted settlement payments and legal fees to be paid by each OPM is based on its relative share of domestic cigarette shipments in the year preceding that in which the payment is due. These payment obligations are the several and not joint obligations of each OPM. The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions.

From time to time, lawsuits have been brought against participating manufacturers to the MSA, or against one or more of the Settling States, challenging the validity of the MSA and/or statutes related to it on certain grounds, including as a violation of the antitrust laws.

Imperial Tobacco may not realize the expected tax benefits of the Acquisition for the Group to the extent envisaged, or at all

Imperial Tobacco expects to generate tax benefits equal to a present value of approximately US$1.5 billion following the Acquisition. The expected benefits are estimated on the basis of an assumed purchase price post certain adjustments, and assumes certain tax structuring, amortization periods and tax rates based on legislation and interpretations thereof as in effect as of the date of this Offering Memorandum.

There is a risk that changes to relevant legislation, regulation or practice may occur, which may result, *inter alia*, in a lowering of U.S. tax rates thereby reducing the value of the assumed tax benefit. Such changes, or changes to accounting policies, practices or conventions could also mean there is a risk that the Group may not be permitted to amortize the expected tax benefits to the extent currently envisaged.

Additionally, there can be no assurance that the enlarged U.S. business of the Group generates a taxable profit in each or any financial year, from which the annual amortization charge can be fully deducted for U.S. tax purposes. This may prevent Imperial Tobacco from generating some or all of the expected tax benefit.

Furthermore, Imperial Tobacco's assumptions regarding the purchase price allocation and fair value of the intangible assets may be revised on the basis of further work post-completion of the Acquisition. If the tax benefits do not prove to be in line with Imperial Tobacco's expectations or cannot be generated partially or in full following the Acquisition, this may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

In implementing the strategy for the enlarged U.S. business, the Group may fail to achieve the expectations of Imperial Tobacco, the Acquired Assets may not perform in line with expectations, and/or the integration of the Acquired Assets could result in operating inefficiencies and other adverse consequences

The results of the subsequent implementation of the strategy for the enlarged U.S. business of the Group may differ from the expectations of Imperial Tobacco. As a result, the Group may not achieve the expected outcomes of this strategy and may fail to perform in line with the expectations of Imperial Tobacco. The implementation of this strategy and the integration of the Acquired Assets may create, among other things, unforeseen operating inefficiencies and expenditures which pose management, administrative and financial challenges. The integration of the Acquired Assets may be potentially complex and require significant time and effort on the part of the Group, and resources may be diverted away from core business activities as personnel may be required to assist in the integration process. This integration process may take longer than expected, or difficulties relating to the integration, of which the Directors are not yet aware, may arise. These difficulties and other adverse consequences may include the discovery of potential liabilities, or other problems arising from the contracts and other assets related to the Acquired Assets acquired by the Group, which were not apparent to the Group from its legal, commercial and financial due diligence. There may also be unforeseen disruptions or failures to the operating or IT systems of the Group during this integration which could significantly limit the Group's ability to manage and operate its business efficiently, and may lead to delays, a loss in sales or increased costs.

Further, there may be challenges associated with the implementation of transitional services in connection with the Acquisition. These may have an adverse effect on the operations, revenue, profits, business, financial condition or results of the Group.

Additionally, if the results of the implementation of the strategy for the Group and the results and cash flows generated by the combination of the operations of the Acquired Assets with those of the Group are not in line with the Directors' expectations this may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. In certain circumstances, a write-down may also be required against the carrying value of the Group's investment in the Acquired Assets. Such a write-down may reduce the Group's ability to generate distributable reserves and consequently affect its ability to pay dividends or return capital to Shareholders or otherwise have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Group may need to rely on certain key individuals of the Group in the U.S. to integrate the Acquired Assets

The future success of the Group following the Acquisition will, in part, be dependent upon the successful integration, retention and motivation of key members of the Group's management and staff in the U.S. Failure to identify and retain key individuals following completion of the Acquisition may affect the Group's ability to successfully integrate the Acquired Assets into the Group. This may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

There is continued interdependence between the Reynolds Group and the Group for the manufacture of certain cigarette brands following completion of the Acquisition

Following the Acquisition, and during a transition period until manufacture of the relevant Acquired Brands is transferred to a manufacturing facility of the Group, the Group will be dependent on the Reynolds Group for the manufacture of the *Winston, Kool* and *Salem* brands, as the Reynolds Group is retaining the factory at Tobaccoville, North Carolina which produces these brands. If the Reynolds Group suffers business, financial or operational difficulties, or suffers other problems which impede its ability to meet its obligations to the Group under the Asset Purchase Agreement, this could result in the Group being unable to supply the *Winston, Kool* and/or *Salem* brands in adequate quantities to meet market demand or at all, which may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Further, following the Acquisition, and during a transition period until manufacture of the *Kent, Newport, Old Gold* and *True* brands is transferred to a manufacturing facility of the Reynolds Group, the Group will be manufacturing the *Kent, Newport, Old Gold* and *True* brands for the Reynolds Group as the Group has acquired the Greensboro, North Carolina factory where these brands are currently manufactured. If the Group suffers business, financial or operational difficulties, or suffers other problems which impede its ability to meet its obligations to the Reynolds Group under the Asset Purchase Agreement, this could result in the Group being unable to supply the *Kent, Newport, Old*

Gold and *True* brands in adequate quantities to meet market demand or at all, which could expose the Group to a claim under the Reciprocal Manufacturing Agreement between ITG Brands and RJR Tobacco in connection with the Asset Purchase Agreement. This may have an adverse effect on the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

The Greensboro factory and certain other storage and office facilities which are Acquired Assets could be affected by environmental and health and safety liabilities

The Group has acquired Lorillard's manufacturing and office facilities in Greensboro, North Carolina, and certain other storage and office facilities. The Group may acquire or incur liabilities associated with such properties under environmental and health and safety laws. Such liabilities may, for example, relate to past, present or future liabilities for breaches of environmental and health and safety laws, land contamination and associated clean-up costs, injuries or illnesses to workers or other persons present at the factory and/or liabilities associated with the presence of hazardous substances such as asbestos. Such liabilities may include civil or criminal penalties as well as claims from third parties and may result in significant costs or liabilities to the Group which may adversely affect the revenue, profits, business, financial condition or results of the Group. This, in turn, could have an adverse effect on Imperial Tobacco's and ITL's revenue, profits, business, financial condition or results.

Risks Relating to the Offering

There is an absence of a public market for the Notes and there are restrictions on the transfer of Notes

The Notes are a new issue of securities for which there is currently no public market. The Issuer has applied for the listing of the Notes on the Professional Securities Market of the London Stock Exchange. However, the Issuer cannot assure you that the Notes will be listed on any exchange at the time the Notes are delivered to the Initial Purchasers or at any other time. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Group's performance and other factors. Because the Notes are being sold pursuant to an exemption from registration under applicable securities laws and, therefore, may not be publicly offered, sold or otherwise transferred in any jurisdiction where such registration may be required, no public market for the Notes will necessarily develop. Certain of the Initial Purchasers may make a market in the Notes after this Offering is completed. However, they are not obligated to do so, and the Initial Purchasers may cease any such market-making activities at any time. There can be no assurance that an active trading market for the Notes will develop, or if one does develop, that it will be sustained. See "*Plan of Distribution*" and "*Transfer Restrictions*".

The Notes have not been registered under the Securities Act or any U.S. state securities laws, and the Issuer has not agreed to and does not intend to register the Notes under the Securities Act or under any other country's securities laws. Therefore, you may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. You should read the section "*Transfer Restrictions*" for further information about the transfer restrictions that apply to the Notes. It is your obligation to ensure that your offers and sales of Notes within the United States and other countries comply with all applicable securities laws.

The Notes will initially be held in book-entry form and, therefore, you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

Unless and until Notes in definitive registered form are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of Notes. DTC, or its nominee, will be the registered holder of the Rule 144A Global Note and Regulation S Global Note for the benefit of its participants, including Euroclear and Clearstream, Luxembourg. After payment to the registered holder, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of DTC, Euroclear and/or Clearstream, Luxembourg, and if you are not a participant in DTC, Euroclear and/or Clearstream, Luxembourg, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture. See "*Book-Entry, Delivery and Form*".

Unlike the Noteholders themselves, owners of book-entry interests will not have any direct rights to act upon the Issuer's solicitations for consents, requests for waivers or other actions from Noteholders. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear and/or Clearstream, Luxembourg or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC, Euroclear and/or Clearstream, Luxembourg. The Issuer cannot assure you that the procedures to be implemented through DTC, Euroclear and/or Clearstream, Luxembourg will be adequate to ensure the timely exercise of rights under the Notes. See "*Book-Entry, Delivery and Form*".

The Group may incur substantially more debt in the future

The Group may incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may be secured by some or all of the Group's assets. The terms of the Notes will not limit the amount of indebtedness the Group may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that the Group now faces.

The Notes and the Guarantees will be unsecured, and therefore will effectively be subordinated to any secured debt

The Notes and the Guarantees will not be secured by any of the Issuer's or the Guarantors' assets or those of their subsidiaries. As a result, the Notes and the Guarantees are effectively subordinated to any secured debt the Issuer or the Guarantors may incur. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of the Issuer's or the Guarantors' secured debt may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the Noteholders. In any such event, there is no assurance to holders of Notes that there will be sufficient assets to pay amounts due on the Notes.

The Issuer or the Guarantors may be unable to raise funds necessary to finance the change of control repurchase offers required by the Indenture governing the Notes

Under the Indenture, if a Change of Control Triggering Event occurs, unless the Issuer has redeemed the Notes in full, it will be required to make an offer to each Holder of the Notes to repurchase all or any part of that Holder's Notes on the terms set forth in the Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101 percent of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased, to the date of repurchase. See "*Description of the Notes and the Guarantees—Repurchase Upon a Change of Control Offer*". Any requirement to offer to repurchase outstanding Notes may require the Issuer, the Guarantors or the Group to refinance some of their other outstanding debt, which they may not be able to do on commercially reasonable terms, if at all.

Imperial Tobacco and ITL may be dependent on the performance of, and payments from, their respective subsidiaries, associates and joint ventures to fund payments to investors on the Notes and their ability to pay under their respective Guarantees may, therefore, be affected by the Group's organizational structure

Imperial Tobacco and ITL are holding companies, and Imperial Tobacco does not itself conduct any business operations. Imperial Tobacco and ITL rely on dividends and other payments from their respective subsidiaries, associates and joint ventures to generate the funds necessary to meet their respective obligations. To date, Imperial Tobacco and ITL have funded their respective obligations with debt and cash flows from dividends. Imperial Tobacco's and ITL's subsidiaries, associates and joint ventures are separate legal entities and are under no obligation, contractual or otherwise, to pay dividends. The ability of Imperial Tobacco's and ITL's subsidiaries, associates and joint ventures to make such payments are subject to, among other things, the availability of profits or funds, the terms of each entity's indebtedness, the terms of their articles of association, the terms of their shareholder agreements (if any) and applicable laws, including foreign exchange controls, withholding tax issues and other laws.

Because Imperial Tobacco and ITL are holding companies, their respective rights and the rights of their creditors, including the Noteholders, to participate in the assets of any subsidiary of Imperial Tobacco or ITL upon the subsidiary's liquidation or recapitalization will be subject to the prior claims of such subsidiary's creditors except to the extent that Imperial Tobacco or ITL may itself be a creditor with recognized claims against such subsidiary.

The Issuer is an indirect finance subsidiary of Imperial Tobacco that has no external revenue-generating operations of its own and will depend on cash received from the Group or external financings in order to make payments on the Notes

The Issuer is an indirect finance subsidiary of Imperial Tobacco. The Issuer conducts no external revenue- generating operations. The ability of the Issuer to make interest payments on the Notes is therefore dependent on its rights to receive inter-company payments from the Group or raise external financing. If these payments are not made by companies within the Group or financing is not available, for whatever reason, the Issuer would not expect to have any other sources of funds available to it that would be sufficient to make payments on the Notes. In such circumstances, Noteholders would have to rely upon claims for payment under the Guarantees, which may be terminated or substituted with another Guarantor in certain circumstances without the consent of Noteholders.

Investors in the Notes may have limited recourse against the independent auditors

In respect of the accountant's report relating to the consolidated financial information of the Group included herein, PricewaterhouseCoopers LLP, the Group's independent accountants, states the following: "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".

In respect of the accountant's report relating to the combined financial information of the Reynolds business and the Lorillard business included herein, PricewaterhouseCoopers LLP, the Reynolds business' and the Lorillard business' independent reporting accountant, states the following: "Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex IX to the PD Regulation by virtue of item 4.2.3 of the Listing Rules, consenting to its inclusion in the Listing Particulars".

Investors in the Notes should understand that, in making these statements, the independent accountants confirmed that they do not accept or assume any liability to parties (such as the purchasers of the Notes) other than the Group and ITL, with respect to the reports and to the independent accountants' audit work, in accordance with SIR 2000 Procedures issued by the Auditing Practices Board in the United Kingdom, and opinion.

The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to the language quoted above, the recourse that investors in the Notes may have against the independent accountants based on their report or the combined and consolidated financial information to which they relate could be limited.

The financial information in respect of the Acquired Assets included and incorporated by reference in this Offering Memorandum was prepared using the books and records of third parties and is not derived from the Group's systems, and does not comply with Regulation S-X

The Reynolds Business Historical Financial Information and the Lorillard Business Historical Financial Information included in this Offering Memorandum was prepared using the books and records of third parties and is not derived from the Group's systems and does not comply with the requirements of Rule 3-05 of Regulation S-X under the Securities Act, does not give pro forma effect to the Acquisition or meet certain other requirements that would apply if the Notes were being sold in a transaction subject to the registration requirements of the Securities Act. PricewaterhouseCoopers LLP has reviewed this information in accordance with SIR 2000 only, which is not equivalent to a statutory or other audit procedure.

For more details on the bases of preparation of the financial information with respect to the Acquired Assets, see "*Presentation of Financial, Market and Other Information—Presentation of Financial Information Relating to the Reynolds Business and Lorillard Business*".

ITF and ITL are required to adopt a new framework for financial reporting which may differ in certain significant respects from UK GAAP

In November 2012, the Financial Reporting Council published FRS 100, the first of three new UK GAAP standards (FRS 100-FRS 102), which sets out a new framework for financial reporting in the UK. The new framework gives certain options to qualifying entities to implement either IFRS or FRS 102, which would have the effect of replacing existing UK GAAP reporting standards with a single standard broadly based on IFRS principles.

While ITF and ITL currently prepare their respective financial statements in accordance with the requirements of UK GAAP, they will be required to comply with the new reporting framework by the financial year ending 30 September 2016. In order to implement the new standard for the financial year ending 30 September 2016, ITF and ITL would also need to restate the comparative period presented in their respective financial statements for the financial year ended 30 September 2015.

ITL's and ITF's financial statements incorporated by reference into this Offering Memorandum were not prepared in accordance with IFRS or FRS 102 or reconciled to IFRS or FRS 102. Therefore, it is not possible to quantify the impact on ITL's and ITF's respective reported profits, financial position or cash flows once they begin to be reported under IFRS or FRS 102.

IFRS and FRS 102 are generally more restrictive and comprehensive than UK GAAP with respect to the recognition and measurement of transactions, account classification and disclosure requirements. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or the notes thereto. As there are significant differences between UK GAAP, IFRS and FRS 102, there may be substantial differences in ITL's and ITF's results of operations, cash flows and financial condition if they were to prepare their respective financial statements in accordance with IFRS or FRS 102.

You should consult your own professional advisors for an understanding of the differences between UK GAAP, IFRS and FRS 102 and how those differences could affect the financial information included or incorporated by reference in this Offering Memorandum. In making an investment decision, you should rely upon your own examination of the terms of the Offering and the financial information included and incorporated by reference in this Offering Memorandum.

USE OF PROCEEDS

The estimated net proceeds of the issue of the Notes, after deducting underwriting discounts and other estimated expenses payable in connection with the Offering, are expected to be approximately US$4,414 million.

The Group intends to add the net proceeds to its general funds, which may be used:

- to refinance a portion of the aggregate borrowings drawn under the committed bank facilities used to fund the Acquisition, and to reduce the aggregate commitments under the Facilities Agreement; and
- for general corporate purposes.

For more information, see "*Capitalization*".

EXCHANGE RATES

The following tables set forth, for the periods indicated, information concerning the pounds sterling Bloomberg composite rate, expressed in U.S. dollars per £1.00. The rates set forth below are provided solely for your convenience and were not necessarily used in the preparation of this Offering Memorandum and its consolidated financial statements included elsewhere in this Offering Memorandum. No representation is made that pounds sterling could have been, or could be, converted into U.S. dollars at that rate or at any other rate.

	Bloomberg composite rate U.S. dollars per £1.00			
	Period End	**Average[1]**	**High**	**Low**
Financial Year ending 30 September:				
2010	1.5716	1.5594	1.6819	1.4334
2011	1.5584	1.6060	1.6706	1.5343
2012	1.6167	1.5766	1.6266	1.5317
2013	1.6186	1.5615	1.6279	1.4867
2014	1.6213	1.6568	1.7166	1.5905
2015 (through 13 July)	1.5528	1.5444	1.6186	1.4632
Monthly Rates:				
January 2015	1.5058	1.5159	1.5584	1.4984
February 2015	1.5438	1.5334	1.5529	1.5039
March 2015	1.4818	1.4969	1.5365	1.4745
April 2015	1.5352	1.4961	1.5438	1.4632
May 2015	1.5290	1.5456	1.5776	1.5120
June 2015	1.5714	1.5587	1.5881	1.5200
July 2015 (through 13 July)	1.5528	1.5517	1.5618	1.5361

(1) The average of the Bloomberg composite rates for sterling on the last business day of each full month during the relevant financial year of the Group for yearly averages or each business day during the relevant month (or portion thereof) for monthly averages.

For convenience, translations from other foreign currencies to pounds sterling are made using the then-prevailing Bloomberg composite rate as of 30 September 2014.

Certain pro forma adjustments have been translated from U.S. dollars to pounds sterling using an exchange rate of £1:US$1.5567, being the exchange rate prevailing as at 12 June 2015, the date the Acquisition closed.

CAPITALIZATION

The table below presents the Group's consolidated cash and cash equivalents and capitalization as of 31 March 2015. You should read this table together with "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Notes and the Guarantees*" and the Group's financial statements and the notes to those financial statements, which are included or incorporated by reference in this Offering Memorandum.

	As at 31 March 2015
	(in £ million)
Cash and cash equivalents	633
Current borrowings	
Bank loans and overdrafts	333
Capital market issuance	2,136
Total current borrowings	2,469
Non-current borrowings	
Bank loans and overdrafts(1)	—
Outstanding bonds	7,751
Total non-current borrowings	7,751
Total borrowings	10,220
Equity attributable to equity holders of Imperial Tobacco	4,912
Non-controlling interests	377
Total equity	5,289
Total capitalization	15,509

(1) On 12 June 2015, the Issuer drew down US$6.05 billion in term loan facilities, US$706 million in revolving credit facilities and US$300 million in a committed term facility to finance the Acquisition. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Bank credit facilities*".

As of the date of this Offering Memorandum, except as indicated above, there have been no material changes to the Group's capitalization since 31 March 2015.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information of the Group should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Group's consolidated financial statements, including the notes thereto, included in this Offering Memorandum.

The audited consolidated income statement data for the years ended 30 September 2012, 2013 and 2014 and the audited consolidated balance sheet data as at 30 September 2012, 2013 and 2014 are derived from the Group's audited consolidated financial statements as at and for the years ended 30 September 2012, 2013 and 2014 except as indicated below.

The Group adopted IFRS 11 (Joint Arrangements) on 1 October 2014 and IAS 19 (Revised) (Employee Benefits) on 1 October 2013. In accordance with IFRS, the Group has only made limited restatements of its historical financial information to reflect such accounting standards. As a result, certain financial information of the Group is not fully comparable between the periods presented in this Offering Memorandum. The restated consolidated income statement data for the year ended 30 September 2013 and the restated consolidated balance sheet data as at 30 September 2013 are derived from the 2014 Financial Statements and restated for IAS 19 (Revised) (Employee Benefits). The restated consolidated income statement data for the year ended 30 September 2014 and the six months ended 31 March 2014 and the restated consolidated balance sheet data as at 30 September 2014 are derived from the 2015 Interim Financial Statements and restated for IFRS 11 (Joint Arrangements).

For more detail, see "Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information".

The consolidated financial statements of the Group have been prepared in accordance with IFRS. The audited consolidated financial statements have been audited by PricewaterhouseCoopers LLP as stated in its audit reports included or incorporated by reference in this Offering Memorandum.

Selected Consolidated Income Statement Information

	For the year ended 30 September					For the six months ended 31 March	
	2012	2013	2013 Unaudited (Restated)[(1)]	2014	2014 Unaudited (Restated)[(2)]	2014 Unaudited (Restated)[(2)]	2015 Unaudited
	(in £ million)						
Revenue	**28,574**	**28,269**	**28,269**	**26,625**	**26,460**	**12,634**	**12,129**
Duty and similar items	(13,902)	(13,681)	(13,681)	(12,928)	(12,928)	(6,094)	(6,091)
Other cost of sales	(9,178)	(9,059)	(9,059)	(8,422)	(8,351)	(4,092)	(3,626)
Cost of sales	(23,080)	(22,740)	(22,740)	(21,350)	(21,279)	(10,186)	(9,717)
Gross Profit	**5,494**	**5,529**	**5,529**	**5,275**	**5,181**	**2,448**	**2,412**
Distribution, advertising and selling costs	(2,005)	(2,053)	(2,053)	(1,946)	(1,929)	(967)	(897)
Administrative and other expenses	(1,971)	(1,518)	(1,518)	(1,265)	(1,233)	(503)	(556)
Operating profit	**1,518**	**1,958**	**1,958**	**2,064**	**2,019**	**978**	**959**
Investment income	1,036	766	724	517	516	266	945
Finance costs	(1,473)	(1,463)	(1,463)	(1,061)	(1,059)	(616)	(873)
Share of profit of investments accounted for using the equity method	—	—	—	—	49	11	17
Profit before taxation	**1,081**	**1,261**	**1,219**	**1,520**	**1,525**	**639**	**1,048**
Taxation	(382)	(300)	(290)	(69)	(80)	(265)	(180)
Profit for the year	**699**	**961**	**929**	**1,451**	**1,445**	**374**	**868**
Attributable to:							
Owners of the Parent	678	937	905	1,422	1,422	366	853
Non-controlling interest	21	24	24	29	23	8	15

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

Selected Consolidated Balance Sheet Information

	As at 30 September					As at 31 March
	2012	2013	2013 Unaudited (Restated)[1]	2014	2014 Unaudited (Restated)	2015 Unaudited
	(in £ million)					
Non-current assets	20,526	20,030	20,034	18,703	18,724	18,338
Current assets	7,113	8,388	8,388	7,306	7,183	7,038
Total assets	**27,639**	**28,418**	**28,422**	**26,009**	**25,907**	**25,376**
Current liabilities	(9,142)	(11,082)	(11,082)	(7,813)	(7,737)	(9,180)
Non-current liabilities	(12,413)	(11,688)	(11,688)	(12,719)	(12,707)	(10,907)
Total liabilities	**(21,555)**	**(22,770)**	**(22,770)**	**(20,532)**	**(20,444)**	**(20,087)**
Net assets	**6,084**	**5,648**	**5,652**	**5,477**	**5,463**	**5,289**
Equity attributable to owners of the Parent	6,035	5,592	5,596	5,065	5,065	4,912
Non-controlling interests	49	56	56	412	398	377
Total equity	**6,084**	**5,648**	**5,652**	**5,477**	**5,463**	**5,289**

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

Selected Consolidated Cash Flow Statement Information

	For the year ended 30 September					For the six months ended 31 March	
	2012	2013	2013 Unaudited (Restated)[1]	2014	2014 Unaudited (Restated)[2]	2014 Unaudited (Restated)[2]	2015 Unaudited
	(in £ million)						
Cash flows from operating activities	**2,119**	**2,352**	**2,352**	**2,548**	**2,502**	**(481)**	**(158)**
Cash flows from investing activities							
Interest received	15	9	9	10	10	4	5
Purchase of property, plant and equipment	(300)	(269)	(269)	(256)	(255)	(113)	(77)
Proceeds from sale of property, plant and equipment	21	14	14	59	59	26	11
Purchase of intangible assets—software	(24)	(27)	(27)	(37)	(37)	(16)	(17)
Internally generated intellectual property rights	—	(9)	(9)	(4)	(4)	—	(4)
Purchase of intangible assets—intellectual property rights	—	—	—	(46)	(46)	(37)	—
Purchase of businesses—net of cash acquired	—	(35)	(35)	—	—	—	—
Proceeds from sale of businesses—net of cash disposed	—	1	1	—	—	—	—
Net cash used in investing activities	**(288)**	**(316)**	**(316)**	**(274)**	**(273)**	**(136)**	**(82)**
Cash flows from financing activities							
Interest paid	(515)	(522)	(522)	(550)	(543)	(396)	(343)
Cash from employees on maturity/exercise of share schemes	8	6	6	6	6	1	1
Purchase of shares held by Employee Share Ownership Trusts	—	(6)	(6)	(2)	(2)	(2)	—
Increase in borrowings	1,335	4,884	4,884	2,324	2,303	3,055	914
Repayment of borrowings	(1,486)	(3,443)	(3,443)	(3,200)	(3,200)	(2,165)	(321)
Repayment of loan to joint ventures	—	—	—	—	52	—	—
Cash flows relating to derivative financial instruments	(79)	(28)	(28)	(121)	(121)	—	98
Finance lease payments	(2)	(20)	(20)	—	—	—	(1)
Purchase of treasury shares	(528)	(500)	(500)	(341)	(341)	(237)	—
Proceeds from sale of share in subsidiary to non-controlling interest	—	—	—	395	395	—	—
Dividends paid to non-controlling interests	(19)	(19)	(19)	(21)	(16)	(11)	(12)
Dividends paid to owners of the Parent	(983)	(1,065)	(1,065)	(1,149)	(1,149)	(779)	(871)
Net cash (used in)/generated by financing activities	**(2,269)**	**(713)**	**(713)**	**(2,659)**	**(2,616)**	**(534)**	**(535)**
Net (decrease)/increase in cash and cash equivalents	**(438)**	**1,323**	**1,323**	**(385)**	**(387)**	**(1,151)**	**(775)**
Cash and cash equivalents at start of year	1,171	631	631	1,809	1,793	1,792	1,413
Effect of foreign exchange rates on cash and cash equivalents	(102)	(145)	(145)	7	7	(24)	(5)
Cash and cash equivalent at end of period	**631**	**1,809**	**1,809**	**1,431**	**1,413**	**617**	**633**

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 31 March 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

Reconciliation of Adjusted Performance Measures

The Group reconciles tobacco revenue and tobacco net revenue as follows, for the periods indicated:

	For the year ended 30 September					For the six months ended 31 March	
	2012	2013	2013 Unaudited (Restated)[(1)]	2014	2014 Unaudited (Restated)[(2)]	2014 Unaudited (Restated)[(2)]	2015 Unaudited
	(in £ million)						
Tobacco revenue	21,161	20,881	20,881	19,656	19,501	9,237	9,095
Duty and similar items	(13,902)	(13,681)	(13,681)	(12,928)	(12,928)	(6,094)	(6,091)
Sale of peripheral and non-tobacco related products	(254)	(193)	(193)	(152)	(152)	(89)	(59)
Tobacco net revenue	**7,005**	**7,007**	**7,007**	**6,576**	**6,421**	**3,054**	**2,945**

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 31 March 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

The Group reconciles reported operating profit and adjusted operating profit as follows, for the periods indicated:

	For the year ended 30 September					For the six months ended 31 March	
	2012	2013	2013 Unaudited (Restated)[(1)]	2014	2014 Unaudited (Restated)[(2)]	2014 Unaudited (Restated)[(2)]	2015 Unaudited
	(in £ million)						
Reported operating profit	1,518	1,958	1,958	2,064	2,019	978	959
Acquisition costs	(10)	—	—	13	13	—	20
Amortization and impairment of acquired intangibles	1,552	952	952	644	644	326	312
Restructuring costs	101	270	270	305	305	42	76
Adjusted operating profit	**3,161**	**3,180**	**3,180**	**3,026**	**2,981**	**1,346**	**1,367**

(1) Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for the 2013 financial year has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 31 March 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in

share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

For a reconciliation of cash flows from operating activities before tax payments and after net capital expenditure to net cash inflow from operating activities, please refer to the section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Cash flows*".

SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma information relating to the Group should be read in conjunction with, and is extracted from, the unaudited pro forma statement of net assets and the unaudited pro forma income statement of the Group and the accountant's report thereon included elsewhere in this Offering Memorandum. The unaudited pro forma financial information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

The unaudited pro forma financial information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act.

The unaudited pro forma financial information gives pro forma effect to the Acquisition as if it had completed as of 1 October 2013 (in the case of the income statement) or as of 31 March 2015 (in the case of the statement of net assets).

The pro forma income statement does not reflect the cost of the Notes being offered hereby.

For a detailed explanation of the transactions reflected in the following Selected Unaudited Pro Forma Financial Information, the basis of preparation and related assumptions, please see "Pro Forma Financial Information".

Selected unaudited pro forma income statement data

	Group for the year ended 30 September 2014 (Restated)[1]	Adjustments: Acquired Assets for the year ended 31 December 2014	Adjustments: Acquisition Accounting[(2),(3)]	Enlarged Group for the year ended 30 September 2014
	(in £ million)			
Revenue	26,460	2,282	—	28,742
Duty and similar items	(12,928)	(1,027)	—	(13,955)
Other cost of sales	(8,351)	(369)	—	(8,720)
Cost of sales	**(21,279)**	**(1,396)**	**—**	**(22,675)**
Gross profit	**5,181**	**886**	**—**	**6,067**
Distribution, advertising and selling costs	(1,929)	(294)	—	(2,223)
Acquisition costs	(13)	—	(40)	(53)
Amortization of acquired intangibles	(638)	(78)	—	(716)
Restructuring costs	(305)	—	—	(305)
Other expenses	(277)	(208)	—	(485)
Administrative and other expenses	**(1,233)**	**(286)**	**(40)**	**(1,559)**
Operating profit	**2,019**	**306**	**(40)**	**2,285**
Investment income	516	—	—	516
Finance costs	(1,059)	—	(103)	(1,162)
Net finance costs	**(543)**	**—**	**(103)**	**(646)**
Share of profit of investments accounted for using the equity method	49	—	—	49
Profit before taxation	**1,525**	**306**	**(143)**	**1,688**
Taxation	(80)	(105)	31	(154)
Profit for the year	**1,445**	**201**	**(112)**	**1,534**

(1) The adoption of IFRS 11 (Joint Arrangements), which became mandatory for the Group in its 31 March 2015 Interim Financial Statements, has resulted in a reduction in revenue and operating profit and increase in share of profit of investments accounted for using the equity method. Profit attributable to owners of the Group and earnings per share are unaffected by this change. Accordingly, the financial data for the year ended 30 September 2014 and the six months ended 31 March 2014 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

(2) The pro forma income statement does not reflect the offering of the Notes offered hereby.

(3) The Acquisition Accounting adjustments reflect the accounting for the Acquisition, and the related financing, on the following basis:

(a) Additional transaction fees of £40 million and a related tax benefit of £8 million.

(b) Additional finance charge of £103 million reflecting the cost of the bank credit facilities utilized to finance the Acquisition and a related tax benefit of £23 million (at enacted UK corporate tax rates for the year of 22 percent). The pro forma income statement does not reflect the cost of Notes being offered in this Offering Memorandum.

(c) No adjustment has been made to reflect the trading results of the Group since 30 September 2014, or the Reynolds Business or the Lorillard Business since 31 December 2014.

Selected unaudited pro forma statement of net assets data

	Group as at 31 March 2015	Adjustments: Acquired Assets as at 31 December 2014	Adjustments: Acquisition Accounting[(1)]	Enlarged Group as at 31 March 2015
		(in £ million)		
Non-current assets				
Intangible assets	14,515	51	4,252	18,818
Property, plant and equipment	1,718	116	—	1,834
Investments in associates	607	—	—	607
Retirement benefit assets	134	—	—	134
Trade and other receivables	72	—	—	72
Derivative financial instruments	1,059	—	—	1,059
Deferred tax assets	233	66	—	299
	18,338	**233**	**4,252**	**22,823**
Current assets				
Inventories	3,442	162	—	3,604
Trade and other receivables	2,838	—	—	2,838
Current tax assets	34	—	—	34
Cash and cash equivalents	633	—	(51)	582
Derivative financial instruments	91	—	—	91
	7,038	**162**	**(51)**	**7,149**
Total assets	**25,376**	**395**	**4,201**	**29,972**
Current liabilities				
Borrowings	(2,469)	—	—	(2,469)
Derivative financial instruments	(52)	—	—	(52)
Trade and other payables	(6,366)	—	—	(6,366)
Current tax liabilities	(105)	—	—	(105)
Provisions	(188)	—	—	(188)
	(9,180)	**—**	**—**	**(9,180)**
Non-current liabilities				
Borrowings	(7,751)	—	(4,519)	(12,270)
Derivative financial instruments	(774)	—	—	(774)
Trade and other payables	(15)	—	—	(15)
Deferred tax liabilities	(1,267)	—	—	(1,267)
Retirement benefit liabilities	(868)	(94)	—	(962)
Provisions	(232)	(20)	—	(252)
	(10,907)	**(114)**	**(4,519)**	**(15,540)**
Total liabilities	**(20,087)**	**(114)**	**(4,519)**	**(24,720)**
Net assets	**5,289**	**281**	**(318)**	**5,252**

(1) The Acquisition Accounting adjustments reflect the goodwill arising on the Acquisition of £4,252 million, £51 million in additional transaction fees paid in cash, and the drawdown of bank credit facilities to settle the cash consideration of £4,533 million (US$7,056 million) payable to Reynolds net of £14 million of related fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review of the Group's financial condition and operating results should be read in conjunction with the Group's consolidated financial statements, including the accompanying notes, included in this Offering Memorandum. References to financial years in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are to the financial years of the Imperial Tobacco Group ended 30 September, unless otherwise stated.

As further described above under "Presentation of Financial, Market and Other Information", the Group adopted IFRS 11 (Joint Arrangements) on 1 October 2014 and IAS 19 (Revised) (Employee Benefits) on 1 October 2013. In accordance with IFRS, the Group has only made limited restatements of its historical financial information to reflect such accounting standards. As a result, certain financial information of the Group presented in this Offering Memorandum is not fully comparable between the periods. Accordingly, in this section for purposes of comparability between periods, (i) the discussion of the Group's results of operations for the six months ended 31 March 2015 as compared to 31 March 2014 has been presented on a restated basis to reflect the adoption of IFRS 11 and the adoption of IAS 19 (Revised) and is based on the 2015 Interim Financial Statements, (ii) the discussion of the Group's results of operations for the year ended 30 September 2014 as compared to 30 September 2013 has been presented on a restated basis to reflect the adoption of IAS 19 (Revised) but not IFRS 11 and is based on the 2014 Financial Statements, and (iii) the discussion of the Group's results of operations for the year ended 30 September 2013 as compared to 30 September 2012 has not been restated for the adoption of IAS 19 (Revised) or IFRS 11 and is based on the 2013 Financial Statements. See "Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information".

Some of the information in the discussion and analysis set forth below and elsewhere in this Offering Memorandum includes forward-looking statements that involve risks and uncertainties. See "Special Note on Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Offering Memorandum.

Overview

Imperial Tobacco is an international fast moving consumer goods company and is the world's fourth largest international tobacco company with a portfolio that spans the tobacco spectrum.

Imperial Tobacco Company (of Great Britain and Ireland) Limited was formed in 1901 by the merger of 13 independent British tobacco companies. As a result, the primary focus of the Group's business historically was the UK and Irish markets. Imperial Tobacco was incorporated on 6 August 1996 as a public limited company under the laws of England and Wales, and became listed on the London Stock Exchange on 1 October 1996, when Hanson plc spun off its tobacco business to Imperial Tobacco. Since 1996, Imperial Tobacco has pursued a strategy of international growth through targeted organic expansion and acquisitions. This international growth strategy has transformed Imperial Tobacco from a predominantly UK business into a leading international tobacco company with sales in over 160 countries worldwide, with particular strengths in the UK, Germany, Spain, France, Morocco, the United States, the Netherlands, Australia, Russia and Ukraine.

The core business of Imperial Tobacco is built around a tobacco portfolio that offers consumers comprehensive brand choice with a range of cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. In addition to the tobacco business, Imperial Tobacco is creating new consumer experiences through its non-tobacco subsidiary Fontem Ventures. The Group also owns a majority shareholding in a major logistics business in southern Europe, Logista, which is made up of two divisions: tobacco logistics, which is involved in the transportation of tobacco products primarily in

Italy, Spain, Portugal, France and Poland, and other logistics, which provides transport services for various industries including publishing, pharmacy and cosmetics.

The Group's business is cash generative and for the six months ended 31 March 2015, Imperial Tobacco's tobacco net revenue, distribution fees, reported operating profit, adjusted operating profit and annualized cash conversion, each on a restated basis, were £2,945 million, £378 million, £959 million, £1,367 million and 102 percent (annualized) respectively. For the year ended 30 September 2014 (restated), Imperial Tobacco's tobacco net revenue, distribution fees, Group reported operating profit, Group adjusted operating profit and cash conversion were £6,421 million, £838 million, £2,019 million, £2,981 million and 91 percent respectively. For a description of the cash conversion calculation, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Indicators*".

Tobacco: The Group generated overall revenues of £12,129 million and £26,460 million for the six months ended 31 March 2015 and the year ended 30 September 2014 (restated), respectively, of which the tobacco business segment accounted for £9,095 million, net revenue of £2,945 million and adjusted operating profit of £1,295 million (representing 95 percent of the Group's adjusted operating profit) in the six months ended 31 March 2015. For the year ended 30 September 2014 (restated), the tobacco segment accounted for £19,501 million, net revenue of £6,421 million and adjusted operating profit of £2,805 million (representing 94 percent of the Group's adjusted operating profit). Imperial Tobacco organizes its tobacco business based on the strategic role the market plays, not by geographic location, with divisions focused on prioritizing growth or returns. The Group believes that managing its footprint in this way has enabled it to allocate resources and invest in markets more effectively.

Returns Markets are typically mature markets where the Group already has a relatively large market share (greater than 15 percent) and the priority is to grow profit sustainably, while actively managing market share positions.

Growth Markets are mainly large profit or volume pools where the Group's market share tends to be below 15 percent and where the priority is to drive long-term share and profit growth. The three tobacco segments presented in the Group's consolidated financial statements are split as follows:

- Returns Markets North—which includes Australia, Belgium, Germany, the Netherlands, Poland and the United Kingdom among other markets;
- Returns Markets South—which includes France, Spain, Morocco and a number of the Group's African markets among other markets; and
- Growth Markets—which includes selected markets in the EU, Eastern Europe, Asia, the Middle East and the U.S. among other markets.

For details of the Group's segment reporting prior to 2013, see Note 3 to the 2014 Financial Statements. For more information about revenues, net revenues and operating profit in the Group's three tobacco segments see "*—Results by segment*".

Logistics: The logistics segment generated revenue of £3,430 million, distribution fees of £378 million and adjusted operating profit of £73 million (representing 5 percent of the Group's adjusted operating profit) in the six months ended 31 March 2015. For the year ended 30 September 2014 (restated), the logistics segment generated revenue of £7,774 million, distribution fees of £838 million and adjusted operating profit of £166 million (representing 6 percent of the Group's adjusted operating profit).

Key Factors Affecting Results of Operations

Changes in demand for the Group's products

The global cigarette market has been broadly stable with around 6 trillion cigarettes sold each year since 2005. There are approximately a billion adult smokers globally and this figure is expected to increase as populations grow. The Group's results of operations are generally driven by the level of demand for tobacco products in the markets in which the Group operates, as well as the Group's ability to capture and grow its business in such markets.

Around two thirds of the Group's tobacco net revenues are derived from Europe, Australia and the U.S., relatively mature markets where tobacco consumption is generally declining. This decline may be attributed to a variety of factors including increasing government regulation, frequent and substantial increases in excise duty on tobacco products and increases in the trade of illicit tobacco products.

These factors, as well as general economic conditions, affect consumer preferences and therefore influence demand for different tobacco products and tobacco brands within the Group's portfolio. For example many developed markets, such as the UK, have seen an increase in the market sales of fine-cut tobacco and of factory made cigarettes in a lower price segment as consumers look for greater value.

The Group focuses investment behind its Growth Brands and Specialist Brands, prioritizing product development initiatives, advertising and promotion and trade investment to drive the brands that have consistently demonstrated the most potential for quality sustainable growth. It has a comprehensive product portfolio covering all the main tobacco categories and is also developing innovative non-tobacco products such as e-cigarettes. This enables the business to meet the evolving demands of its customers and consumers.

Following the acquisition, the Group expects developed markets, in many of which it has a large or leading share, to remain a fundamental driver of global cigarette sales.

General economic and political conditions

The Group's business is subject to general economic conditions in the countries in which it operates. In the tobacco business, adverse economic conditions over the past few years, particularly within mature European markets, have increased the propensity of consumers to downtrade into lower priced tobacco products and in some instances into illicit products, the latter of which negatively impacts the demand for legitimate, duty paid products. These pressures have impacted overall industry volumes within the Group's tobacco segments. During the years ended 30 September 2014 and 2013, respectively, overall Returns Markets industry volumes decreased by 3 percent and 5.3 percent, respectively, while overall Growth Markets industry volumes decreased by 4 percent and 3 percent, respectively. In order to help mitigate the impact of such conditions, the Group continually monitors consumption patterns and reviews its processes and policies, to minimize economic exposure and ensure it maintains a range of products across different price points. Political conditions also have the potential to significantly impact demand, and the Group is closely monitoring developments in the Middle East given continuing disruptions as a result of regional instability as well as the sanctions imposed on Russia as having the potential to increase volatility and reduce demand from these regions.

Excise duty

Tobacco products are subject to excise duty in most jurisdictions. In many of the markets in which the Group operates, such as the United States, United Kingdom, Ireland and France, excise and other consumption taxes represent a substantial percentage of its products' retail prices. Increasing levels of excise duty have negatively impacted the affordability and therefore consumption of the Group's products, representing a general trend across the markets in which the Group operates, both by changing purchasing habits and by driving consumers into the illicit trade for smuggled or counterfeit tobacco. High levels of excise duty imposed on the sale of cigarettes in many developed markets have resulted in significant illegal inflow from jurisdictions where excise duty is lower.

In an effort to alleviate the impact of excise rises on the legitimate industry, the Group regularly engages with certain relevant tax and customs authorities and legislators to illustrate and, where possible, mitigate the unintended consequences of excise increases. The Group also analyzes tariff changes in an effort to price product offerings appropriately within the excise duty structures in each market.

Illicit trade

The level of illicit product was estimated by Euromonitor to be 8.1 percent of global cigarette consumption in 2014, equivalent to 500 billion cigarettes. However, illicit trade, by its very nature is difficult to precisely quantify with third-party estimates ranging between 6 percent to 12 percent of global cigarette consumption. Illicit trade has an adverse impact on legitimate tobacco sales in many markets, often fuelled by excessive regulation and rising excise duties, because the availability of counterfeit product and smuggled "illicit whites" represents a direct competitor to legitimate domestic duty paid products. These effects tend to be greatest in markets with high excise duty rates and where consumers are under pressure from economic conditions, and where the potential gains from this criminal activity are higher due to cross-border duty differentials. Consequently, the Group believes that this effect has been greatest in Western Europe, as reflected in the results of Returns Markets North and Returns Markets South, during the period under review, due to relatively high duty rates and the impact of adverse economic conditions on its customers. The Group engages in significant anti-illicit trade activities, partnering with governments and law enforcement agencies to disrupt the supply and sale of illegal tobacco. The Group also strives to maintain strong business conduct standards and controls in order to prevent its products being diverted.

Regulation of tobacco products

The tobacco industry has been subject to increasing regulation of the sales, supply, consumption, advertising, packaging and display of tobacco products which in turn influences the availability, demand and freedom of customers to use Group products. Pack regulation changes, such as pictorial health warnings and plain packaging legislation (to date only implemented in Australia, but scheduled to be introduced in the UK and Ireland during 2016), have been introduced in a number of markets but have not been shown to have a material impact on consumption to date. However, these regulations vary from market to market and are subject to significant change based on social, political and other factors and the Group closely monitors developments across its markets. For example, the Group is currently monitoring developments relating to the introduction of EUTPD II which affects the way tobacco products are manufactured, packed and sold across the European Union. The Group seeks to control the impact of regulatory, political and societal change on Group operations by engaging with certain internal and external stakeholders with the goal of effecting proportionate regulatory change that does not lead to excessive regulation. Increased regulation such as the EUTPD II has had and is likely to continue to have, the effect of shaping public perception against smoking and negatively impacting demand, while resulting in increased costs for the Group, and a restriction of the Group's ability to market its products. For additional information about the regulation of tobacco products, see "*Description of the Group and its Business—Regulatory Landscape*".

Strategic initiatives

As part of achieving its overall strategic objective to improve the sustainability of earnings and maximize shareholder returns, the Group has and expects to continue to undertake a number of initiatives. These initiatives may have material costs associated with them and there can be no assurance that cost savings and profitability enhancement targets will be achieved.

For example, the Group introduced a cost optimization program during 2013 as part of its drive for efficiency initiatives across its business. These include simplification of the brand portfolio, operational and manufacturing efficiencies and global procurement benefits. The Group has targeted £300 million of savings per annum by September 2018 and calculates that more than £90 million of this has already been realized during the years ended 30 September 2013 and 2014, collectively, £60 million of which was realized in the year ended 30 September 2014. These savings have been re-invested to support topline growth. The Group estimates the cash cost of the cost optimization program to be approximately £600 million.

In addition, the Group has undertaken and expects to continue its brand migration program to its Growth Brands, which seeks to simplify and strengthen the Group's portfolio, with the goal of supporting more targeted investment and improving the quality and sustainability of sales growth. The Group does not specifically account for the costs associated with its brand migration program.

Stock optimization

During the year ended 30 September 2014, the Group undertook a program to improve the efficiency of its route to market, effectively removing approximately 9 billion stick equivalents from the trade, equivalent to approximately 3 percent of the Group's annual tobacco volume. This initiative involved working collaboratively with key retailers and distributors to design programs to enable them to sell through inventory while actively managing their re-order levels of new product. The Group believes that this helps to improve its visibility of market dynamics including changes in the consumer, competitive or regulatory landscape. The specific program has now been completed. Following this initiative, the Group has presented certain adjusted volume and revenue metrics for the year ended 30 September 2014 and for the six months ended 31 March 2015 to more accurately reflect underlying changes in operating conditions. These adjusted metrics are referred to as "underlying".

Acquisitions

On an on-going basis, the Group regularly evaluates investment opportunities, including acquisitions, which are aligned to its key strategic objectives and consistent with its strategy of creating sustainable returns to shareholders. In July 2014, the Group announced a deal to acquire four U.S. cigarette brands, the e-cigarette brand *blu* and certain other assets for US$7.1 billion. The deal was approved by the Group's Shareholders at the General Meeting on 28 January 2015 and completed on 12 June 2015 following receipt of regulatory approval by authorities in the U.S. The Group expects the acquisition to transform its presence in the world's most profitable market (outside China) and have a material impact on the Group's financial condition and results of operations. As a result of the Acquisition, the Group now holds the third largest market share for cigarettes in the U.S. at around 9.5 percent. The Group expects that a combination of broader national coverage and an enhanced tobacco and e-cigarette product will make its U.S. offering more visible and competitive in key retail accounts. The Group is targeting returns in excess of its weighted average cost of capital in the first full year post completion. The Group has financed the Acquisition through additional borrowings in the form of a US$7.1 billion drawdown of bank credit facilities, and expects to refinance a portion of this financing through debt capital markets transactions, including this Offering. See "*Description of the Acquisition—Financing of the Acquisition*".

Exchange rate fluctuations

The Group is exposed to movements in exchange rates for transactions in foreign currencies, together with the translation of the accounts of Altadis, ITG Brands and other subsidiaries with overseas operations into the consolidated Group accounts. The Group's principal foreign currency exposures are to the euro and the U.S. dollar, although as a business with global operations the Group is also exposed to exchange rate movements in relation to certain other foreign currencies, amongst them the Australian dollar, the Russian rouble, the Taiwanese dollar and the Ukrainian hryvnia. Given the volatility of the impact of such exchange rate movements (including, in particular, of the pound against the euro and against the U.S. dollar) on its financial statements, the Group sometimes quotes percentage growth figures on a constant currency basis where the effects of exchange rate movements on the translation of its results of operations are removed. Constant currency growth percentages, or percentages excluding exchange rate movements, for year ended 30 September 2014 assume that average exchange rates for the year ended 30 September 2014 were the same as those for 2013. Constant currency growth percentages, or percentages excluding exchange rate movements, for the year ended 30 September 2013 assume that average exchange rates for the year ended 30 September 2013 were the same as those for 2012. For additional information about the Group's exposure to currency fluctuations, see "*—Quantitative and Qualitative Disclosures about Market Risk—Exposure to foreign exchange rate risk*" below.

Following the completion of the Acquisition on 12 June 2015, the Group expects its sensitivity to the impact of the exchange rate of the pound against the U.S. dollar to increase, mitigated in part by a corresponding increase in U.S. dollar-denominated borrowings.

Tobacco leaf price fluctuations

Tobacco leaf accounts for a material portion of the Group's costs, accounting for approximately 30 percent of the Group's cost of sales for each of the years ended 30 September 2014, 2013 and 2012 respectively. The Group is exposed to fluctuations in the price of tobacco leaf, the price of which, similar to other agricultural products, tends to be cyclical, but has overall remained stable during the periods under review. The Group seeks to offset these fluctuations and to reduce the Group's exposure to individual markets by sourcing tobacco leaf from a number of different countries. The Group mainly sources its tobacco leaves from third-party suppliers, rather than taking ownership of tobacco leaf fields. By sourcing its requirements in this way the Group aims to retain the flexibility to move to markets where it can maximize the value and cost advantages to the Group.

Significant market positions

The Group's significant market position in certain countries has resulted in investigations and adverse regulatory action by relevant competition authorities, including the potential for monetary fines and negative publicity.

The Group maintains policies and standards which mandate that all employees must comply with competition laws in the countries in which it operates. In the event of any investigation (which may or may not result in actions being brought against the Group), it cooperates fully with the relevant authority making the investigation and intends to continue to do so.

Key Performance Indicators

The Group uses several key performance indicators to assess and review the performance of the above-mentioned key elements of its strategy, including the following, which (in the case of financial data) are non-IFRS measures:

- *Performance of Growth Brands:* Growth Brand volumes (measured on a stick equivalent basis to reflect both cigarette and fine cut tobacco volumes) increased by 12 percent on an underlying basis (excluding the impact of the Group's stock optimization program) in the six months ended 31 March 2015 (up 17 percent on a reported basis) driven both by organic growth and on-going brand migrations. This compares to an overall volume decline in the market of around 4 percent over the same period. Growth Brands grew by 6.6 percentage points as a proportion of tobacco net revenue and, when combined with Specialist Brands, represented 59 percent of tobacco net revenue in the six months ended 31 March 2015. For the year ended 30 September 2014, Growth Brand stick equivalent volumes grew 7 percent on an underlying basis (2 percent on a reported basis), compared to overall industry volume declines of around 4 percent during the year.

- *Tobacco net revenue:* Tobacco net revenue comprises tobacco revenue less duty and similar items, and excludes revenue that is not part of the Group's core business. The Group's tobacco net revenue decreased by 4 percent to £2.9 billion in the six months ended 31 March 2015 compared to the corresponding period of the prior year, driven by adverse movements in foreign exchange and the impact of the Group's stock optimization program. Adjusting for these effects, underlying tobacco net revenue was flat compared to the corresponding period of the prior year. See "*—Key Factors Affecting Results of Operations—Stock optimization*" above. In the year ended 30 September 2014 tobacco net revenue declined 1 percent to £6.6 billion on a constant currency basis compared to the prior year. Underlying tobacco net revenue increased in the same period by 2 percent with a 1 percent decline in Returns Markets offset by 7 percent growth in Growth Markets.
- *Return on invested capital:* Return on invested capital measures the effectiveness of capital allocation and is the adjusted net operating profit after tax divided by invested capital. The Group's return on invested capital decreased by 0.9 percent to 14.2 percent in the year ended 30 September 2014, although, after adjusting for the impact of foreign exchange, it was broadly flat (14.9 percent) compared to the Group's return on invested capital for the year ended 30 September 2013 of 15.1 percent.
- *Cash conversion rate:* Cash conversion is cash flows from operating activities before tax payments less net capital expenditure as a percentage of adjusted operating profit. Cash conversion for the six months ended 31 March 2015 is on a rolling twelve-month basis. The Group's cash conversion rate was 102 percent for the six months ended 31 March 2015, reflecting some one-off timing benefits related to the timing of production but also on-going improvements in working capital (driven by, among other things, a reduction in leaf inventory and improvements in customer cash collection) and a reduction in net capital expenditure. The Group's cash conversion rate was 91 percent in the year ended 30 September 2014 and 86 percent in the year ended 30 September 2013.

The following table sets out key performance data for the periods indicated.

	For the year ended 30 September				For the six months ended 31 March	
	2012	**2013**	**2014**	**2014 Unaudited (Restated)**	**2014 Unaudited (Restated)**	**2015 Unaudited**
Tobacco net revenue[1] (£ billion)*	7.0	7.0	6.6	6.4	3.1	2.9
Growth Brand stick equivalent volumes (billion)*	132	129	131	131	60	71
Return on invested capital[2] (percent)	15.0%	15.1%	14.2%	N/A	N/A	N/A
Cash conversion rate[3] (percent)	71%	86%	91%	N/A	N/A	102%

* Both tobacco net revenue and Growth Brand stick equivalent volumes are shown as disclosed (i.e. unadjusted for stock optimization or movements in foreign exchange rates).

(1) For a reconciliation of tobacco revenue and tobacco net revenue, see "*Selected Consolidated Financial Information—Reconciliation of Adjusted Performance Measures*".

(2) Return on invested capital is the adjusted net operating profit after tax divided by invested capital. For a reconciliation of reported operating profit and adjusted operating profit, see "*Selected Consolidated Financial Information—Reconciliation of Adjusted Performance Measures*".

(3) Cash conversion rate is cash flows from operating activities before tax payments less net capital expenditure as a percentage of operating profit. Cash conversion rate for the six months ended 31 March is on a rolling twelve-month basis.

Principal Income Statement Items

As outlined in "*Accounting Policies—Use of Adjusted Measures*" in Note 1 to the 2014 Financial Statements, the Group reports certain non-IFRS adjusted measures, including operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share, which exclude, where applicable, acquisition costs, amortization 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 resolution of prior year tax matters. The Group believes that reporting non-IFRS adjusted measures, when read in conjunction with the equivalent IFRS measures, provides a useful comparison of business performance and reflects the way in which the business is controlled by management. Reconciliations between reported and non-IFRS adjusted measures are included within the 2014 Financial Statements and the 2013 Financial Statements, and certain reconciliations relating to the Group's key performance indicators are provided under "*Selected Consolidated Financial Information—Reconciliation of Adjusted Performance Measures*".

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. For further information, please refer to the section entitled "*Accounting Policies—Foreign Currency*" in Note 1 to the 2014 Financial Statements.

Revenue

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 recognized 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 recognized 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 recognizes 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 recognized on products on consignment when these are sold by the consignee.

Revenue is driven principally by sales volumes and the prices the Group is able to charge for its products.

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 the income statement as an expense. Where duty is a sales tax, duty is deducted from revenue. Payments due in the U.S. under the MSA are considered to be levies having the characteristics of duty and are treated as a production tax.

Increases in duty and similar items are driven by increases in sales volumes, sales prices and the rates of duty in the jurisdictions in which the Group operates.

Tobacco net revenue

Tobacco net revenue is a non-IFRS measure, which represents the tobacco business revenue less associated duty less revenue from the sale of peripheral and non-tobacco related products. The Group believes that tobacco net revenue is a helpful measure in evaluating business performance, as it removes the distortion in the trends of its tobacco business revenue and operating margins that are caused by the different excise duty regimes that exist within the markets in which the Group operates. This measure is derived from the Group's consolidated statements of income.

Tobacco net revenue is driven principally by sales volumes, the prices the Group is able to charge for its products and the amount of excise duty imposed by governmental authorities in the various jurisdictions in which it operates.

See "*Selected Consolidated Financial Information—Reconciliation of Adjusted Performance Measures*" for a reconciliation of tobacco net revenue to tobacco revenue.

Distribution fees

Distribution fees comprise the logistics business revenue less the cost of distributed products. Distribution fees are a non-IFRS measure which the Group believes is important in assessing the profitability of its logistics business.

Operating profit

Operating profit represents revenue less cost of sales, distribution, advertising and selling costs and administrative expenses. Operating profit is driven largely by changes in net revenue and in operating costs.

Adjusted operating profit

Adjusted operating profit is a non-IFRS measure, which represents operating profit before deducting acquisition costs, amortization and impairment of acquired intangibles and restructuring costs. This measure is derived from the Group's consolidated statements of income. See "*Selected Consolidated Financial Information—Reconciliation of Adjusted Performance Measures*" for a reconciliation of adjusted operating profit to operating profit.

Tobacco operating margin

The tobacco business operating margin is calculated as tobacco operating profit as a percentage of tobacco net revenue.

Tobacco adjusted operating margin

The tobacco segment adjusted operating margin is calculated as tobacco adjusted operating profit as a percentage of tobacco net revenue.

Operating cash flow before tax payments less net capital expenditure relating to property, plant and equipment and software

For internal management purposes, the Group uses a measure of "operating cash flow before tax payments less net capital expenditure relating to property, plant and equipment and software". Operating cash flow before tax payments less net capital expenditure relating to property, plant and equipment and software is not a measure determined in accordance with IFRS. The Group believes, however, that it is a helpful measure, as it represents the amount of cash available to the Group for the repayment of its indebtedness, for strategic acquisitions to grow the business, or for other investing or financing activities.

Distribution margin

The logistics segment distribution margin is calculated as logistics operating profit as a percentage of distribution fees.

Adjusted distribution margin

The logistics segment adjusted distribution margin is calculated as logistics adjusted operating profit as a percentage of distribution fees.

Critical Accounting Estimates

The Group's principal accounting policies are set out in the 2014 Financial Statements and comply with IFRS. The Group believes its most critical accounting estimates include those relating to legal proceedings and disputes, property, plant and equipment and intangible assets, retirement benefits, restructuring provisions and income taxes. The application of these accounting estimates involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

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 advisers; 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, which could result in an adverse impact upon the Group's operating profit, financial position and liquidity.

For a summary of significant legal cases in which the Group is currently involved, please see the section entitled "*Description of the Group and its Business—Litigation*". For certain additional disclosures in relation to the Group's involvement in legal proceedings, please see Note 28 to the 2014 Financial Statements.

Property, plant and equipment and intangible assets

Intangible assets (other than goodwill, the *Davidoff* cigarette trademark and certain premium cigar trademarks) and property, plant and equipment are amortized 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 property, plant and equipment and intangible assets subject to amortization 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 property, plant and equipment and/or intangible assets 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 property, plant and equipment and intangible assets 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 judgments.

See Notes 11 and 12 to the 2014 Financial Statements for further information regarding the Group's intangible assets and property, plant and equipment.

Adjustments to earnings resulting from revisions to estimates relating to fixed asset accounting have been insignificant for each of the years in the three-year period ended 30 September 2014 other than the £0.6 billion and £1.2 billion impairment charges in the 2013 and 2012 Financial Statements against the goodwill and other intangible assets attributable to Spain at the time the Group acquired Altadis in 2008.

Retirement benefits

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in Note 22 to the 2014 Financial Statements.

The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements.

The Group estimates that a 0.5 percent decrease/(increase) in the discount rate at the start of the accounting period would have increased/(decreased) the IAS 19 (Revised) pension expense by approximately £15 million.

The Group reviews its assumptions in respect of its pension benefits annually. The impact on earnings resulting from revisions to estimates relating to these assumptions has been insignificant for each of the years in the three-year period ended 30 September 2014. The defined benefit section of the Group's principal UK pension scheme was closed to new members (but not to further accrual for the then-existing members) with effect from 1 October 2010, and new employees are now offered membership of a defined contribution section of the scheme instead. Following completion of the triennial valuation of this scheme as at 31 March 2013, the level of employer contributions to it was increased from £31 million to £48 million in 2014, rising each year to £65 million in 2017 as set by the fund's actuary. This level of contribution will be reviewed again at the next triennial valuation in 2016, at which time future payments may be increased or decreased.

Under IAS 19 (Revised), which became mandatory for the Group in its 2014 Financial Statements, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. Accordingly, the financial data for 2013 and 2012 has been restated to reflect this accounting policy change. For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

Income taxes

The Group is subject to income tax in numerous jurisdictions and significant judgment is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes 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.

The Group operates in many countries and is subject to many tax jurisdictions and rules. As a consequence, the Group is subject to tax audits, which by their nature are often complex and can require several years to conclude. Management judgment is required to determine the total provision for income tax. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. However, the actual tax liabilities could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's financial condition and results of operations.

Tax benefits are not recognized unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Any interest on tax liabilities is provided for in the tax charge. Deferred tax assets are not recognized where it is more likely than not that the asset will not be realized in the future. This evaluation requires judgments to be made including the forecast of future taxable income.

The reported tax charge for the year ended 30 September 2014 includes a net release of £4 million (the years ended 30 September 2012 and 2013: net releases of £107 million and £15 million, respectively) of tax provisions. See Note 8 to the 2014 Financial Statements for further information regarding the Group's tax charge. Aside from the foregoing and a reassessment of deferred tax assets in 2014, adjustments to earnings resulting from revisions to estimates relating to income tax accounting have been insignificant for each of the years in the three-year period ended 30 September 2014.

Dividend policy

The Group has announced a policy to pay quarterly dividends in order to give shareholders a more regular cash return, with the first quarterly dividend to be paid on 30 June 2015, followed by the next payment on 30 September 2015.

Six Months Ended 31 March 2015 as Compared to 31 March 2014

Group results

The tables below show the unaudited Group's revenue, operating profit and adjusted operating profit by key business segment for the six months ended 31 March 2015 as compared to 31 March 2014 (restated for IFRS 11). For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

	Revenue		Operating Profit		Adjusted Operating Profit	
	For the six months ended 31 March 2014 (Restated)	For the six months ended 31 March 2015	For the six months ended 31 March 2014 (Restated)	For the six months ended 31 March 2015	For the six months ended 31 March 2014 (Restated)	For the six months ended 31 March 2015
			Unaudited (in £ million)			
Tobacco	9,237	9,095	948	925	1,275	1,295
Logistics	3,819	3,430	32	35	73	73
Eliminations	(422)	(396)	(2)	(1)	(2)	(1)
Total Group	**12,634**	**12,129**	**978**	**959**	**1,346**	**1,367**

Revenue was £12,129 million in the six months ended 31 March 2015 compared to £12,634 million in the six months ended 31 March 2014 (restated), a decrease of 4 percent, with higher prices more than offset by lower sales volumes and exchange rate movements.

Duty and similar items at £6,091 million was broadly similar to the same period in 2014, reflecting increases in duty offset by declining sales volumes. Other cost of sales, which comprises direct costs of production and the cost of goods purchased for resale, decreased by 11 percent to £3,626 million in the six months ended 31 March 2015, mainly reflecting lower sales volumes and exchange rate movements. Distribution, advertising and selling costs of £897 million decreased by 7 percent compared to the corresponding period in the prior year (six months ended 31 March 2014: £967 million). Administrative and other expenses (which comprise primarily the costs of central support functions, amortization and impairment of acquired intangibles and restructuring costs) increased by £53 million to £556 million in the six months ended 31 March 2015 from £503 million in the six months ended 31 March 2014. This reflects a higher level of restructuring costs primarily related to the Group's cost optimization program.

Tobacco net revenue was £2,945 million in the six months ended 31 March 2015 compared to £3,054 million in the six months ended 31 March 2014. This represents a decrease of 4 percent (3 percent increase excluding the effect of exchange rate movements). Factors impacting revenue in each market are discussed under "*—Results by segment*" below. Distribution fees, which exclude the cost of distributed products, were at £378 million compared to £427 million in the prior year.

Reported operating profit decreased by 2 percent to £959 million in the six months ended 31 March 2015, compared to £978 million in the six months ended 31 March 2014. Adjusted operating profit (which excludes acquisition costs, amortization and impairment of acquired intangibles, and restructuring costs) increased to £1,367 million in the six months ended 31 March 2015, an increase of 2 percent, or 5 percent excluding exchange rate movements. Reported net finance income of £72 million in the six months ended 31 March 2015, compared to net costs of £350 million in the six months ended 31 March 2014, comprised finance costs of £873 million (£616 million in the six months ended 31 March 2014) and investment income of £945 million (£266 million in the six months ended 31 March 2014). The increase in both finance costs and investment income was primarily due to higher fair value losses and gains on derivative financial instruments providing commercial hedges. Adjusted net finance costs, which exclude retirement benefits, net financing costs and fair value gains and losses on derivative financial instruments, decreased to £231 million in the six months ended 31 March 2015 (from £254 million in the six months ended 31 March 2014).

Reported profit before tax increased to £1,048 million in the six months ended 31 March 2015, compared to £639 million in the six months ended 31 March 2014. Adjusted profit before tax was

£1,153 million in the six months ended 31 March 2015, an increase of 5 percent compared to the six months ended 31 March 2014.

The reported tax charge was £180 million in the six months ended 31 March 2015, compared to £265 million in the six months ended 31 March 2014. The adjusted tax charge for the six months ended 31 March 2015, which excludes the taxation effects of the adjustments described above, was £241 million (the six months ended 31 March 2014: £234 million), representing an adjusted effective tax rate of 21 percent (the six months ended 31 March 2014: 21 percent).

Results by segment

The table below shows the Group's tobacco business revenue, net revenue and adjusted operating profit by market region for the six months ended 31 March 2015 as compared to 31 March 2014 (restated for IFRS 11).

	Revenue		Net Revenue		Adjusted Operating Profit	
	For the six months ended 31 March 2014 (Restated)	For the six months ended 31 March 2015	For the six months ended 31 March 2014 (Restated)	For the six months ended 31 March 2015	For the six months ended 31 March 2014 (Restated)	For the six months ended 31 March 2015
			Unaudited (in £ million)			
Returns Markets North	6,202	6,162	1,368	1,320	728	719
Returns Markets South	1,270	1,129	821	730	352	310
Total Returns Markets	**7,472**	**7,291**	**2,189**	**2,050**	**1,080**	**1,029**
Growth Markets	1,765	1,804	865	895	195	266
Total Tobacco	**9,237**	**9,095**	**3,054**	**2,945**	**1,275**	**1,295**

Returns Markets

Total Returns Markets net revenue was £2,050 million for the six months ended 31 March 2015, a 6 percent decrease from £2,189 million in the six months ended 31 March 2014, or a 1 percent increase excluding exchange rate movements. Adjusted operating profit was £1,029 million for the six months ended 31 March 2015, a 5 percent decrease from £1,080 million in the six months ended 31 March 2014, or a 1 percent increase excluding exchange rate movements.

Overall, industry sales volumes declined by 2 percent in Returns Markets. The Group's market share across Returns Markets was broadly stable at 26.4 percent for the six months ended 31 March 2015 compared to 26.5 percent for the six months ended 31 March 2014. The Group achieved growth in net revenue per thousand stick equivalents in Returns Markets on a constant currency basis of 1 percent during the six months ended 31 March 2015.

Good results in Returns North offset the impact of the weak operating environment in Returns South, such that adjusted operating profit across Returns Markets was up 1 percent overall. Growth Brands performed well, accounting for 49 percent of net revenue (increasing by 8.1 percentage points) and growing the Group's share from 10.9 percent to 13 percent for the six months ended 31 March 2014 and 2015, respectively.

Returns Markets North

In Returns Markets North, net revenue per thousand stick equivalents increased by 2 percent on a constant currency basis, and adjusted operating profit increased by 4 percent in the six months ended

31 March 2015 compared to the six months ended 31 March 2014. Sales volumes increased from 48 billion stick equivalents in the six months ended 31 March 2014 to 49 billion stick equivalents in the six months ended 31 March 2015. Growth Brands delivered 52 percent of Returns Markets North tobacco net revenue for the six months ended 31 March 2015 up from 45 percent in the six months ended 31 March 2014. The Group's Returns Markets North market share was 25 percent in the six months ended 31 March 2015, unchanged from the six months ended 31 March 2014.

In the UK, the Group was focused on a number of portfolio initiatives during the period to reinforce its leading position. However, the Group's overall market share decreased in the six months ended 31 March 2015, although the most recent trend was positive, with Growth Brands increasing market share in the first three months of calendar year 2015. In particular, the Group grew the *Lambert & Butler* brand franchise with *L&B Blue* and continued to build the presence of *Player's Gold Leaf* in fine cut tobacco.

In Germany, revenue and profit increased compared to the six months ended 31 March 2014 as the Group continued its strong financial performance. Nevertheless, the Group's overall market share fell slightly, although the most recent trend was positive with Growth Brands increasing market share in the first three months of the calendar year 2015. *JPS* performed well and benefitted from a marketing campaign.

Revenue, volume and market share all increased in Australia in the six months ended 31 March 2015 compared to the six months ended 31 March 2014, driven by continued strong performance from *JPS*. In New Zealand, the Group improved cigarette and fine cut tobacco market shares with growth from *JPS* and *West* brands.

In the Benelux region, the Group maintained its overall cigarette and fine cut tobacco market share and made good progress in the growing roll-your-own category.

In Azerbaijan, the Group maintained its market-leading position with further cigarette share growth and a strong financial performance. In Ukraine, *West* registered strong volume growth and the Group launched the *Parker & Simpson* brand, helping to grow its overall market share.

Returns Markets South

In Returns Markets South, Growth Brands accounted for 44 percent of tobacco net revenue for the six months ended 31 March 2015, up from 35 percent in the six months ended 31 March 2014. Sales volumes decreased from 42 billion stick equivalents in the six months ended 31 March 2014 to 41 billion stick equivalents in the six months ended 31 March 2015. Positive progress in a number of markets was undermined by the persistent weak operating environment in France, Spain and Morocco. The Group's overall market share was down 0.2 percentage points to 28.7 percent.

In France, industry volumes remained weak and the Group's overall market share declined, although the rate of decline has slowed. The Group made further gains in the growing roll-your-own segment with *Gauloises Blondes,* and Fontem Ventures launched the e-cigarette brand *JAI*. In Spain, conditions improved during the period with slower industry volume declines and the Group maintained its blonde cigarette market share.

The Moroccan market continued to be affected by illicit trade and there were further declines in industry volumes and the Group's market share, and the Group sought to focus on a number of portfolio initiatives to strengthen its competitive position.

The Group improved market share in Portugal and the Czech Republic and made further progress in stabilizing its market share in Austria, which had been declining. The Group grew market share and volumes in Algeria. In the Ivory Coast, the Group launched the *Parker & Simpson* brand with a view to improving its competitive position.

Growth Markets

Growth Markets net revenue was £895 million for the six months ended 31 March 2015, a 3 percent increase from £865 million for the six months ended 31 March 2014, and an increase of 1 percent excluding exchange rate movements and the effects of the stock optimization program in the 2014 financial year. Volumes for the six months ended 31 March 2015 were down 11 percent compared to the corresponding period in the prior year. Excluding Iraq, volumes were down 7 percent and net revenue was up 4 percent for the six months ended 31 March 2015 compared to the corresponding period in the prior year. In Iraq, trading reduced significantly against a backdrop of a worsening political and security situation in territories where the Group has a high presence. Adjusted operating profit was £266 million for the six months ended 31 March 2015, a 36 percent increase from £195 million in the six months ended 31 March 2014, or a 26 percent increase excluding exchange rate movements, reflecting the impact of the stock optimization program last year. The Group's market share across Growth Markets was broadly stable at 5.5 percent for the six months ended 31 March 2015 compared to 5.6 percent for the six months ended 31 March 2014.

In Italy, the Group's cigarette market share was up, with *JPS* continuing to perform well and *Davidoff* gaining traction in key cities. Fontem Ventures also launched the e-cigarette brand *JAI*.

In Greece, the Group grew *Davidoff*'s market share and sought to strengthen its portfolio by migrating from the local brand *Maxim* into the *JPS* brand. The Group also increased its fine cut tobacco market share.

In Sweden and Norway, volume and revenue increased as the Group improved its market leading position in the snus market in both countries, driven by strong performance from the *Skruf* brand.

In Turkey, the Group's cigarette market share was slightly down and profits were impacted by significant price competition. As a result, the Group is currently restructuring its Turkish operations to improve its competitive position.

In the U.S., *USA Gold* grew by both volume and market share, although the Group's financial performance was negatively impacted by highly competitive conditions in the mass market cigar market.

In Russia, the Group's performance was resilient given challenging market conditions. In particular, the Group maintained its cigarette market share with *Maxim* performing well, supported by the *Davidoff* and *West* brands. Revenue was higher, driven by strong pricing.

In Saudi Arabia, the Group grew its cigarette market share with a good performance from *West*, supported by *Davidoff* and *Gauloises Blondes*.

In Egypt, the Group continued to make positive progress, focused on the market share growth of *Davidoff* and *Parker & Simpson*.

In Japan, the Group's cigarette market share grew as the Group continued to extend the availability of the *West* brand, supported by customer engagement initiatives.

In Taiwan, the Group grew its cigarette market share, with a strong performance from the *Davidoff* brand, supported by *West* and *Parker & Simpson*.

In Vietnam, the Group's volume and market share declined due to increasing levels of illicit trade, and in Cambodia, price competition negatively impacted growth momentum during the period.

In Kazakhstan, the Group performed well in a difficult environment, growing profit and cigarette market share, supported by the performance of the *West* brand.

Logistics

The logistics segment generated revenue of £3,430 million and distribution fees of £378 million during the six months ended 31 March 2015. After adjusting for exchange rate movements, distribution fees in Logista decreased by 3 percent compared to the six months ended 31 March 2014. Adjusted operating profit of £73 million for the six months ended 31 March 2015 (compared to £73 million in the six months ended 31 March 2014) increased by 10 percent excluding exchange rate movements. This was driven by price increases and cost and efficiency measures in tobacco logistics, offsetting lower tobacco volumes, and a number of good results in non-tobacco logistics, including gains in the pharma and transport divisions.

Financial Year 2014 as Compared to Financial Year 2013

Group results

The tables below show the Group's revenue, operating profit and adjusted operating profit by key business segment for the year ended 30 September 2014 as compared to 30 September 2013 (restated for IAS 19 (Revised)). For more detail, see "*Presentation of Financial, Market and Other Information—Presentation of the Group's Financial Information*".

	Revenue		Operating Profit		Adjusted Operating Profit	
	For the year ended 30 September					
	2013 Unaudited (Restated)	2014	2013 Unaudited (Restated)	2014	2013 Unaudited (Restated)	2014
	(in £ million)					
Tobacco	20,881	19,656	1,888	1,970	3,003	2,850
Logistics	8,288	7,784	69	84	176	166
Eliminations	(900)	(815)	1	10	1	10
Total Group	**28,269**	**26,625**	**1,958**	**2,064**	**3,180**	**3,026**

Revenue was £26,625 million in the year ended 30 September 2014 compared to £28,269 million in the year ended 30 September 2013, a decrease of 6 percent, mainly reflecting lower sales volumes and completion of the Group's stock optimization program.

Duty and similar items decreased by 6 percent over the period. Other cost of sales, which comprises direct costs of production and the cost of goods purchased for resale, decreased by 7 percent to £8,422 million in the year ended 30 September 2014, mainly reflecting lower sales volumes. Distribution, advertising and selling costs of £1,946 million decreased by 5 percent compared to the prior year (the year ended 30 September 2013: £2,053 million). Administrative and other expenses (which comprise primarily the costs of central support functions, amortization and impairment of acquired intangibles, and restructuring costs) decreased by £253 million to £1,265 million in the year ended 30 September 2014 from £1,518 million in the year ended 30 September 2013. This reflects a lower charge for amortization and impairment of intangible assets following the impairment of Spanish intangible assets in the year ended 30 September 2013 caused by continued economic weakness, duty increases and a decline in the legitimate tobacco market.

Tobacco net revenue was £6,576 million in the year ended 30 September 2014 compared to £7,007 million in the year ended 30 September 2013. This represents a decrease of 6 percent (1 percent excluding the effect of exchange rate movements). Factors impacting revenue in each market are discussed under "*—Results by segment*". Distribution fees, which exclude the cost of distributed products, remained relatively stable at £848 million compared with £850 million in the year ended 30 September 2015.

Reported operating profit increased by 5 percent to £2,064 million in the year ended 30 September 2014, compared to £1,958 million in the year ended 30 September 2013, mainly reflecting a lower charge for amortization and impairment of intangible assets. Adjusted operating profit (which excludes acquisition costs, amortization and impairment of acquired intangibles, and restructuring costs) decreased to £3,026 million in the year ended 30 September 2014, a reduction of 5 percent, but remained flat excluding exchange rate movements.

Reported net finance costs fell to £544 million in the year ended 30 September 2014, compared to £739 million in the year ended 30 September 2013, and comprised finance costs of £1,061 million (£1,463 million in the year ended 30 September 2013) and investment income of £517 million (£724 million in the year ended 30 September 2013). The decrease in both finance costs and investment income was primarily due to lower fair value losses and gains on derivative financial instruments providing commercial hedges. Adjusted net finance costs, which exclude retirement benefits, net financing costs, fair value gains and losses on derivative financial instruments, decreased to £516 million (compared to £532 million in the year ended 30 September 2013).

Reported profit before tax increased to £1,520 million in the year ended 30 September 2014, compared to £1,219 million in the year ended 30 September 2013. Adjusted profit before tax was £2,510 million in the year ended 30 September 2014, down 5 percent, but remained flat excluding exchange rate movements in the year ended 30 September 2013.

The reported tax charge was £69 million in the year ended 30 September 2014, compared to £290 million in the year ended 30 September 2013. The adjusted tax charge for the year ended 30 September 2014, which excludes the taxation effects of the adjustments described above, was £530 million (the year ended 30 September 2013: £572 million), representing an adjusted effective tax rate of 21.1 percent (the year ended 30 September 2013: 21.6 percent).

Results by segment

The table below shows the Group's tobacco business revenue, net revenue and adjusted operating profit by market region for the years ended 30 September 2014 as compared to 30 September 2013 (restated for IAS 19 (Revised)).

	Revenue		Net Revenue		Adjusted Operating Profit	
	For the year ended 30 September					
	2013 Unaudited (Restated)	2014	2013 Unaudited (Restated)	2014	2013 Unaudited (Restated)	2014
	(in £ million)					
Returns Markets North	13,527	12,939	2,929	2,801	1,543	1,511
Returns Markets South	3,051	2,824	1,824	1,662	792	742
Total Returns Markets	**16,578**	**15,763**	**4,753**	**4,463**	**2,335**	**2,253**
Growth Markets	4,303	3,893	2,254	2,113	668	597
Total Tobacco	**20,881**	**19,656**	**7,007**	**6,576**	**3,003**	**2,850**

Returns Markets

Total Returns Markets net revenue was £4,463 million for the year ended 30 September 2014, a 6 percent decrease from £4,753 million in the year ended 30 September 2013, or a 2 percent decrease excluding exchange rate movements. Adjusted operating profit was £2,253 million for the year ended 30 September 2014, a 4 percent decrease from £2,335 million in the year ended 30 September 2013, or a 1 percent increase excluding exchange rate movements.

Overall, industry sales volumes declined by 3 percent in Returns Markets. The Group's market share across Returns Markets was 26.7 percent for the year ended 30 September 2014 compared to 27.3 percent for the year ended 30 September 2013, largely reflecting the weighting of higher than average market size declines in the UK and Morocco, where the Group has a higher share than in other Returns Markets. The Group grew net revenue per thousand stick equivalents in Returns Markets on a constant currency basis excluding the effect of the stock optimization program by 4 percent during the year ended 30 September 2014.

The Group's performance in Returns Markets South was adversely impacted by difficult economic conditions and illicit trade driving industry volume declines. However, the Group's relatively positive results in Returns Markets North, in particular in Germany, Portugal, Australia and Ukraine, and in Algeria, partially offset the impact of weakness in Spain, France and Morocco.

Tobacco net revenue from Growth Brands also helped drive overall Group results in Returns Markets, contributing 43.2 percent of tobacco net revenue, compared to a 40.0 percent revenue contribution in the year ended 30 September 2013.

Returns Markets North

In Returns Markets North, net revenue per thousand stick equivalents increased by 6 percent on a constant currency basis and excluding the effect of the stock optimization program, adjusted operating profit increased by 2 percent on a constant currency basis in the year ended 30 September 2014. The impact of the stock optimization program on net revenue was excluded to reflect management's estimate of the underlying performance by adjusting for the one-off decrease in sales arising from the reduction in excess stock held in distribution channels. Sales volume decreased from 109 billion stick equivalents in the year ended 30 September 2013 to 104 billion stick equivalents in the year ended 30 September 2014. Growth Brands delivered 46.7 percent of Returns Markets North's tobacco net revenue for the year ended 30 September 2014 up from 43.9 percent in the year ended 30 September 2013. The Returns Markets North market share was 24.8 percent in the year ended 30 September 2014 compared to 25.5 percent in the year ended 30 September 2013, impacted by industry volume declines in the UK.

In the UK, *JPS* sales volumes increased and the Group made gains in the fine cut tobacco market with *Player's Gold Leaf*.

In Germany, the Group's revenue and profit increased relative to the prior year. Although the Group's fine cut tobacco market share decreased relative to the prior period, growth from *JPS* and *Davidoff* kept its cigarette market share broadly stable.

The Group's volumes, revenue and profit in Australia increased in the year ended 30 September 2014 as compared to the year ended 30 September 2013, driven by an increase in the market share of *JPS*. In New Zealand, the Group also increased market shares for both cigarette and fine cut tobacco, driven by the performance of the *JPS* and *West* brands.

In the Benelux region, the Group grew profit for the year ended 30 September 2014 as compared to the year ended 30 September 2013, despite a relative drop in market share driven by competitor pressures in the Netherlands.

Despite the turbulent environment in Ukraine, the Group witnessed significant improvements in both revenue and profits for the year ended 30 September 2014 as compared with the year ended 30 September 2013, notwithstanding a slight decrease in overall market share.

Returns Markets South

In Returns Markets South, Growth Brands accounted for 37.3 percent of tobacco net revenue for the year ended 30 September 2014, up from 33.7 percent in the year ended 30 September 2013. Sales volume, however, decreased from 95 billion stick equivalents in the year ended 30 September 2013 to 90 billion stick equivalents in the year ended 30 September 2014. Overall financial performance in this division was undermined by a weak operating environment in France, Spain and Morocco. The Group's Returns Markets South market share was 29.4 percent in the year ended 30 September 2014, compared to 29.9 percent in the year ended 30 September 2013.

In France, the Group's cigarette market share declined, driven by weak industry volumes. In Spain, industry volume also declined though at a slower rate. The Group grew its blonde cigarette market share and strengthened its portfolio by migrating local brand *Brooklyn* to *West*.

The Moroccan market continued to see steep industry declines and the Group saw its cigarette market share decline. The Group's performance improved in the second half of the year driven in part by the launches of *MQS,* a modern variant of its local cigarette brand *Marquise*, and of the market's first fine cut tobacco products.

During the year ended 30 September 2014, the Group increased its cigarette market share in Senegal, the Czech Republic and Portugal, and stabilized its cigarette market share in Austria, in each case relative to its performance in the year ended 30 September 2013.

Growth Markets

Growth Markets net revenue was £2,113 million for the year ended 30 September 2014, a 6 percent decrease from £2,254 million for the year ended 30 September 2013, but was flat excluding exchange rate movements. The Group's underlying net revenue (excluding the effect of its stock optimization program) increased by 7 percent against a backdrop of industry declines of around 4 percent. Adjusted operating profit was £597 million for the year ended 30 September 2014, an 11 percent decrease from £668 million in the year ended 30 September 2013, or 2 percent excluding exchange rate movements. The Group's overall Growth Markets share increased slightly from the year ended 30 September 2013 to 5.8 percent in the year ended 30 September 2014.

In the U.S., profit increased and the Group grew its cigarette market share of the key Growth Brand *USA Gold* in key states.

Group results in Russia were undermined by difficult trading conditions, as industry volumes continued to decline following excise increases and changes to regulation and the route to market. The Group saw market share declines stabilize during the second half, in part driven by a number of portfolio initiatives in key growth segments, including queen size formats, big boxes and charcoal filters.

The worsening political and security situation in Iraq continued to have a major impact on industry volumes, which combined with the impact of the Group's stock optimization program, significantly affected performance. In Vietnam, while the *Bastos* brand has continued to perform well, increased regulation, with the recent introduction of pictorial health warnings on packs, and the growth of illicit trade contributed to a challenging market backdrop.

The Group continued to make progress in its snus business in Scandinavia, where an increase in *Skruf* sales was reflected in market share gains and an increase in profits. A strong performance by the *Fine* brand drove an increase in revenue and profit in Cambodia, while *West* and *Parker & Simpson* drove volume and market share growth in Kazakhstan.

During the year the Group continued to invest in developing its newly established positions in the Egyptian and Japanese markets, which offer opportunities for growth going forward.

Logistics

The logistics segment generated revenue of £7,784 million and distribution fees of £848 million. After adjusting for exchange rate movements, distribution fees in Logista increased by 2 percent. Adjusted operating profit of £166 million for the year ended 30 September 2014 (compared to £176 million in the year ended 30 September 2013) was down by 6 percent or 3 percent excluding exchange rate movements, a decline driven largely by one-off items. In tobacco logistics, cost control measures and efficiency improvement programs continued to help mitigate the impact of tobacco volume declines. In non-tobacco logistics, the Group's Spanish transport and direct delivery pharmaceutical businesses performed well, with sales of convenience products in the tobacconist channel performing strongly.

Financial Year 2013 as Compared to Financial Year 2012

Group results

The tables below show the Group's revenue, operating profit and adjusted operating profit by segment for the year ended 30 September 2013 as compared to the year ended 30 September 2012.

	Revenue		Operating Profit		Adjusted Operating Profit	
	For the year ended 30 September					
	2012	2013	2012	2013	2012	2013
	(in £ million)					
Tobacco	21,161	20,881	1,447	1,888	2,989	3,003
Logistics	8,368	8,288	75	69	176	176
Eliminations	(955)	(900)	(4)	1	(4)	1
Total Group	**28,574**	**28,269**	**1,518**	**1,958**	**3,161**	**3,180**

Revenue was £28,269 million in the year ended 30 September 2013 compared to £28,574 million in the year ended 30 September 2012, a decrease of 1 percent, reflecting sales volume declines largely offset by price increases.

Duty and similar items decreased by 2 percent over the period. Other cost of sales, which comprises direct costs of production and the cost of goods purchased for resale, decreased by 1 percent to £9,059 million in the year ended 30 September 2013, largely reflecting sales volume reductions. Distribution, advertising and selling costs of £2,053 million reflected a 2 percent increase from the prior year (the year ended 30 September 2012: £2,005 million). Administrative and other expenses (which comprise primarily the costs of central support functions, amortization of acquired intangibles and restructuring costs) decreased by £453 million to £1,518 million in the year ended 30 September 2013 from £1,971 million in the year ended 30 September 2012. This mainly reflects a lower charge for the impairment of intangible assets.

Tobacco net revenue, which excludes duty and similar items and revenue which is not part of the Group's core business, decreased by 1 percent on a constant-currency basis at £7,007 million in the year ended 30 September 2013 compared to £7,005 million in the year ended 30 September 2012. Factors impacting revenue in each region are discussed under "—*Results by segment*" below. Logistics distribution fees, which exclude the cost of distributed products, decreased by 3 percent to £850 million compared to £872 million in the prior year.

Reported operating profit rose by 29 percent to £1,958 million in the year ended 30 September 2013, compared to £1,518 million in the year ended 30 September 2012. Adjusted operating profit, which excludes acquisition accounting adjustments, amortization of acquired intangibles and restructuring costs, increased 1 percent to £3,180 million.

Reported net finance costs increased to £697 million in the year ended 30 September 2013, compared to £437 million in the year ended 30 September 2012 and comprised finance costs of £1,463 million (the year ended 30 September 2012: £1,473 million) and investment income of £766 million (the year ended 30 September 2012: £1,036 million). The reduction in investment income was primarily due to lower fair value gains on derivative financial instruments providing commercial hedges. Adjusted net finance costs, which exclude retirement benefits, net financing income and fair value gains and losses on derivative financial instruments, decreased to £532 million (the year ended 30 September 2012: £535 million).

Reported profit before tax increased to £1,261 million, compared to £1,081 million in the year ended 30 September 2012. Adjusted profit before tax was £2,648 million, an increase of 1 percent from the year ended 30 September 2012.

The reported tax charge was £300 million, compared to £382 million in the year ended 30 September 2012. The adjusted tax charge for the year, which excludes the taxation effects of the adjustments described above and a one-off tax provision credit arising from the resolution of prior year tax matters, was £572 million (the year ended 30 September 2012: £604 million), representing an adjusted effective tax rate of 21.6 percent (the year ended 30 September 2012: 23.0 percent).

Results by segment

The table below shows the Group's tobacco business revenue, net revenue and adjusted operating profit by market for the year ended 30 September 2013 as compared to the year ended 30 September 2012.

	Revenue		Net Revenue		Adjusted Operating Profit	
	For the year ended 30 September					
	2012	2013	2012	2013	2012	2013
	(in £ million)					
Returns Markets North	13,836	13,527	2,924	2,929	1,502	1,543
Returns Markets South	3,174	3,051	1,889	1,824	854	792
Total Returns Markets	**17,010**	**16,578**	**4,813**	**4,753**	**2,356**	**2,335**
Growth Markets	4,151	4,303	2,192	2,254	633	668
Total Tobacco	**21,161**	**20,881**	**7,005**	**7,007**	**2,989**	**3,003**

Returns Markets

Total Returns Markets net revenue for the year ended 30 September 2013 was £4,753 million, a decrease of 1 percent from £4,813 million for the year ended 30 September 2012, or a decrease of 2 percent excluding exchange rate movements. Total Returns Markets adjusted operating profit was £2,335 million, 1 percent lower than the adjusted operating profit of £2,356 million for the year ended 30 September 2012 (both including and excluding exchange rate movements).

Group results in its Returns Markets for the year ended 30 September 2013 were driven by challenging economic conditions in many markets, which suffered market volume declines as a result of austerity measures, rising unemployment and increasing levels of illicit trade. However, Group results in Returns Markets North, driven in particular by strong results in Germany, the UK and Australia, helped to mitigate the impact of relatively weaker performance in Returns Markets South, particularly in Morocco, France and Spain. The trading environment was particularly difficult in Spain and as a result the Group took a further non-cash impairment charge.

The Group's market share of Returns Markets in the year ended 30 September 2013 was 27.3 percent, compared to 27.7 percent in the year ended 30 September 2012, driven by significant market volume declines in large markets, such as the UK and Spain, where the Group has a relatively high market share as compared to other Returns Markets countries. Overall, Returns Markets industry volumes declined by 5.3 percent in the year ended 30 September 2013 from the year ended 30 September 2012.

Group net revenue per thousand stick equivalents increased to £23.4 in the year ended 30 September 2013, a 6 percent increase on a constant currency basis from £21.9 in the year ended 30 September 2012. Growth Brands generated 40 percent of the year ended 30 September 2013 tobacco net revenue in Returns Markets, an increase from 38 percent of Returns Markets tobacco net revenue in the year ended 30 September 2012.

Returns Markets North

In Returns Markets North, Group net revenue per thousand stick equivalents increased 10 percent on a constant currency basis from £24.4 in the year ended 30 September 2012 to £27.0 in the year ended 30 September 2013, while adjusted operating profit increased from £1,502 million in the year ended 30 September 2012 to £1,543 million in the year ended 30 September 2013, a 3 percent increase on a constant currency basis. Sales volume decreased from 120 billion stick equivalents in 2012 to 109 billion stick equivalents in 2013.

Group Growth Brands delivered 44 percent of tobacco net revenue in Returns Markets North for the year ended 30 September 2013, up from 42 percent in the year ended 30 September 2012, while Group Returns Markets North market share was 25.5 percent in the year ended 30 September 2013, a slight decrease from a 26.0 percent market share the previous year.

In the UK, weakening industry volumes were offset by strong pricing and an increased Group cigarette market share, which the Group attributes to a number of portfolio initiatives, including new *Lambert & Butler* packs and a rejuvenation of the *Golden Virginia* brand family.

In Germany, the Group increased its revenue and profits with further gains from *Davidoff*, *Gauloises Blondes* and *JPS*, supported by *Route 66*.

In the Benelux region, increases in fine cut market share for the year ended 30 September 2013 from the year ended 30 September 2012 were driven by the performance of *JPS* and *Golden Virginia* brands, as well as the *West* brand in Belgium.

The Group lost market share in Ukraine for the year ended 30 September 2013 mainly due to price pressures from competitor activity. It has worked to offset the impact of such competition with portfolio initiatives including the launch of *Davidoff* queen size.

In Australia, the Group's revenue and profit increased in the year ended 30 September 2013 from their respective levels in the year ended 30 September 2012, despite the increasingly restrictive regulatory environment characterized by the introduction of plain packaging in December 2012, driven in part by the performance of the *JPS* brand.

Returns Markets South

In Returns Markets South, Group net revenue per thousand stick equivalents increased from £18.8 in the year ended 30 September 2012 to £19.3 in the year ended 30 September 2013. Adjusted operating profit decreased by £62 million from £854 million in the year ended 30 September 2012 to £792 million in the year ended 30 September 2013, an 8 percent decline on a constant currency basis, driven by challenging economic conditions. Sales volume decreased from 100 billion stick equivalents in 2012 to 95 billion stick equivalents in 2013.

Group Growth Brands delivered 34 percent of tobacco net revenue in Returns Markets South for the year ended 30 September 2013, an increase from 32 percent in the year ended 30 September 2012.

In Spain, difficult economic conditions stemming from austerity measures and rising unemployment led to declining industry volumes. This and increasing levels of illicit trade further impacted overall market conditions and had a negative impact on Group profit and revenue in the country.

In France, declining industry volumes and rising illicit trade adversely impacted Group results, partly offset by the performance of certain brands including *Gauloises Blondes* and *News*.

During the year ended 30 September 2013, the Group increased fine cut tobacco market share in Austria and Hungary from the year ended 30 September 2012 and strengthened its cigarette portfolio in Czech Republic, Slovenia and Slovakia with the launch of *Parker & Simpson*. Positive results in Portugal were driven by the performance of the *JPS* brand.

Group profit in Morocco for the year ended 30 September 2013 was adversely impacted by excise-driven price increases, regulation, illicit trade and increased competitor activity. Elsewhere in Africa, the Group increased its cigarette market share in Senegal and Algeria.

Growth Markets

Growth Markets net revenue increased 3 percent from £2,192 million in the year ended 30 September 2012 to £2,254 million in the year ended 30 September 2013, a 2 percent increase on a constant currency basis. Adjusted operating profit increased from £633 million in the year ended 30 September 2012 to £668 million in the year ended 30 September 2013, a 6 percent increase (or a 7 percent increase on a constant currency basis). Sales volumes decreased from 121 billion stick equivalents in 2012 to 114 billion stick equivalents in 2013.

The Group's market share of Growth Markets in the year ended 30 September 2013 was 5.8 percent, compared to 5.9 percent in the year ended 30 September 2012. Excluding Russia, the Group's market share of Growth Markets in the year ended 30 September 2013 was 5 percent. Overall industry volumes declined by 3 percent in Growth Markets during the year ended 30 September 2013. Amidst this decline, economic pressures persisted in a number of Growth Markets during the year ended 30 September 2013, but Group market volumes were impacted most severely in Russia, due to the impact of adverse regulatory and excise changes. Group results were relatively positive in markets such as Taiwan, Turkey, Italy, Greece, Scandinavia, Cambodia and Kazakhstan.

In the USA, overall volume declines were partially offset by growth of the Group's cigarette market share in key states and increases in the Group's fine cut tobacco market share.

Sales of the *West* brand drove an increase in cigarette market share and sales volume in Taiwan for the year ended 30 September 2013. Elsewhere in Asia, sales volumes of the *Bastos* brand in Vietnam increased, as did the Group's cigarette market share in Laos. In the Middle East, the Group's cigarette market share in Saudi Arabia and Lebanon increased from the year ended 30 September 2012 to the year ended 30 September 2013, and the Group also witnessed sales volume growth in Iraq, driven by strong performances from *West* and *Gitanes*, supported by good initial gains from *Parker & Simpson*.

In Turkey, Group cigarette market share grew from 3.7 percent in the year ended 30 September 2012 to 4.5 percent in the year ended 30 September 2013, driven by the performance of both the *Davidoff* and *West* brands. An increase in Group market share in Greece during the year ended 30 September 2013 was driven by the performance of the *Davidoff* brand.

During the year ended 30 September 2013, the Group's premium cigar revenue increased, driven in particular by the performance of the *Cohiba*, *Montecristo* and *Romeo y Julieta* brands in Asia and the Middle East. During the same period, the Group also witnessed increases in market share, volume, revenue and profits of snus in Scandinavia, all driven by sales of the Group's *Skruf* brand.

Logistics

For the year ended 30 September 2013, distribution fees decreased by 3 percent to £850 million compared to £872 million in the year ended 30 September 2012, while adjusted operating profit was flat at £176 million.

In tobacco logistics, cost control measures and efficiency improvement programs continued to mitigate the impact of tobacco volume declines. In non-tobacco logistics, the Group's results were positively impacted by the performance of its transport business in Spain and of its direct delivery pharmaceuticals business.

Liquidity and Capital Resources

The Group broadly defines liquidity as its ability to generate sufficient cash flow from its operating activities to meet its contractual obligations and commercial commitments together with its undrawn committed bank facilities, cash and cash equivalents and with its ability to obtain appropriate bank or capital markets debt and/or equity financing in the future. The Group's principal long-term capital resources consist of its bank credit facilities and capital market issuances, as described below, as well as expected operating cash flow.

The Group consistently converts a high level of profit from operations into operating cash flow before tax payments less net capital expenditure relating to property, plant and equipment and software. The Group's cash conversion rate in the year ended 30 September 2014 was 91 percent (the year ended 30 September 2013: 86 percent).

As at 30 September 2014, the Group had total committed funding in place of approximately £13.0 billion (as at 31 March 2015: no change), comprised of approximately 71 percent bond issues, 27 percent bank facilities, and 2 percent ECP (as at 31 March 2015: 69 percent, 26 percent and 5 percent respectively). The debt weighted average maturity was 5.2 years, of which the bond weighted average maturity was 6.4 years (at 31 March 2015: 4.6 years and 5.9 years respectively).

For a discussion of the Group's funding and treasury matters, see Notes 18-20 to the 2014 Financial Statements.

Cash flows

The table below shows the Group's consolidated cash flows for the years ended 30 September 2012, 2013, 2014 and for the six months ended 31 March 2014 and 2015.

	For the year ended 30 September					For the six months ended 31 March	
	2012	2013	2013 Unaudited (Restated)	2014	2014 Unaudited (Restated)	2014 Unaudited (Restated)	2015 Unaudited
				(in £ million)			
Cash flows from operating activities	**2,119**	**2,352**	**2,352**	**2,548**	**2,502**	**(481)**	**(158)**
Cash flows from investing activities							
Interest received	15	9	9	10	10	4	5
Purchase of property, plant and equipment	(300)	(269)	(269)	(256)	(255)	(113)	(77)
Proceeds from sale of property, plant and equipment	21	14	14	59	59	26	11
Purchase of intangible assets—software	(24)	(27)	(27)	(37)	(37)	(16)	(17)
Internally generated intellectual property rights	—	(9)	(9)	(4)	(4)	—	(4)
Purchase of intangible assets—intellectual property rights	—	—	—	(46)	(46)	(37)	—
Purchase of businesses—net of cash acquired	—	(35)	(35)	—	—	—	—
Proceeds from sale of businesses—net of cash disposed	—	1	1	—	—	—	—
Net cash used in investing activities	**(288)**	**(316)**	**(316)**	**(274)**	**(273)**	**(136)**	**(82)**
Cash flows from financing activities							
Interest paid	(515)	(522)	(522)	(550)	(543)	(396)	(343)
Cash from employees on maturity/exercise of share schemes	8	6	6	6	6	1	1
Purchase of shares held by Employee Share Ownership Trusts	—	(6)	(6)	(2)	(2)	(2)	—
Increase in borrowings	1,335	4,884	4,884	2,324	2,303	3,055	914
Repayment of borrowings	(1,486)	(3,443)	(3,443)	(3,200)	(3,200)	(2,165)	(321)
Repayment of loan to joint ventures	—	—	—	—	52	—	—
Cash flows relating to derivative financial instruments	(79)	(28)	(28)	(121)	(121)	—	98
Finance lease payments	(2)	(20)	(20)	—	—	—	(1)
Purchase of treasury shares	(528)	(500)	(500)	(341)	(341)	(237)	—
Proceeds from sale of share in subsidiary to non-controlling interest	—	—	—	395	395	—	—
Dividends paid to non-controlling interests	(19)	(19)	(19)	(21)	(16)	(11)	(12)
Dividends paid to owners of the Parent	(983)	(1,065)	(1,065)	(1,149)	(1,149)	(779)	(871)
Net cash (used in)/generated by financing activities	**(2,269)**	**(713)**	**(713)**	**(2,659)**	**(2,616)**	**(534)**	**(535)**
Net (decrease)/increase in cash and cash equivalents	**(438)**	**1,323**	**1,323**	**(385)**	**(387)**	**(1,151)**	**(775)**
Cash and cash equivalents at start of year	1,171	631	631	1,809	1,793	1,792	1,413
Effect of foreign exchange rates on cash and cash equivalents	(102)	(145)	(145)	7	7	(24)	(5)
Cash and cash equivalent at end of period	**631**	**1,809**	**1,809**	**1,431**	**1,413**	**617**	**633**

For internal management purposes, the Group uses a measure of "operating cash flow before tax payments less net capital expenditure relating to property, plant and equipment and software". Operating cash flow before tax payments less net capital expenditure relating to property, plant and equipment and software is not a measure determined in accordance with IFRS. The Group believes, however, that it is a helpful measure, as it represents the amount of cash available to the Group for the repayment of its indebtedness, for strategic acquisitions to grow the business, or for other investing or financing activities.

The Group reconciles cash flows from operating activities before tax payments and after net capital expenditure relating to property, plant and equipment and software to cash flows from operating activities as follows, for the periods indicated:

	For the year ended 30 September			For the year ended 31 March	
	2012	2013	2014	2014 Unaudited	2015 Unaudited
	(in £ million, except percentages)				
Cash flows from operating activities	2,119	2,352	2,548	2,209	2,825
Tax payments	442	686	457	449	460
Net capital expenditure	(303)	(291)	(238)	(216)	(213)
Cash flows from operating activities before tax payments less net capital expenditure relating to property, plant and equipment and software (A)	**2,258**	**2,747**	**2,767**	**2,442**	**3,072**
Adjusted operating profit (B)	**3,161**	**3,180**	**3,026**	**3,122**	**3,002**
Cash conversion rate (A / B)	71%	86%	91%	78%	102%

Six months ended 31 March 2015 as compared to six months ended 31 March 2014 (restated)

In the six months ended 31 March 2015, the Group used cash flows of £158 million from operating activities compared to £481 million used in the six months ended 31 March 2014, mainly reflecting lower levels of working capital. Taxation payments in the six months ended 31 March 2015 were £235 million compared to £226 million in the six months ended 31 March 2014.

Net cash used in investing activities was £82 million in the six months ended 31 March 2015 compared to £136 million in the six months ended 31 March 2014, reflecting lower levels of purchases of plant and equipment.

Net capital expenditures in the six months ended 31 March 2015 were £87 million compared to £103 million in the six months ended 31 March 2014. The Group's capital expenditures in the six months ended 31 March 2015 were £98 million compared to £129 million in the six months ended 31 March 2014.

Net cash used in financing activities was £535 million in the six months ended 31 March 2015 compared with net cash used in the six months ended 31 March 2014 of £534 million, mainly reflecting net repayment of debt during the period. Interest paid in the six months ended 31 March 2015 was £343 million (the six months ended 31 March 2014: £396 million).

Dividend payments to shareholders of Imperial Tobacco in the six months ended 31 March 2015 totalled £871 million, a 12 percent increase compared to £779 million in the six months ended 31 March 2014.

Financial year 2014 as compared to financial year 2013

In the year ended 30 September 2014, the Group generated £2,548 million of cash flows from operating activities compared to £2,352 million in the year ended 30 September 2013, an increase of 8 percent, mainly reflecting reductions in working capital. Taxation payments in the year ended 30 September 2014 were £457 million compared to £686 million in the year ended 30 September 2013.

Net cash used in investing activities was £274 million in the year ended 30 September 2014 compared to £316 million in the year ended 30 September 2013, reflecting higher proceeds from the sale of surplus assets.

Net capital expenditures in the year ended 30 September 2014 were £238 million compared to £291 million in the year ended 30 September 2013. The Group's capital expenditures in the year ended 30 September 2014 were £297 million compared to £305 million in the year ended 30 September 2013, reflecting continued investment across the Group. In addition, the Group acquired e-cigarette intellectual property rights from the Hong Kong based company Dragonite for £46 million.

Net cash used in financing activities was £2,659 million in the year ended 30 September 2014 compared with net cash used in the year ended 30 September 2013 of £713 million, mainly reflecting net repayment of debt during the year. Interest paid in the year ended 30 September 2014 was £550 million (the year ended 30 September 2013: £522 million).

Dividend payments to shareholders of Imperial Tobacco in the year ended 30 September 2014 totalled £1,149 million, an 8 percent increase compared to £1,065 million in the year ended 30 September 2013.

Financial year 2013 as compared to financial year 2012

In the year ended 30 September 2013, the Group generated £2,352 million of cash flows from operating activities compared to £2,119 million in the year ended 30 September 2012, an increase of 11 percent, reflecting a lower rate of increase in working capital than in 2012. Taxation payments in the year ended 30 September 2013 were £686 million compared to £442 million in the year ended 30 September 2012.

Net cash used in investing activities was £316 million in the year ended 30 September 2013 compared to £288 million in the year ended 30 September 2012. This increase was mainly due to the purchase of the Group's former agent in Cambodia.

Net capital expenditures in the year ended 30 September 2013 were £291 million compared to £303 million in the year ended 30 September 2012. The Group's capital expenditures in the year ended 30 September 2013 were £305 million compared to £324 million in the year ended 30 September 2012. The Group also acquired a distributor in Cambodia for a total consideration of £41 million of which £6 million was deferred until 2014.

Net cash used in financing activities was £713 million in the year ended 30 September 2013 compared with cash used in the year ended 30 September 2012 of £2,269 million. Interest paid in the year ended 30 September 2013 was £522 million (the year ended 30 September 2012: £515 million).

Dividend payments to shareholders of Imperial Tobacco in the year ended 30 September 2013 totaled £1,065 million, an 8 percent increase compared to £983 million in the year ended 30 September 2012.

Indebtedness

At 30 September 2014, the Group's borrowings were £9,932 million, consisting principally of capital markets issuance and ECP issuance as described below. Inclusive of cash and cash equivalents of £1,431 million, reported net debt was £8,549 million and, eliminating accrued interest and the fair value of interest rate derivative financial instruments, the adjusted net debt of the Group at 30 September 2014 was £8,135 million, representing an 11 percent decrease from the prior year and, on a constant currency basis, a 7 percent decrease. Part of this decrease was due to the IPO of part of the non-core asset Logista, which released £0.4 billion, together with improved cash conversion rates. Reported net debt and adjusted net debt were £9,518 million and £9,098 million at 30 September 2013, respectively, and £8,965 million and £8,752 million at 30 September 2012, respectively. The Group's reported net debt and adjusted net debt have decreased over the last two financial years, principally due to generation of free cash flow.

At 31 March 2015, the Group's borrowings were £10,220 million, consisting principally of capital markets issuance and commercial paper issuance. Reported net debt was £9,263 million, inclusive of cash and cash equivalents of £633 million. Adjusted net debt was £9,056 million, representing an 18 percent decrease from adjusted net debt of £11,027 million restated at 31 March 2014.

In July 2014, in connection with the Acquisition, the Group entered into term loan facilities of £4.4 billion. See "*—Bank credit facilities*" below.

Capital markets issuances

Under the Group's €15 billion euro medium term note debt issuance program (the **EMTN Program**), the obligations of the Issuer are guaranteed by Imperial Tobacco and ITL and extend to the ultimate balance of all sums payable by the Issuer under the EMTN Program. The guarantee provided by ITL may be terminated at the option of ITL at any time, provided that the termination does not cause a downgrade in the solicited long-term public ratings of the Notes. As of the date of this Offering Memorandum, the Group had outstanding issuances under the EMTN Program of €4,750 million and £3,750 million respectively.

On 11 February 2013, the Issuer accessed the U.S. markets pursuant to Rule 144A and issued $1,250 million of 2.050 percent Senior Notes due 2018 and $1,000 million 3.500 percent Senior Notes due 2023, guaranteed by Imperial Tobacco and ITL.

On 12 December 2005, Altadis Emisiones Financieras, S.A.U., the Group's subsidiary, issued €500 million 4.00 percent Senior Notes due 2015, guaranteed by Altadis.

As at 30 September 2014, the Group had capital markets indebtedness of £9.5 billion (£9.2 billion taking into account cross-currency swaps). As at 31 March 2015, the Group had capital markets indebtedness of £9.1 billion (£8.9 billion taking into account cross-currency swaps), comprising 15 bond issues, as set forth below:

Issue date	Amount (in millions)	Annual Interest Rate(1)	Maturity
12 December 2005	€500	4.000%	11 December 2015
17 February 2009	€1,500	8.375%	17 February 2016
22 November 2006	£450	5.500%	22 November 2016
11 February 2013	$1,250	2.050%	11 February 2018
5 July 2011	€850	4.500%	5 July 2018
4 December 2003	£200	6.250%	4 December 2018
24 June 2009	£500	7.750%	24 June 2019
1 December 2011	€750	5.000%	2 December 2019
27 February 2014	€1,000	2.250%	26 February 2021
17 February 2009	£1,000	9.000%	17 February 2022
11 February 2013	$1,000	3.500%	11 February 2023
15 September 2008	£600	8.125%	15 March 2024
27 February 2014	€650	3.375%	26 February 2026
26 September 2011	£500	5.500%	28 September 2026
27 February 2014	£500	4.875%	7 June 2032

(1) Before interest and cross currency swaps (where applicable).

In December 2010, the Group established a €1.0 billion Euro-Commercial Paper Program (the **ECP Program**) for the issuance from time to time of unlisted debt securities having a maturity of less than one year. The size of the ECP Program was increased to €2.0 billion in March 2012 and to €2.5 billion in May 2014. The obligations of the Issuer as issuer under the ECP Program are unconditionally and irrevocably guaranteed by Imperial Tobacco on a continuing basis, and the obligations of Imperial Tobacco under the guarantee extend to the ultimate balance of all sums payable by the Issuer under the ECP Program. As at 30 September 2014, the Group had outstanding ECP Program issuances totaling £321 million (as at 31 March 2015: £673 million), as compared with £1,143 million as at 30 September 2013 (as at 31 March 2014: £1,388 million).

Bank credit facilities

On 15 July 2014 the Issuer and Imperial Tobacco Enterprise Finance Limited (as borrowers) and Imperial Tobacco and ITL (as guarantors) entered into a facilities agreement (the **Facilities Agreement**) with BNP Paribas Fortis SA/NV, The Royal Bank of Scotland plc, Santander UK plc and Banco Santander, S.A., London Branch as original lenders, whereby committed bank facilities of £7.8 billion (equivalent) comprising term loans and revolving credit facilities (the **Facilities**) were made available to the borrowers. On 5 May 2015, the Issuer subsequently cancelled US$750 million of the term loan facilities and, on 10 June 2015, cancelled a further US$300 million of the term loan facilities.

Following the cancellation, the aggregate principal amount of the term loan facilities was US$6.05 billion; these facilities were available solely in relation to the Acquisition and were drawn by the Issuer on 12 June 2015. The term loan facilities are split into three tranches: term loan A matures on the date falling one year after the date of completion of the Acquisition (the date of completion of the Acquisition being 12 June 2015, the **Trigger Date**) (subject to an extension option to extend the final maturity date to the date falling two years after the Trigger Date at Imperial Tobacco's option); term loan B matures on the date falling three years after the Trigger Date; and term loan C matures on the date falling five years after the Trigger Date. The revolving credit facilities are split into two tranches: a €1,000 million tranche with a final maturity date of 18 months after the date of the Facilities Agreement (subject to three separate six month extension options to extend the final maturity date at Imperial Tobacco's option) (**RCF A**); and a multi-currency tranche with a final maturity date of five years after the date of the Facilities Agreement (extendable beyond this period for a maximum of two years at the lender's option). The five year tranche is itself sub-divided into two separate tranches: a €2,835 million tranche (**RCF B1**) and a £500 million tranche (**RCF B2**). In June 2015 the maturity dates of the five-year tranches were extended for a further year until 15 July 2020.

Primary syndication of the Facilities Agreement was completed on 29 August 2014 with the syndicate comprising 17 lenders including the Initial Purchasers, see "*Plan of Distribution*".

The rate of interest under the Facilities Agreement is EURIBOR or LIBOR, as applicable, plus a margin. The margin on the Facilities (other than term loan A) is linked to Imperial Tobacco's solicited long-term credit rating from Moody's and S&P or other agreed substitute statistical rating agencies if a rating from Moody's or S&P is not available. The margin on term loan A increases periodically after the Trigger Date.

The Group has given undertakings and financial covenants in respect of its business and financial position under the Facilities Agreement. The financial covenants are a minimum ratio of the Group's consolidated "earnings before interest, tax, depreciation and amortization" ("Consolidated EBITDA", as defined in the Facilities Agreement) to the Group's consolidated net interest ("Consolidated Net Interest Payable" as defined in the Facilities Agreement) and a maximum ratio of the Group's net debt ("Consolidated Total Net Borrowings" as defined in the Facilities Agreement) to Consolidated EBITDA. The Group has been in compliance with these covenants since inception of the Facilities Agreement, including the most recent measurement period. In addition, a lender under the Facilities Agreement may require, by notice to the facility agent not earlier than 30 days and no later than 60 days following notification of a change of control of Imperial Tobacco (as defined therein) by the facility agent under the Facilities Agreement, its participation in any outstanding loans under the Facilities Agreement to be immediately repaid and the commitments of that lender to be immediately cancelled. The facility agent must give not less than five days' notice to the Issuer with respect to any such cancellation of the commitments and required repayment.

The Facilities Agreement also contains certain other warranties, undertakings and indemnities from Imperial Tobacco and other Group companies which are a party to the Facilities Agreement in favor of the lenders that are customary for such an agreement.

On 9 June 2015, the Issuer and Imperial Tobacco Enterprise Finance Limited (as borrowers) and Imperial Tobacco and ITL (as guarantors) entered into a facility agreement (the **BAML Facility Agreement**) with Bank of America Merrill Lynch International Limited as original lender, whereby a committed term facility of US$300 million (the **Term Facility**) was made available to the borrowers on substantially the same terms as the Facilities Agreement.

The Term Facility has a final maturity date of three years after the first utilization subject to an option to extend the final maturity date beyond this period for a maximum of two years (in the form of two one-year extension periods) at the lender's option.

The rate of interest under the BAML Facility Agreement is LIBOR plus a margin that increases periodically after the date of utilization of the Term Facility.

Table of principal bank facilities

As at 12 June 2015, the Group's principal bank facilities are set forth below. The Group has utilized in full the Term Loans A, B and C and the Term Facility to finance the Acquisition, as well as drawing US$706 million under the RCF B1 facility. There were no other utilizations outstanding under the RCF B1 facility, and the Group's other principal bank facilities were all undrawn.

Facility	Amount (in millions)	Annual Interest Basis	Maturity
Term Loan A committed 2-year facility(1)	$4,100	LIBOR + margin	2 years from Trigger Date(2)
Term Loan B committed 3-year facility	$1,500	LIBOR + margin	3 years from Trigger Date(2)
Term Loan C committed 5-year facility(6)	$450	LIBOR + margin	5 years from Trigger Date(2)
RCF A committed 3-year facility(3)	€1,000	EURIBOR/LIBOR + margin	15 July 2017
RCF B1 committed 5-year facility(4)	€2,835	EURIBOR/LIBOR + margin	15 July 2019
RCF B2 committed 5-year facility(4)	£500	EURIBOR/LIBOR + margin	15 July 2019
Part of RCF B committed 5-year swingline credit facility(4),(5)	€750	EURIBOR(6)/LIBOR + margin	15 July 2019
Term Loan 3 year facility	$300	LIBOR + margin	3 years from first utilization(7)

(1) 1-year facility extendable to a maximum of two years at Imperial Tobacco's option.

(2) Trigger Date is the earlier of the date of completion of the Acquisition and 15 July 2015, i.e., 12 June 2015.

(3) 1.5-year facility extendable to a maximum of three years at Imperial Tobacco's option.

(4) 5-year facility extendable to a maximum of seven years upon the lenders' consent. In June 2015 the facility was extended one year to a maturity date of 15 July 2020.

(5) The swingline facility is a sub-limit of the 5-year RCF.

(6) Following cancellation by the Issuer of US$750 million of this facility on 5 May 2015, along with a further US$300 million on 10 June 2015.

(7) 3 year facility extendable by a maximum of two years with lender consent.

On 3 June 2014, the Issuer, ITL and Imperial Tobacco entered into deeds of counter indemnities (each a **Counter Indemnity**) in favor of certain surety companies in consideration for the issue of guarantees by such surety companies in favor of Imperial Tobacco Pension Trustees Limited (or its successor(s) in title) as trustee of the Imperial Tobacco Pension Fund constituted by the definitive trust deed and rules dated 1 March 1995 (as amended from time to time) (the **Pension Fund**) to guarantee the obligations of ITL and other participating companies (or any of their successors) in respect of the Pension Fund for a total amount of up to £400 million. The expiration date of each guarantee is 3 December 2019.

Each Counter Indemnity contains certain warranties, undertakings and indemnities in respect of the business and financial position of the Group that are in line with those contained in the Facilities Agreement.

The Group has five bilateral financing arrangements that have been made available to the Issuer by five different banks. The facilities under each of these arrangements are uncommitted and together they total £290 million.

The Group has three standalone bilateral financing arrangements provided by three different banks that finance the Group's joint venture in Cuba, Corporation Habanos S.A. The facilities under these arrangements are committed and are guaranteed by either Imperial Tobacco España S.L.U. or Altadis. As at 30 September 2014, they totalled €75 million, with no change as of 31 March 2015. Additionally, the Group has three standalone bilateral financing arrangements that finance the Group's other joint venture in Cuba, Altabana S.L. As at 30 September 2014, these facilities totaled respectively US$5 million, HK$20 million and €1.8 million, with no change as of 31 March 2015.

The Group's cash and cash equivalent balance as at 30 September 2014 was £1,431 million (as at 30 September 2014 restated: £1,413 million and as at 31 March 2015: £633 million).

Other

In accordance with supplementary documentation to the Group's ISDA agreements for derivative contracts, the Group has obligations to provide credit support, above certain thresholds on a periodic basis, to certain of its financial counterparties for certain designated derivatives that have a mark-to-market valuation adverse to the Group. As at 30 September 2014, the Group had collateral totaling £102 million (as at 31 March 2015: £84 million) on deposit under these arrangements split between seven financial counterparties.

In addition, the Group has a number of guarantee and credit facilities in place that allow it to temporarily defer the payment of tax and duty.

Contractual Obligations

The following table sets forth the aggregate maturities of the Group's debt, operating leases and other long-term obligations for the years subsequent to 30 September 2014. For a discussion of the Group's capital commitments, see "*—Capital commitments*" below.

	Payment due by period				
	Less than 1 year	1-2 years	2-5 years	After 5 years	Total contractual cash flows
			(in £ million)		
Non-derivative financial liabilities(1)	1,995	1,996	3,621	6,228	13,840
Derivative financial liabilities(2)	(23)	4	29	190	200
Operating lease obligations (land and buildings)	37	38	48	29	152
Total contractual obligations	2,009	2,038	3,698	6,447	14,192

(1) Bank loans, capital market issuance, trade payables and finance lease liabilities; cash flows shown are inclusive of interest to be paid, are undiscounted and have been calculated at the spot rate of exchange at the balance sheet date.

(2) Net settled derivatives and gross settled derivatives (receipts and payments); the cash flows include all contractual cash flows including interest and exchange of principal.

Capital commitments

In its consolidated financial statements for the year ended 30 September 2014, the Group reported capital commitments (contracted but not provided for) of £177 million relating to property, plant and equipment, and software for the year ended 30 September 2014 (the year ended 30 September 2013: £159 million). The capital commitments relate principally to investment in manufacturing capability to improve efficiency and support new products in growth areas.

Off-Balance Sheet Arrangements

The Group does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. Please refer to "*—Indebtedness*" and "*—Contractual Obligations*" above for a description of certain guarantees of Imperial Tobacco subsidiaries and collateral commitments to which the Group is subject.

Quantitative and Qualitative Disclosures about Market Risk

The following discussion of the Group's risk management activities includes forward-looking statements that involve uncertainties. You should read this information in conjunction with Notes 18 to 20 of the 2014 Financial Statements. For a discussion of uncertainties that could cause actual results to differ materially from those discussed in such forward-looking statements, see the section entitled "*Risk Factors*" and the cautionary statements referred to in the paragraph headed "*Special Note on Forward-Looking Statements*" herein.

The Group operates a centralized treasury function, Group Treasury, which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. It does not operate as a profit center, nor does it enter into speculative transactions. The Group Treasury Committee (**GTC**) oversees the operation of Group Treasury in accordance with terms of reference set out by the Board. The Board reviews and approves all major treasury decisions. As of the date of this Offering Memorandum, the GTC comprises the Chief Financial Officer, the Company Secretary and other senior management from Group Finance, Manufacturing and Group Treasury.

The GTC agrees a framework which sets out the current expectations and boundaries to assist in the effective oversight of Group Treasury activities, covering all key areas within Group Treasury. The Group Treasurer reports on a regular basis to the Board, including the provision of a monthly treasury report which is also provided to the GTC.

Group Treasury enters into certain transactions that involve risk, including market risk and the credit risk of non-performance by counterparties. However, as at 30 September 2014 the Group had no significant concentrations of credit risk from financial institutions that were in excess of limits agreed by the Board. The Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions with suitable credit ratings in order to manage credit risk to any one financial institution.

The derivative financial instruments held by the Group as at 30 September 2013 and 2014 can be found in Note 20 to the 2014 Financial Statements. This note presents the nominal value of such instruments together with the relevant range of interest rates and other detail including the contractual payments under such contracts, analyzed by maturity date.

Exposure to interest rate fluctuations

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. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and finance lease liabilities. The Group's financial results are principally exposed to gains or losses arising from fluctuations in euro and U.S. dollar interest rates.

In order to manage the interest rate risk on its borrowings, the Group separates its borrowing activities from its interest rate risk management decisions by issuing debt in the market or markets that are most appropriate at the time of raising new finance and uses derivative financial instruments, such as cross-currency swaps and interest rate swaps, to change the currency and interest rate profile as relevant. Historically, the Group has generally chosen to convert newly issued fixed rate debt into floating rates at the time of issue. Interest rate swaps are then executed in accordance with the interest rate risk management framework and GTC approval as and when deemed appropriate. The Group transacts interest rate swaps at other times for different notional amounts and for different maturities to manage the Group's exposure to interest rate risk. At 30 September 2014, after adjusting for the effect of derivative financial instruments detailed in note 20 to the 2014 Financial Statements, approximately half of the Group's borrowings were at fixed rates of interest, reflecting no significant change from the position as at 30 September 2013. As at 31 March 2015, approximately two-thirds of the Group's borrowings were at fixed rates.

On the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt, the derivatives portfolio and proportion of financial instruments in foreign currencies are all constant, and on the basis of the net investment hedge designations at 30 September 2014, a 100 basis point change in sterling interest rates would result in an approximate change of £12 million in the pre-tax net interest charge, a 100 basis point change in euro interest rates would result in an approximate change of £32 million in the pre-tax net interest charge and a 100 basis point change in U.S. dollar interest rates would result in an change of £13 million in the pre-tax net interest charge. The analysis excludes any change to revenue or non-finance costs that may result from changing interest or exchange rates.

Exposure to foreign exchange rate risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions denominated in foreign currencies, foreign currency cash deposits, non-sterling borrowings and non-sterling derivatives. Currently, the Group's financial results are principally exposed to gains or losses arising from fluctuations in euro and U.S. dollar exchange rates.

The Group has a policy of managing its balance sheet translation risk by funding significant acquisitions and the underlying material business assets with borrowings (post cross-currency swaps) where necessary in the currency of the underlying net assets. This also results in foreign currency profits from operations being partially offset by foreign currency interest costs thereby minimizing the translation exposure on foreign currency profits after tax.

The Group issues debt in the market or markets that are most appropriate at the time of raising new finance and has a policy of using derivative financial instruments, such as cross-currency swaps where necessary, to change the debt into the desired currency. At 30 September 2014, after the effect of derivative financial instruments, approximately 17 percent (the year ended 30 September 2013: 25 percent) of reported net debt was denominated in sterling, 73 percent in euro (the year ended 30 September 2013: 69 percent) and 10 percent in U.S. dollars (the year ended 30 September 2013: 6 percent).

Foreign exchange transaction risk arises on material 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 U.S. 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 sourced from foreign subsidiary earnings. Cash flows are managed using liquidity swaps in line with the Group's daily cash management processes, and the timing of internal and external dividend flows as appropriate.

Based on the results for the year ended 30 September 2014, and in respect of currency exposures arising on financial assets and liabilities held by Group companies in currencies other than their functional currencies, a 10 percent appreciation or depreciation in the value of the pound sterling relative to the euro would result in a net £251 million increase or net £307 million decrease in profit before tax, respectively, and a net £923 million increase or £1,129 million decrease in other comprehensive income, respectively. A 10 percent appreciation or depreciation in the value of the pound sterling relative to the U.S. dollar would result in a net £22 million increase or net £26 million decrease in profit before tax, respectively, and no change in other comprehensive income.

Exposure to tobacco leaf price fluctuations

The Group's financial results are exposed to fluctuations in the price of tobacco leaf. Other than through the cultivation of tobacco leaf (principally for use in Laos and by the Group's African subsidiaries) and the Group's tobacco plantation in Connecticut, the Group is not directly involved in the cultivation of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical, as supply and demand considerations (including production costs and demand for other agricultural commodities such as foods or bio-energy crops) influence tobacco plantings in those countries where tobacco is grown. Different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. In addition, political situations may result in a significantly reduced tobacco crop. The Group seeks to reduce its exposure to individual markets by sourcing tobacco leaf from approximately 40 different countries.

In the year ended 30 September 2014, the Group purchased tobacco leaf through a number of well-established international tobacco merchants. The costs incurred in the purchase of tobacco leaf accounted for approximately 30 percent of the Group's cost of sales for the year ended 30 September 2014. Based on current volumes and prices, management does not believe that a 10 percent relative increase in the cost of tobacco leaf would have a significant adverse effect on the operating costs of the Group. Management believes that, based on its ability to effect price increases and the relatively low proportion of the retail price represented by tobacco leaf costs, the Group is generally able to ameliorate the effects of tobacco leaf price increases through manufacturers' own price increases and thereby reduce any related effect on its operating profit.

DESCRIPTION OF THE GROUP AND ITS BUSINESS

Overview

Imperial Tobacco is an international fast moving consumer goods company and is the world's fourth largest international tobacco company with a portfolio that spans the tobacco spectrum.

Imperial Tobacco Company (of Great Britain and Ireland) Limited was formed in 1901 by the merger of 13 independent British tobacco companies. As a result, the primary focus of the Group's business historically was the UK and Irish markets. Imperial Tobacco was incorporated on 6 August 1996 as a public limited company under the laws of England and Wales, and became listed on the London Stock Exchange on 1 October 1996, when Hanson plc spun off its tobacco business to Imperial Tobacco. Since 1996, Imperial Tobacco has pursued a strategy of international growth through targeted organic expansion and acquisitions. This international growth strategy has transformed Imperial Tobacco from a predominantly UK business into a leading international tobacco company with sales in over 160 countries worldwide, with particular strengths in the UK, Germany, Spain, France, Morocco, the United States, the Netherlands, Australia, Russia and Ukraine.

The core business of Imperial Tobacco is built around a tobacco portfolio that offers consumers comprehensive brand choice with a range of cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. In addition to the tobacco business, Imperial Tobacco is creating new consumer experiences through its non-tobacco subsidiary Fontem Ventures. The Group also owns a majority shareholding in a major logistics business in southern Europe, Logista, which is made up of two divisions: tobacco logistics, which is involved in the transportation of tobacco products primarily in Italy, Spain, Portugal, France and Poland, and other logistics, which provides transport services for various industries including publishing, pharmacy and cosmetics.

The Group's business is cash generative and for the six months ended 31 March 2015, Imperial Tobacco's tobacco net revenue, distribution fees, reported operating profit, adjusted operating profit and cash conversion were £2,945 million, £378 million, £959 million, £1,367 million and 102 percent (annualized) respectively. For the year ended 30 September 2014 (restated), Imperial Tobacco's tobacco net revenue, distribution fees, reported operating profit, adjusted operating profit and cash conversion were £6,421 million, £838 million, £2,019 million, £2,981 million and 91 percent respectively. For a description of the cash conversion calculation, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Indicators*".

Strategic Objectives

The Group has a diversified geographic profile and multi-product and multi-brand total tobacco portfolio. Its portfolio is characterized by brands and products across price segments and categories, which provide considerable growth opportunities given the large and diverse number of markets in which the Group operates.

The Group's strategy is to maximize sales, cost and cash opportunities and realize the potential of its portfolio, market footprint and people, to build a stronger platform for growth and enhance the quality and sustainability of its earnings to generate sustainable returns for the Group's shareholders.

There are four key priorities that the Group focuses on to achieve this:

- Strengthening its brand portfolio through investment in brands with the strongest equity;
- Developing its footprint by driving long-term share and profit growth in Growth Markets and sustained profit performance in Returns Markets;
- Continued management of its cost base in order to drive efficiencies; and
- Balance sheet efficiency and cash management as part of achieving on-going capital discipline.

Each of these priorities is outlined in further detail below.

- **Strengthening Brand Portfolio:** The Group has a comprehensive tobacco portfolio with strong positions in all the main tobacco categories. This diverse product portfolio enables the Group to offer consumers a broad range of brands and products, including cigarettes, fine cut tobacco, cigars and snus across price points. This is particularly relevant to meeting the demands of consumers, whose preferences continue to evolve, driven by changes in regulation and the economic environment.

  The Group is currently optimizing its portfolio and focusing investment to drive the performance of its Growth Brands and Specialist Brands. These are Imperial Tobacco's most important brands and have consistently demonstrated the most potential for high quality, sustainable growth, and generate more than half of the Group's tobacco net revenue, at 54 percent for the financial year 2014 and 59 percent for the first half of the 2015 financial year.

  During the year ended 30 September 2014 the Group began a process of brand migration, transitioning consumers from selected portfolio or legacy brands into those with the strongest equity, our Growth Brands. As well as supporting the global development of the Group's Growth Brands, migrations are reducing the complexity of its business and supporting the cost optimization program.

  Imperial Tobacco also continues to invest in Fontem Ventures, its standalone business which is developing opportunities for additional long-term revenue growth through innovative non-tobacco products.

- **Developing Footprint:** The Group's diverse market footprint spans more than 160 countries worldwide. Markets are managed based on the strategic role they play, rather than by geographic location with divisions focused on prioritizing either a growth or returns approach. This approach encourages more effective resource allocation and greater collaboration. Growth Markets include selected markets in the EU, Eastern Europe, Asia, the Middle East and the USA. The priority in Growth Markets is to build presence, aiming to drive long-term market share and profit growth. Returns Markets are split into Returns Markets North and Returns Markets South and include Australia and selected markets in the EU, Eastern Europe and Africa. The priority in Returns Markets is to grow profit sustainably while actively managing market share.

- **Management of Costs:** Efficiently managing cost supports the Group's sustainable growth agenda with an on-going drive for efficiencies through simplification and productivity initiatives. The Group's cost optimization program has targeted £300 million of savings per annum from September 2018. The Group calculates that more than £90 million of this has already been realized during the years ended 30 September 2013 and 2014, collectively, with £60 million realized in the year ended 30 September 2014. These savings have been re-invested to support topline growth. The group anticipates further savings of £85 million in the year ending 30 September 2015, and £300 million per annum by the year ended 30 September 2018. The Group estimates the cash cost of the cost optimization program to be approximately £600 million. The Group is continuing to drive initiatives that are reducing complexity in the business, including a simplification of the brand portfolio, operating and manufacturing efficiencies, and the alignment of financial processes.

- **Capital Discipline:** The Group's business is cash generative. A key focus is on effective working capital controls, disciplined capital expenditure and managing tax and interest costs to ensure cash flows are maximized. The Group's objective is to ensure that the cash it generates is used efficiently through disciplined investments to support its sales strategy, including any further acquisitions that create additional value for its shareholders. As part of this strategy, the Group engaged in divestment from Logista, releasing £0.4 billion of non-core assets.

In addition to the priorities outlined above, the Group continues to focus on strategically cultivating its sales growth. To this end, the Group applies consumer insights, focusing on four key sales growth drivers:

- **Portfolio management:** The Group's ability to build sales depends on effective portfolio management to meet the needs of consumers in more markets on more consumption occasions.
- **Innovation:** Relevant innovation is essential to sustaining sales levels and achieving the Group's growth targets.
- **Customer engagement:** The degree to which the Group develops strong connections with its retail partners to support their business supports its objective to maximize the availability and endorsement of its portfolio at the point of sale.
- **Pricing:** Pricing is a key component of revenue growth. The Group seeks to maximize these growth opportunities through the application of an enhanced approach to the way it evaluates pricing by brand, by pack size and by sales channel, and with reference to applicable excise structures, which is an important component of growth.

Products and Services

Tobacco

Imperial Tobacco holds a tobacco portfolio that offers consumers comprehensive brand choice with a range of cigarette, fine cut tobacco, paper, cigar and smokeless tobacco brands. Its tobacco portfolio is divided into three categories: Growth Brands, Specialist Brands and Portfolio Brands. The Group places particular emphasis on driving the performance of Growth Brands and Specialist Brands as part of enhancing the quality and sustainability of its revenue and earnings.

Growth Brands

The Group's Growth Brands are *Davidoff*, *Gauloises Blondes*, *West, JPS*, *Fine, News, USA Gold, Bastos, Lambert & Butler* and *Parker & Simpson*, which constituted approximately 45 percent of the Group's volumes and 42 percent of the Group's tobacco net revenue in the year ended 30 September 2014, representing increases over the year ended 30 September 2013 of 3.8 percentage points and 2.7 percentage points, respectively. In the six months ended 31 March 2015, the Group's Growth Brands constituted approximately 51 percent of the Group's volumes and 48 percent of the Group's tobacco net revenue, representing increases over the six months ended 31 March 2014 of 8.1 percentage points and 6.6 percentage points, respectively. Stick equivalent volumes of the key Growth Brands increased by 7 percent and 12 percent on an underlying basis in the year ended 30 September 2014 and the six months ended 31 March 2015, respectively.

Specialist Brands

The Group's Specialist Brands are *Style*, *Gitanes* (cigarettes), *Golden Virginia*, *Drum*, *Route 66* (fine cut tobacco), *Backwoods* (cigars), *Skruf* (snus) and *Rizla* (papers). Specialist Brands constituted 12 percent of tobacco net revenue in each of the six months ended 31 March 2015 and the year ended 30 September 2014.

Imperial Tobacco also has a number of leading international cigar brands including *Cohiba*, *Romeo y Julieta* and *Montecristo* which are owned as part of the Cuban Joint Ventures.

Portfolio Brands

The Group also holds a number of Portfolio Brands, a legacy of its acquisition history. Many are single market offerings with limited brand equity. Imperial Tobacco intends to migrate many of these brands into Growth Brands.

Migrations are carefully planned and implemented gradually, usually over a three- to six-month period. The migration process is designed to help the Group enhance the quality and sustainability of its revenues, enabling a greater degree of focus and investment in fewer, stronger brands which exhibit the greatest potential to build equity. During the year ended 30 September 2014, the Group started a total of 22 migrations, successfully completing five. More migrations are planned to be progressed in the year ending 30 September 2015 as the Group continues to focus on simplifying its portfolio and building momentum behind its Growth Brands.

Acquired Tobacco Cigarette Brands

As a result of the Acquisition, the Group has acquired the Acquired Tobacco Cigarette Brands being the *Winston*, *Salem*, *Kool* and *Maverick* cigarette brands in the United States. For more detail see "*Description of the Acquisition*".

Tobacco Market Segments

Imperial Tobacco also divides its tobacco business by segment, into Returns Markets and Growth Markets. Returns Markets are typically mature markets where the Group already has a relatively large market share (greater than 15 percent) and the priority is sustainable profit performance, while actively managing market share. Growth Markets are mainly large profit or volume pools where the Group's market share tends to be below 15 percent and where the priority is to drive long-term share and profit growth. The three tobacco segments presented in the Group's consolidated financial statements are split as follows:

- Returns Markets North—which includes Australia, Belgium, Germany, the Netherlands, Poland, and the United Kingdom among other markets;
- Returns Markets South—which includes France, Spain, Morocco and a number of the Group's African markets among other markets; and
- Growth Markets—which includes selected markets in the EU, Eastern Europe, Asia, the Middle East and the U.S. among other markets.

Logistics

The Group also has a 70 percent stake in Logista, a leading distribution and logistics company serving markets in Spain, France, Italy, Portugal and Poland.

Logista distributes tobacco products for domestic and international tobacco companies, including the Group, to tobacconists and other sales outlets in Spain, France, Italy, Portugal and Poland. The logistics division is run as an independent business, providing individual consumer solutions and access to around 300,000 points-of-sale.

The business also provides distribution and specialized services for customers in a number of different sectors including telecommunications, pharmaceuticals, publishing and lottery. It is also a leading distributor of products to the convenience channel, covering outlets which include tobacconists, petrol stations, and grocery stores.

Logista operates in the transportation segment, through courier and industrial parcel activities in Spain and Portugal. Its long-distance transport network across Europe allows the business to provide integrated services for its customers which provides coverage from their factories to the point-of-sale.

Manufacturing

Imperial Tobacco seeks to share technology and expertise across its 44 factories around the world in order to reduce manufacturing costs and increase efficiency. It focuses on high-quality, low-cost manufacturing and has an on-going drive to improve productivity across the business. It aims to ensure that its manufacturing base is structured effectively, to ensure a fast response to changing market dynamics and consumer requirements. In the last few years, the Group has closed a number of cigarette, fine cut tobacco and cigar factories as part of an on-going review of its manufacturing footprint in order to maximize efficiencies.

Imperial Tobacco's main materials are tobacco leaf, paper, acetate tow (for the production of cigarette filter tips) and printed packaging materials, which are purchased from a number of suppliers. The Group's policy is not to be reliant, where practical, on any one supplier, and it has not suffered any significant production losses as a result of an interruption in the supply of raw materials.

With regard to tobacco leaf, the Group manages its exposure to individual markets by sourcing tobacco leaf from a number of different countries, including Brazil, China, India, Spain, Turkey and Malawi.

Tobacco blends and brands

Tobacco comes in a number of varieties, the most common of which are lighter colored Virginia, Burley, Oriental and Dark Air-cured. In general, dark tobacco is used for pipes and cigars and lighter colored leaf is used in the manufacture of cigarettes. Fine cut tobacco is manufactured using blends of light and dark tobacco.

While there are local variations, cigarettes are manufactured using two principal tobacco blends, Virginia blend and American blend, each accounting for approximately half of the world market. Virginia blend products are predominant in the UK, Australia and most Asian markets, including China and India. American blend products are predominant in Western (other than the UK), Central and Eastern Europe, the U.S., Latin America and Russia.

There are significant differences among tobacco markets resulting from local preferences for tobacco blends and brands, the degree of governmental regulation, excise duty structures and distribution mechanisms in each market. Tobacco products are generally branded products, with different brands preferred in different geographic regions. Consequently, brand ownership and management are important factors. In a number of markets, tobacco distribution arrangements and governmental regulations, including duty and tariff structures, may act as barriers for new entrants into such markets.

Sales and distribution

With a number of countries being subject to the EU Advertising Directive 2006/114/EC and with many countries adopting the World Health Organization (**WHO**)'s Framework Convention on Tobacco Control (**FCTC**), tobacco advertising and sponsorship has been banned or restricted in a large number of markets. As conventional means of communication between manufacturers and consumers such as advertising and promotion are progressively withdrawn, effectiveness at the point of sale becomes increasingly important. Imperial Tobacco seeks to ensure the wide availability of its product ranges at competitive prices, by optimizing the points of sale at which its products are offered and constantly monitoring retail outlets for availability and price competitiveness. It has continued to invest in marketing, sales force technology and analysis tools across the Group, and it believes the information provided not only gives it a competitive advantage, but also supports regular, frequent contact with targeted retailers.

The manner in which the Group distributes its products varies by country. In some countries, particularly in Western Europe, it distributes its products itself (including through the logistics channels of Logista). In other countries, particularly in emerging markets, the Group distributes under agreements with third parties.

Market Background and Environment

***Cigarettes*[1]**

In 2013, the most recent year for which worldwide information is available, an estimated 5.81 trillion cigarettes (2012: 5.89 trillion) were sold throughout the world, with the world's largest cigarette market, China, accounting for approximately 2.52 trillion in sales (2012: 2.48 trillion), almost half of global consumption. Approximately 0.56 trillion cigarettes were sold in Western Europe (2012: 0.59 trillion), approximately 0.55 trillion in North and South America (2012: 0.57 trillion), approximately 3.64 trillion in Asia Pacific (2012: 3.61 trillion), approximately 0.64 trillion in Eastern Europe and Russia (2012: 0.69 trillion) and approximately 0.39 trillion in the Middle East and Africa (2012: 0.41 trillion), according to Euromonitor.

In the UK, sales of UK duty-paid cigarettes were approximately 47.0 billion cigarettes in financial year 2014 (financial year 2013: 50.0 billion). Total UK duty-paid cigarette consumer sales between financial years 2011 and 2014 fell by an average of approximately 5.5 percent per annum.

In Germany, sales of duty-paid cigarettes were approximately 118.4 billion cigarettes in financial year 2014 (financial year 2013: 119.3 billion). Between financial years 2011 and 2014, market volume for cigarettes has fallen by an average of approximately 0.8 percent per annum.

In Spain, total duty-paid sales of approximately 55.4 billion cigarettes were recorded in financial year 2014 (financial year 2013: 58.3 billion). Between calendar years 2011 and 2014, market volume for cigarettes declined sharply as a result of significant duty increases, the introduction of a ban on smoking in public places in January 2011 and an increase in illicit trade, with an average decrease of approximately 7.5 percent per annum.

The high levels of excise duty imposed on the sale of tobacco products in many Western European markets have resulted in significant quantities of cigarettes being imported from jurisdictions where excise duty is lower. These consist of legal imports of both duty-free and duty-paid products purchased in other EU countries and of illegal imports.

In Russia, which has seen the introduction of large increases in excise tax as well as increased anti-smoking legislation, sales of duty-paid cigarettes were approximately 313.9 billion cigarettes for financial year 2014 (financial year 2013: 341.7 billion). Between financial years 2011 and 2014, market volume for cigarettes has fallen by an average of approximately 5.2 percent per annum.

Market sales of duty-paid cigarettes in the U.S. were approximately 271.2 billion cigarettes in financial year 2014 (financial year 2013: 281.3 billion). Over the last three years, there has been an average market decline of approximately 3.5 percent per annum.

In the Group's main markets in its Growth Markets segment (excluding China and Egypt), estimated duty-paid market sales were approximately 1.30 trillion cigarettes in financial year 2014 (financial year 2013: 1.36 trillion). Between financial years 2011 and 2014, market volume for cigarettes has declined by an average of approximately 2.2 percent per annum.

(1) Cigarette market size data presented on a stick equivalent basis.

Cigars

Worldwide cigar consumption reached 24.5 billion units in calendar year 2013, the most recent year for which worldwide information is available. Consumption is concentrated in the U.S. and Western Europe. There are two major segments which are clearly differentiated: cigars (large, standard and small cigars) with 9.5 billion units in 2013 and cigarillos with 15.0 billion units in 2013. In Western Europe, ownership of cigar brands is splintered among a large number of private companies and dominated by local brands. Spain is the largest cigar market in the region (excluding cigarillos) with sales in calendar year 2013 of over 0.45 billion. Consumption of cigars, particularly in the large cigar segment, has been impacted by the introduction of restrictions on smoking in public places and the recent economic downturn.

In the U.S., the biggest cigar market by volume, the large cigar market was slightly down with sales of 0.38 billion units in calendar year 2013 (2012: 0.39 billion units).

Competition

In the tobacco cigarette market (excluding China and the U.S.), there are a small number of international companies, of which Imperial Tobacco is the fourth largest by volume. The four largest international tobacco companies are Philip Morris International Inc., British American Tobacco plc, Japan Tobacco Inc. and Imperial Tobacco.

Illicit Trade

The Group's anti-illicit trade activities seek to protect the legitimate duty paid, duty-free and travel retail tobacco market. By actively tackling the illicit trade problem, the Group seeks to regain some of the lost volume in legitimate duty paid cigarettes and tobaccos, contributing to its sales growth ambitions and protecting government revenues, the legitimate businesses of tobacco retailers and its consumers.

Illicit trade is a significant problem in many markets. There are three elements to illicit trade:

- Counterfeit: products which illegally copy existing brands which are manufactured and/or sold in violation of trademark rights, often smuggled into other markets to be sold without any duty being paid;
- Illicit whites: tobacco products produced by smaller manufacturers (paying minimum tax at the point of manufacture) which are often smuggled into and sold illegally in other markets; and
- Contraband: genuine products purchased on a duty paid or duty free basis but smuggled into and sold illegally in other markets in contravention of fiscal or customs laws.

Accurately quantifying the scale of illicit trade is difficult. According to Euromonitor, it is estimated that approximately 500 billion illegal cigarettes enter the global market per annum. Cigarette smuggling and counterfeiting deprives governments of around £30 billion in legitimate taxes per annum.

The Group has built on the co-operation agreement signed in 2010 with the European Commission's European Anti-Fraud Office (**OLAF**) and EU member states to jointly combat illicit trade in cigarettes, which for these purposes includes fine cut tobacco. This has involved coordinated anti-illicit trade activity and information sharing with customs authorities and industry partners across the EU and neighboring states. This agreement includes payments by the Group to the European Commission of US$300 million over 20 years to fund anti-illicit trade initiatives. Additionally, under the agreement, in the event of a seizure of contraband Imperial Tobacco cigarettes in the EU, the Group is required to pay an additional payment equal to 100 percent of the taxes and duties that would have been paid on the seized brands if they had been legally sold in the member state, or on a similar legal product if the seized brands are not sold in the member state. These additional payments must be made regardless of fault and are intended to compensate the EU and participating member states for lost taxes, duties and other costs, as well as to provide an additional source of possible funding for anti-contraband enforcement. The Group is also required to make a supplemental payment to OLAF equal to 400 percent of the corresponding additional payment, but only if the seized number of contraband Imperial Tobacco cigarettes exceeds a baseline amount of 90 million cigarettes in one calendar year, excluding any seizures of less than 50,000 cigarettes and certain other types of seizures as outlined in the agreement.

The Group extended its memoranda of understanding and cooperation agreements with national governments to tackle illicit trade, with 23 total agreements signed. Similar agreements are being sought in other markets.

The Group is implementing track and trace technology across its portfolio to enable it to track products through the supply chain from manufacturing to first customer and also trace any product back to source if it is found to have entered the illegal channel. A phased implementation over several years is seeing the technology rolled out at a proportion of the Group's manufacturing sites and warehouses supplying markets in the EU and beyond. The WHO FCTC's Anti-Illicit Trade Protocol adopted at the Conference of the Parties in Seoul in November 2012 requires parties to implement track and trace obligations to pack level within five years for cigarettes and fine cut tobacco, and within ten years for other tobacco products.

Regulatory Landscape

A variety of regulatory initiatives affecting the tobacco industry have been proposed, introduced or enacted in recent years, including: the levying of substantial and increasing excise duties; restrictions or bans on advertising, marketing and sponsorship; the display of larger health warnings, graphic health warnings and other labelling requirements on tobacco product packaging; restrictions on packaging design, including the use of colors and plain packaging; restrictions on pack content, including minimum quantity per pack; restrictions or bans on the display of tobacco product packaging at the point of sale and restrictions or bans on cigarette vending machines; restrictions on the type of retail outlets that are permitted to sell tobacco products; requirements regarding testing, verification and maximum limits for tar, nicotine, and carbon monoxide; requirements regarding ingredients and emissions reporting, evaluation and possible bans of certain tobacco product ingredients; requirements that products and changes to products are approved by regulatory authorities prior to sale; requirements that cigarettes meet safety standards for ignition propensity; increased restrictions on smoking in public and work places and, in some instances, in private places and outdoors; and implementation of measures restricting descriptive terms which might be alleged to create an impression that one brand of cigarettes is less harmful than another.

Imperial Tobacco continues to manage these challenges and seeks to engage with governments and other regulatory bodies to find reasonable, proportionate and evidence-based solutions to changing regulations.

World Health Organization's Framework Convention on Tobacco Control

The WHO FCTC is an all-encompassing instrument for regulating tobacco products on a global level. It has been ratified by 180 countries to date. The original treaty is being supplemented by protocols and guidelines, some of which are currently under development. While the guidelines are not legally binding, they provide a framework of recommendations for parties to the guidelines. These guidelines are applicable to the business of the Group.

The guideline on advertising, for instance, seeks to broaden the definition of tobacco advertising to include product display, vending, self-regulatory reporting, other tobacco products and tubes, as well as the pack itself. It further introduces the idea of "innovative health warnings", i.e. health warnings printed on the actual cigarette. The parties to the FCTC have also adopted a protocol in relation to anti-illicit trade which has not yet entered into force.

Other areas of concern include the suggestion to introduce plain packaging, the rejection of any industry partnership and the regulation of electronic nicotine and non-nicotine devices.

All parties to the FCTC meet at the Conference of the Parties, a set of periodic meetings to discuss the framework. Six such meetings have taken place to date with a seventh to be held in India in October 2016.

Future areas of work to be progressed into guidelines include product regulation and the provision of support for economically viable alternatives to tobacco growing.

Almost all of the WHO FCTC provisions entail extra costs for the tobacco industry in one way or another. A change in the number and size of on-pack health warnings, for instance, requires new printing cylinders to be commissioned, while the implementation of new plant protection product standards, product testing and the submission of ingredients information to national governments require extensive resources, time and material.

EU Tobacco Products Directive (2001/37/EC)

The EUTPD was adopted in May 2001 for introduction into EU member states' laws by September 2002, to set maximum tar, nicotine and carbon monoxide yields, introduce larger health warnings and ban descriptors such as "light" and "mild".

A review of the original EUTPD commenced in 2010. Following lengthy discussions and review at EU and national levels, the European Parliament and Council adopted the revised EUTPD text on 3 April 2014. The revised EUTPD entered into force on 20 May 2014. EU member states must transpose the provisions into national law within 24 months. Provisions with respect to cigarettes and roll-your-own tobacco include: increased pictorial health warnings to 65 percent of the packaging (top of front and back of pack); restrictions on pack shape and size, including minimum pack sizes of 20 sticks for cigarettes and 30g for roll-your-own tobacco; increased ingredients reporting; a ban on characterizing flavors (including menthol, although there are certain exemptions that will apply through 2020); "track and trace" requirements; and for e-cigarettes, nicotine limits, pre-market notification, ingredients reporting and advertising bans.

This Directive is an important piece of European Union legislation for the Group's European markets and could have an impact on the Group's entire tobacco product portfolio.

FDA regulation of tobacco products in the U.S.

See "*Risk Factors—The Group may be adversely affected by further regulation by the FDA*".

Plain and standardized packaging

The issue of plain packaging is high on the agenda of tobacco control groups. The FCTC recommends introducing plain packaging in the guidelines on advertising, promotion and sponsorship and on packaging and labelling. In the European Union, a review of plain packaging was initially proposed as part of the EUTPD revision but was rejected by most EU member states early on in the process. However, two EU member states (Ireland and the UK) have recently adopted plain packaging legislation on a national level despite considerable opposition by other EU member states. Both in Ireland and the UK, the plain packaging regulations will take effect on 20 May 2016—the same day that the changes under the revised EUTPD will take effect. A number of other European countries, including France, Finland, Norway and Sweden, and New Zealand, are currently considering the introduction of plain packaging.

The Australian government's tobacco plain packaging legislation took effect in December 2012. On 6 December 2011, Imperial Tobacco Australia Limited, along with other manufacturers, launched a legal challenge against plain packaging legislation in Australia. On 15 August 2012, the High Court of Australia found that the plain packaging laws were valid under the Australian constitution. The Australian government still faces multiple challenges on the international front, which are unaffected by the High Court decision. These include challenges from five governments in the World Trade Organization and a further challenge under a bilateral investment treaty.

Product display bans at point of sale

Product display restrictions at point of sale have been in place in a small number of countries for a number of years and have been implemented on both national and local levels. Norway, Iceland, Finland, New Zealand, Thailand, Canada, Australia and a number of other countries have implemented or passed legislation banning tobacco displays.

Ireland was the first European Union member state to introduce a point-of-sale display ban, which became effective in July 2009, and England banned displays in large retail outlets from April 2012. Northern Ireland implemented a display ban in large retail outlets in October 2012, with Wales and Scotland following in December 2012 and April 2013 respectively. England, Scotland, Wales and Northern Ireland have all introduced display bans in smaller shops from April 2015.

The Group applied for judicial review in the Scottish courts seeking to challenge the ability of the Scottish Parliament to legislate for vending and display bans in Scotland. The challenge was rejected by the Outer House (the court of first instance in Scotland) and the Inner House (the Scottish Court of Appeal). On 12 December 2012, the appeal was rejected by the UK Supreme Court and the ban on the display of cigarettes in large retail outlets in Scotland came into force in April 2013.

Product display bans affect both the consumer purchasing process and competition between tobacco manufacturers and retailers. Retailers may reduce the number of stock keeping units that they are likely to stock, which in turn may make it necessary for tobacco products manufacturing companies to review and adapt their product portfolio in certain markets.

Pictorial health warnings

There is a general trend towards the introduction of pictorial health warnings on tobacco products and some countries (including Canada, Brazil, Australia, New Zealand, Thailand, Singapore, Ireland and the United Kingdom) have already implemented them.

In Europe, a comparatively small number of EU member states have chosen to introduce pictorial health warnings so far, and the European Union authorities are now mandating their use European Union-wide through the revised EUTPD. Following national transposition, cigarette packs and packaging for all forms of fine cut tobacco manufactured from 20 May 2016 onwards will carry pictorial health warnings in all 28 EU member states.

Smoking in public places

The majority of countries in which Imperial Tobacco operates have enacted restrictions on smoking in public places, although the degree and severity of these restrictions vary. Comprehensive smoking bans in hospitality venues are in place in a number of markets including in Ireland, the United Kingdom, Norway, New Zealand and Australia, as well as within Canada and the U.S.

The European Council of Ministers adopted a non-binding recommendation on smoke free environments, which called on Member States to bring in line their laws to protect their citizens from environmental tobacco smoke exposure by 2012. However, in autumn 2013, the European Commission stated that it had decided not to pursue European Union-wide smoking-in-public-places regulation.

Some countries are also seeking to regulate public smoking in non-workplace environments such as outdoor dining areas, parks, beaches, balconies and cars carrying children. Some U.S. and Australian states and Canadian provinces have already passed legislation to this end and others may follow at some point in the near to mid-term future. Furthermore, there have been incidences where local councils have banned smokers from adopting or fostering young children because they may be potentially exposed to second-hand smoke—a similar rationale for the bans against smoking in public places. Experience in many markets has shown that following the introduction of public place smoking restrictions there is usually an initial decline in consumption, which diminishes over time.

Regulation of menthol flavored tobacco products

See "*Risk Factors—As several of the Acquired Tobacco Cigarette Brands are menthol brands or include menthol products, the Group may be adversely affected by regulation of menthol in cigarettes*".

Regulation of other flavored tobacco products

Some countries are now seeking to restrict or ban the use of certain flavors in cigarettes, arguing that such products disproportionally appeal to minors and act as a catalyst for young people taking up smoking. In the U.S., the FSPTC Act bans characterizing flavors other than tobacco and menthol. In Canada, the manufacture and sale of cigarettes, little cigars and blunt wraps with characterizing flavors are banned. The majority of Australian states have also banned flavors in cigarettes that give an "overtly" fruit-flavored taste and the government is currently considering further regulatory options. The issue may also be extended to cigars at some point in the future. The revised EUTPD also bans the use of characterizing flavors from May 2016 with 4-year derogation for products with a characterizing flavor whose EU wide sales volume represents 3 percent or more in a particular product category until May 2020. Menthol cigarettes will benefit from this derogation.

Regulation of e-cigarettes

See "*Risk Factors—As one of the Acquired Brands is the* blu *brand, the Group may be adversely affected by regulation of e-cigarettes*".

Intellectual Property

The Group's trademarks are valuable assets, and their protection and reputation are essential to the business. The Group owns, or has the right to use, the trademark rights to all of its principal brands in all countries where they are used. The Group's Growth Brands are *Davidoff*, *Gauloises Blondes*, *West*, *JPS Fine, News, USA Gold, Bastos, Lambert & Butler* and *Parker & Simpson*. Its Specialist Brands are *Style, Gitanes, Golden Virginia, Drum, Route 66, Backwoods, Skruf* and *Rizla*. The Cuban Joint Ventures own a number of leading international cigar brands, including *Cohiba*, *Romeo y Julieta* and *Montecristo*. Imperial Tobacco also has a number of Portfolio Brands.

The Group's rights in respect of the intellectual property relating to these brands are critical to the operation of its business. The Group's brands are protected by a variety of intellectual property (**IP rights**), the predominant form of which is trademarks. Trademarks protect the brand name of a tobacco product, e.g. *Gauloises*, as well as the logos and trade dress associated with that brand, for example, the *Gauloises* helmet device. As trademarks can potentially be infinite in duration, they are of key value to the Group. Copyright and design rights (both registered and unregistered) play a smaller, supporting role in protecting the Group's brand assets and the shape of product packaging. Patent protection is not brand-specific, but patents play an important role in protecting the Group's technical innovations, such as methods for expanding tobacco during the manufacturing process, or novel pack mechanisms, for example, the Group's one-handed "*Glide-Tec*" pack. Copyright, design, and patent protection are all limited in duration.

IP protection is geographic in scope. For instance, registered protection must be applied for in a particular territory, usually a country. The Group, like many international cigarette manufacturers, does not have exclusive ownership of all of its brands in all territories, due to historical arrangements in the tobacco industry, prior obstacles on the IP register or simply a lack of commercial interest in a specific brand in a specific territory. In particular, in 1973, when the UK joined the EU, an agreement was reached with BAT for the exchange of certain trademarks. As a result of these historical arrangements and subsequent arrangements with BAT and other third parties, the Group does not have exclusive ownership of all its pre-1973 brands in all the territories in which it operates.

The Group has more than 600 granted patents worldwide and approximately 250 pending patent applications. The Group's patent portfolio, as a whole, is material to the business. However, no one patent, or group of related patents, is material. The Group also has proprietary secrets, technology, know-how, processes and other intellectual property rights that are not registered but are protected by appropriate confidentiality measures.

Litigation

Except as disclosed in this section and in "*Description of the Group and its Business—Regulatory Landscape*" on pages 102 to 103 (inclusive) under the sub-headings "*FDA regulation of tobacco products in the U.S.*", "*Plain and standardized packaging*" and "*Product display bans at point of sale*", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Issuer, Imperial Tobacco or ITL are aware during the 12 months preceding the date of this Offering Memorandum which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, Imperial Tobacco, ITL or the Group.

Litigation relating to the Group

Litigation in the U.S.

On 22 April 2015, a purported class action complaint was filed in state court in Orange County, California against LOEC Inc., Lorillard Technologies Inc., and Lorillard Tobacco Company regarding allegedly false and misleading advertising concerning *blu* e-cigarettes. The complaint alleges that *blu* marketing erroneously made a number of claims regarding e-cigarettes, including with respect to usage, safety and comparison to traditional cigarettes. While damages have not been quantified, the complaint asserts that the individual claims of the plaintiff and the members of the proposed class are under the US$75,000 threshold for federal court. The Group expects to vigorously and successfully defend the action. In addition, the subject of the complaint—the marketing and labelling of e-cigarettes—is currently being considered by the FDA and may be subject to an FDA deeming rule, which could potentially pre-empt the majority, if not all, of the allegations in the complaint.

U.S. litigation environment and the MSA

In respect of state health care costs, Commonwealth Brands, SEITA, ITG Brands, ITL and several other affiliates of the Group are signatories to the MSA in the U.S.

The MSA includes an adjustment mechanism, known as a non-participating manufacturer (**NPM**) adjustment that potentially reduces participating tobacco manufacturers' annual MSA payment obligations. In order for an NPM adjustment to be made, an independent auditor must determine that the participating manufacturers have experienced a market share loss to those manufacturers who are not participants, and an independent firm of economic consultants must determine that the MSA was a significant factor contributing to that loss. The adjustment is then allocated among the settling states that are MSA parties according to whether they "diligently enforced" statutes known as "Qualifying Statutes". Although, for each year from 2003 to 2012 inclusive, the two requirements for application of the adjustment have been fulfilled, the relevant settling states dispute that any adjustment is required on the basis that they "diligently enforced" "Qualifying Statutes". This dispute is continuing. The states and manufacturers recently completed arbitration over the 2003 NPM adjustment, with disputes over the remaining years still to be arbitrated.

Effective from 17 December 2012, the manufacturers entered a "term sheet" with 17 states, the District of Columbia, and Puerto Rico setting out terms for settlement of the NPM adjustment for 2003 through to 2012 and addressing the NPM adjustment mechanism for those states for future years. The arbitration panel ordered implementation of certain terms of the settlement and rejected objections to it in March 2013. In April and May 2013 three additional states joined the settlement and two more joined in June 2014. This is an on-going claim by a number of manufacturers and any estimates of credits on settled claims are subject to change depending upon a number of factors included in the calculation of the credits. Certain states that are not parties to the proposed settlement objected to approval of the term sheet by the arbitration panel, and have subsequently filed motions to vacate the settlement in their state courts. The trial-level courts in three settling states have rejected those states' motions to vacate. Two of those states have filed appeals which are pending. The other state has not appealed so the order denying the motion to vacate the settlement in that state is now final.

The arbitration panel for the 2003 NPM adjustment issued its decisions with respect to the states and territories that did not agree to settle in September 2013. Previously, the manufacturers had advised the panel that they were not contesting diligent enforcement for 16 states. The panel's decisions found that six of the remaining 15 states that were contested, and that did not settle, were not diligent. As a result, after the panel's decisions, the manufacturers were set to recover the entire amount remaining for the 2003 NPM adjustment after the pro rata reduction ordered by the panel to reflect the settlement and a 20 percent reduction for a prior settlement.

All of the six states that were found "non-diligent" filed motions to vacate their individual awards in their individual state courts. They sought to overturn the awards entirely, eliminating their liability for the 2003 NPM adjustment, and also sought to reduce their exposure by altering the arbitration panel's treatment of the settlement. Two of those six states subsequently joined the term sheet settlement resolving the manufacturers' claims to the 2003 through 2012 adjustment and addressing the NPM adjustment mechanism for those states for future years. In two of the remaining four states, the trial-level state courts have issued decisions denying the states' requests to overturn the awards entirely but reducing the amount of recovery by changing the panel's treatment of the settlement. In a third state the trial-level state court has issued a decision denying both the state request to overturn the award entirely and the state request to reduce the amount of recovery. All three of these decisions are on appeal. An intermediate-level appellate court in one state has affirmed the trial court's ruling reducing the amount of recovery. The Group has sought further discretionary review in that State's highest level appellate courts. At this stage in the proceedings, the value of this claim is unquantifiable.

Other U.S. litigation

On 20 November 2014, a complaint was filed in the federal trial court in Philadelphia, Pennsylvania against Commonwealth Brands, Inc., Altadis, and Commonwealth-Altadis, Inc., each being subsidiaries of Imperial Tobacco, and a third party, Harold Levinson Associates, Inc., alleging violations of various U.S. antitrust laws. The proceedings are at a very initial stage and the values of these claims cannot, at this stage, be quantified.

Litigation in Italy

Logista, as a distributor of cigarettes, is currently a defendant in a claim commenced before a First Instance Judge (Giudice di Pace) in Naples by Mr Eduardo Arnese. The amount of the claim has not been precisely quantified by the claimant and is for damages suffered as a consequence of alleged addiction. Logista filed a challenge to the competence of the Giudice di Pace which was heard in 2006. The judgment on this and other procedural issues is awaited. At this stage in the proceedings, the value of this claim is unquantifiable.

Litigation in Ukraine

In August 2012, Imperial Tobacco Ukraine (**ITU**) received a decision from the State Tax Service Department (the **Department**) seeking to apply financial sanctions equivalent to approximately £87 million based on ITU's alleged contravention of the law on state regulation of production and circulation of alcohol and tobacco, by engaging in the wholesale trade of tobacco without the correct license.

ITU's appeal against the decision was upheld by the Circuit Administrative Court in Kiev in October 2012. The Department's appeal to the Kiev Administrative Court of Appeal was dismissed in February 2013 and its further appeal to the Superior Administrative Court of Ukraine was dismissed in June 2013. In August 2013, the Superior Administrative Court of Ukraine dismissed the Department's application for its decision to be reviewed by the Supreme Court of Ukraine. There are limited circumstances in which the Department could file a further appeal and ITU has been advised that the prospect of this happening is low.

As a consequence, the Group did not provide for any amount in the audited consolidated annual financial statements of the Group for the year ended 30 September 2014 in respect of this matter.

UK proceedings

On 4 June 2015, Imperial Tobacco filed a legal challenge to the UK plain packaging regulations in the High Court on a number of grounds, including that the regulations violate EU trademark law. The other international tobacco companies have filed similar legal challenges.

EC proceedings

In December 2007, the European Commission (the **EC**) commenced state aid proceedings against the Spanish state pursuant to Article 88.2 of the European Union Treaty (current Art. 108.2 Treaty on the Functioning of the European Union. 2012/C 326/01), relating to a Spanish tax law which allows the difference between the acquisition value and the net value of a stake in non-Spanish resident entities to be tax deductible in certain circumstances. The EC claimed that the law is selective in favour of certain entities and could have an adverse effect upon competition.

In October 2009, the EC rendered a negative decision with respect to the effect of the Spanish tax law on intra-European Union acquisitions, determining that these tax deductions qualified as state aid, since it provided selective advantage to Spanish companies in the acquisition of non-Spanish resident European Union targets, making it incompatible with the European Union single market. The EC limited the effect of its decision, however, to any tax deductions taken under this law after 21 December 2007, when these EC proceedings were commenced, reasoning that the companies who took these tax deductions had "legitimate expectations" that this Spanish tax law was valid and did not conflict with European Union state aid provisions. Since Logista acquired its European Union investment in 2004, it will not have to reimburse the amounts of its tax deductions, which amounted to approximately €63 million (approximately £49 million) as of 30 September 2014.

Several companies have appealed the decision before the General Court of the European Union. Most of the appeals contend that the measure did not entail state aid and that the principle of legitimate expectations should have been extended until the publication of the final decisions in the

Official Journal. The only exception is the appeal filed by a non-Spanish entity against the acknowledgement of the existence of legitimate expectations prior to 21 December 2007.

In a decision delivered on 7 November 2014, the General Court of the European Union has annulled the EC decision on the basis that the EC has failed to demonstrate that the Spanish measure was selective. The judgment expressly excludes the possibility of recovering the tax benefits.

The 7 November 2014 decision is not final as it has been appealed by the EC to the Court of Justice of the EU.

As a consequence, the amount deducted by Logista related to the European Union operation is still subject to a potential recovery order. However, this scenario is considered by the Group to be remote as it would require (i) that the Court of Justice of the EU annul the 7 November 2014 judgment stating that the measure was illegal state aid and (ii) that the General Court of the EU, going even further than the original EC decision, declare that no legitimate expectation had to be granted.

Litigation by trade unions

In January 2006, Altadis (comprising, as of 2013, Altadis, Tabacalera S.L.U. and Imperial Tobacco España S.L.U.) and Logista discontinued the supply of tobacco products to certain of their current and retired employees as a result of Spanish legislation prohibiting, amongst other things, the sale and supply of tobacco products by means other than through authorised outlets. Certain trade unions issued legal proceedings against Altadis and Logista and in July 2006, the Court of First Instance in Spain ruled that the companies' decisions to discontinue the supply were lawful but that they were obliged to compensate the relevant employees with the point-of-sale cash equivalent. Both parties appealed this decision to the Spanish Supreme Court. On 8 April 2008 and 18 April 2008 respectively, the Supreme Court held that Altadis and Logista were right to discontinue the supply of tobacco products to their employees and that they should substitute the supply of tobacco products with cash, but not at their retail price. The Supreme Court ruled that the amount to be paid to employees and retired workers was the cost of production plus related taxes. Altadis has since complied with the ruling, including paying excise taxes. However, the trade unions have since also claimed payment of related VAT. Several judgments have found against the trade unions but they continue to appeal. Altadis has been advised that the risk of their success on the merits of these VAT claims is remote.

In September 2014, Altadis reached an agreement with a number of the relevant retired employees to settle outstanding compensation due to those individuals. The settlement agreement and process was challenged by the trade unions, and on 9 October 2014, the Labor Chamber of the National Court in Spain ruled in favor of the trade unions in the first instance. Altadis appealed the ruling to the Spanish Supreme Court and following external legal advice, Imperial Tobacco believes that there are strong grounds for considering that this ruling will not be upheld by the Supreme Court. Imperial Tobacco estimates the net present value, at September 2014, of any remaining compensation which may be paid by Altadis SAU, Imperial Tobacco España S.L.U., and Tabacalera S.L.U. to be approximately £70 million, in aggregate. Appropriate provisions exist in the companies' statutory accounts.

Litigation related to the Acquired Assets

Except as set out below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Imperial Tobacco is aware) during a period covering the previous 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Acquired Assets.

Certain members of the Reynolds Group and certain members of the Lorillard Group are, in respect of the Acquired Tobacco Cigarette Brands, subject to on-going, pending and threatened product liability proceedings in the U.S. including: (a) individual claims alleging personal injury or death; (b) class actions alleging personal injury or requesting court-supervised programs for on-going medical supervision and monitoring; (c) claims brought to recover the costs of providing health care; and (d) claims in relation to the labelling of products as "light" or "ultra light". However, as the Acquired Tobacco Cigarette Brands are being acquired without historic product liabilities, these proceedings and the respective quantum of such claims are not described in further detail in this document.

LOEC, Inc. is also a defendant in a lawsuit filed on 22 June 2012 by Ruyan Investment (Holdings) Limited in the United States District Court for the Central District of California, alleging infringement of a patent now owned by Fontem Holdings 1 B.V. and exclusively licensed to Fontem Ventures, both companies being owned by the Group, related to electronic cigarette technology. This case has been stayed pending proceedings before the United States Patent and Trademark Office and involves non-monetary claims, meaning that at this stage in the proceedings, the value of these claims is unquantifiable. No provision for this action has been made in the financial statements due to the current status of the claim (stayed) and the fact that the counter-party is a subsidiary of the Group.

Insurance

The Group maintains the types and amounts of insurance that are customary for businesses in the sectors and geographic regions in which it operates, including coverage for property damage to material assets, loss of profit, employer's liability, public liability and director's and officer's liability. The Group considers its insurance coverage to be adequate both as to risk and as to amounts for the operations conducted by it, given the financial strength of the Group.

Property, Plant and Equipment

The Group owns or leases factories in over 30 countries to cut, blend and warehouse tobacco and for the production and manufacture of its cigarettes, fine cut tobacco, cigars, snus, rolling papers and other products. Details of certain of the largest production factories and significant warehouse properties of the Group are set out below. They are all held freehold or long leasehold. Management believes that they are adequate for their purpose and are at present substantially utilized in line with their nature and function. In most instances, the Group's facilities are operating below their estimated maximum capacity output.

Tenure/Location	Principal use	Building floor size	Annual capacity (24/5/50 operation)
Freehold			
Wilrijk, Belgium	Factory—rolling paper manufacture	144,200 sq. ft.	82 billion leaves
Le Havre, France	Factory—blending and expanded tobacco production	1,350,000 sq. ft.	8,000 tons expended tobacco, 8,500 tons pre-blends
Riom, France	Factory—cigarette manufacture	830,000 sq. ft.	17.5 billion cigarettes and 575 tons of fine cut tobacco
Langenhagen, Germany	Factory—cigarette and fine cut manufacture and warehousing	1,106,000 sq. ft.	64 billion cigarettes and 6,000 tons of fine cut tobacco
Radom, Poland	Factory—cigarette manufacture	643,500 sq. ft.	30.8 billion cigarettes and 1,000 tons of fine cut tobacco
Tarnowo, Poland	Factory—cigarette and fine cut manufacture	560,000 sq. ft.	37.5 billion cigarettes and 6,300 tons of fine cut tobacco
Agoncillo, Spain	Warehouse	246,547 sq. ft.	N/A
Andujar, Spain	Warehouse	158,262 sq. ft.	N/A
Leganés, Spain	Warehouse	860,000 sq. ft.	N/A
Logrono, Spain	Factory—cigarette manufacture	914,500 sq. ft.	42.7 billion cigarettes
Kiev, Ukraine	Factory—cigarette manufacture	433,800 sq. ft.	25.5 billion cigarettes
Yaroslavl, Russia	Factory—cigarette manufacture	649,900 sq. ft.	19 billion cigarettes
Skopje, Macedonia	Factory—cigarette manufacture	322,220 sq. ft.	8.3 billion cigarettes
Miaoli, Taiwan	Factory—cigarette manufacture	247,500 sq. ft.	8 billion cigarettes
Petone, New Zealand	Factory—cigarette manufacture	167,000 sq. ft.	12 billion cigarettes and 1,200 tons of fine cut tobacco
AME factories, various	Factory—cigarette manufacture		39.1 billion cigarettes and 490 tons of fine cut tobacco
Reidsville, North Carolina, USA	Factory—cigarette, fine cut, cigar and tube manufacture	980,000 sq. ft.	21.7 billion cigarettes, 5.5 billion tubes and 450 tons of fine cut tobacco
Greensboro, North Carolina, USA	Factory—cigarette manufacture	854,300 sq. ft.	50 billion cigarettes

Tenure/Location	Principal use	Building floor size	Annual capacity (24/5/50 operation)
Leasehold			
Greystanes, Australia	Warehouse	158,768 sq. ft.	N/A
Volgograd, Russia	Factory—cigarette manufacture	361,500 sq. ft.	27.4 billion cigarettes
Thane Road, Nottingham, UK	Factory—cigarette manufacture	659,000 sq. ft.	67.8 billion cigarettes and 3,100 tons of fine cut tobacco
Tampa, Florida, USA	Warehouse	238,000 sq. ft.	N/A

Key Subsidiaries and Associated Undertakings

The principal subsidiaries of Imperial Tobacco (all of which, directly or indirectly, are majority owned by Imperial Tobacco and the issued shares of which are fully paid unless otherwise stated below) are set out below.

Name	Country of incorporation/ residence	Principal activity (% of ownership interest if not 100%)
Altadis, S.A.U.	Spain	Manufacture, marketing, sale and distribution of tobacco products in Spain
Altadis Canaries, S.A.U.	Spain	Marketing and sale of tobacco products in the Canary Islands
Altadis Emisiones Financieras, S.A.U.	Spain	Finance company
Altadis Middle East Fzco	United Arab Emirates	Marketing and sale of tobacco products in the Middle East
Altadis USA, Inc.	U.S.	Manufacture, marketing and sale of cigars in the U.S.
Commonwealth—Altadis Inc.	U.S.	Sale and distribution of tobacco products in the U.S.
Commonwealth Brands Inc.	U.S.	Manufacture, marketing and sale of tobacco products in the U.S.
Compañía de Distribución Integral Logista Holdings, S.A.	Spain	Holding investments in subsidiary undertakings (70 percent owned)
Compañía de Distribución Integral Logista, S.A.U.	Spain	Distribution of tobacco products and related services in Spain (70 percent owned)
Ets. L. Lacroix Fils N.V.	Belgium	Manufacture, marketing and sale of tobacco products in Belgium
ITG Brands, LLC.	U.S.	Sale and distribution of tobacco products in the U.S.
Imperial Tobacco Australia Limited . .	Australia	Marketing and sale of tobacco products in Australia

Name	Country of incorporation/ residence	Principal activity (% of ownership interest if not 100%)
Imperial Tobacco China Limited	China	Marketing of tobacco products in China
Imperial Tobacco CR s.r.o.	Czech Republic	Marketing and sale of tobacco products in the Czech Republic
Imperial Tobacco Finance PLC	UK	Main finance subsidiary of Imperial Tobacco with no business operations of its own, other than advancing funds to, receiving funds from, and providing treasury services for, the Group
Imperial Tobacco Finance France S.A.S.	France	Finance company
Imperial Tobacco Finland Oy	Finland	Marketing and sale of tobacco products in Finland
Imperial Tobacco Hellas S.A.	Greece	Marketing and sale of tobacco products in Greece
Imperial Tobacco Holdings (2007) Limited	UK	Holding investments in subsidiary companies
Imperial Tobacco International Limited	UK	Export and marketing of tobacco products
Imperial Tobacco Italia Srl	Italy	Marketing and sale of tobacco products in Italy
Imperial Tobacco Limited	UK	Manufacture, marketing and sale of tobacco products in the UK and principal holding company
Imperial Tobacco Magyarorszäg Dohänyforgalmazö Kft	Hungary	Marketing and sale of tobacco products in Hungary
Imperial Tobacco Mullingar	Republic of Ireland	Manufacture of fine cut tobacco in the Republic of Ireland
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture, marketing and sale of tobacco products in New Zealand
Imperial Tobacco Norway A.S.	Norway	Marketing and sale of tobacco products in Norway
Imperial Tobacco Polska S.A.	Poland	Manufacture, marketing and sale of tobacco products in Poland
Imperial Tobacco Polska Manufacturing, S.A.	Poland	Manufacture of tobacco products in Poland
Imperial Tobacco Production Ukraine	Ukraine	Manufacture of cigarettes in Ukraine (99.8 percent owned)

Name	Country of incorporation/ residence	Principal activity (% of ownership interest if not 100%)
Imperial Tobacco Sales & Marketing LLC	Russia	Marketing and sale of tobacco products in Russia
Imperial Tobacco Sigara ve Tutunculuck Sanayi ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey
Imperial Tobacco Slovakia A.S.	Slovak Republic	Marketing and sale of tobacco products in the Slovak Republic
Imperial Tobacco Taiwan Co. Limited	Taiwan	Marketing and sale of tobacco products in Taiwan
Imperial Tobacco Taiwan Manufacturing Company Limited . .	Taiwan	Manufacturing of tobacco products in Taiwan
Imperial Tobacco TKS ad	Macedonia	Manufacture, marketing and sale of tobacco products in Macedonia (99.1 percent owned)
Imperial Tobacco Tutun Urunleri Satis ve Pazarlama A.S.	Turkey	Marketing and sale of tobacco products in Turkey
Imperial Tobacco Ukraine	Ukraine	Marketing and sale of tobacco products in Ukraine
John Player & Sons Limited	Republic of Ireland	Marketing and sale of tobacco products in the Republic of Ireland
Logista Italia, S.p.A.	Italy	Distribution of tobacco products in Italy (70 percent owned).
Logista France S.A.S.	France	Distribution of tobacco products in France (70 percent owned)
OOO Imperial Tobacco Volga LLC . .	Russia	Manufacture of tobacco products in Russia
ZAO Imperial Tobacco Yaroslavl CJSC	Russia	Manufacture of tobacco products in Russia
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture, marketing and sale of tobacco products in Germany
Reemtsma Kyrgyzstan OJSC	Kyrgyzstan	Manufacture, marketing and sale of tobacco products in Kyrgyzstan (98.6 percent owned)
Skruf Snus AB	Sweden	Manufacture, marketing and sale of tobacco products in Sweden
Société Ivoirienne des Tabacs S.A.[(1)] .	Ivory Coast	Manufacture, marketing and sale of tobacco products in the Ivory Coast (74.1 percent owned)

(1) Listed on the Stock Exchange of the Ivory Coast.

Name	Country of incorporation/ residence	Principal activity (% of ownership interest if not 100%)
Société Marocaine des Tabacs S.A.	Morocco	Manufacture, marketing, sale and distribution of tobacco products in Morocco
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes S.A.S.	France	Manufacture, marketing and sale of tobacco products in France and export of tobacco products
Supergroup S.A.S.	France	Wholesale distribution in France
Tobaccor S.A.S.	France	Holding investments in subsidiary companies involved in the manufacture, marketing and sales of tobacco products in Africa
Tobacna Ljubljana d.o.o.	Slovenia	Marketing and sale of tobacco products in Slovenia
Van Nelle Tabak Nederland B.V.	The Netherlands	Manufacture, marketing and sale of tobacco products in the Netherlands
800 JR Cigar Inc.	U.S.	Holding investments in subsidiary companies involved in the sale of cigars in the U.S.

In addition, the Group also wholly owns the following partnerships:

Name	Country of organization	Principal activity
Imperial Tobacco (EFKA) GmbH & Co. KG	Germany	Manufacture of tubes in Germany
Imperial Tobacco Kazakhstan LLP	Kazakhstan	Marketing and sale of tobacco products in Kazakhstan

Joint Ventures

Imperial Tobacco has invested in four Cuban Joint Ventures (all of which, directly or indirectly, are 50 percent owned by Imperial Tobacco) which are set out below.

Name and registered office	Country of incorporation/ residence	Principal activity
Altabana S.L.	Spain	Holding investments in subsidiary companies involved in the marketing and sale of Cuban cigars
Corporación Habanos, S.A.	Cuba	Export of cigars manufactured in Cuba
International Cubana de Tabaco, S.A.	Cuba	Company producing machine-made cigars
Promotora de Cigarros S.L.	Spain	Marketing and sale of machine-made cigars

Employees

The following table sets out the number of persons employed by the Group at the end of each of the financial years indicated, by location and business segment:

	2012	2013	2014
EU	17,000	16,100	16,200
Americas	8,600	8,200	7,500
Rest of the World	11,600	11,000	10,200
Total Group	**37,200**	**35,300**	**33,900**
Tobacco	31,000	29,600	28,300
Logistics	6,200	5,700	5,600
Total Group	**37,200**	**35,300**	**33,900**

As at 31 December 2014, the total number of employees in the Group was 32,800.

DESCRIPTION OF THE ACQUISITION

Introduction

On 15 July 2014, Imperial Tobacco's wholly owned indirect subsidiary, ITG Brands, LLC, (**ITG Brands**) entered into an Asset Purchase Agreement with Reynolds for the acquisition of certain brands and assets owned by the Reynolds Group and the Lorillard Group, including the U.S. cigarette brands *Winston, Maverick, Kool* and *Salem*, and the U.S. and international e-cigarette brand *blu*, plus the national sales force, offices and production facilities formerly owned by Lorillard. The Acquired Tobacco Cigarette Brands have been acquired without historic product liabilities following the acquisition of Lorillard by Reynolds. Under the terms of the Asset Purchase Agreement, ITG Brands paid total cash consideration of US$7.056 billion. The U.S. Federal Trade Commission (**FTC**) gave its approval for the Acquisition on 27 May 2015, subject to a consent order requiring the Acquisition to be completed, and, on 8 June 2015, the United States District Court for the District of Columbia approved the sale of the Acquired Brands to ITG Brands in accordance with the Department of Justice case involving those brands. The Acquisition was completed on 12 June 2015.

Due to the size of the Acquisition in relation to the size of Imperial Tobacco, the Acquisition constituted a Class 1 transaction (as defined in the Listing Rules) and required the approval of Imperial Tobacco's Shareholders pursuant to the Listing Rules. This approval was given at the General Meeting of Imperial Tobacco's Shareholders on 28 January 2015.

Acquisition rationale

With total acquisitions of over £17 billion since listing on the London Stock Exchange in 1996, Imperial Tobacco has a long track record of successful acquisitions which have expanded the geographic reach and product offerings of the Group.

This investment in the U.S., one of the Imperial Tobacco's key Growth Markets, provides an opportunity to transform Imperial Tobacco's presence in the world's largest tobacco profit pool (excluding China). The Acquisition enhances Imperial Tobacco's product portfolio through the addition of tobacco brands which, despite being relatively unsupported in recent years, continue to demonstrate strong inherent brand equity with consumers. In addition, the acquisition of an established and experienced sales force, national distribution capabilities and a respected management team, will transform the scale and presence of the U.S. business, enabling Imperial Tobacco to become a stronger and more effective competitor.

Information on the U.S. cigarette market

The U.S. cigarette market is the third largest in the world by volume (excluding China) with the latest market volume data for the 12 months to September 2014 indicating a total U.S. market size of around 271.5 billion cigarettes. In profit terms, the U.S. market is the largest in the world (excluding China), accounting for up to 25 percent of world cigarette profits (excluding China). Estimated total profits of the cigarette industry in the U.S. for calendar year 2014 are expected to be in excess of US$15 billion based in part on net sales for the 12 months to the end of September 2014 of over US$33 billion.

Although the U.S. cigarette market is in modest volume decline (an estimated 4.2 percent moving annual total to September 2014), the U.S. profit pool has grown by an estimated average of 4.5 percent each year over the last ten years. This has been driven in part by cost savings and in part by price increases, reflecting the affordability of cigarettes in the U.S. market relative to local purchasing power. The U.S. regulatory environment has tended to be relatively stable. The FDA has historically adopted a largely scientific and evidence based approach to the evolution of policy, driving a measured approach to regulatory change.

Information on the Acquired Assets

Overview

On completion of the Acquisition, ITG Brands or another member of the Group acquired:

- all U.S. intellectual property rights in the *Winston, Kool* and *Salem* cigarette brands, formerly owned by the Reynolds Group (the *Winston* cigarette brand is owned by Japan Tobacco Inc. outside of the U.S.);
- all U.S. intellectual property rights in the *Maverick* cigarette brand, formerly owned by the Lorillard Group;
- all intellectual property rights, both in the U.S. and internationally, in the e-cigarette brand *blu* formerly owned by the Lorillard Group and its e-cigarette operations in the U.S. and UK; and
- the Lorillard Group's manufacturing facilities at Greensboro, North Carolina, U.S., and other commercial infrastructure formerly owned by the Lorillard Group, along with the majority of the national sales force of the Lorillard Group.

Further details on the Acquired Assets are set out below.

Cigarette brands

Winston is currently the number six brand in the U.S. with around 2.0 percent share of the U.S. market. Market research in the U.S. suggests that it retains strong brand awareness and consumer resonance notwithstanding that it has not been one of Reynolds' key focus brands, and has had very limited investment for a number of years.

The states in which *Winston* is strongest are largely those which have the most material volumes of cigarette sales in the U.S. tobacco market and the majority of the states in which *Winston*'s market share exceeds its national average are in the top 20 states by volume of cigarette sales.

Winston is a primary focus in the portfolio of Acquired Brands. The Group believes that *Winston*'s growth outside the U.S. is evidence of brand strength and growth opportunity within the U.S. The Group plans to invest significantly in *Winston* and believes this investment and focus can unlock its inherent brand potential within the U.S. market.

Maverick is a discount brand with around 1.9 percent share of the U.S. market, though it is significantly stronger than this in several key volume states and has grown from a market share of around 0.3 percent in 2008.

Kool is a menthol brand and represents around 1.8 percent of the U.S. market. Although Reynolds refined its brand portfolio during 2008 and reclassified *Kool* (which had a market share of 3.1 percent in 2007) from a growth brand to a support brand, it has a generally very loyal base of core consumers which is reflected in its current share of the market. The Group expects to develop its offering in the menthol market through increased investment in *Kool*.

Salem is also a menthol brand with around 1.1 percent U.S. market share.

All of these cigarette brands have been acquired without historic product liabilities. An indemnity in respect of such liabilities has been provided by Reynolds under the terms of the Acquisition.

E-Cigarettes

blu is a leading e-cigarette brand in the U.S., generating US$179 million net revenue for the year ended 31 December 2014, and with market share of approximately 25 percent of retail sales in the U.S. The e-cigarette market has been growing strongly in the U.S. in recent years with the market more than doubling every year between 2009 to 2013. It now exceeds US$1.7 billion in total, including a growing online marketplace.

Other assets

In addition to the portfolio of Acquired Brands, further assets acquired include the Lorillard Group's manufacturing facilities (capacity of approximately 50 billion cigarettes per annum) and offices at Greensboro, North Carolina in addition to the majority of the sales force and commercial infrastructure of the Lorillard Group. As of 31 December 2014, the Lorillard Group had approximately 2,900 full-time employees.

Financial information

Historically, the *Winston, Kool* and *Salem* brands (and their related business operations) were owned and managed by the Reynolds Group, and the *Maverick* and *blu* brands (and their related business operations) were owned and managed by the Lorillard Group. Accordingly, the historical financial information for the acquired businesses set forth elsewhere in this Offering Memorandum is presented in two separate financial track records for each of the Reynolds Group and the Lorillard Group as set out below:

(a) the Reynolds Business Historical Financial Information included within this Offering Memorandum reflects the assets, liabilities, revenues and expenses directly attributed to the Acquired Assets formerly owned by the Reynolds Group; and

(b) the Lorillard Business Historical Financial Information included within this Offering Memorandum reflects: (i) the assets, liabilities, revenues and expenses attributed to the Acquired Assets formerly owned by the Lorillard Group; and (ii) the revenue earned and expenses incurred by the Lorillard Group on the other Lorillard brands which are manufactured for the Reynolds Group under the Reciprocal Manufacturing Agreement.

Additionally, pro forma financial information illustrating the impact of the Acquisition on Imperial Tobacco's latest financial information is set out in "*Pro Forma Financial Information*". This incorporates a reconciliation of operating profit to adjusted EBITDA, including an explanation of certain non-recurring items.

The Acquired Brands, including *blu*, had volumes of 20 billion cigarettes, pro forma combined net revenue of US$2.1 billion (£1.3 billion), pro forma combined brand contribution of US$1.1 billion (£0.7 billion), pro forma combined adjusted earnings before interest, taxes, depreciation and amortization of US$0.7 billion (£0.4 billion) and pro forma combined adjusted operating profit of US$0.6 billion (£0.3 billion) for the year ended 31 December 2014. As set out in "*Pro Forma Financial Information*", the book value of the gross Acquired Assets was approximately US$0.5 billion (£0.3 billion) as at 31 December 2014 (which amount excludes tax assets and current assets which were not acquired as part of the Acquisition).

In line with the Group's expectations at the time of the Group's announcement of the Acquisition in July 2014, the financial performance of the Acquired Assets has declined slightly during 2014, with combined adjusted EBITDA for the year ended 31 December 2014 of US$0.7 billion, compared to the US$0.8 billion which was previously disclosed, and which was based on the historical financial information for the acquired assets for the year ended 31 December 2013.

This reflects continued gradual decline in combined market share of the *Winston*, *Salem* and *Kool* brands, costs associated with launching the *blu* brand in the UK in the second quarter of 2014, and the negative impact on *blu* of competitors' new product launches in the U.S., which have been supported by aggressive promotional programs.

Background to and Reasons for the Acquisition

Since listing on the London Stock Exchange in 1996, Imperial Tobacco has established a track record for acquiring and successfully integrating businesses, expanding its geographic reach, driving cost efficiencies, building brand equity and enhancing earnings.

The Board believes that the Acquisition represents a significant opportunity to strengthen the Group's product portfolio, build a competitive position in a key Growth Market and further enhance the sustainability of its earnings and cash flow. The Acquisition:

- is expected to generate a return on invested capital of over 10 percent, well in excess of Imperial Tobacco's weighted average cost of capital in the first full financial year following completion of the Acquisition; and
- is expected to be significantly earnings enhancing in the first full financial year following completion of the Acquisition.

In addition, the Board believes that the Acquisition will be transformational for its U.S. business and e-cigarette business by:

- enhancing its portfolio of tobacco brands in the U.S. which, with a greater share of the market, makes Imperial Tobacco more important to retailers and more appealing to consumers;
- providing the opportunity for leadership in e-cigarettes, and for Imperial Tobacco to combine *blu* with the Fontem Ventures category know-how and category expertise to allow it to explore international growth opportunities as the market develops; and
- enhancing the U.S. management team, sales force capability and wider infrastructure, allowing Imperial Tobacco to benefit from the best of both businesses.

Stronger U.S. competitor

The addition of *Winston, Maverick, Kool* and *Salem* are expected to strengthen Imperial Tobacco's existing U.S. cigarette portfolio, which currently accounts for around 3 percent of the U.S. market share, transforming the Group into a major U.S. competitor with a total market share of approximately 9.5 percent.

When combined with *blu*, the enlarged U.S. business is expected to become increasingly important to wholesalers and retailers. A respected sales team with a proven track record is expected to enable broader coverage of customers with more sales visits, space on shelf, merchandising and point of sale visibility, helping to grow Imperial Tobacco's presence and influence within key retail and distribution accounts.

A key benefit of the Acquisition is that it is expected to enable the Group to move from a focused presence in 19 states to a material presence across the whole of the U.S. Following the Acquisition, Imperial Tobacco has a national operation across the United States which is expected to significantly improve its ability to compete and help realize its ambitions to grow.

Stronger capabilities and platform for growth

In addition to the Acquired Brands, Imperial Tobacco has acquired the vast majority of the former Lorillard Group sales force who have a proven track record of success and a deep knowledge of brands and customers. Their experience, combined with a renewed focus on a portfolio of inherently strong, but historically underinvested brands, will create a stronger platform for growth.

Expected synergies

In combining the assets and resources of the existing Commonwealth-Altadis, Inc. business with those acquired as part of the Acquisition, Imperial Tobacco expects to realize modest synergies and its intention is to reinvest the savings from any such efficiencies to support the growth of the Acquired Brands.

Strategy for the Enlarged U.S. Business

Imperial Tobacco has a clearly defined strategy to invest in Growth Markets, being those markets where it can grow its share of the available profit pool. The U.S. is one of Imperial Tobacco's key Growth Markets given the size and growth of its profit pool and its under-representation in the market. In line with its prioritization of Growth Brands throughout the rest of the Group, it is anticipated that *Winston* and *blu* will be the main focus for Imperial Tobacco's strategy in the U.S., with *Maverick, Kool* and its existing *USA Gold* brand providing strong secondary support on a state-by-state basis.

- *Winston* will be the main focus of the strategy for Imperial Tobacco's U.S. portfolio. Research in the U.S. has reinforced Imperial Tobacco's confidence that *Winston* can be reinvigorated. It is a leading global brand owned by Japan Tobacco Inc. outside of the U.S. (global no. 2 (excluding China)) which has strong inherent brand equity in the U.S. and has previously demonstrated its capability to grow when supported by increased investment by Reynolds in the past. Imperial Tobacco plans to invest significantly in *Winston* and believes this investment and focus can unlock its inherent brand potential within the U.S. market.
- *blu* will be the focus of the brand portfolio in the e-cigarette segment as a leading e-cigarette brand in the U.S. In addition, the combination of the strong brand equity and technology platform of *blu* with the know-how and category expertise of Imperial Tobacco's subsidiary Fontem Ventures will provide a platform for innovation. The e-cigarette market is still in an early stage of development with considerable consumer interest suggesting opportunities for stronger branding and improved technology. Imperial Tobacco will therefore seek to build upon this platform, developing an already well established U.S. consumer proposition and exploring opportunities for growth in international markets.
- *Maverick* will continue to be a focus, particularly in certain key volume states, in the discount segment of the market which is showing consistent growth.
- *Kool*, an exclusively menthol brand with distinct regional strength, will benefit from investment on a state-by-state basis to build on its existing equity in states where there is a strong menthol demand or where the Group has identified strong potential for growth.
- Imperial Tobacco's existing *USA Gold* brand will continue to be a focus in its key volume states.
- The other brands in the portfolio, including *Salem*, will largely be managed to maximize cash returns.

Principal Terms of the Acquisition

Structure of the Acquisition

On 15 July 2014, ITG Brands, Imperial Tobacco and Reynolds entered into the Asset Purchase Agreement in respect of the Acquisition, pursuant to which the parties agreed, on the terms and subject to the conditions of that agreement, that ITG Brands (or another member of the Group) would acquire the Acquired Assets.

The Acquired Assets were acquired immediately following the completion of the Merger of Lantern Acquisition Co (a subsidiary of Reynolds) and Lorillard.

ITG Brands and Reynolds have entered into certain additional ancillary agreements as further described below.

Asset Purchase Agreement

The key terms of the Asset Purchase Agreement are summarized below.

Scope of Acquired Assets and business

Subject to the terms and conditions of the Asset Purchase Agreement, the assets, rights and obligations transferred to ITG Brands (or another member of the Group) included:

(i) all intellectual property rights in relation to the *Winston*, *Kool, Salem* and *Maverick* brands in the U.S.;

(ii) the *blu* brand business, both in the U.S. and internationally, including all associated assets, properties, licenses, rights, obligations and liabilities;

(iii) a percentage of the tobacco leaf inventory of the Lorillard Group representing the *Maverick* brand, and a percentage of the tobacco leaf inventory of the Reynolds Group representing the *Winston*, *Kool* and *Salem* brands, as well as associated work-in-process and inventory relating to the Acquired Assets; and

(iv) the Lorillard Group's manufacturing facilities and offices in Greensboro, North Carolina, a leaf storage facility in Danville, Virginia, sales and other workforces and related plant and infrastructure, certain of which were transferred to ITG Brands pursuant to the Transfer Agreement as further described below.

In addition, the Asset Purchase Agreement provided that the Acquisition would also include the transfer to ITG Brands of the *Doral* cigarette brand in the U.S. for no additional consideration if the aggregate market share in the U.S. of the *Winston*, *Kool* and *Salem* brands for the three months ended prior to the month in which the completion of the Acquisition occurred fell below 4.9 percent. The latest available data for this period indicated that their aggregate market share had not fallen below this level. Accordingly, the Group does not expect to receive the *Doral* brand.

Consideration

The total cash consideration payable by ITG Brands to Reynolds in respect of the Acquired Assets was US$7.056 billion, and was paid upon completion of the Acquisition on 12 June 2015.

Representations and warranties

Reynolds has provided certain representations and warranties to ITG Brands in respect of the Reynolds business and the Lorillard business, in each case in relation to the Acquired Assets, including, but not limited to: (a) power and authority to enter into and perform its obligations under the Asset Purchase Agreement and related agreements; (b) financial information on the Acquired Assets; (c) title to assets; (d) compliance with laws; (e) MSA and state settlement arrangements; (f) intellectual property and licensing arrangements; (g) environmental and real estate matters; and (h) employees and employee benefits. These representations and warranties are customary for a U.S. acquisition of the size and nature of the Acquisition. The representations and warranties of Reynolds in respect of the Lorillard business are qualified by: (i) the actual knowledge of certain members of Reynolds management based on due diligence conducted in connection with the Merger; and (ii) knowledge based on representations of Lorillard to Reynolds as to relevant matters.

Imperial Tobacco and ITG Brands have also provided customary representations and warranties to Reynolds in respect of, amongst other things the power and authority to enter into and perform their obligations under the Asset Purchase Agreement and the financing arrangements for this transaction, including a sufficiency of funds warranty at signing and up to completion of the Acquisition.

The representations and warranties are subject to certain qualifications and limitations customary for a U.S. acquisition of the size and nature of the Acquisition. In particular, claims in respect of the majority of representations and warranties (excluding title and capacity representations and warranties) must be brought within 18 months of the completion of the Acquisition or within three years of completion in respect of certain intellectual property and environmental matters.

Provision of Imperial Tobacco guarantee

The Asset Purchase Agreement includes a guarantee by Imperial Tobacco of the following obligations of ITG Brands: (i) the payment by ITG Brands of the purchase price when due; (ii) the full payment and performance of ITG Brands' obligations under the Asset Purchase Agreement to the extent such obligations were to be performed by ITG Brands at or prior to the completion of the Acquisition; and (iii) the payment by ITG Brands under any judgment against ITG Brands (or any related settlement) resulting from a breach of ITG Brands' obligations under certain ancillary agreements that have been entered into between ITG Brands and Reynolds.

Indemnification

(i) *Product liability litigation claims*

(a) Reynolds has agreed to indemnify ITG Brands and its affiliates in respect of all product liability litigation claims (whether smoking and health-related claims or other claims relating to the manufacture, distribution and sale of products) in respect of the Acquired Tobacco Cigarette Brands relating exclusively to the period prior to the completion of the Acquisition.

(b) ITG Brands has agreed to indemnify Reynolds and its affiliates in respect of all product liability litigation claims (whether smoking and health-related claims or other claims relating to the manufacture, distribution and sale of products) in respect of the Acquired Tobacco Cigarette Brands relating exclusively to the period after the completion of the Acquisition.

(c) In respect of any product liability litigation claims (whether smoking and health-related claims or other claims relating to the manufacture, distribution and sale of products) that relate to both the pre- and post- completion periods, any liabilities (and the corresponding indemnities) will be allocated on a pro rata basis between Reynolds and ITG Brands, subject to certain additional indemnification arrangements by Reynolds in the eight year period following completion of the Acquisition.

(ii) *Other matters*

(a) Reynolds has agreed to indemnify ITG Brands and its affiliates in respect of, amongst other things: (A) subject to certain limitations and exceptions, the failure of any representation or warranty made by Reynolds in the Asset Purchase Agreement or the ancillary documents to be true and correct; (B) breach of or failure to perform any covenant or obligation of Reynolds in the Asset Purchase Agreement or the ancillary documents (including in respect of the court order relating to the DOJ Case); (C) the excluded assets and liabilities set out in the Asset Purchase Agreement; (D) certain payments including a portion of attorney's fees, if required, under the MSA and other state settlements; (E) certain potential obligations under the court order relating to the DOJ Case; (F) any breach by Reynolds of the agreed treatment of the Acquired Tobacco Cigarette Brands after completion of the Acquisition under the MSA and other relevant state settlement agreements that results in greater payments under the settlements; (G) any liability under any defined benefit plan, other than in relation to the Lorillard defined benefit pension plan for hourly union workers (which ITG Brands will assume); and (H) any liability under the 2008 separation arrangements between Loews Corporation and Lorillard.

(b) ITG Brands has agreed to indemnify Reynolds and its affiliates in respect of, amongst other things: (A) subject to certain limitations and exceptions, the failure of any representation or warranty made by Imperial Tobacco or ITG Brands in the Asset Purchase Agreement or the ancillary documents to be true and correct; (B) breach of or failure to perform any covenant or obligation of Imperial Tobacco or ITG Brands in the Asset Purchase Agreement or the ancillary documents (including, in the case of Imperial Tobacco, in relation to the guarantee provisions); (C) the assumed liabilities set out in the Asset Purchase Agreement; and (D) any breach by ITG Brands of the agreed treatment of the Acquired Tobacco Cigarette Brands after completion of the Acquisition under the MSA and other relevant state settlement agreements that results in greater payments under the settlements.

(c) The indemnities provided by ITG Brands and Reynolds in respect of the failure of any representation or warranty to be true and correct and the breach of or failure to perform any covenant or obligation prior to completion of the Acquisition are subject to certain monetary limitations, including that the aggregate liability of each of ITG Brands and Reynolds for such indemnification will be US$425 million.

Employment and employee benefits matters

ITG Brands offered employment to the employees of the Lorillard Group prior to the Acquisition other than those employees whom Reynolds and ITG Brands mutually agreed were to be retained by the Reynolds Group following the Acquisition. Offers of employment were made on substantially comparable terms and conditions to those employee benefits provided immediately prior to the Acquisition.

Reynolds and ITG Brands have agreed to employ non-solicitation restrictions on both parties for an 18-month period following completion of the Acquisition, subject to customary carve-outs.

Other provisions

The Asset Purchase Agreement also contains the following provisions:

(i) *MSA/other state settlements*

(a) The Asset Purchase Agreement sets out the agreement between Reynolds and ITG Brands as to the treatment of the Acquired Tobacco Cigarette Brands after the Acquisition under the MSA and other relevant state settlement agreements.

(b) Subject to the terms and conditions set out in the Asset Purchase Agreement, ITG Brands and Reynolds have agreed to cooperate with each other and use their reasonable best efforts to reflect the agreed treatment of the Acquired Tobacco Cigarette Brands both before and after completion of the Acquisition in their interactions with the states and other relevant third parties in respect of the MSA and such other state settlements, as well as making communications and taking actions to obtain all required re-certifications of the Acquired Tobacco Cigarette Brands for sale in the states.

(ii) *DOJ Case*

(a) The Asset Purchase Agreement sets out the agreement between Reynolds and ITG Brands as to the joinder of ITG Brands to the final judgment and remedial order in relation to the DOJ Case in respect of the Acquired Tobacco Cigarette Brands.

(b) Subject to the terms and conditions set out in the Asset Purchase Agreement, ITG Brands and Reynolds have agreed to cooperate with each other and use their reasonable best efforts to obtain the joinder on the terms agreed upon in the Asset Purchase Agreement, and Reynolds has agreed to indemnify ITG Brands for certain potential obligations under the order.

Transfer Agreement

On 15 July 2014, ITG Brands and Lorillard entered into the Transfer Agreement, pursuant to which, immediately prior to the completion of the Merger, Lorillard transferred specified Acquired Assets, including certain real estate assets, to ITG Brands and ITG Brands assumed specified liabilities, including under certain employee benefit plans, from Lorillard.

Ancillary agreements

Certain ancillary agreements, including the Reciprocal Manufacturing Agreement, the Route to Market Agreement and a transitional services agreement, have been entered into between ITG Brands, Reynolds, Lorillard and/or their respective affiliates.

Reciprocal Manufacturing Agreement

RJR Tobacco and ITG Brands entered into the Reciprocal Manufacturing Agreement pursuant to which, for a transitional period, RJR Tobacco, at the Tobaccoville facility, is now exclusively manufacturing and supplying ITG Brands' requirements for *Winston, Kool* and *Salem* brand products and ITG Brands, at the Greensboro facility, is now exclusively manufacturing and supplying RJR Tobacco's requirements for *Kent, Newport, Old Gold* and *True* brand products, in each case at cost plus 10 percent (excluding leaf costs).

Indemnification

Each party has agreed to indemnify the other party and its affiliates in respect of any losses resulting from: (i) any breach of the representations, warranties, and covenants set out in the Reciprocal Manufacturing Agreement; or (ii) the marketing, advertising, distribution or sale by a party, in its capacity as a customer of any products manufactured by the other party, in its capacity as a manufacturer. Where the indemnification provisions of the Asset Purchase Agreement conflict with the Reciprocal Manufacturing Agreement, the Asset Purchase Agreement will prevail.

Term

The Reciprocal Manufacturing Agreement is for an initial term of two years, after which the agreement and, unless terminated as provided below, the relevant manufacturer-customer relationships may be renewed at the option of the customer for successive one-year periods if, despite the customer's efforts, it has not then been able to migrate its manufacturing requirements to itself (or another person).

The Reciprocal Manufacturing Agreement may be terminated as follows: (a) by mutual consent of the parties; or (b) by a party, by giving written notice to the other party at any time upon the occurrence of any of the following events: (i) the voluntary bankruptcy of the other party; (ii) failure by the other party to pay its debts as they mature in the ordinary course of business, or an assignment by the other party for the benefit of its creditors; or (iii) appointment of a receiver for the other party or its property.

A party may terminate or elect to not renew, as applicable, its customer relationship with its manufacturer: (a) at the end of the initial two-year term or then effective one-year renewal term; (b) if the relevant manufacturer suffers an event beyond its control which causes an inability to perform or delay in performing any term in the Reciprocal Manufacturing Agreement, and such event is not alleviated to the reasonable satisfaction of the customer; (c) in the event the relevant manufacturer suffers one or more of the events that would result in termination of the Reciprocal Manufacturing Agreement, as described in part (b) of the immediately preceding paragraph; (d) in the event that the other party is in breach of any material term of the Reciprocal Manufacturing Agreement and the other party fails to cure the breach within 30 days; (e) if, in the customer's good faith judgment, it believes that it can migrate manufacturing to itself (or another person) in accordance with a migration plan, provided that the termination will not be effective before the completion of such customer's migration plan; or (f) if both: (i) the action of any governmental authority prohibits or declares it unlawful or otherwise impairs any obligation of a party as contemplated by the Reciprocal Manufacturing Agreement; and (ii) the parties are unable to propose a feasible way of avoiding such interference.

Route to Market Agreement

On 15 July 2014 ITG Brands and Reynolds entered into the Route to Market Agreement pursuant to which they agreed that they will comply with certain shelf space and wholesale channel obligations in respect of the Acquired Tobacco Cigarette Brands before and after completion of the Acquisition.

During the period between signing and completion of the Asset Purchase Agreement, the Reynolds Group agreed that they would continue to sell the Acquired Tobacco Cigarette Brands and use the shelf space allocated to the Acquired Tobacco Cigarette Brands in accordance with historical practice. There is a five-month standstill period after completion of the Acquisition during which the Reynolds Group and ITG Brands will not make significant changes to the retail shelf space occupied by the Acquired Tobacco Cigarette Brands. During the 12-month period beginning on expiry of the standstill period, the Reynolds and ITG Brands' contracts with retailers must comply with certain stipulations set out in the Route to Market Agreement with regard to the amount of shelf space allocated to the relevant party. In addition, the Reynolds Group must not enter into any exclusive contracts with retailers during this period.

Integration Plan and Employees

Imperial Tobacco has a strong track record of successfully integrating acquired businesses into the Group, and building on this previous experience it has put in place senior integration resources designed to ensure that the resulting enlarged U.S. business has a strong management team and draws on the strengths of both the Group's existing U.S. business and the Acquired Assets.

Prior to completion of the Acquisition, interim arrangements allowed ITG Brands access to Lorillard's and Reynolds' management while preserving independence and confidentiality between the relevant parties.

As referred to above, on the completion of the Acquisition, a transition period commenced during which RJR Tobacco will contract manufacture *Winston, Kool* and *Salem* for ITG Brands and ITG Brands will contract manufacture *Kent, Newport, Old Gold* and *True* for RJR Tobacco and the parties will comply with certain obligations relating to the shelf space and wholesale channel in respect of the Acquired Tobacco Cigarette Brands.

Financing of the Acquisition

On 15 July 2014, the Issuer and Imperial Tobacco Enterprise Finance Limited (as borrowers) and Imperial Tobacco and ITL (as guarantors) entered into the Facilities Agreement whereby committed bank facilities of £7.8 billion (equivalent) comprising term loans and revolving credit facilities were made available to the borrowers. On 5 May 2015, the Issuer subsequently cancelled US$750 million of the term loan facilities and, on 10 June 2015, cancelled a further US$300 million of the term loan facilities.

Following the cancellation, the aggregate principal amount of the term loan facilities is US$6.05 billion; these facilities were available solely in relation to the Acquisition and were drawn by the Issuer on 12 June 2015. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Bank credit facilities*" above.

On 9 June 2015, Imperial Tobacco entered into the BAML Facility which was used to finance the Acquisition. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Bank credit facilities*" above.

In order to accelerate the pace of debt repayment, Imperial Tobacco announced, at the same time as announcing the Acquisition on 15 July 2014, the cancellation of its share buy-back program (pursuant to which approximately 14.2 million shares were bought back by Imperial Tobacco in the year ended 30 September 2014 at a cost of approximately £341 million). In addition, the Group's rating agencies (S&P, Moody's and Fitch) were consulted on the financial parameters arising from the Acquisition prior to announcement of the Acquisition and they have all since publicly announced that they expected that Imperial Tobacco's investment grade credit ratings would be maintained following the Acquisition.

DIRECTORS AND SENIOR MANAGEMENT

The following table shows the Board of Directors and senior management of Imperial Tobacco as at the date of this Offering Memorandum.

Board of Directors	Title
Mark D Williamson	Chairman and Non-Executive Director
Alison J Cooper(1)	Chief Executive and Director
Oliver R Tant(2)	Chief Financial Officer and Director
Matthew R Phillips	Chief Development Officer and Director
Kenneth M Burnett	Non-Executive Director
David J Haines	Non-Executive Director
Michael H C Herlihy	Senior Independent Non-Executive Director
Karen Witts	Non-Executive Director
Malcolm I Wyman	Non-Executive Director
John M Downing	Company Secretary

(1) Also a board member of Imperial Tobacco Limited.

(2) Also a board member of Imperial Tobacco Limited and Imperial Tobacco Finance PLC.

Senior management	Title
Arthur J M van Benthem	Chief Executive Officer, Fontem Ventures
Helen F Clatworthy	Business Transformation Director
Peter Corijn	Group Marketing Director
Fernando L Domínguez Valdés-Hevia	Premium Cigar Director
Walter Prinz	Group Manufacturing Supply and Research and Development Director
Andrew Newall	Group Human Resources Director

The business address of each of the Directors and members of senior management is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom with the exception of Arthur J M van Benthem whose business address is 12th Floor, Barbara Strozzilaan 10, 1083 HN Amsterdam, the Netherlands.

There are no existing or potential conflicts of interest between any duties to Imperial Tobacco of the Directors and senior management and/or their respective private interests and other duties, except as disclosed in the footnotes to the charts under the headings "*Imperial Tobacco Finance PLC*", "*Imperial Tobacco Limited*" and this "*Directors and Senior Management*".

Board of Directors

Mark D Williamson, CA(SA), Chairman, appointed Non-Executive Director in July 2007, appointed Senior Independent Non-Executive Director in February 2012, Deputy Chairman of the Board in January 2013, and Chairman of the Board in February 2014.

Committee membership: Chairman of the Succession & Nominations Committee.

Skills and experience: Mr Williamson is a qualified accountant who has considerable international financial and general management experience. He joined International Power plc in 2000 as a group financial controller and was appointed to the board as the chief financial officer in 2003, where he worked until 2012. Previously, he was a group financial controller and a group chief accountant at Simon Group, the engineering and bulk chemicals storage group.

External appointments: Serves on the board of National Grid Plc and is a non-executive director of Alent PLC.

Alison J Cooper, BSc, ACA, Chief Executive and Director, appointed to the Board in July 2007 and appointed Chief Executive and Director in May 2010.

Skills and experience: Mrs Cooper has held a number of senior roles in the Group including Director of Finance and Planning, Regional Director Western Europe, Corporate Development Director and Chief Operating Officer. She joined the Group in 1999. Previously she was with PricewaterhouseCoopers where she had worked with Imperial Tobacco for several years in a number of areas, including acquisitions.

External appointments: Non-executive director, Inchcape plc since July 2009.

Oliver R Tant, BSc, CA (Scotland), Chief Financial Officer and Director, appointed to the Board in October 2013 and became Chief Financial Officer and Director on 5 November 2013.

Skills and experience: Mr Tant held a number of senior positions in a 32-year career at KPMG, including as the global managing director of the private equity division and the head of the UK audit group. He was also a member of both the UK and German boards of KPMG. He brings to the Group international experience in change management, organizational restructuring, corporate finance and mergers and acquisitions.

External appointments: director of The Copse House Cider Company Ltd, a director of Landshire Estates Ltd, a director of Landshire Cider Ltd, a member of the Board of Future Fuels No. 1 LLP, a member of the Board of Cobalt Data Centre 2 LLP, a member of the Board of Invicta Martineau Place LP, and a member of the Board of Green Power Plant LLP.

Matthew R Phillips, LLB, Chief Development Officer and Director, appointed to the Board in June 2012 and appointed as Company Secretary in October 2004, General Counsel in November 2007, Group Corporate & Legal Affairs Director in October 2010, Corporate Affairs Director in June 2012, and Chief Development Officer in June 2015.

Skills and experience: Mr Phillips joined the Group's legal department in 2000 having previously worked for law firms Linklaters and Burges Salmon. Mr Phillips has held a number of senior roles in the Group including Company Secretary, General Counsel and Group Corporate and Legal Affairs Director prior to his appointment to the Board as Corporate Affairs Director in June 2012 and Chief Development Officer in June 2015.

External appointments: Currently no external director appointments.

Kenneth M Burnett, MA, MBA, PhD, M Inst M, Non-Executive Director, appointed Non-Executive Director in April 2006.

Committee membership: Member of the Succession & Nominations Committee, Audit Committee and Remuneration Committee.

Skills and experience: Dr Burnett is an independent management consultant. He was the president of the Asia Pacific division 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).

External appointments: Non-executive chairman of Elemental Energy Technologies Limited and director of Elemental Energy Technologies (Asia) Pte Limited and New Zealand Quality Waters (2006) Limited.

David J Haines, Non-Executive Director, appointed Non-Executive Director in February 2012.

Committee membership: Chairman of the Remuneration Committee and Member of the Audit Committee and Succession & Nominations Committee.

Skills and experience: Mr Haines brings considerable senior level board experience and is currently the chairman and chief executive officer of Grohe Group Sárl. 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.

External appointments: chief executive officer of Grohe AG and director of Joyou AG and Lixil Corp.

Michael H C Herlihy, MA (Oxon), Solicitor, Senior Independent Non-Executive Director, appointed Non-Executive Director in July 2007.

Committee membership: Member of the Remuneration Committee, Succession & Nominations Committee and Audit Committee.

Skills and experience: Mr Herlihy is currently the general counsel of Smiths Group plc and 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.

External appointments: Serves on the board of Compass Partners International LLP and is a director of The Chairmen's Forum Limited.

Karen Witts, FCA, Non-Executive Director, appointed Non-Executive Director in February 2014.

Committee membership: Member of the Audit Committee, Succession & Nominations Committee and Remuneration Committee.

Skills and experience: Mrs Witts 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 the Asia Pacific region at Vodafone plc. Prior to that Mrs Witts held a number of senior positions at BT, including as the chief financial officer of BT Retail and the managing director of operations of BT's Openreach.

External appointments: Serves as a member of the board of directors of Koctas Yapi Marketleri Ticaret A.S.

Malcolm I Wyman, CA, Non-Executive Director, appointed Non-Executive Director in October 2011.

Committee membership: Chairman of the Audit Committee and Member of the Succession & Nominations Committee and Remuneration Committee.

Skills and experience: Mr Wyman was formerly the chief financial officer of SABMiller plc. He joined the company in 1986 and the board as corporate finance director in 1990. The company was listed on the London Stock Exchange in 1999 and he became the chief financial officer in 2001. His responsibilities included the group's finance operations, corporate finance and development, and group strategy.

External appointments: Senior independent non-executive director of Nedbank Group Limited listed on the Johannesburg Stock Exchange, and a non-executive director of Serco Group plc and Sturrock and Robson International B.V.

John M Downing, MA, Solicitor, Company Secretary, appointed Company Secretary in June 2012.

Skills and experience: Mr Downing joined Imperial Tobacco in 2005 having worked for the law firm Linklaters. He has had a number of senior legal roles in Imperial Tobacco and was appointed Head of Group Legal in 2010. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters.

Senior Management

Arthur J M van Benthem, MSc, CEO Fontem Ventures, appointed Group Sales Director in March 2011 and CEO Fontem Ventures in June 2015.

Skills and experience: Mr van Benthem led the Group's global sales and commercial activities in his capacity as Group Sales Director, and has a wealth of international fast moving consumer goods sales experience. In June 2015 he was appointed as CEO of Fontem Ventures. Prior to joining Imperial Tobacco he was customer management director of the Metro Group, and spent three years with Royal FrieslandCampina as chief operating officer for the consumer products group and chief strategy officer. He has also held a number of managing director roles with the Coca-Cola Company in the Asia-Pacific region.

Helen F Clatworthy, FCMA, Business Transformation Director, appointed Business Transformation Director in July 2014.

Skills and experience: Mrs Clatworthy joined the Operating Executive in October 2010 following her appointment as Group Supply Chain Director in 2009. She has held a number of senior positions in the Group and headed the team responsible for the integration of the Altadis business into Imperial Tobacco. Mrs Clatworthy is leading integration planning activities for the Group's enlarged U.S. business and has overall responsibility for Global Procurement, Group IS and the Group's strategic cost optimization program.

Peter A G Corijn, Group Marketing Director, appointed Group Marketing Director in August 2013.

Skills and experience: Mr Corijn is responsible for leading the Group's international marketing and brand development strategies. Prior to joining Imperial Tobacco he held a number of executive positions covering a wide range of brands over a 25-year career at Procter & Gamble. His extensive experience has been accumulated from working with brands and consumers in both mature and emerging markets, including in Europe, the Middle East and Africa.

Fernando L Domínguez Valdés-Hevia, Premium Cigar Director, appointed Chief Operating Officer Cigar Business Unit in June 2008 and subsequently as Premium Cigar Director in January 2011.

Skills and experience: Mr Domínguez Valdés-Hevia is responsible for the Group's Premium Cigar business and has an industrial engineering background. He joined Tabacalera in 1985 and held numerous senior positions, mainly in the cigar divisions, within both Tabacalera and subsequently the Altadis Group. He was a co-chairman at Corporación Habanos, S.A. before his appointment as the chief operating officer of Altadis' Cigar Business Unit in 2005.

Walter Prinz, Dipl.-Ing, Group Manufacturing, Supply and Research & Development Director, appointed Group Manufacturing, Research & Development Director in October 2010, taking on additional responsibility for the supply chain in October 2014.

Skills and experience: Mr Prinz has overall responsibility for all manufacturing and supply chain operations, engineering, leaf purchasing and research and development activities. He joined Reemtsma in 1987 and has held a number of senior roles. Prior to his appointment to the Operating Executive, Mr Prinz was Director Product Development and Purchasing.

Andrew Newall, MBA, Group Human Resources Director, appointed Group Human Resources Director in October 2012.

Skills and experience: Mr Newall is responsible for human resources across the Group including leadership development and supporting Imperial Tobacco's 34,000 employees worldwide to further build their skills and experience. Prior to joining the Group, he was group HR director for the leading fast moving consumer goods company United Biscuits. Mr Newall has considerable international HR experience having held a number of senior roles with Beam Global Spirits & Wine and Allied Domecq, as well as British Steel and Laura Ashley.

Board Practices

The Board remains committed to maintaining high standards of corporate governance, which it sees as a cornerstone in managing the business affairs of the Group and a fundamental part of discharging its stewardship responsibilities. Accordingly, for the financial years up to and including the year ended 30 September 2014, the Group complied with the governance rules and best practice provisions applying to UK listed companies as contained in section 1 of the UK Corporate Governance Code (the **Code**) which was introduced in 2012 replacing The Combined Code on Corporate Governance first introduced in 1992. For the current and future financial years, the Group is subject to the version of the Code that was introduced in 2014.

While registered under the Exchange Act, Imperial Tobacco was subject to the provisions of the Sarbanes-Oxley Act of 2002 (**Sarbanes-Oxley**) and management was responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management used the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of that system. Following deregistration in September 2008, Imperial Tobacco is no longer required to comply with Sarbanes-Oxley. However, management recognizes the benefit of the system of financial controls introduced to meet its requirements and has therefore decided to maintain the key elements of the system.

The Board

Board structure

The Board currently comprises a Non-Executive Chairman, five independent Non-Executive and three Executive Directors.

There is a clear separation of the roles of the Chairman, Mark D Williamson, and the Chief Executive, Alison J Cooper, to ensure an appropriate balance of power and authority. The Chairman is responsible for the leadership of the whole Board with the Chief Executive, supported by the Operating Executive, responsible for managing the Group and implementing the strategy and policies which have been set by the Board.

Michael Herlihy is the recognized senior independent Non-Executive Director to whom Imperial Tobacco encourages shareholders to raise any concerns they may have.

Following the annual Board evaluation and consideration of all other relevant factors contained in the Code the Board concluded at its meeting in September 2014 that all Non-Executive Directors continue to contribute effectively and constructively to Board debate, to demonstrate commitment to their role, to objectively challenge and robustly question management and at all times to have the best interests of the Group in mind and that, taking account of these factors, together with the other relevant factors contained in the Code (with the exception of the Chairman as required by the Code) remain independent as defined in the Code.

The Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments on boards of, or relationships with, companies outside the Group. The Board requires Directors to declare all appointments and other situations which could result in any possible conflict of interest and has adopted appropriate processes to manage and, if appropriate, approve any such conflicts.

The Directors' biographies, appearing in "—*Board of Directors*" above, demonstrate a detailed knowledge of the tobacco industry and the wider fast moving consumer goods sector, together with a range of business and financial experience which is vital to the management of an expanding international company. The biographies also include details of any other major directorships.

Board operations

The Board is the principal decision-making forum of the Group and manages overall control of the Group's affairs. Key to this control is the schedule of matters which are reserved for consideration by the Board and on which any final decision must be made by the Board. These include, *inter alia*, approving commercial strategy, corporate plans, major corporate activities, financial statements, payment of dividends and appointment and removal of directors and the Company Secretary.

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters and for ensuring Board procedures are followed and applicable rules and regulations complied with.

All directors are equally accountable in law for the proper stewardship of the Group's affairs, with the Non-Executive Directors having a particular responsibility for ensuring that strategies proposed for the development of the business, resources and standards of conduct are critically reviewed using their independent judgment and experience. This seeks to ensure that the Board acts in the best long-term interests of all shareholders, takes account of the wider community of interest represented by employees, customers and suppliers, and that environmental, community, ethical and reputational issues are fully integrated into the Group's decision-making and risk assessment processes.

The Non-Executive Directors also play a leading role in corporate accountability and governance through their membership of the Remuneration Committee, the Succession and Nominations Committee and the Audit Committee. The membership and remit of each committee are described below.

The Directors can also seek independent professional advice, at the Group's expense, if they think this is necessary for them to carry out their responsibilities. They also have access to the advice and support of the Company Secretary and, where appropriate, the services of other employees, for all governance and regulatory matters. The Group maintains appropriate insurance cover in respect of directors' and officers' liabilities. Imperial Tobacco has 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 Companies Act 2006.

Remuneration Committee

The Remuneration Committee comprises five independent Non-Executive Directors who have no personal financial interest, other than as shareholders, in the matters to be decided.

The members of the Committee are David J Haines (Chairman), Kenneth M Burnett, Michael H C Herlihy, Karen Witts and Malcolm I Wyman. Trevor M Williams, Deputy Company Secretary, acts as secretary to the Committee.

Alison J Cooper (Chief Executive) and Oliver R Tant (Chief Financial Officer) are invited to attend to respond to questions raised by the Committee. They are, however, both specifically excluded from any matter concerning the details of their own remuneration.

The Committee sets the remuneration package for each Executive Director and the Group's most senior executives after taking advice principally from external sources, including remuneration consultants New Bridge Street and Towers Watson, both of whom are engaged by the Committee as required. New Bridge Street also reviews the Group's remuneration principles and practices against corporate governance best practice. New Bridge Street's parent companies, Aon Hewitt Limited and Aon PLC, act as insurance brokers to the Group. The Committee is, however, satisfied that the provision by the wider Aon Group of those other services in no way compromises the position of New Bridge Street as the Committee's independent advisor.

The Group Reward Director also provides internal support and advice to the Committee. Solicitors Allen & Overy LLP and Ashurst LLP provide services to the Remuneration Committee as and when required. They both also provide other legal services to the Group. Pinsent Masons LLP is retained by the Group to provide legal advice on its employee share plans.

Imperial Tobacco has appointed Alithos Limited to undertake total shareholder return (**TSR**) calculations and provide advice on all TSR related matters, including advice in respect of the bespoke comparator group. Alithos Limited provides no other services for the Group.

The Board is ultimately responsible for the framework and cost of executive remuneration but has delegated to the Remuneration Committee, within its terms of reference, responsibility for certain activities.

In discharging its responsibilities, the most significant issues addressed by the Committee during the year ended 30 September 2014 were:

(a) remuneration review and recommendations to shareholders to withdraw future awards to Executive Directors under a share matching scheme with the previous benefit consolidated into a long term incentive plan;

(b) consideration of base salary and bonus targets;

(c) in relation to the retirement of Robert Dyrbus, confirming all elements of remuneration be performed in line with policy with no discretion exercised in his favor;

(d) consideration of the achievement of performance criteria for the annual bonus and share plans and approving vesting levels;

(e) consideration of shareholders' feedback from the 2014 Annual General Meeting;

(f) ensuring remuneration arrangements support the Group's strategy, align with its values and drive performance;

(g) maintaining a competitive remuneration policy appropriate to the business environment of the countries in which the Group operates thereby ensuring the Group can attract and retain high-caliber individuals;

(h) aligning senior executives' remuneration with the interests of long-term shareholders while ensuring that remuneration is fair but not excessive;

(i) considering the output from the evaluation of the effectiveness of the Remuneration Committee; and

(j) undertaking the annual review of the Committee's terms of reference.

The Committee's approach is fully consistent with the Group's overall remuneration strategy and philosophy that all employees should be competitively rewarded to attract and retain their valued skills in the business, as well as supporting corporate strategy, by directly aligning executive management reward with the Group's strategic business goals.

Succession & Nominations Committee

The Succession & Nominations Committee comprises all the Non-Executive Directors and meets on an as-required basis. The members of the committee are Mark D Williamson (chairman), Kenneth M Burnett, David J Haines, Michael H C Herlihy, Karen Witts and Malcolm I Wyman. John M Downing, the Company Secretary, acts as secretary to the Committee.

The Committee's terms of reference are published on the Group website, www.imperial-tobacco.com. The responsibilities of the committee include the evaluation of the balance of skills, knowledge and experience on the Board, the development of role specifications, the formulation of succession plans and the making of recommendations to the Board with regard to the appointment of Directors.

Following recommendation by the Succession & Nominations Committee, directors are appointed by the Board. They must, however, submit themselves for election by shareholders at the annual general meeting following their appointment and annually thereafter. The performance of each director is considered before recommending such election or re-election.

Audit Committee

The Audit Committee has determined that all of its members are independent Non-Executive Directors. The members of the Committee are Malcolm I Wyman (chairman), Kenneth M Burnett, David J Haines, Michael H C Herlihy and Karen Witts. John M Downing, the Company Secretary, acts as secretary to the Committee. Malcolm I Wyman and Karen Witts are qualified accountants and, therefore, are appropriately qualified to discharge the responsibilities that Audit Committee membership entails and meet the requirements of the Code and the Audit Committee's terms of reference that at least one of its members has recent and relevant financial experience. The remaining members of the Audit Committee supply a supporting mix of skills and backgrounds.

The Audit Committee's terms of reference cover the matters recommended by the Code and are published on the Group website, www.imperial-tobacco.com. For the year ended 30 September 2014, the Committee's responsibilities included, *inter alia*:

(a) reviewing the Group's financial results throughout the financial year, including periodic announcements to the market;

(b) considering significant and complex accounting transactions;

(c) reviewing the processes to ensure the Group has adequate procedures in place to control bribery and corruption risks;

(d) evaluating the Board's going concern review;

(e) considering reports from members involved in the group internal audit, group finance and other functions which provide the Audit Committee with information required to oversee the Group's systems of internal control for financial reporting, internal control policies, corporate governance procedures, the system of risk management and to assess the review and mitigation of associated risks;

(f) reviewing the internal audit plan for the year ending 30 September 2015;

(g) reviewing annually and confirming the independence of the external auditors, their proposed audit plan and fee proposal, allowing the Audit Committee, together with management's assessment of the auditors' effectiveness and independence, to establish the scope, effectiveness, independence and objectivity of the auditors and, if appropriate, to recommend their reappointment to the Board;

(h) considering the output from the evaluation of the effectiveness of the Audit Committee;

(i) approving accounting policies, as required;

(j) consideration of the accounting treatment relating to on-going matters; and

(k) reviewing health and safety matters.

During the year ended 30 September 2014, the Audit Committee undertook its annual review of the scope and control of the risk assessment and internal controls program implemented by the Group Compliance function and confirmed its approval thereof. The Audit Committee monitors and critically reviews the authority, effectiveness and level of resource allocated to the Group Compliance function.

Operating Executive

The Operating Executive comprises the Executive Directors and key members of Imperial Tobacco's senior management team, meets on a monthly basis and is responsible for assisting the Chief Executive in developing and implementing the Group's strategy and the day-to-day management of the Group. The members of the committee are Alison J Cooper (chairman), Helen F Clatworthy, Peter Corijn, Fernando L Domínguez Valdés-Hevia, Andrew Newall, Matthew R Phillips, Walter Prinz, Oliver R Tant and Arthur J M van Benthem.

IMPERIAL TOBACCO FINANCE PLC

The Issuer was incorporated as a private company with limited liability under the laws of England and Wales on 14 June 1996. It was re-registered on 21 October 1997 as a public company limited by shares within the meaning of the Companies Act 1985 following a special resolution of its members on 20 October 1997. Its registered office is at 121 Winterstoke Road, Bristol BS3 2LL, England (telephone number: +44 (0) 117 963 6636). It is registered with the Registrar of Companies in England and Wales with company number 03214426.

The Issuer is an indirect wholly-owned subsidiary of Imperial Tobacco. It has an issued share capital of £2,100,000,000 as at 30 September 2014, comprising 2,100,000,000 ordinary shares of £1 each.

The Issuer is the main finance subsidiary of Imperial Tobacco with no business operations of its own, other than advancing funds to, receiving funds from, and providing treasury services for, Imperial Tobacco and its subsidiaries. The Issuer has no subsidiaries of its own.

The Directors and Company Secretary of the Issuer are as follows:

Name	Title
Oliver R Tant(1)	Director
John M Jones	Director
Nicholas J Keveth(2)	Director
David I Resnekov(2)	Director
John M Downing	Company Secretary

(1) Also a board member of Imperial Tobacco Limited and Imperial Tobacco.

(2) Also a board member of Imperial Tobacco Limited.

The business address of the Directors is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom. Two of the current Directors hold external positions outside the Group, as follows: Oliver R Tant is a Director of The Copse House Cider Company Ltd, a Director of Landshire Estates Ltd, a Director of Landshire Cider Ltd, a member of the Board of Future Fuels No. 1 LLP, a member of the Board of Cobalt Data Centre 2 LLP, a member of the Board of Invicta Martineau Place LP and a member of the Board of Green Power Plant LLP. David Resnekov is a Director of Longacres Management Company (Bristol) Limited.

There are no existing or potential conflicts of interest between any duties to the Issuer of the directors and/or their private interests and other duties.

IMPERIAL TOBACCO LIMITED

ITL was incorporated as a private company with limited liability under the laws of England and Wales on 1 November 1984. Its registered office is at 121 Winterstoke Road, Bristol BS3 2LL, England (telephone number: +44 (0) 117 963 6636). It is registered with the Registrar of Companies in England and Wales with company number 01860181.

ITL is an indirect wholly-owned subsidiary of Imperial Tobacco. It has an issued share capital of £18,831,139 as at 30 September 2014, comprising 18,831,139 ordinary shares of £1 each.

The principal activity of ITL, as the Group's main UK operating subsidiary, is the manufacture, marketing and sale of tobacco and tobacco-related products. ITL is also a holding company and an intermediate parent company for all of the Group's subsidiaries except the Issuer, Imperial Tobacco Holdings (2007) Limited and Imperial Tobacco Holdings Limited. The directors and company secretary of ITL are as follows:

Name	Title
Alison J Cooper(1)	Director
Oliver R Tant(2)	Director
Nicholas J Keveth(3)	Director
David I Resnekov(3)	Director
John M Downing	Company Secretary

(1) Also a board member of Imperial Tobacco.

(2) Also a board member of Imperial Tobacco and Imperial Tobacco Finance PLC.

(3) Also a board member of Imperial Tobacco Finance PLC.

The business address of the Directors is 121 Winterstoke Road, Bristol BS3 2LL, United Kingdom. Three of the current Directors hold external positions outside the Group as follows: Alison Cooper is a Non-Executive Director of Inchcape PLC; Oliver R Tant is a Director of The Copse House Cider Company Ltd, a Director of Landshire Estates Ltd, a Director of Landshire Cider Ltd, a member of the Board of Future Fuel No. 1 LLP, a member of the Board of Cobalt Data Centre 2 LLP, a member of the Board of Invicta Martineau Place LP and a member of the Board of Green Power Plant LLP; David Resnekov is a Director of Longacres Management Company (Bristol) Limited.

There are no existing or potential conflicts of interest between any duties to ITL of the Directors and/or their private interests and other duties.

MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As at the date of this Offering Memorandum, in so far as it is known to Imperial Tobacco, the name of each person who, directly or indirectly, has a notifiable interest in 3 percent or more of Imperial Tobacco's share capital, and the amount of such person's interest, is as follows:

Name	Number of Shares (millions)	Percentage of Shares[1]
BlackRock	77	8.09%
Capital Group Companies Inc	38	4.01%
Invesco	38	3.94%
Old Mutual	31	3.28%
Legal & General	31	3.20%

(1) Excluding treasury shares.

So far as Imperial Tobacco is aware, no person or persons, directly or indirectly, jointly or severally exercise or could exercise control over Imperial Tobacco.

There are no differences between the voting rights enjoyed by the shareholders described above and those enjoyed by any other holder of shares in Imperial Tobacco.

Other than the guarantees described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness*", Imperial Tobacco did not enter into any related party transactions with any member of the Group during the three years ended 30 September 2014 and the six months ended 31 March 2015.

DESCRIPTION OF THE NOTES AND THE GUARANTEES

The following is a summary of the material provisions of the Notes, the Guarantees and the Indenture (as described below). The summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Notes, the Guarantees and the Indenture. It does not restate those securities or the Indenture in their entirety. A copy of the Indenture will be available for inspection during normal business hours at any time after the initial issuance date of the Notes at the specified office of the Agent. See "General Information—Documents on Display". Any capitalized term used herein but not defined shall have the meaning assigned to such term in the Indenture.

General

The US$500,000,000 2.050 percent Senior Notes due 2018 (the **2018 Notes**), the US$1,250,000,000 2.950 percent Senior Notes due 2020 (the **2020 Notes**), the US$1,250,000,000 3.750 percent Senior Notes due 2022 (the **2022 Notes**) and US$1,500,000,000 4.250 percent Senior Notes due 2025 (the **2025 Notes** and, together with the 2018 Notes, the 2020 Notes and the 2022 Notes, the **Notes**, and each separately a **Note**) will be issued in registered form under an Indenture to be dated as of 21 July 2015 (the **Indenture**) among the Issuer, the Guarantors (as defined below), The Bank of New York Mellon, acting through its London Branch (in its capacity as trustee, the **Trustee**, and in its capacity as paying agent, the **Paying Agent**) and The Bank of New York Mellon (collectively in its capacities as transfer agent and registrar, the **Transfer Agent and Registrar**, and together with the Paying Agent, the **Agent**). The Indenture is not required to be, and will not be, qualified under the U.S. Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**), and will not incorporate by reference the provisions of the Trust Indenture Act. Consequently, the Holders of Notes generally will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture, including those requiring a trustee to resign in the event of certain conflicts of interest and to inform the holders of Notes of certain relationships between it and the Issuer. In this "*Description of the Notes and the Guarantees*", the terms **Holder**, **Noteholder** and other similar terms refer to a registered holder of Notes, and not to a beneficial owner of a book-entry interest in any Notes, unless the context otherwise clearly requires.

For so long as any Notes remain outstanding and are restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and each Guarantor will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Holder (or any beneficial owner of a book-entry interest in such Notes designated by the holder thereof) in connection with any sale thereof and to any prospective purchaser of Notes or a book-entry interest in Notes designated by such Holder, in each case upon request of such Holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act. As of the date of this Offering Memorandum, Imperial Tobacco is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

The Regulation S Notes will be resold outside the United States in offshore transactions in reliance on Regulation S.

Guarantees

The Notes will benefit from a guarantee (the **Parent Guarantee**) from Imperial Tobacco (the **Parent Guarantor**). In addition, the Notes will benefit from a guarantee (the **Subsidiary Guarantee** and, together with the Parent Guarantee, the **Guarantees**) from ITL (the **Subsidiary Guarantor** and, together with the Parent Guarantor, the **Guarantors**). In the Guarantees, each Guarantor will (i) guarantee the due and prompt payment of any principal, accrued and unpaid interest (and all Additional Amounts (as defined below), if any) due under the Notes in accordance with the Indenture, and (ii) guarantee the Issuer's other obligations under the Indenture. The Guarantees will be set forth in the Indenture. The Subsidiary Guarantee may be terminated at the option of the Subsidiary Guarantor at any time, and under certain circumstances, other members of the Group may be substituted as Guarantors for the Parent Guarantor and the Subsidiary Guarantor, in each case without the consent of Noteholders. See "*—Status of the Notes and Guarantees*" and "*—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*".

Principal, Maturity and Interest

The Notes will be unsecured and unsubordinated obligations of the Issuer. The 2018 Notes are initially issuable in an aggregate principal amount of US$500,000,000 and will mature on 20 July 2018. The 2020 Notes are initially issuable in an aggregate principal amount of US$1,250,000,000 and will mature on 21 July 2020. The 2022 Notes are initially issuable in an aggregate principal amount of US$1,250,000,000 and will mature on 21 July 2022. The 2025 Notes are initially issuable in an aggregate principal amount of US$1,500,000,000 and will mature on 21 July 2025. The 2018 Notes will bear interest at 2.050 percent per annum, the 2020 Notes will bear interest at 2.950 percent per annum, the 2022 Notes will bear interest at 3.750 percent per annum and the 2025 Notes will bear interest at 4.250 percent per annum (subject, in each case, to adjustment as described below under "*—Interest Rate Adjustment Based on Rating Events*") from the date of the initial issuance of the Notes or from the most recent Interest Payment Date to which interest has been paid or provided for, payable semi-annually in arrears on 20 July and 20 January of each year in the case of the 2018 Notes and on 21 July and 21 January of each year in the case of the 2020 Notes, the 2022 Notes and the 2025 Notes (each, an **Interest Payment Date**) commencing on 20 January 2016 in the case of the 2018 Notes and on 21 January 2016 in the case of the 2020 Notes, the 2022 Notes and the 2025 Notes to the person in whose name any Note is registered at the close of business on 5 July or 5 January (whether or not a Business Day) in the case of the 2018 Notes and on 6 July or 6 January (whether or not a Business Day) in the case of the 2020 Notes, the 2022 Notes and the 2025 Notes immediately preceding such Interest Payment Date (each, a **Record Date**), notwithstanding any transfer or exchange of such Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names outstanding Notes are registered at the close of business on a subsequent Record Date (which shall not be less than ten days prior to the date of payment of such defaulted interest) established by notice given by first class mail by or on behalf of the Issuer to the Holders (which term means registered holders) of the Notes not less than 15 days preceding such subsequent Record Date. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months or in the case of an incomplete month, the number of days elapsed. If the date on which any interest payment, principal payment or Additional Amount is to be made is not a Business Day, such payment will be made on the next day which is a Business Day without any further interest or other amounts being paid or payable in connection therewith.

Optional Redemption

The Issuer may redeem the Notes in whole or in part, at the Issuer's option,

(1) in the case of the 2018 and 2020 Notes at any time, in the case of the 2022 Notes, at any time prior to 21 May 2022 (two months prior to maturity) and in the case of the 2025 Notes, at any time prior to 21 April 2025 (three months prior to maturity) and from time to time at a redemption price equal to the greater of (a) 100 percent of the principal amount of the Notes to be redeemed and (b) as determined by the Independent Investment Banker, the sum of the present values of the applicable Remaining Scheduled Payments discounted to the date of

redemption (the **Redemption Date**) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate plus 20 basis points in the case of the 2018 Notes, 25 basis points in the case of the 2020 Notes, 30 basis points in the case of the 2022 Notes and 35 basis points in the case of the 2025 Notes, together with accrued and unpaid interest on the principal amount of the Notes to be redeemed to the Redemption Date, and

(2) in the case of the 2022 Notes, at any time on or after 21 May 2022, and in the case of the 2025 Notes, at any time on or after 21 April 2025, at a redemption price equal to 100 percent of the principal amount of the Notes being redeemed plus, in each case, accrued and unpaid interest on the principal amount being redeemed to but excluding the date of redemption.

In connection with such optional redemption the following defined terms apply:

- **Comparable Treasury Issue** means the United States Treasury security selected by the Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

- **Comparable Treasury Price** means, with respect to any Redemption Date, (a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding that Redemption Date, as set forth in the daily statistical release designated H.15 (519) (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3.30 p.m. Quotations for U.S. Government Notes" or (b) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (i) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest (or, if there is more than one such highest quotation, only one of such quotations) and lowest (or, if there is more than one such lowest quotation, only one of such quotations) of such Reference Treasury Dealer Quotations or (ii) if the Independent Investment Banker for the Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.

- **Independent Investment Banker** means one of the Reference Treasury Dealers appointed by the Issuer to act as the Independent Investment Banker.

- **Reference Treasury Dealer** means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, BNP Paribas Securities Corp., HSBC Securities (USA) Inc. and Mizuho Securities USA Inc., and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a **Primary Treasury Dealer**), the Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

- **Reference Treasury Dealer Quotation** means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3.30 p.m., New York City time, on the third Business Day preceding that Redemption Date.

- **Remaining Scheduled Payments** means, with respect to each Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Redemption Date but for such redemption; provided, however, that if that Redemption Date is not an Interest Payment Date with respect to such Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.

- **Treasury Rate** means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

Notice of any optional redemption will be given in accordance with the provisions set forth in "*—Notice*" below at least 30 days but not more than 60 days before the Redemption Date to each Holder of the Notes to be redeemed.

Repurchase Upon a Change of Control Offer

If a Change of Control Triggering Event occurs with respect to the Notes, unless: (i) the Issuer has exercised its option to redeem the Notes in full as described above in "*—Optional Redemption*" or (ii) the Notes have been redeemed in full for tax reasons as described below in "*—Redemption for Tax Reasons*", the Issuer will be required to make an offer (the **Change of Control Offer**) to each Holder of the Notes to repurchase all or any part (equal to US$200,000 or an integral multiple of US$1,000 in excess thereof) of that Holder's Notes on the terms set forth in the Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101 percent of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to the date of repurchase (a **Change of Control Payment**). Within 30 days following any Change of Control Triggering Event or, at the Issuer's option, prior to any Change of Control (as defined herein), but after public announcement of the transaction that constitutes or may constitute the Change of Control, a notice will be mailed to the Noteholders describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase the Notes on the date specified in the applicable notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the **Change of Control Payment Date**). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the Change of Control Payment Date.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- accept for payment all Notes or portions of Notes properly tendered and not withdrawn pursuant to the Change of Control Offer;

- deposit with the Paying Agent and the Agent in its capacity as the Transfer Agent an amount equal to the Change of Control Payment in respect of all applicable Notes or portions of Notes properly tendered; and

- deliver or cause to be delivered to the Agent the Notes properly accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased.

The Agent will promptly mail to each Holder of Notes properly tendered the purchase price for the Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each Holder a new note equal in principal amount to any unpurchased portion of any Notes surrendered; provided that each new Note will be in the principal amount of US$200,000 or an integral multiple of US$1,000 in excess thereof.

If the Change of Control Payment Date is on or after a Record Date immediately preceding an Interest Payment Date and on or before such related Interest Payment Date, any accrued and unpaid interest, if any, will be paid to the person in whose name the Note is registered at the close of business on such Record Date immediately preceding an Interest Payment Date, and no additional interest will be payable to Holders who tender pursuant to the Change of Control Offer.

The Issuer will not be required to make a Change of Control Offer upon the occurrence of a change of compliance with the requirements for an offer made by the Issuer and the third party repurchases all Notes properly tendered and not withdrawn under its offer. In addition, the Issuer will not repurchase any Notes if there has occurred and is continuing on the Change of Control Payment Date an Event of Default (as defined below under "*—Events of Default*") under the Notes, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

If 95 percent or more in nominal amount of the Notes of any series then outstanding immediately prior to any Change of Control Offer have been redeemed or purchased pursuant to such Change of Control Offer, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with the Indenture, such notice to be given within 30 days after the Change of Control Payment Date, redeem or, at the Issuer's option, purchase (or procure the purchase of) all but not some only of, the applicable series of Notes then outstanding at 101 percent of the aggregate principal amount of the applicable series of Notes repurchased together with interest accrued to but excluding the date of such redemption. The notice referred to in the preceding sentence shall be irrevocable and shall specify the date fixed for redemption (which shall not be more than 60 days after the date of the notice). Upon expiry of such notice, the Issuer will redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder, to the extent that those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the Notes, the Issuer will comply with those securities laws and regulations and will not be deemed to have breached the Issuer's obligations under the Change of Control Offer provisions of the Notes by virtue of any such conflict.

The Notes will not specifically prohibit the Parent Guarantor from entering into a merger, consolidation or similar combination with or into another party, or transferring all or substantially all of its assets to another party, whether or not the other party becomes liable for the Parent Guarantor's obligations under the Notes. Such a transaction may, however, constitute a Change of Control. See "*—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*."

The Change of Control provisions above may deter certain mergers, tender offers and other proposed corporate actions involving the Parent Guarantor by increasing the capital required to effectuate such transactions.

For the purposes of the Change of Control Offer provisions of the Notes, the following terms will be applicable:

- **Change of Control** means the occurrence of any of the following: (1) the consummation of any transaction (including, without limitation, any merger, consolidation, amalgamation or other combination) the result of which is that any "person" (as that term is used in Section 13(d)(3) of the Exchange Act) (other than the Parent Guarantor or one of its Subsidiaries) becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50 percent of the Parent Guarantor's voting stock or other voting stock into which the Parent Guarantor's voting stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (2) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation, amalgamation or other combination), in one or more series of related transactions, of all or substantially all of the Parent Guarantor's assets and the assets of the Parent Guarantor's Subsidiaries, taken as a whole, to one or more "persons" (as that term is used in

Section 13(d)(3) of the Exchange Act) (other than the Parent Guarantor or one of its Subsidiaries); or (3) the first day on which a majority of the members of the Parent Guarantor's board of directors are not Continuing Directors (as defined herein). Notwithstanding the foregoing, a transaction will not be deemed to involve a change of control if (1) the Parent Guarantor becomes a direct or indirect wholly-owned subsidiary of a holding company (the **New Parent Company**) and (2)(A) the direct or indirect holders of the voting stock of the New Parent Company immediately following that transaction are substantially the same as the holders of the Parent Guarantor's voting stock immediately prior to that transaction or (B) immediately following that transaction no person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50 percent of the voting stock of the New Parent Company. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the Parent Guarantor's assets. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Noteholder may require the Issuer to make an offer to repurchase the Notes as described above.

- **Change of Control Triggering Event** means the occurrence of both a Change of Control and a Rating Event in respect of that Change of Control.
- **Continuing Directors** means, as of any date of determination, any member of the Parent Guarantor's board of directors who (1) was a member of such board of directors on the date the Notes were issued; or (2) was nominated for election, elected or appointed to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination, election or appointment (either by a specific vote or by approval of the Parent Guarantor's notice of annual general meeting in which such member was named as a nominee for election as a director, without objection to such nomination).
- **Investment Grade Rating** means a rating equal to Baa3 or higher (or the equivalent) by Moody's and a rating equal to BBB– or higher (or the equivalent) by S&P, and a rating equal to or higher than the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Issuer.
- **Moody's** means Moody's Investors Service Limited, or its successor.
- **Rating Agencies** means: (1) each of Moody's and S&P; and (2) if either Moody's or S&P ceases to rate the Issuer's senior unsecured long-term debt or fails to make a rating of the Issuer's senior unsecured long-term debt publicly available for reasons outside of the Issuer's or the Guarantors' control, a "nationally recognized statistical rating organization" within the meaning of the Exchange Act selected by the Issuer (as certified by a resolution of the Issuer's board of directors) as a replacement agency for Moody's or S&P, or both of them, as the case may be.
- **Rating Event** means the solicited credit rating of the Issuer's senior unsecured long-term debt is lowered by both of the Rating Agencies, and the solicited credit rating of the Issuer's senior unsecured long-term debt is then below an Investment Grade Rating by both of the Rating Agencies, on any day within the 60-day period (which 60-day period will be extended so long as the rating of the Notes is under publicly announced consideration for a possible downgrade by either of the Rating Agencies) after the earlier of: (1) the occurrence of a Change of Control; and (2) public notice of the occurrence of a Change of Control or the Parent Guarantor's intention to effect a Change of Control; provided, however, that a Rating Event otherwise arising by virtue of a particular reduction in rating will not be deemed to have occurred in respect of a particular Change of Control (and thus will not be deemed a Rating Event for

purposes of the definition of Change of Control Triggering Event) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Agent in writing at its or the Issuer's request that the reduction was the result, in whole or in part, of any event or circumstance composed of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control has occurred at the time of the Rating Event).

- **S&P** means Standard & Poor's Credit Market Services Europe Limited, or its successor.
- **voting stock** means, with respect to any specified "person" (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date, the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

Interest Rate Adjustment Based on Rating Events

The interest rate payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be.

From and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the interest rate payable on the Notes shall be increased by 1.25 percent per annum. A Step Up Rating Change may only occur once during the term of the Notes. In the event of a Step Down Rating Change following a Step Up Rating Change, from and including the first Interest Payment Date following the date of such Step Down Rating Change, the interest rate payable on the Notes shall be decreased by 1.25 percent per annum.

The Issuer will notify the Trustee promptly following the occurrence of a Step Up Rating Change or a Step Down Rating Change, but such notice will in any event be given no later than the fifth Business Day following the Step Up Rating Change or the Step Down Rating Change.

The Issuer will use all reasonable efforts to maintain the issuance of solicited public credit ratings for its senior long-term debt from Rating Agencies.

For purposes of the "Interest Rate Adjustment Based on Rating Events" provisions of the Notes, the following terms will be applicable:

- **Investment Grade Rating** means a rating equal to Baa3 or higher (or the equivalent) by Moody's and a rating equal to BBB– or higher (or the equivalent) by S&P, and a rating equal to or higher than the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Issuer.
- **Step Down Rating Change** means the first public announcement after a Step Up Rating Change by either a Rating Agency or both Rating Agencies of an increase in the solicited credit rating of the Issuer's senior unsecured long-term debt with the result that, following such public announcement(s), both Rating Agencies rate the Issuer's senior unsecured long-term debt as Baa3 or higher (in the case of Moody's) and BBB– or higher (in the case of S&P). Any further increases in the solicited credit rating of the Issuer's senior unsecured long-term debt above Baa3 (in the case of Moody's) or above BBB– (in the case of S&P) shall not constitute a Step Down Rating Change.
- **Step Up Rating Change** means the first public announcement by either a Rating Agency or both Rating Agencies of a decrease in the solicited credit rating of the Issuer's senior unsecured long-term debt to below Baa3 (in the case of Moody's) or below BBB– (in the case of S&P). Any further decreases in the solicited credit rating of the Issuer's senior unsecured long-term debt from below Baa3 (in the case of Moody's) or from below BBB– (in the case of S&P) shall not constitute an additional Step Up Rating Change.

If the rating designations employed by any Rating Agency are changed from those which are described above, the Issuer and the Parent Guarantor shall determine, and notify the Trustee the rating designations of such entity as are most equivalent to the ratings described above or any other prior rating designations of such entity, and the provisions hereof shall be construed accordingly.

Form and Denomination

The Notes will be issued in fully registered form and only in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will be issued initially as global notes.

Further Issues

The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, reopen any series of the Notes and create and issue additional notes having identical terms and conditions as the applicable series of Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series of notes with the applicable series of Notes.

The Issuer will not issue any additional notes unless such additional notes have no more than a *de minimis* amount of original issue discount or such issuance would constitute a "qualified reopening" for U.S. federal income tax purposes.

Status of the Notes and Guarantees

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* in right of payment among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law).

The Guarantees will be unsecured and unsubordinated obligations of the Guarantors and will rank *pari passu* in right of payment among themselves and with the other unsecured and unsubordinated indebtedness of the relevant Guarantor (save for certain obligations required to be preferred by law).

In certain circumstances, including, but not limited to, a corporate reorganization, the Parent Guarantor may substitute as Parent Guarantor a holding company of which it has become a direct or indirect wholly-owned subsidiary.

The Subsidiary Guarantee may be terminated at the option of the Subsidiary Guarantor at any time, and under certain circumstances, other members of the Group may be substituted as Guarantors for the Parent Guarantor and/or the Subsidiary Guarantor, in each case without the consent of the Noteholders, provided that (i) in any such termination or substitution, each Rating Agency shall have confirmed that the Notes will have the same or better solicited long-term public credit rating as immediately prior to such termination or substitution, as applicable and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject.

Payment of Additional Amounts

The Issuer and each Guarantor will make all payments of, or in respect of, principal, premium (if any) and interest on the Notes without withholding or deduction for or on account of any present or future tax, levy, impost or other governmental charge whatsoever and wherever imposed, assessed, levied or collected (**Taxes**), unless such withholding or deduction is required by law.

If the Issuer or any Guarantor or any of their respective paying agents is required to deduct or withhold any amount in respect of Taxes for or on account of the United Kingdom or, if different, their jurisdiction of organization or tax residence or, if and only if the Issuer or any such Guarantor has consolidated, merged, amalgamated or combined with, or transferred or leased its assets substantially as an entirety to, any person and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor (and references herein to the Issuer or any Guarantor shall include any such successor obligor) in respect of payments on the Notes, for or on account of the jurisdiction under the laws of which the successor person in relation to the relevant payment is organized or resident for tax purposes or otherwise generally subject to tax (or any political subdivision thereof or any authority therein or thereof having the power to tax) (each, a **Relevant Taxing Jurisdiction**), the Issuer or such Guarantor, as the case may be, will pay to a Holder of a Note such additional amounts (**Additional Amounts**) as may be necessary so that the net amount received by such Holder will not be less than the amount such Holder would have received if such Taxes had not been withheld or deducted; provided, however, that the Issuer and the Guarantors shall not be required to pay any Additional Amounts for or on account of:

(a) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that the Holder or beneficial owner of the Note (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation) is or has been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business or maintaining or having maintained a permanent establishment or being or having been physically present in, a Relevant Taxing Jurisdiction or otherwise having or having had some connection with a Relevant Taxing Jurisdiction other than the mere holding or ownership of, or the collection of principal of, and premium (if any) or interest on, a Note;

(b) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the Note was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later, except to the extent that the holder or beneficial owner thereof would have been entitled to Additional Amounts had the Note been presented for payment on any day during such 30-day period;

(c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(d) any Taxes that are payable otherwise than by deduction or withholding from payments on or in respect of the applicable Note;

(e) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the Holder or the beneficial owner of the Note to comply with a written request to the Holders (or any request made in accordance with the procedures set out in the Indenture) (i) to provide any certification, identification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or the beneficial owner or its connection with the Relevant Taxing Jurisdiction or (ii) to make any valid or timely declaration or claim or satisfy any other reporting, information or procedural requirements relating to such matters if, in either case, compliance is required by statute, regulation or administrative practice of the Relevant Taxing Jurisdiction as a condition to relief or exemption from such Taxes;

(f) any withholding or deduction imposed pursuant to Council Directive 2003/48/EC on the taxation of savings income or any other directive supplementing, amending, or replacing such directive or any law implementing or complying with, or introduced in order to conform to, such directive or directives;

(g) any withholding or deduction that is imposed on the Note that is presented for payment, where presentation is required, by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting such Note to another paying agent in a member state of the EU; or

(h) any combination of the Taxes described in (a) through (g) above.

In addition, Additional Amounts will not be paid in respect of any payment in respect of the Notes or any Guarantee to any Holder of the Notes that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such Notes to the extent such payment would be required by the laws of a Relevant Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the Holder of such Notes or Guarantees.

Unless otherwise stated, references in any context to the payment of principal of, and any premium or interest on, any Note, will be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Tax Reasons

The Notes are redeemable by the Issuer, in whole but not in part, upon not less than 30 nor more than 60 days' notice as provided for herein, at 100 percent of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts if any, to the applicable Redemption Date at the Issuer's option at any time prior to their maturity if due to a Change in Tax Law (as defined below): (a) the Issuer or, if applicable, any Guarantor, in accordance with the terms of the Notes, or the relevant Guarantee, as applicable, has, or would, become obligated to pay any Additional Amounts to the Holders or beneficial owners of the Notes; and (b) such obligation cannot be avoided by the Issuer, the Parent Guarantor or such Guarantor taking reasonable measures available to it including, in the case of a Guarantor, providing the Issuer with funds to allow the Issuer to make such payment; provided that, (i) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as applicable, would be obligated to pay any such Additional Amounts were a payment in respect of the Notes then due and (ii) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Trustee (A) an officers' certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent counsel of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction to the effect that the Issuer or such Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such Change in Tax Law.

For the purposes hereof, **Change in Tax Law** shall mean (a) any changes in, or amendment to, any law of a Relevant Taxing Jurisdiction (including any regulations or rulings promulgated thereunder but not including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the Issue Date of the Notes or (b) if the Issuer or the relevant Guarantor consolidates, merges, amalgamates or combines with, or transfers or leases its assets substantially as an entirety to, any person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Taxing Jurisdiction as of the date of such transaction and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor in respect of Additional Amounts that may become payable (in which case, for purposes of this redemption provision, all references to the Issuer or such Guarantor shall be deemed to be and include references to such person), any change in, or amendment to, any law of the jurisdiction of incorporation or tax residence of such person or any successor entity, or any political subdivision or taxing authority thereof or therein for purposes of taxation (including any regulations or rulings promulgated thereunder but not including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the date of such consolidation, merger, amalgamation, combination or other transaction.

Redemption—General

Upon presentation of any Note redeemed in part only, the Issuer will execute and the Agent will authenticate and deliver (or cause to be transferred by book-entry) to or on the order of the Holder thereof, at the expense of the Issuer, a new Note or Notes, of authorized denominations, in principal amount equal to the unredeemed portion of the Note so presented.

On or before any Redemption Date, the Issuer shall deposit with the Agent money sufficient to redeem on the Redemption Date all the Notes so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption (other than Notes or portions thereof called for redemption on that date which have been delivered by the Issuer to the Agent for cancellation). If less than all the Notes are to be redeemed, the Trustee will select Notes for redemption pro rata, by lot, or by such other method as the Trustee in its sole discretion shall deem fair and appropriate and is consistent with the rules of DTC and/or Euroclear and/or Clearstream, Luxembourg.

On and after any Redemption Date, to the extent the Issuer has deposited sufficient moneys with the Agent as provided in the preceding paragraph, interest will cease to accrue on the Notes or any portion thereof called for redemption.

Maturity

Unless previously purchased or redeemed and cancelled by the Issuer, the Parent Guarantor or any of the Parent Guarantor's Subsidiaries, the principal amount of the 2018 Notes will mature and become due and payable on 20 July 2018, the principal amount of the 2020 Notes will mature and become due and payable on 21 July 2020, the principal amount of the 2022 Notes will mature and become due and payable on 21 July 2022 and the principal amount of the 2025 Notes will mature and become due and payable on 21 July 2025, each in an amount equal to its principal amount, with accrued and unpaid interest to such date.

Reacquisition

There is no restriction on the ability of the Issuer, the Parent Guarantor or any of the Parent Guarantor's Subsidiaries to purchase or repurchase Notes, provided, that any Notes so repurchased shall be cancelled and not reissued.

Covenants of the Issuer

Negative Pledge

So long as any Notes remain outstanding, neither the Issuer, the Parent Guarantor nor any of their respective Subsidiaries will create any Lien over the whole or any part of its undertaking, assets or revenues (including any uncalled capital), present or future, in order to secure any Relevant Debt (as defined below) or to secure any guarantee of or indemnity in respect of Relevant Debt unless, at the same time or prior thereto the Issuer's obligations under the Notes and the Indenture or, as the case may be, the Parent Guarantor's obligations under the Parent Guarantee (i) are secured equally and ratably therewith or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement not materially less beneficial to the Noteholders or as shall be approved by holders of a majority of the principal amount of the Notes.

Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors

The Indenture provides that, subject to the provisions described above under "*—Repurchase Upon a Change of Control Offer*", without the consent of the Noteholders, at any time (i) the Issuer and any Guarantor may consolidate with or merge into any other person or sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person (other than any sale or conveyance by way of a lease in the ordinary course of business), (ii) the Parent Guarantor may substitute for the Issuer another Subsidiary of the Parent Guarantor as principal debtor under the Notes (a **Substitute Issuer**), (iii) the Parent Guarantor may substitute as Parent Guarantor a holding company of which it has become a direct or indirect wholly-owned subsidiary (a **Substitute Parent Guarantor**), (iv) the Subsidiary Guarantor may substitute as Subsidiary Guarantor another Subsidiary of the Parent Guarantor (a **Substitute Subsidiary Guarantor** and, together with the Substitute Parent Guarantor, a **Substitute Guarantor**), and (v) the Issuer may appoint another Subsidiary of the Parent Company as additional Guarantor (an **Additional Guarantor**) if and only if:

(a) any Substitute Issuer, Substitute Guarantor or other successor person shall expressly assume the Issuer's or such Guarantor's respective obligations in their entirety under the Notes or the relevant Guarantee, as the case may be, and under the Indenture;

(b) any Additional Guarantor shall guarantee the Issuer's obligations under the Notes and the Indenture in the manner set forth therein, shall duly authorize the execution and delivery of an indenture supplemental thereto to provide for such guarantee, and shall do all things necessary to make such supplemental indenture a valid agreement;

(c) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;

(d) the Substitute Issuer, Substitute Guarantor, Additional Guarantor or other successor person is organized under the laws of the United States, the United Kingdom (including the Channel Islands and the Isle of Man), the Cayman Islands or any other country that is a member of the Organization for Economic Co-operation and Development as of the date of such succession;

(e) the Substitute Issuer, Substitute Guarantor, Additional Guarantor or other successor person agrees to pay any Additional Amounts in respect of any Taxes imposed by the jurisdiction in which such person is incorporated or is a resident for tax purposes;

(f) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Parent Guarantor or any Principal Subsidiary would become subject to a Lien to secure payment of any Relevant Debt for borrowed money of the Parent Guarantor or any Principal Subsidiary which would not be permitted under the Indenture, the Parent Guarantor or any Principal Subsidiary or such successor person, as the case may be, prior to or simultaneous to the consolidation or merger or such sale, conveyance, transfer or lease, as the case may be shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all Relevant Debt for borrowed money secured thereby;

(g) in the case of a Substitute Issuer, (i) the obligations of the Substitute Issuer arising under or in connection with the Notes are guaranteed by the Parent Guarantor (or the Substitute

Parent Guarantor, if applicable), the Subsidiary Guarantor (or the Substitute Subsidiary Guarantor, if applicable) and any Additional Guarantor at such time, in each case on the same terms as existed immediately prior to such substitution under the Guarantees given by such Guarantors, (ii) the Parent Guarantor (or the Substitute Parent Guarantor, if applicable), the Issuer and the Substitute Issuer jointly and severally indemnify each beneficial owner of Notes for any income tax or other tax (if any) payable by such beneficial owner of Notes solely as a result of the substitution of the Substitute Issuer, and (iii) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute Issuer, the Notes will continue to be listed on such stock exchange; and

(h) in the case of a Substitute Issuer or Substitute Guarantor, each Rating Agency that rates the Notes shall have confirmed following the proposed substitution of the Substitute Issuer or the Substitute Guarantor, as the case may be, that (i) the Notes will have the same or better solicited long-term public credit rating as immediately prior to such substitution and (ii) the Trustee shall have confirmed its acceptance of such termination or substitution in compliance with certain regulatory requirements to which it is subject.

In addition, the Subsidiary Guarantee may be terminated at any time and the Subsidiary Guarantor may be released from its obligations thereunder without the consent of the Noteholders if at any time each Rating Agency shall have confirmed to the Trustee that the Notes will continue, following the proposed termination of the Subsidiary Guarantee, to have the same or better solicited long-term public credit rating as immediately prior to such termination.

The Notes will not contain covenants or other provisions to afford protection to the Noteholders in the event of a highly leveraged transaction or a change in control of the Parent Guarantor, except as provided above.

Upon the effectiveness of any substitution, all of the foregoing provisions will apply *mutatis mutandis*, and references elsewhere herein to the Issuer or a Guarantor will, where the context so requires, be deemed to be or include references, to any successor company.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Notes and the Indenture. You should refer to the Notes and the Indenture for the full definition of all defined terms as well as any other terms used herein for which no definition is provided.

Business Day means each day which is not in London, England or New York City, United States or any other Place of Payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized or obligated by law or regulation to close.

Lien means any mortgage, charge or deed of trust, pledge, lien or other form of encumbrance or similar security interest.

person means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Places of Payment means in London, England an office or agency (a) where the Notes may be presented for payment, (b) where the Notes may be presented for registration of transfer and for exchange as provided in the Indenture and (c) where notices and demands to or upon the Issuer in respect of the Notes or the Indenture may be served.

Principal Subsidiary means:

(a) any Subsidiary of the Parent Guarantor which is an active trading company and whose adjusted unconsolidated assets or pre-tax profit equal or exceed 10 percent of the consolidated assets or adjusted consolidated pre-tax profit of the Group, and for the purposes of this definition:

(i) the consolidated assets of the Group shall be ascertained by reference to the latest audited published consolidated accounts of the Group;

(ii) the adjusted consolidated pre-tax profit of the Group shall be the aggregate of:

(A) the consolidated pre-tax profit of the Group ascertained by reference to the latest audited published consolidated accounts of the Group; and

(B) the consolidated pre-tax profit (the pre-acquisition profit) of any Subsidiary which became a member of the Group during the period for which the latest audited published consolidated accounts of the Group were prepared (an acquired Subsidiary) for the part of that period which falls before the effective date of that acquisition, calculated in accordance with IFRS and used in the preparation of the latest audited published accounts of the Group;

(iii) the assets of any Subsidiary shall be the assets of that Subsidiary calculated in accordance with IFRS and used in the preparation of the latest audited published accounts of the Group; and

(iv) the pre-tax profit of any Subsidiary shall be the pre-tax profit of that Subsidiary calculated in accordance with IFRS and used in the preparation of the latest audited published accounts of the Group plus, in the case of any acquired subsidiary, an amount equal to any pre-acquisition, pre-tax profit.

For the purposes of the above, "assets" in respect of the Group or any such Subsidiary means the non-current assets and current assets of the Group or that trading Subsidiary (as the case may be) but excluding investments in any Subsidiary and intra-Group balances and "pre-tax profit" in respect of the Group or any such Subsidiary excludes intra-Group interest payable and receivable and intra-Group dividends; or

(b) a Subsidiary of the Parent Guarantor to which has been transferred (whether by one transaction or a series of transactions related or not) the whole or substantially the whole of the assets of a Subsidiary which immediately prior to those transactions was a Principal Subsidiary.

A certificate signed by two directors or authorized signatories of the Parent Guarantor whether or not addressed to the Trustee that, in their opinion, a Subsidiary of the Parent Guarantor is or is not or was or was not at any particular time or throughout any specified period, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Parent Guarantor and the Noteholders, all as further provided in the Indenture.

Relevant Debt means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities that are for the time being or are capable of being listed, quoted or ordinarily traded on any stock exchange, automated trading system, over-the-counter or other securities market.

Subsidiary of any person means any entity whose affairs are required by law or in accordance with IFRS to be consolidated in the consolidated accounts of such person.

Events of Default

The following will be Events of Default (each an **Event of Default**) with respect to a series of Notes:

(a) **Non-Payment**: default is made for more than 30 days (in the case of interest or Additional Amounts) in the payment on the due date of interest or Additional Amounts in respect of such series of Notes, or default in the payment of all or any part of the principal or premium, if any, of any Note of such series as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise and continuance of such default for seven days; or

(b) **Breach of Other Obligations**: other than as described in paragraph (a) above, the Issuer, the Parent Guarantor or the Subsidiary Guarantor or any substitutes therefor does not perform or comply with any one or more of its other obligations under the series of Notes, the Guarantees, or the Indenture which is not remedied within 30 days after written notice of such default shall have been given to the Issuer (with copies to the Parent Guarantor) by the Trustee; or

(c) **Cross-Default**: (i) any other present or future indebtedness for borrowed money of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) and remains unpaid, (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period or (iii) the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid provided that (A) in the case of (iii) above, such guarantee or indemnity is not being contested in good faith and in accordance with legal advice or (B) the aggregate amount of the relevant indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in (i), (ii) and (iii) has or have occurred and is or are continuing, equals or exceeds £50,000,000 or its equivalent in any other currency of the relevant indebtedness for borrowed money; or

(d) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries and is not discharged or stayed within 60 days thereof; or

(e) **Insolvency**: any of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries is insolvent or bankrupt or unable to pay its debts (within the meaning of Section 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement, or in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Parent Guarantor, or any substitute therefor, or another of its Subsidiaries) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer, the Parent Guarantor, or the Subsidiary

Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries; or

(f) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or any of the Parent Guarantor's Principal Subsidiaries, or the Issuer, the Parent Guarantor or any of the Parent Guarantor's Principal Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement, or in the case of a Principal Subsidiary, whereby the undertakings and assets of the Principal Subsidiary (or, as applicable, the relevant part thereof) are transferred to or otherwise vested in the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, or another of its Subsidiaries and except that neither the Issuer, the Parent Guarantor, or the Subsidiary Guarantor, or any substitute therefor, nor any of the Parent Guarantor's Principal Subsidiaries shall be treated as having threatened to cease or having ceased to carry on all or substantially all of its business or operations by reason of any announcement of any disposal or by reason of any disposal on an arm's length basis; or

(g) **Ownership of the Issuer**: the Issuer or, if applicable, Substitute Issuer ceases to be directly or indirectly wholly-owned by the Parent Guarantor or, if applicable, the Substitute Parent Guarantor except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation permitted hereby (including, for greater certainty, pursuant to the events described in "*—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*"); or

(h) **Guarantees**: any of the Guarantees cease to be valid and legally binding for any reason other than a termination in accordance with its terms or a Guarantor seeks to deny or disaffirm its obligations under its Guarantee.

The Indenture provides that if an Event of Default with respect to a series of Notes occurs and is continuing, then and in each and every such case (other than certain Events of Default specified in paragraphs (e) and (f) above with respect to the Issuer and the Guarantors), unless the principal of all such Notes shall have already become due and payable, either the Trustee or the Holders of not less than 25 percent in aggregate principal amount of the applicable series of Notes then outstanding, by notice in writing to the Issuer and the Guarantors (and to the Trustee if given by the Holders), may, and the Trustee at the request of such Holders shall, subject to its receiving indemnification and/or security to its satisfaction, declare the entire principal amount of all outstanding Notes of such series issued pursuant to the Indenture and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of the Trustee or any Holder. If certain Events of Default described in paragraphs (e) and (f) above occur with respect to the Issuer and the Guarantors and are continuing, the principal amount of and accrued and unpaid interest on all outstanding Notes of such series issued pursuant to the Indenture shall become immediately due and payable, without any declaration or other act on the part of the Trustee or any Holder. Under certain circumstances, the Holders of a majority in aggregate principal amount of the applicable series of Notes then outstanding, by written notice to the Issuer, the Guarantors and the Trustee, may waive certain defaults (except with respect to payments of interest and principal) and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

An Event of Default for one series of Notes shall not necessarily constitute an Event of Default for any other series of Notes issued under the Indenture.

The Holders of a majority in aggregate principal amount of the applicable series of Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, subject to certain limitations to be specified in the Indenture.

The Indenture provides that no Holder of any Note may institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the Indenture, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the Indenture (except suits for the enforcement of payment of overdue principal or interest) unless such Holder previously shall have given to the Trustee written notice of an Event of Default and continuance thereof and unless the Holders of not less than 25 percent in aggregate principal amount of the Notes of such series then outstanding shall have made written request upon the Trustee to institute such action or proceedings in its own name as Trustee and shall have offered the Trustee indemnity and/or security (in the manner and form provided in the Indenture) as it may require against the costs, expenses and liabilities to be incurred therein or thereby, the Trustee shall not have instituted any such action or proceeding within 60 days of its receipt of such notice, request and offer of indemnity and/or security and the Trustee shall not have received direction inconsistent with such written request by the Holders of a majority in aggregate principal amount of the Notes at the time outstanding.

The Indenture will also provide that the Issuer will furnish to the Trustee on or before 31 January in each year (commencing on 31 January 2016), if any Notes are then outstanding, and within 15 days of a written request of the Trustee, a certificate from an officer of the Issuer as to his or her best knowledge of the Issuer's compliance with all conditions and covenants under the Indenture, which certificate may merely state that such officer has no knowledge of any default.

Defeasance

The Indenture will provide that the Issuer will have the option either (a) to be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the applicable series of Notes and to have satisfied all the obligations under the Indenture (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of Notes, to pay Additional Amounts, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the 91st day after the applicable conditions described below have been satisfied or (b) to cease to be under any obligation to comply with the covenants described above under "*—Covenants of the Issuer—Negative Pledge*" and the condition relating to the absence of any events of default under "*—Limitation on Mergers, Consolidations, Amalgamations and Combinations*; *Substitution of Issuer and Guarantors; Additional Guarantors*" under the applicable series of Notes, and non-compliance with any such sections or provisions will not give rise to any Event of Default under the applicable series of Notes, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must deposit with the Trustee or with Trustee's agent as the Trustee directs, irrevocably in trust, money, Government Obligations (as defined in the Indenture) or a combination of these sufficient for the payment of principal of, premium, if any, and interest on the outstanding Notes of such series on the dates such installments of interest or principal are due or to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (i) comply with certain other conditions as stated in the Indenture, including delivering to the Trustee an opinion of U.S. counsel, or a ruling received from the United States Internal Revenue Service, to the effect that beneficial owners of the Notes of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amount and in the same manner and at the same time as would have been the case if such defeasance had not occurred and, in the case of (a) above, such opinion must state that it is based on a change of applicable U.S. federal income tax law after the Issue Date of the Notes and (ii) pay in full all other amounts due and owing under the Indenture.

Modification and Waiver

Without Consent of Noteholders

The Indenture will contain provisions permitting the Issuer, the Guarantors, the Trustee and the Agent, without notice to or the consent of the Holders of any of the Notes at any time outstanding, from time to time and at any time, to enter into an indenture or indentures supplemental thereto:

- to convey, transfer, assign, mortgage or pledge to the Trustee as security for the Notes any property or assets;
- to evidence the succession of another person to the Issuer or any Guarantor, or the substitution or addition of another person as Guarantor, or successive successions, substitutions or additions and the assumption by such person(s) of the covenants, agreements and obligations of the Issuer or any Guarantor pursuant to the Indenture;
- to evidence and provide for the acceptance of appointment of a successor or successors to the Trustee, the Agent and/or any paying agent, transfer agent or registrar, as applicable;
- to add to the covenants of the Issuer or any Guarantor, such further covenants, restrictions, conditions or provisions as the Issuer, any such Guarantors and the Trustee shall consider to be for the protection of the Holders of the Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the Notes permitting the enforcement of all or any of the several remedies provided in the Indenture; provided that, in respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Trustee upon such an Event of Default or may limit the right of Holders of a majority in aggregate principal amount of the Notes to waive such an Event of Default;
- to modify the restrictions on, and procedures for, resale and other transfers of the Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;
- to cure any ambiguity or to correct or supplement any provision contained in the Indenture which may be defective or inconsistent with any other provision contained therein or in any supplemental indenture or to make such other provisions in regard to matters or questions arising under the Indenture or under any supplemental indenture as the Issuer or the Trustee may deem necessary or desirable and which will not adversely affect the interests of the Holders of the Notes in any material respect; and
- to reopen any series of Notes and create and issue additional notes having identical terms and conditions as the Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series with the applicable series of outstanding Notes.

With Consent of Noteholders

The Indenture will contain provisions permitting the Issuer, the Guarantors, the Trustee and the Agent, with the consent of the Holders of not less than a majority in aggregate principal amount of any series of the Notes at the time outstanding (including consents obtained in connection with a tender offer or exchange offer for the Notes), from time to time and at any time, to enter into an indenture or indentures supplemental thereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or any supplemental indenture or of modifying in any manner the rights of the Holders of the applicable series of the Notes, provided, that no such indenture may, without the consent of the Holder of each of the Notes of such series so affected:

- change the stated maturity of, or the date for payment of any principal of, or installment of interest on, any Note; or
- reduce the principal amount of or the rate or amount of interest on any Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default; or
- change the currency of payment of principal of or interest on any Note or Additional Amounts payable with respect thereto; or
- change the obligation of the Issuer or any Guarantor to pay Additional Amounts (except as otherwise permitted by such Note); or
- impair the right to institute suit for the enforcement of any such payment on or with respect to any Note; or
- reduce the percentage of the aggregate principal amount of the Notes outstanding, the consent of whose Holders is required for any such supplemental indenture; or
- reduce the aggregate principal amount of any Note outstanding necessary to modify or amend the Indenture or any such Note or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any Notes outstanding required for the adoption of any action at any meeting of Holders of such Notes or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of all accrued and unpaid interest on any Note to be due and payable;

provided that no consent of any Holder of any Note shall be necessary to permit the Agent, the Trustee, the Guarantors and the Issuer to execute a supplemental indenture as described under "*—Modification and Waiver—Without Consent of Noteholders*" above.

Any modifications, amendments or waivers to the Indenture or to the conditions of any series of the Notes will be conclusive and binding on all Holders of those Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future Holders of those Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any Holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered Holders of such Note.

Restrictions on Transfer

The Initial Purchasers propose to resell the Rule 144A Notes to certain qualified institutional buyers in the United States in reliance upon Rule 144A under the Securities Act. The Rule 144A Notes may not be sold or otherwise transferred except, in the United States, pursuant to registration under the Securities Act or in accordance with Rule 144A or, outside the United States, pursuant to Rule 904 of Regulation S thereunder or, in either case, in a resale transaction that is otherwise exempt from such registration requirements, and each global note representing Rule 144A Notes will bear a legend to this effect. In light of current U.S. securities laws, subject to certain exceptions, an exemption should be available for a sale or transfer of a Rule 144A Note after its Specified Date. The **Specified Date** means, with respect to any Rule 144A Note, the date following the expiration of the applicable required holding period determined pursuant to Rule 144 of the Securities Act (such period, the **applicable holding period**) from the later of the date of acquisition of such Rule 144A Note from (i) the Issuer or (ii) an affiliate of the Issuer, and any resale of such Rule 144A Note in reliance on Rule 144 under the Securities Act for the account of either the acquirer or any subsequent holder of such Rule 144A Note, in each case demonstrated to the reasonable satisfaction of the Issuer (which may require delivery of legal opinions). Unless a holder of a Rule 144A Note holds such Rule 144A Note for the entire applicable holding period, such holder may not be able to determine the Specified Date because such holder may not be able to determine the last date on which the Issuer or any affiliate thereof was the beneficial owner of such holder's Rule 144A Note. The Agent for the Notes will not be required to accept for registration or transfer any Rule 144A Notes, except upon presentation of satisfactory evidence (which may include legal opinions) that the restrictions on transfer have been complied with, all in accordance with such reasonable regulations as the Issuer may from time to time agree with the Agent.

Prescription

Under New York's statute of limitations, any legal action upon the Notes and the Guarantees in respect of interest or principal must be commenced within six years after the payment thereof is due. Thereafter any such legal action on the Notes and the Guarantees will become generally unenforceable.

Notice

Notices to Holders of Notes will be given by first-class mail postage or internationally recognized courier service prepaid to the last addresses of such Holders as they appear in the Notes register. Such notices will be deemed to have been given on the date of such mailing. Neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

So long as any global notes representing the Notes are held in their entirety on behalf of a clearing system, or any of its participants, notices to holders regarding the Notes will be delivered to the clearing system, and its participants, for communication by them to the entitled accountholders. Any such notice shall be deemed to have been given to the accountholders on the third day after the day on which the said notice was given to the clearing system, and its participants.

Listing

Application has been made to list the Notes on the Official List of the UK Listing Authority and for the Notes to be admitted to trading on the Professional Securities Market of the London Stock Exchange.

Consent to Service

The Issuer will initially designate CT Corporation System at 111 Eighth Avenue, New York, New York 10011, United States of America, as its authorized agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the Indenture and the Notes brought in any state or federal court in the Borough of Manhattan, the City of New York, and will irrevocably submit (but for those purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

Governing Law

The Notes, the Guarantees and the Indenture shall be governed by and construed in accordance with the laws of the state of New York without regard to principles of conflicts of laws thereof.

BOOK-ENTRY, DELIVERY AND FORM

The Notes that are initially offered and sold in the United States to QIBs (the **Rule 144A Notes**) will be represented by beneficial interests in one or more global notes (the **Rule 144A Global Note**) in registered form without interest coupons, which will be deposited on or about the closing date of the Offering of the Notes (the **Closing Date**) with The Bank of New York Mellon as custodian (the **Custodian**) for DTC and registered in the name of Cede & Co. as nominee of DTC.

The Notes that are offered and sold in reliance on Regulation S (the **Regulation S Notes**) will be represented by beneficial interests in one or more global notes (the **Regulation S Global Note**) in registered form without interest coupons, which will be deposited on or about the Closing Date with the Custodian, and registered in the name of Cede & Co., as nominee of DTC. Investors may hold their interests in the global notes directly through DTC if they are participants in, or indirectly through organizations that are participants in, such systems. Euroclear and Clearstream, Luxembourg will hold interests in the Rule 144A Notes or Regulation S Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

So long as DTC or its nominee is the registered holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the applicable global note for all purposes under the Indenture and the Notes (except as the context otherwise requires in respect of Additional Amounts). The Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear a legend regarding such restrictions as set forth under "*Transfer Restrictions*". Under certain circumstances, transfers may be made only upon receipt by the Agent, in its capacity as transfer agent, as well as the Trustee and the Issuer, of a written certification (in the form set out in the Indenture).

Transfers within Global Notes

Subject to the procedures and limitations described herein, transfers of beneficial interests within a global note may be made without delivery to the Issuer, the Trustee or the Agent of any written certifications or other documentation by the transferor or transferee.

Transfers between Global Notes

A beneficial interest in a Rule 144A Note may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Regulation S Note only upon receipt by the Agent of a written certification (in the form set out in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or, in the case of an exchange occurring following the Specified Date, Rule 144. A beneficial interest in a Regulation S Note may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Rule 144A Note only upon receipt by the Agent of a written certification (in the form set out in the Indenture) from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. Any beneficial interest in a Rule 144A Note or a Regulation S Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other global note will, upon transfer, cease to be a beneficial interest in such global note and become a beneficial interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other global note for so long as such person retains such an interest.

Transfers or Exchanges from Global Notes to Definitive Notes

No global note representing a Rule 144A Note or Regulation S Note may be exchanged in whole or in part for Notes in definitive registered form (**definitive notes**) unless:

- DTC notifies the Issuer that it is unwilling or unable to hold the applicable global note or DTC ceases to be a clearing agency registered under the Exchange Act, and in each case the Issuer does not appoint a successor depositary that is registered under the Exchange Act within 90 days; or
- a payment default has occurred and is continuing; or
- in the event of a bankruptcy default, the Issuer fails to make payment on the Notes when due; or
- the Issuer shall have determined in its sole discretion that the Notes shall no longer be represented by global notes.

The holder of a definitive note may transfer such note by surrendering it at the specified office of the Agent. Upon the transfer, exchange or replacement of a Rule 144A definitive note bearing the applicable legend set forth under "*Transfer Restrictions*" herein, or upon specific request for removal of such legend on a definitive note, the Issuer will deliver only definitive notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Agent such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Each such definitive note will include terms substantially in the form of those set forth in the Indenture. Except as set forth herein, no global note may be exchanged in whole or in part for definitive notes.

Clearing and Settlement

The information set out below in connection with DTC is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect. The information about DTC set forth below has been obtained from sources that the Issuer and the Guarantors believe to be reliable, including DTC, but none of the Issuer, the Guarantors or any of the Initial Purchasers takes any responsibility for the accuracy of the information. If you wish to use the facilities of any clearing system you should confirm the applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, the Guarantors, the Trustee or any of the Initial Purchasers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of interests in, Notes held through, the facilities of any clearing system, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the state of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC participants and to facilitate the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants, thereby eliminating the need for physical movement of certificates. DTC participants include certain of the Initial Purchasers, securities brokers and dealers, banks, trust companies, clearing corporations and may in the future include certain other organizations (**DTC participants**). Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly (**indirect DTC participants**).

Under the rules, regulations, and procedures creating and affecting DTC and its operations (the **Rules**), DTC is required to make book-entry transfers of Notes among DTC participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system as described below (the **DTC Notes**) and to receive and transmit distributions of the nominal amount and interest on the DTC Notes. DTC participants and indirect DTC participants with which beneficial owners of DTC Notes (**Owners**) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through DTC participants or indirect DTC participants will not possess Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which such Owners will receive payments and will be able to transfer their interests with respect to the Notes.

Transfers of ownership or other interests in the Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant. DTC has no knowledge of the actual beneficial owners of the Notes. DTC's records reflect only the identity of the DTC participants to whose accounts the Notes are credited, which may not be the beneficial owners. DTC participants will remain responsible for keeping account of their holdings on behalf of their customers and for forwarding all notices concerning the Notes to their customers. So long as DTC, or its nominee, is the registered holder of a global note, payments on the Notes will be made in immediately available funds to DTC. DTC's practice is to credit DTC participants' accounts on the applicable payment date in accordance with their respective holdings shown on its records, unless DTC has reason to believe that it will not receive payment on that date. Payments by DTC participants to beneficial owners will be governed by standing instructions and customary practices, and will be the responsibility of the DTC participants and not of DTC, or any other party, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the Agent. Disbursement of payments for DTC participants will be DTC's responsibility, and disbursement of payments to the beneficial owners will be the responsibility of DTC participants and indirect DTC participants.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants, and because owners of beneficial interests in the Notes holding through DTC will hold interests in the Notes through DTC participants or indirect DTC participants, the ability of the owners of the beneficial interests to pledge Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to the Notes, may be limited. DTC will take any action permitted to be taken by an Owner only at the direction of one or more DTC participants to whose account with DTC such Owner's DTC Notes are credited. Additionally, DTC has advised the Issuer that it will take such actions with respect to any percentage of the beneficial interest of Owners who hold Notes through DTC participants or indirect participants only at the direction of and on behalf of DTC participants whose account holders include undivided interests that satisfy any such percentage.

To the extent permitted under applicable law and regulations, DTC may take conflicting actions with respect to other undivided interests to the extent that such actions are taken on behalf of DTC participants whose account holders include such undivided interests.

Ownership of interests in the Rule 144A Notes and the Regulation S Notes will be shown on, and the transfer of that ownership will be effected only through records maintained by, DTC, the DTC participants and the indirect DTC participants, including Euroclear and Clearstream, Luxembourg. Transfers between participants in DTC, as well as transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with DTC rules.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and participants in Euroclear or Clearstream, Luxembourg on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be. Such cross-market transactions, however, will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to DTC to take action to effect final settlement on its behalf by delivering or receiving payment in accordance with DTC's Same Day Funds Settlement System.

According to DTC, the foregoing information with respect to DTC has been provided to the industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantors, the Trustee or the Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement in Relation to DTC Notes

Upon the issue of a DTC Note deposited with DTC or a custodian therefor, DTC or its custodian, as the case may be, will credit, on its internal system, the respective nominal amount of the individual beneficial interest represented by such relevant DTC Note or Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Initial Purchasers. Ownership of beneficial interest in a DTC Note will be limited to DTC participants, including Euroclear and Clearstream, Luxembourg or indirect DTC participants. Ownership of beneficial interests in DTC Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of indirect DTC participants). Investors that hold their interests in a DTC Note will follow the settlement procedures applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same day funds on the Issue Date.

Secondary Market Trading in Relation to DTC Notes

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date. Although DTC has agreed to the following procedures in order to facilitate transfers of interests in global notes deposited with DTC or a custodian therefor among participants of DTC, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any agent of the Issuer will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Secondary market trading between DTC participants will be settled using the procedures applicable to global bond issues in same day funds.

Payments

So long as any of the Notes remains outstanding and the Notes are admitted to trading on the Professional Securities Market of the London Stock Exchange, the Issuer will maintain in London, England an office or agency (a) where the Notes may be presented for payment, (b) in the case of the Issuer, where the Notes may be presented for registration of transfer and for exchange and (c) where notices and demands to or upon the Issuer in respect of the Notes or the Indenture may be served. The Issuer will give the Agent and the Trustee written notice of the location of any such office or agency and of any change of location thereof. The Issuer will initially designate the Agent for such purposes. The Issuer may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes or where such notices or demands may be served and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Issuer of any obligation to maintain an office or agency in London, England for such purposes; and provided further, however, that the Issuer will, to the extent possible as a matter of law, maintain a paying agent with a specified office in a member state of the EU that will not be obligated to withhold or deduct tax pursuant to EU Directive 2003/48/EC or any directive supplementing, implementing or replacing such directive or any law amending, or complying with, or introduced in order to conform to, the directive or directives. The Issuer shall give written notice to the Agent and the Trustee of any such designation or rescission and of any such change in the location of any other office or agency.

A holder of Notes may transfer or exchange Notes in accordance with their terms. The Agent will not be required to accept for registration or transfer any Notes, except upon presentation of satisfactory evidence (which may include legal opinions) that the restrictions on transfer have been complied with, all in accordance with such reasonable regulations as the Issuer may from time to time agree with such Agent.

Notwithstanding any statement herein, the Issuer reserves the right to impose or remove such transfer, certification, substitution or other requirements, and to require such restrictive legends on the Notes, as it may determine are necessary to ensure compliance with the securities laws of the United States and the states therein and any other applicable laws or as may be required by any stock exchange on which the Notes are listed. The Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of Notes and any other expenses (including the fees and expenses of the Trustee and/or the Agent). No service charge will be made for any such transaction.

The Agent will not be required to exchange or register a transfer of (a) any Notes for a period of 15 days ending the due date for any payment of principal in respect of the Notes or the first mailing of any notice of redemption of Notes to be redeemed or (b) any Notes selected, called or being called for redemption.

The Notes will be issued in registered form without coupons and transferable in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

The laws of some jurisdictions require that certain persons take physical delivery in definitive form of securities which they own. Consequently, the ability to transfer beneficial interests in the global notes is limited to such extent.

UK TAX CONSIDERATIONS

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs practice relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payment of interest on the Notes

Payments of interest on the Notes by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the Professional Securities Market of the London Stock Exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes paid by the Issuer may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue & Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of United Kingdom source interest on the Notes by the Issuer on account of United Kingdom income tax at the basic rate (currently 20 percent). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

HMRC has powers to obtain information and documents relating to the Notes, including in relation to issues of and other transactions in the Notes, interest, payments treated as interest and other payments derived from the Notes. This may include details of the beneficial owners of the Notes, of the persons for whom the Notes are held and of the persons to whom payments derived from the Notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of the Notes, persons who make, receive or are entitled to receive payments derived from the Notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HMRC may be provided to tax authorities in other jurisdictions.

Further United Kingdom Tax Issues

Interest on the Notes may be subject to income tax by direct assessment even where paid without withholding.

However, interest received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

Other United Kingdom Tax Payers

Taxation of chargeable gains

A disposal of Notes by an individual Noteholder who is resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

Taxation of discount or premium (if any)

The Notes may constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 Income Tax (Trading and Other Income) Act 2005. Any gain realized on Notes which are "deeply discounted securities" by a Noteholder who is within the charge to United Kingdom income tax in respect of the Notes will generally be taxable as income, but such Noteholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption of such Notes or losses incurred on the transfer or redemption of such Notes.

Accrued income scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last Interest Payment Date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

The Notes may constitute variable rate securities for the purposes of the accrued income scheme. Under the accrued income scheme, on a disposal of Notes by a Noteholder who is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, the Noteholder may be charged to income tax on an amount of income which is just and reasonable in the circumstances. The purchaser of such a Note will not be entitled to any equivalent tax credit under the accrued income scheme to set against any actual interest received by the purchaser in respect of the Notes (which may therefore be taxable in full).

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes. No United Kingdom stamp duty or SDRT is payable on the transfer of the Notes if (i) the Notes are "exempt loan capital" (that is, if section 79(4) of the Finance Act 1986 applies to the Notes) or (ii) the transfer is effected otherwise than by way of written instrument and the Notes are held within DTC such that the requirements of section 90(5) of the Finance Act 1986 are satisfied (provided that DTC has not and will not make an election under section 97A of the Finance Act 1986). The Issuer understands that DTC has not made such an election.

However, stamp duty and/or stamp duty reserve tax may become payable in relation to or following the exercise of the Issuer's defeasance option. This will depend upon the basis upon which money or government obligations are deposited with the Trustee.

EU SAVINGS DIRECTIVE

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories have adopted similar measures.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above (the **Amending Directive**). The Amending Directive requires Member States to apply these new requirements from 1 January 2017, and if they were to take effect, the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

Investors who are in doubt as to their position should consult their professional advisers.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax consequences to a U.S. Holder (as defined below) of purchasing, owning and disposing of Notes, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such Notes. This discussion only applies to U.S. Holders who hold Notes as capital assets for U.S. federal income tax purposes and acquire such Notes pursuant to this Offering at the "issue price", which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of initial purchasers, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money. This discussion is for general information purposes only and does not describe all of the U.S. federal income tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as: (i) certain financial institutions; (ii) insurance companies; (iii) dealers and certain traders in securities; (iv) regulated investment companies; (v) real estate investment trusts; (vi) partnerships, certain pass-through entities or persons that hold Notes through pass-through entities; (vii) persons holding Notes as part of a hedge, straddle, conversion or other integrated transaction; (viii) persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar; (ix) tax-exempt organizations; or (x) certain persons who have ceased to be United States citizens or resident aliens. This discussion does not address U.S. federal estate, gift, Medicare contribution or alternative minimum tax considerations, or non-U.S., state or local tax considerations.

This discussion is based on the Internal Revenue Code of 1986 (for purposes of this section, the **Code**), its legislative history, administrative pronouncements, published rulings and judicial decisions, and final, temporary and proposed Treasury regulations, all as of the date hereof, all of which are subject to change at any time, possibly on a retroactive basis. Prospective purchasers should consult their own tax advisors concerning the U.S. federal, state, local and non-U.S. tax consequences of purchasing, owning and disposing of Notes in their particular circumstances.

As used herein, the term **U.S. Holder** means a beneficial owner of a Note that is, for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) such trust has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person. A **Non-U.S. Holder** is a beneficial owner of Notes that is not a U.S. Holder.

The U.S. federal income tax treatment of a partner in a partnership, or other entity treated as a partnership for U.S. federal tax purposes, that holds Notes will depend on the status of the partner and the activities of the partnership. Partnerships owning Notes and partners in such partnerships should consult their own tax advisors regarding the tax consequences of acquiring, holding and disposing of the Notes.

Payments of Interest

It is expected, and the following discussion assumes, that the Notes will be issued with no more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes. Accordingly, interest paid on a Note (including any Additional Amounts and, without duplication, any amount withheld in respect of United Kingdom taxes) will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the holder's method of accounting for U.S. federal income tax purposes. Interest income paid to a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant to a holder in calculating the holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. U.S. Holders should consult their tax advisors concerning the foreign tax credit implications of any payment of United Kingdom taxes.

Substitution of the Issuer

In certain circumstances the obligations of the Issuer under the Notes may be assumed by another entity as described under "*Description of the Notes and the Guarantees—Limitation on Mergers, Consolidations, Amalgamations and Combinations; Substitution of Issuer and Guarantors; Additional Guarantors*". Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's adjusted tax basis in the Notes.

Sale, Exchange or Other Taxable Disposition of the Notes

Upon the sale, exchange or other taxable disposition of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or other taxable disposition and the U.S. Holder's adjusted tax basis in the Note, which will generally be its cost. For these purposes, the amount realized does not include any amount attributable to accrued interest, which will be treated as interest as described under "*—Payments of Interest*" above.

Gain or loss realized on the sale, exchange or other taxable disposition of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or other disposition the Note has been held for more than one year. Long-term capital gain may be taxable at reduced rates in the case of a U.S. Holder that is an individual, estate or trust. The deductibility of capital losses is subject to significant limitations. Gain or loss will generally be treated as derived from U.S. sources for purposes of computing a U.S. Holder's foreign tax credit limitation.

Non-U.S. Holders

A Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes or gain from the sale, redemption or other disposition of the Notes unless: (i) that payment or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business within the United States or (ii) in the case of any gain realized on the sale, redemption or other disposition of a Note by an individual Non-U.S. Holder, that Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, redemption or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding

Payments on the Notes and proceeds from the sale of a Note that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and to backup withholding at the applicable statutory rate, unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the U.S Holder provides a correct taxpayer identification number, certifies that no loss of exemption from backup withholding has occurred, and otherwise complies with the backup withholding rules. Amounts withheld under the backup withholding rules are not additional taxes. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such U.S. Holder's U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders that own "specified foreign financial assets" that meet certain U.S. dollar value thresholds generally are required to file an information report with respect to such assets (or, if such assets are held through a non-U.S. account, such non-U.S. accounts with their tax returns). The Notes generally will constitute specified foreign financial assets subject to these reporting requirements unless the Notes are held in an account at certain financial institutions. U.S. Holders are urged to consult their tax advisors regarding the application of these disclosure requirements to their ownership of the Notes.

Information returns are required to be filed with the Internal Revenue Service in connection with payments of interest on the Notes. Unless a Non-U.S. Holder provides appropriate certification to establish that it is not a U.S. person, information returns may also be filed with the Internal Revenue Service in connection with the proceeds from a sale, redemption or other disposition of the Notes. In general, payments on the Notes and the proceeds of a sale, redemption or other disposition of the Notes will not be subject to backup withholding if an appropriate certification is provided by the Non-U.S. Holder to the payor and the payor does not have actual knowledge that the certificate is false. Amounts withheld under the backup withholding rules are not additional taxes. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against such Non-U.S. Holder's U.S. federal income tax liability (if any) and may entitle such Non-U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Pursuant to a Purchase Agreement dated 15 July 2015 among the Initial Purchasers, the Issuer and the Guarantors (the **Purchase Agreement**), the Initial Purchasers have severally and not jointly agreed with the Issuer, subject to the satisfaction of certain conditions, to purchase $500,000,000 principal amount of the 2018 Notes, $1,250,000,000 principal amount of the 2020 Notes, $1,250,000,000 principal amount of the 2022 Notes and $1,500,000,000 principal amount of the 2025 Notes. The respective principal amount of Notes to be purchased by each of the Initial Purchasers from the Issuer is set forth opposite its name below:

Initial Purchaser	Principal Amount of the 2018 Notes	Principal Amount of the 2020 Notes	Principal Amount of the 2022 Notes	Principal Amount of the 2025 Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$128,573,000	$ 321,425,000	$ 321,425,000	$ 385,716,000
BNP Paribas Securities Corp.	$ 66,667,000	$ 166,667,000	$ 166,667,000	$ 200,000,000
HSBC Securities (USA) Inc.	$ 66,667,000	$ 166,667,000	$ 166,667,000	$ 200,000,000
Mizuho Securities USA Inc.	$ 66,667,000	$ 166,667,000	$ 166,667,000	$ 200,000,000
Banca IMI S.p.A.	$ 28,571,000	$ 71,429,000	$ 71,429,000	$ 85,714,000
Credit Agricole Securities (USA) Inc.	$ 28,571,000	$ 71,429,000	$ 71,429,000	$ 85,714,000
Mitsubishi UFJ Securities (USA), Inc.	$ 28,571,000	$ 71,429,000	$ 71,429,000	$ 85,714,000
RBS Securities Inc.	$ 28,571,000	$ 71,429,000	$ 71,429,000	$ 85,714,000
SMBC Nikko Capital Markets Limited	$ 28,571,000	$ 71,429,000	$ 71,429,000	$ 85,714,000
UniCredit Bank AG	$ 28,571,000	$ 71,429,000	$ 71,429,000	$ 85,714,000
Total	$500,000,000	$1,250,000,000	$1,250,000,000	$1,500,000,000

The Purchase Agreement entitles the Initial Purchasers to terminate the purchase of the Notes in certain circumstances prior to payment to the Issuer. The Issuer and the Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities in connection with the offer and sale of the Notes, including liabilities under the Securities Act, and may be required to contribute to payments the Initial Purchasers may be required to make in respect thereof.

The Initial Purchasers, or certain of their respective affiliates as selling agents, initially propose to offer part or all of the Notes at the respective offering prices set forth on the cover page hereof. After the initial offering of the Notes, the offering prices and other selling terms may from time to time be varied by the Initial Purchasers.

The Issuer and each of the Guarantors have agreed with the Initial Purchasers that neither they nor any person acting on their behalf will, without the prior written consent of the Initial Purchasers, for the period from and including the date of the Purchase Agreement through and including the Closing Date, offer, sell, contract to sell or otherwise dispose of any debt securities of or guaranteed by the Issuer or the Guarantors, or warrants to purchase debt securities (other than private placements of debt securities) of or guaranteed by the Issuer or the Guarantors, that rank *pari passu* in right of payment with the Notes (other than the Notes).

The Notes are a new issue of securities with no established trading market. The Notes are expected to be admitted to trading on the Professional Securities Market of the London Stock Exchange.

The Initial Purchasers are not obligated to make a market in the Notes and, even if such activities are commenced, they may be discontinued at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or any trading market for, the Notes. If the Notes are traded, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, the operating performance and financial condition of the Group, general economic conditions and other factors.

In connection with the Offering of the Notes, the Initial Purchasers may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the date of issue of the Notes. However, there is no obligation on the part of the Initial Purchasers to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or the possession, circulation or distribution of any material relating to the Offering in any jurisdiction where action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, nor may any offering material or advertisement in connection with the Notes (including this document and any amendment or supplement hereto) be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Group. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with the Group routinely hedge their credit exposure to the Group consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Group's securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Initial Purchasers and/or their affiliates are lenders under the Facilities Agreement. In addition, an affiliate of Merrill Lynch, Pierce Fenner & Smith Incorporated is a lender under the BAML Facility Agreement. As such, the Initial Purchasers may receive proceeds of the Offering.

The Issuer and Guarantors expect that delivery of the Notes will be made to investors on or about 21 July 2015 (such settlement being referred to as T+4). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities prior to the fourth business day before the delivery of the securities will be required, by virtue of the fact that the securities initially will settle in T+4, to specify any alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the securities who wish to make such trades should consult their own advisors.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Initial Purchasers or any affiliate of an Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or affiliate on behalf of the Issuer in such jurisdiction.

Banca IMI S.p.A. is not a U.S. registered broker-dealer and will not effect any offers or sales of the Notes in the United States other than through one or more U.S. registered broker-dealers as permitted by the regulations of the Financial Industry Regulatory Authority, Inc.

United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (i) outside the United States in reliance on Regulation S and (ii) within the United States to QIBs in accordance with Rule 144A.

Each Initial Purchaser has represented and agreed with the Issuer and the Guarantors that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until and including the fortieth day after the later of the commencement of the Offering and the Closing Date for the sale of any Notes pursuant to the Purchase Agreement (the **distribution compliance period**), within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Rule 144A or Rule 903 of Regulation S. Each Initial Purchaser has also agreed that it, each of its affiliates and each person acting on its or their behalf have complied and will comply with the offering restriction requirements of Regulation S; and that at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A, if permitted) it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Each Initial Purchaser has also represented and agreed with the Issuer and the Guarantors that no directed selling efforts (as defined in Regulation S) have been made or will be made in the United States by the Initial Purchasers, any of their affiliates or any person acting on behalf of any of the Initial Purchasers or their affiliates with respect to the Notes; and none of it, any of its affiliates, or anyone acting on its or their behalf has solicited offers for, offered or sold the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in the United States in connection with the Offering of the Notes or otherwise in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act.

Terms used in the preceding two paragraphs have the meanings ascribed to them by Rule 144A and Regulation S under the Securities Act, as applicable.

In addition, until 40 days after the commencement of the Offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the Offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The Purchase Agreement also provides that the Initial Purchasers or their affiliates may arrange for the placing of a portion of the Notes to persons reasonably believed to be QIBs pursuant to Rule 144A.

United Kingdom

Each Initial Purchaser has represented and agreed with the Issuer and the Guarantors that:

- it has communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)), received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Japan

Each Initial Purchaser understands that the Notes have not been and will not be registered under the Securities and Exchange Law of Japan, and represents that it has not offered or sold, and agrees with the Issuer and the Guarantors not to offer or sell, directly or indirectly, any Notes in Japan or for the account of any resident thereof except pursuant to any exemption from the registration requirements of the Securities and Exchange Law of Japan and otherwise in compliance with applicable provisions of Japanese law.

Notice to Prospective Investors in Other Jurisdictions

Each Initial Purchaser has represented and agreed with the Issuer that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers notes or has in its possession or distributes this Offering Memorandum or any amendment or supplement thereto, in so far as such laws, regulations and directives relate to the purchase, offer, sale or delivery of the Notes or the possession or distribution of this Offering Memorandum or any amendment or supplement thereto.

TRANSFER RESTRICTIONS

The Notes and the Guarantees have not been and will not be registered under the Securities Act or any state securities laws and, unless so registered, may not be offered, sold or delivered except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only (i) within the United States to QIBs in reliance on Rule 144A under the Securities Act and (ii) outside of the United States in reliance on Regulation S under the Securities Act.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers as follows:

1. It understands and acknowledges that the Notes and the Guarantees have not been and will not be registered under the Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and may not be offered, sold or otherwise transferred within the United States except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto, and in each case in compliance with, the conditions for transfer set forth in paragraphs (4) and (5) below.

2. It is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Issuer or the Guarantors, nor acting on behalf of the Issuer or the Guarantors and it is either:

   - a QIB and is aware that any sale of Notes to it will be made in reliance on Rule 144A under the Securities Act, of which the purchase will be for its own account or for the account of another QIB; or

   - purchasing the Notes outside of the United States in accordance with Regulation S under the Securities Act.

3. It acknowledges that none of the Issuer, the Guarantors, or the Initial Purchasers, nor any person representing the Issuer, the Guarantors, their respective subsidiaries or the Initial Purchasers, has made any representation to it with respect to the Offering or sale of any Notes, other than the information contained in this Offering Memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It has had access to such financial and other information concerning the Issuer, the Guarantors and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes.

4. It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act.

5. If such a purchaser is a purchaser of Notes issued in reliance on Rule 144A, it agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree not to offer, sell or otherwise transfer such Notes prior to the date following the expiration of the applicable required holding period determined pursuant to Rule 144, after which such Notes may be freely transferred pursuant to Rule 144 under the Securities Act, except (i) to the Issuer or the Guarantors, (ii) pursuant to a registration statement that has been declared effective under the

Securities Act, (iii) for so long as the Notes are eligible for resale pursuant to Rule 144A under the Securities Act, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the Securities Act, (iv) pursuant to offers and sales that occur outside the U.S. in compliance with Regulation S under the Securities Act or (v) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and in compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's, the Trustee's and the Agent's rights prior to any such offer, sale or transfer (A) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (B) in each of the foregoing cases, to require that a transfer notice in the form attached as a schedule to the Indenture is completed and delivered by the transferor to the Agent.

6. It understands that the Notes being sold pursuant to Rule 144A will bear a legend to the following effect:

   THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OR A DEPOSITARY OR A SUCCESSOR DEPOSITARY. NEITHER THIS NOTE, THE GUARANTEES, NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE UNITED STATES IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

   THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE "SPECIFIED DATE") FOLLOWING THE EXPIRATION OF THE APPLICABLE REQUIRED HOLDING PERIOD DETERMINED PURSUANT TO RULE 144 OF THE SECURITIES ACT FROM THE LATER OF THE DATE OF ACQUISITION OF THIS NOTE FROM (I) THE ISSUER THEREOF OR (II) AN AFFILIATE OF SUCH ISSUER, AND ANY RESALE OF THIS NOTE IN RELIANCE ON RULE 144 UNDER THE SECURITIES ACT FOR THE ACCOUNT OF EITHER THE ACQUIRER OR ANY SUBSEQUENT HOLDER OF THIS NOTE (IN EACH CASE DEMONSTRATED TO THE REASONABLE SATISFACTION OF THE ISSUER OF THIS NOTE) ONLY (A) TO THE ISSUER, AND THE GUARANTOR AND ANY SUBSIDIARY OR ANY AFFILIATE THEREOF (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF

ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S, THE TRUSTEE'S AND/OR THE AGENT'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM OF SCHEDULE 6-A TO THE INDENTURE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE AGENT. THE FOREGOING RESTRICTIONS ON RESALE WILL NOT APPLY SUBSEQUENT TO THE SPECIFIED DATE. THE INDENTURE CONTAINS A PROVISION REQUIRING THE AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.

7. It understands that the Notes being sold in reliance on Regulation S will bear a legend to the following effect:

   THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OR A DEPOSITARY OR A SUCCESSOR DEPOSITARY. NEITHER THIS NOTE, THE GUARANTEES, NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON, UNLESS SUCH NOTES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF IS AVAILABLE. THIS LEGEND WILL BE REMOVED AFTER THE EXPIRATION OF FORTY DAYS FROM THE LATER OF (i) THE DATE ON WHICH THESE NOTES ARE FIRST OFFERED AND (ii) THE DATE OF ISSUE OF THESE NOTES.

8. It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes.

9. It acknowledges that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

10. (i) It is neither an employee benefit plan subject to Title I of ERISA or Section 4975 of the Code or any entity whose underlying assets include Plans nor a plan subject to similar laws and it is not purchasing or holding Notes on behalf of or with the assets of any Plan or plan subject to similar laws; or (ii) its purchase, holding and subsequent disposition of such Notes shall not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or any similar law.

11. It acknowledges that the Trustee and/or Agent will not be required to accept for registration of transfer any Notes except upon presentation of evidence satisfactory to the Issuer and the Guarantors, the Trustee and/or the Agent that the restrictions set forth therein have been complied with.

12. It acknowledges that the Issuer, Imperial Tobacco, ITL, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

LEGAL MATTERS

The validity of the Notes and certain other matters with respect to the Notes offered hereby will be passed on for the Issuer and the Guarantors by Allen & Overy LLP as to matters of English law, U.S. federal law and New York state law. The validity of the Notes and certain other matters with respect to the Notes offered hereby will be passed on for the Initial Purchasers by Davis Polk & Wardwell London LLP as to matters of U.S. federal law and New York state law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Imperial Tobacco Group as at and for the years ended 30 September 2012 (incorporated by reference), 2013 and 2014 (included herein) and the non-consolidated annual financial statements of the Issuer and ITL as at and for the years ended 30 September 2012, 2013 and 2014 incorporated by reference herein have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their accountants' reports included therein. PricewaterhouseCoopers LLP is a member of the Institute of Chartered Accountants of England and Wales. The current address of PricewaterhouseCoopers LLP is 31 Great George Street, Bristol, BS1 5QD, United Kingdom.

The Reynolds Business Historical Financial Information as at and for the years ended 31 December 2012 and 2013 (incorporated by reference) and 2014 (included herein) was prepared in accordance with IFRS as adopted by the European Union and reported on by PricewaterhouseCoopers LLP, in accordance with SIR 2000 issued by the U.K. Auditing Practices Board.

The Lorillard Business Historical Financial Information as at and for the years ended 31 December 2012 and 2013 (incorporated by reference) and 2014 (included herein) was prepared in accordance with IFRS and reported on by PricewaterhouseCoopers LLP, in accordance with SIR 2000 Procedures issued by the Auditing Practices Board in the United Kingdom.

The reports of PricewaterhouseCoopers LLP contain language limiting the scope of PricewaterhouseCoopers LLP's duty of care in relation to such reports and the financial statements to which they relate. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to this limiting language, the recourse that investors in the Notes may have against PricewaterhouseCoopers LLP based on their reports or the financial statements to which they relate could be limited.

GENERAL INFORMATION

Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Professional Securities Market. It is expected that admission to the Official List and to trading on the London Stock Exchange's Professional Securities Market will be granted on or about 22 July 2015, subject only to the issue of the Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

The Issuer expects that total expenses related to the listing and admission of the Notes to trading will be approximately £9,200.

Authorization and Consents

The Issuer, Imperial Tobacco and ITL have obtained all necessary consents, waivers, approvals and authorizations in connection with the issue of the Notes and the Guarantees. The Notes were issued pursuant to a resolution adopted by the board of directors of the Issuer on 30 April 2015 and a resolution adopted by a committee appointed by the board of directors of the Issuer on 15 July 2015. The giving of the Guarantee by Imperial Tobacco was authorized by a resolution adopted by the Imperial Tobacco board of directors on 15 July 2015 and by ITL by a resolution adopted by the ITL board of directors on 15 July 2015.

Significant or Material Adverse Change

There has been no significant change in the financial or trading position of the Issuer or ITL, and no material adverse change in the prospects of the Issuer, Imperial Tobacco, ITL or the Group since 30 September 2014, the date of the last published annual financial statements.

Save for the completion of the Acquisition as described in pages 114-124, there has been no significant change in the financial or trading position of Imperial Tobacco or the Group since 31 March 2015, the date of the last published interim financial information.

Litigation

Except as disclosed in "*Description of the Group and its Business—Regulatory Landscape*" and "*Description of the Group and its Business—Litigation*" in this Offering Memorandum on pages 101 to 109 (inclusive) under the sub-headings "*FDA regulation of tobacco products in the U.S.*", "*Plain and standardized packaging*", "*Product display bans at point of sale*", "*Litigation relating to the Group*", and "*Litigation related to the Acquired Assets*", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Issuer, Imperial Tobacco or ITL are aware during the 12 months preceding the date of this Offering Memorandum which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, Imperial Tobacco, ITL or the Group, or the financial position or profitability of the Acquired Assets.

Material Contracts

Save as disclosed in this Offering Memorandum under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Acquisition*" and "*Description of the Group and its Business*", the Group has not entered into any material contract outside the ordinary course of its business, which could result in the Group being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

Clearing Systems

The global notes representing the Rule 144A Notes and the Regulation S Notes are expected to be accepted for clearance through DTC and through the facilities of Clearstream, Luxembourg and Euroclear (as indirect participants in DTC).

The CUSIP of the 2018 Notes to be sold pursuant to Regulation S is G4721V NR1 and the ISIN number is USG4721VNR17. The CUSIP of the 2018 Notes to be sold pursuant to Rule 144A is 453140 AC9 and the ISIN number is US453140AC99.

The CUSIP of the 2020 Notes to be sold pursuant to Regulation S is G4721V NS9 and the ISIN number is USG4721VNS99. The CUSIP of the 2020 Notes to be sold pursuant to Rule 144A is 453140 AD7 and the ISIN number is US453140AD72.

The CUSIP of the 2022 Notes to be sold pursuant to Regulation S is G4721V NT7 and the ISIN number is USG4721VNT72. The CUSIP of the 2022 Notes to be sold pursuant to Rule 144A is 453140 AE5 and the ISIN number is US453140AE55.

The CUSIP of the 2025 Notes to be sold pursuant to Regulation S is G4721V NU4 and the ISIN number is USG4721VNU46. The CUSIP of the 2025 Notes to be sold pursuant to Rule 144A is 453140 AF2 and the ISIN number is US453140AF21.

The address of DTC is 55 Water Street, New York, New York 10041, United States, the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium.

Indication of Yield

The initial yield on the Notes will be 2.213 percent for the 2018 Notes, 3.186 percent for the 2020 Notes, 4.017 percent for the 2022 Notes and 4.515 percent per annum for the 2025 Notes, respectively, calculated on an annual basis. The yield is calculated on the Issue Date on the basis of the price of the relevant Notes. It is not an indication of future yield.

Interests of Natural and Legal Persons Involved in the Issue

Save for any fees payable to the Initial Purchasers, so far as the Issuer is aware, no person involved in the issue of Notes has an interest material to the Offering.

Credit Rating

As of the date of this Offering Memorandum, Imperial Tobacco has a solicited long-term debt rating of Baa3 (negative outlook) by Moody's, BBB (stable outlook) by S&P and BBB (negative outlook) by Fitch. It is expected that the Notes will be rated Baa3 by Moody's and BBB by S&P.

General

For the avoidance of doubt, any website referred to in this Offering Memorandum does not form part of the Offering Memorandum prepared in accordance with the proposed Offering of the Notes.

Documents on Display

Copies of the following documents will be available for inspection at the registered office of the Issuer (121 Winterstoke Road, Bristol, BS3 2LL, United Kingdom) during normal business hours on any weekday (public holidays excepted) for the life of the Offering Memorandum:

(i) the Articles of Association of the Issuer and Guarantors;

(ii) the audited consolidated financial statements of the Group in respect of the years ended 30 September 2012, 2013 and 2014, the audited financial statements of ITL in respect of the financial years ended 30 September 2012, 2013 and 2014 and the audited financial statements of the Issuer in respect of the years ended 30 September 2012, 2013 and 2014, in each case together with the accountants' reports thereon;

(iii) this Offering Memorandum; and

(iv) the Indenture.

In addition, this Offering Memorandum will also be available at the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/engh/pricenews/marketnews/.

Auditors' Consent

PricewaterhouseCoopers LLP has given and has not withdrawn its consent to the inclusion in this Offering Memorandum of its accountant's report on the historical financial information relating to the Lorillard Business for the year ended 31 December 2014 and its accountant's report on the historical financial information relating to the Reynolds Business for the year ended 31 December 2014 in the form and context in which they appear and has authorised the contents of those reports.

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PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Pro forma financial information

The unaudited pro forma statement of net assets of the Group is based on the unaudited net assets of the Group as at 31 March 2015 and has been prepared on the basis of the notes accompanying it to illustrate the effect of the Acquisition on the net assets of the Group as if it had been completed on that date.

The unaudited pro forma income statement of the Group is based on the unaudited, restated income statement of the Group for the year ended 30 September 2014 and has been prepared on the basis of the notes accompanying it to illustrate the effect of the Acquisition on the income statement of the Group as if it had been completed on 1 October 2013. When used below, the ***Group*** *means the Group prior to the completion of the Acquisition and the* ***Enlarged Group*** *means the Group and the Acquired Assets following completion of the Acquisition.*

The pro forma income statement does not reflect the cost of the Notes being offered in this Offering Memorandum.

The information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

Investors should read the whole of this document and not rely solely on the summarized financial information contained below.

***The unaudited pro forma financial information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act*.**

Unaudited *pro forma* statement of net assets of the Enlarged Group

		Adjustments		
	Group as at 31 March 2015 £m (Note 1)	Acquired Assets as at 31 December 2014 £m (Note 2)	Acquisition Accounting £m (Note 5)	Enlarged Group as at 31 March 2015 £m
Non-current assets				
Intangible assets	14,515	51	4,252	18,818
Property, plant and equipment	1,718	116	—	1,834
Investments in associates	607	—	—	607
Retirement benefit assets	134	—	—	134
Trade and other receivables	72	—	—	72
Derivative financial instruments	1,059	—	—	1,059
Deferred tax assets	233	66	—	299
	18,338	**233**	**4,252**	**22,823**
Current assets				
Inventories	3,442	162	—	3,604
Trade and other receivables	2,838	—	—	2,838
Current tax assets	34	—	—	34
Cash and cash equivalents	633	—	(51)	582
Derivative financial instruments	91	—	—	91
	7,038	**162**	**(51)**	**7,149**
Total assets	**25,376**	**395**	**4,201**	**29,972**
Current liabilities				
Borrowings	(2,469)	—	—	(2,469)
Derivative financial instruments	(52)	—	—	(52)
Trade and other payables	(6,366)	—	—	(6,366)
Current tax liabilities	(105)	—	—	(105)
Provisions	(188)	—	—	(188)
	(9,180)	**—**	**—**	**(9,180)**
Non-current liabilities				
Borrowings	(7,751)	—	(4,519)	(12,270)
Derivative financial instruments	(774)	—	—	(774)
Trade and other payables	(15)	—	—	(15)
Deferred tax liabilities	(1,267)	—	—	(1,267)
Retirement benefit liabilities	(868)	(94)	—	(962)
Provisions	(232)	(20)	—	(252)
	(10,907)	**(114)**	**(4,519)**	**(15,540)**
Total liabilities	**(20,087)**	**(114)**	**(4,519)**	**(24,720)**
Net assets	**5,289**	**281**	**(318)**	**5,252**

Unaudited *pro forma* Income Statement of the Enlarged Group

	Group for the year ended 30 September 2014 (Restated) £m (Note 1)	Adjustments: Acquired Assets for the 12 months ended 31 December 2014 £m (Note 2)	Adjustments: Acquisition Accounting £m (Note 5)	Enlarged Group for the year ended 30 September 2014 £m
Revenue	26,460	2,282	—	28,742
Duty and similar items	(12,928)	(1,027)	—	(13,955)
Other cost of sales	(8,351)	(369)	—	(8,720)
Cost of sales	**(21,279)**	**(1,396)**	**—**	**(22,675)**
Gross profit	**5,181**	**886**	**—**	**6,067**
Distribution, advertising and selling costs	(1,929)	(294)	—	(2,223)
Acquisition costs	(13)	—	(40)	(53)
Amortisation and impairment of acquired intangibles	(638)	(78)	—	(716)
Restructuring costs	(305)	—	—	(305)
Other expenses	(277)	(208)	—	(485)
Administrative and other expenses	**(1,233)**	**(286)**	**(40)**	**(1,559)**
Operating profit	**2,019**	**306**	**(40)**	**2,285**
Investment income	516	—	—	516
Finance costs	(1,059)	—	(103)	(1,162)
Net finance costs	**(543)**	**—**	**(103)**	**(646)**
Share of profit of investments accounted for using the equity method	49	—	—	49
Profit before taxation	**1,525**	**306**	**(143)**	**1,688**
Taxation	(80)	(105)	31	(154)
Profit for the year	**1,445**	**201**	**(112)**	**1,534**

Note 1. Financial Information for the Group

The financial information for the Group for the pro forma statement of net assets as at 31 March 2015 has been extracted, without material adjustment, from the unaudited consolidated interim financial statements for the six months ended 31 March 2015.

The financial information for the Group for the pro forma income statement for the year ended 30 September 2014 has been extracted, without material adjustment, from the restated unaudited comparative information within the unaudited consolidated interim financial statements for the six months ended 31 March 2015. This comparative information has been restated for the adoption of IFRS 11 (Joint Arrangements), as described in the notes to those financial statements.

Note 2. Reconciliation to the Acquired Assets as at and for the 12 months ended 31 December 2014

The unaudited statement of net assets of the Acquired Assets, as set out below, is calculated using the adjusted Reynolds and Lorillard unaudited statements of net assets as set out in Notes 3 and 4 respectively.

	As adjusted Reynolds Business as at 31 December 2014 $m (Note 3)	As adjusted Lorillard Business as at 31 December 2014 $m (Note 4)	Acquired Assets as at 31 December 2014 $m	Acquired Assets as at 31 December 2014 £m
Non-current assets				
Intangible assets	—	75	75	51
Property, plant and equipment	11	161	172	116
Deferred tax assets	—	97	97	66
	11	**333**	**344**	**233**
Current assets				
Inventories	108	132	240	162
	108	**132**	**240**	**162**
Total assets	**119**	**465**	**584**	**395**
Non-current liabilities				
Retirement benefit obligations	—	(139)	(139)	(94)
Provisions	—	(28)	(28)	(20)
	—	**(167)**	**(167)**	**(114)**
Total liabilities	**—**	**(167)**	**(167)**	**(114)**
Net assets	**119**	**298**	**417**	**281**

Figures have been translated from US$ into GBP using an exchange rate of £1:$1.4793 being the exchange rate prevailing as at 31 March 2015, the date of the 2015 Interim Financial Statements.

The unaudited income statement of the Acquired Assets, set out below, is calculated using the adjusted Reynolds and Lorillard income statements as set in Notes 3 and 4 respectively.

	As adjusted Reynolds Business for the 12 months ended 31 December 2014 $m (Note 3)	As adjusted Lorillard Business for the 12 months ended 31 December 2014 $m (Note 4)	Acquired Assets for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 £m
Revenue	**2,626**	**1,133**	**3,759**	**2,282**
Duty and similar items	(1,240)	(452)	(1,692)	(1,027)
Other cost of sales	(186)	(421)	(607)	(369)
Cost of sales	**(1,426)**	**(873)**	**(2,299)**	**(1,396)**
Gross profit	**1,200**	**260**	**1,460**	**886**
Distribution, advertising and selling costs	(263)	(221)	(484)	(294)
Amortisation and impairment of acquired intangibles	—	(128)	(128)	(78)
Other expenses	(10)	(333)	(343)	(208)
Administrative and other expenses	**(10)**	**(461)**	**(471)**	**(286)**
Operating profit / (loss) and Profit / (loss) before taxation	**927**	**(422)**	**505**	**306**
Taxation	(336)	163	(173)	(105)
Profit / (loss) for the year	**591**	**(259)**	**332**	**201**

Figures have been translated from US$ into GBP using an exchange rate of £1:$1.6475 being the average exchange rate prevailing for the year ending 31 December 2014.

Note 3. Reconciliation to the unaudited Adjusted Reynolds Business as at and for the 12 months ended 31 December 2014

Unaudited statement of net assets of the Reynolds Business as at 31 December 2014

The unaudited net assets of the Acquired Assets that were owned by, or related to, the Reynolds Group prior to the Acquisition (the **Reynolds Business**) are based on the combined balance sheet of the Reynolds Business as at 31 December 2014 extracted without material adjustment from the Reynolds Historical Financial Information included in this Offering Memorandum, and adjusted to reflect the terms of the Asset Purchase Agreement and to reflect future arrangements under the Reciprocal Manufacturing Agreement (**RMA**).

A reconciliation is presented below:

	Reynolds Business as at 31 December 2014 $m	Adjustments $m	As Adjusted Reynolds Business as at 31 December 2014 $m
Non-current assets			
Property, plant and equipment	—	11	11
Deferred tax assets	160	(160)	—
	160	(149)	11
Current assets			
Inventories	108	—	108
Trade and other receivables	46	(46)	—
	154	**(46)**	**108**
Total assets	**314**	**(195)**	**119**
Current liabilities			
Trade and other payables	(466)	466	—
	(466)	**466**	**—**
Net (liabilities)/ assets	**(152)**	**271**	**119**

The adjustments reflect the accounting for the Acquisition on the following basis:

a) As part of the Reciprocal Manufacturing Agreement, certain machinery and equipment owned by Reynolds, but not included in the Reynolds Historical Financial Information, will transfer to the Group. Accordingly, a pro forma adjustment has been included to recognise this asset ($11 million).

b) No trade and other receivables or trade and other payables (including Master Settlement Agreement, or **MSA**, accruals) are being acquired by the Group. They are therefore eliminated as an adjustment to the pro forma balance sheet.

c) Deferred tax assets relating to MSA accruals are also eliminated as an adjustment to the pro forma balance sheet, as these do not transfer as part of the Acquisition.

Unaudited Reynolds Business Income statement for the 12 months ended 31 December 2014

The unaudited income statement of the Reynolds Business for the 12 months ended 31 December 2014 is based on the audited combined income statement of the Reynolds Business for the year ended 31 December 2014, extracted without material adjustment from the Reynolds Historical Financial

Information, included in this Offering Memorandum, and adjusted to reflect the terms of the Asset Purchase Agreement and to reflect future arrangements under the RMA as follows:

	Reynolds Business for the 12 months ended 31 December 2014 $m	Adjustments $m	As adjusted Reynolds Business for the 12 months ended 31 December 2014 $m
Revenue	**2,626**	**—**	**2,626**
Duty and similar items	(1,240)	—	(1,240)
Other cost of sales	(176)	(10)	(186)
Cost of sales	**(1,416)**	**(10)**	**(1,426)**
Gross profit	**1,210**	**(10)**	**1,200**
Distribution, advertising and selling costs	(298)	35	(263)
Amortisation of acquired intangibles	—	—	—
Other expenses	(112)	102	(10)
Administrative and other expenses	**(112)**	**102**	**(10)**
Operating profit / Profit before taxation	**800**	**127**	**927**
Taxation	(290)	(46)	(336)
Profit for the year	**510**	**81**	**591**

The adjustments reflect the accounting for the Acquisition on the following basis:

a) Under the terms of the RMA, for a transitional period, Reynolds will exclusively manufacture and supply Group's requirements for *Winston, Kool* and *Salem* brand products at cost plus 10 percent (excluding leaf costs). Accordingly, cost of sales has been adjusted by US$10 million to reflect the additional cost of producing the brands being acquired by the Group under this arrangement.

b) Selling costs of US$35 million relating to sales staff who, while attributable to the brands which are being acquired by the Group, are not transferring as part of the deal and will not be incurred on a go-forward basis and are eliminated from the pro forma income statement.

c) Corporate allocations of US$102 million from Reynolds, while attributable to the brands which are being acquired by the Group, will not be incurred on a go-forward basis and are eliminated from the pro forma income statement.

d) Taxation on the above adjustments at the Reynolds Business effective rate of tax of 36 percent.

Post transaction, the services and resultant costs eliminated in adjustments (b) and (c) will be performed by a combination of the Lorillard acquired business and the Group's existing U.S. operations.

Note 4. Reconciliation to the unaudited Adjusted Lorillard Business as at and for the 12 months ended 31 December 2014

Unaudited statement of net assets of the Lorillard Business as at 31 December 2014

The unaudited net assets of the Acquired Assets that were owned by, or related to, the Lorillard Group prior to the Acquisition (the **Lorillard Business**) are based on the combined balance sheet of the Lorillard Business as at 31 December 2014, extracted without material adjustment from the audited Lorillard Historical Financial Information included in this Offering Memorandum, and adjusted to reflect the terms of the Asset Purchase Agreement and to reflect future arrangements under the RMA.

A reconciliation is presented below:

	Lorillard Business as at 31 December 2014 $m	Adjustments $m	As adjusted Lorillard Business as at 31 December 2014 $m
Non-current assets			
Intangible assets	75	—	75
Property, plant and equipment	281	(120)	161
Deferred tax assets	578	(481)	97
Other	4	(4)	—
	938	**(605)**	**333**
Current assets			
Inventories	687	(555)	132
Trade and other receivables	66	(66)	—
	753	**(621)**	**132**
Total assets	**1,691**	**(1,226)**	**465**
Current liabilities			
Trade and other payables	(1,504)	1,504	—
	(1,504)	**1,504**	**—**
Non-current liabilities			
Retirement benefit obligations	(139)	—	(139)
Provisions	(39)	11	(28)
	(178)	**11**	**(167)**
Total liabilities	**(1,682)**	**1,515**	**(167)**
Net assets	**9**	**289**	**298**

The adjustments reflect the accounting for the Acquisition on the following basis:

a) As part of the Reciprocal Manufacturing Agreement, certain machinery and equipment owned by Lorillard, will transfer to Reynolds. Accordingly, a pro forma adjustment has been included to derecognise these assets (US$120 million).

b) Inventory relating to the brands being retained by Reynolds is not being acquired by the Group. Leaf inventory acquired at the date of completion of the Acquisition will be calculated based on the relative volumes of the *Maverick* brand and the brands being retained by Reynolds at that date. Therefore, US$555 million of inventory, estimated as the proportion of inventory at 31 December 2014 relating to retained brands, has been eliminated as an adjustment to the pro forma balance sheet.

c) No trade and other receivables, other non-current assets or trade and other payables are being acquired by the Group. They are therefore eliminated as an adjustment to the pro forma balance sheet.

d) Deferred tax assets of US$481 million, being the net of MSA accruals (US$513 million asset) and other items ($32 million liability) which do not transfer as part of the Acquisition, are eliminated as an adjustment to the pro forma balance sheet. The remaining deferred tax assets relate primarily to pensions (US$54 million) and intangible assets (US$43 million).

e) Certain litigation costs have been shared between Reynolds and Imperial. The US$11 million adjustment to provisions reflects the proportion of such litigation costs to be incurred by Reynolds.

Unaudited Lorillard Business Income statement for the 12 months ended 31 December 2014

The unaudited income statement of the Lorillard Business for the 12 months ended 31 December 2014 is based on the audited combined income statement of the Lorillard Business for the year ended 31 December 2014, extracted without material adjustment from the audited Lorillard Historical Financial Information, included in this Offering Memorandum, and adjusted to reflect the terms of the Asset Purchase Agreement and to reflect future arrangements under the RMA.

A reconciliation is presented below:

	Lorillard Business for the 12 months to 31 December 2014 $m	Adjustments $m	As adjusted Lorillard Business for the 12 months to 31 December 2014 $m
Revenue	**7,864**	**(6,731)**	**1,133**
Duty and similar items	(3,528)	3,076	(452)
Other cost of sales	(623)	202	(421)
Cost of sales	**(4,151)**	**3,278**	**(873)**
Gross profit	**3,713**	**(3,453)**	**260**
Distribution, advertising and selling costs	(1,119)	898	(221)
Amortisation and impairment of acquired intangibles	(128)	—	(128)
Other expenses	(344)	11	(333)
Administrative and other expenses	**(472)**	**11**	**(461)**
Operating profit / (loss) and Profit / (loss) before taxation	**2,122**	**(2,544)**	**(422)**
Taxation	(819)	982	163
Profit / (loss) for the year	**1,303**	**(1,562)**	**(259)**

The adjustments reflect the accounting for the Acquisition on the following basis:

a) Under the terms of the RMA, for a transitional period, the Group will exclusively manufacture and supply Reynolds' requirements for *Kent*, *Newport, Old Gold* and *True* brand products at cost plus 10 per cent. (excluding leaf costs). Accordingly, Lorillard revenue of US$6,731 million, duty of US$3,076 million and leaf costs of US$202 million have been adjusted to reflect these agreed terms.

b) Certain distribution and advertising costs totalling US$898 million relating to the Newport brand will not be incurred going forward. Accordingly, these have been eliminated from the pro forma income statement.

c) Certain litigation costs are being shared between Reynolds and Imperial. The US$11 million adjustment to other expenses reflects the proportion of such litigation costs to be incurred by Reynolds.

d) Taxation on the above adjustments at the Lorillard Business effective rate of tax of 39 percent.

Note 5. Acquisition Accounting

The Acquisition Accounting adjustments reflect the accounting for the Acquisition on the following basis:

Net assets adjustments

a) The adjustment reflects goodwill and intangible assets arising on the Acquisition and has been accounted for using the acquisition method of accounting. The excess of consideration over the book value acquired has been reflected as goodwill and intangible assets. No account has been taken of any fair value adjustments which may arise upon the Acquisition as any such fair value adjustments cannot be accurately and reliably estimated at this time. The amount of goodwill and other intangible assets has been calculated as follows:

	Note	£m
Cash consideration	(i)	4,533
Less net assets acquired of the As Adjusted Reynolds and As Adjusted Lorillard Businesses	(ii)	(281)
Goodwill and intangible assets		4,252

i. Reflecting total cash consideration of US$7,056 million payable to Reynolds[(2)].

ii. Reflecting the net assets of £281 million ($417 million) acquired of the Reynolds Business and Lorillard Business, as presented in note 2 above.

b) Transaction costs relating to the Acquisition of £37 million (US$58 million) and the Facilities Agreement of £14 million (US$21 million) have been shown as a deduction from cash.

c) Draw down of a Term Loan and Revolving Credit Facility under the Facilities Agreement to settle the cash consideration of £4,533 million (US$7,056 million) payable to Reynolds, net of £14 million (US$21 million) of related fees. As set out in the "*Use of Proceeds*" section of this Offering Memorandum, the net proceeds from the issue of the Notes will be issued to reduce the aggregate commitments under the Facilities Agreement. However, the pro forma income statement does not reflect the cost of the Notes being offered hereby.

Income statement adjustments

a) Additional transaction fees of £40 million (US$66 million) related to the Acquisition, and a related tax benefit of £8 million (at enacted UK corporate tax rates for the year of 22 percent).

b) Additional finance charge of £103 million reflecting the cost of the bank credit facilities referred to above, and a related tax benefit of £23 million (at enacted UK corporate tax rates for the year of 22 percent). The pro forma income statement does not reflect the cost of the Notes being offered in this Offering Memorandum.

c) No adjustment has been made to reflect the trading results of the Reynolds Business or the Lorillard Business since 31 December 2014.

d) No adjustment has been made to reflect the trading results of the Group since 30 September 2014.

(2) Translated from US$ into GBP using an exchange rate of £1:$1.5567 being the exchange rate prevailing as at 12 June 2015.

All of the adjustments described in the above notes to the Unaudited Pro Forma Income Statement will have a continuing impact, with the exception of the adjustment in (a) in relation to transaction costs of £40 million.

Note 6. Unaudited adjusted metrics

The following adjusted metrics are presented to enhance the understanding of the financial information presented for the Acquired Assets:

Unaudited reconciliation from operating profit to adjusted EBITDA

	As adjusted Reynolds Business for the 12 months ended 31 December 2014 $m	As adjusted Lorillard Business for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 £m
Operating profit/(loss) and profit/(loss) before taxation	927	(422)	505	306
Depreciation	—	48	48	29
Amortisation and impairment	—	130	130	79
EBITDA	**927**	**(244)**	**683**	**414**
Volume adjustment offset	—	49	49	30
Adjusted EBITDA	**927**	**(195)**	**732**	**444**

A charge of US$48 million in the 12 months to 31 December 2014 relates to the depreciation of fixed assets currently owned by Lorillard that will be transferred to Imperial as part of the Acquisition. Amortisation charges of US$30 million in the 12 months to 31 December 2014 relate to the amortisation of brands and software being acquired from Lorillard.

Adjusted EBITDA reflects a non-recurring volume adjustment offset of US$49 million relating to the Initial State Settlements incurred by Lorillard in the 12 months to 31 December 2014.

Unaudited adjusted EBITDA for the Enlarged Group can be reconciled as follows:

	Group for the year ended 30 September 2014 (Restated) £m	Acquired Assets for the 12 months ended 31 December 2014 £m	Acquisition Accounting £m (Note 6)	Enlarged Group for the year ended 30 September 2014 £m
Operating profit	2,019	306	(40)	2,285
Share of operating profit of investments accounted for using the equity method	45	—	—	45
Depreciation	252	29	—	281
Amortisation and impairment	668	79	—	747
EBITDA	**2,984**	**414**	**(40)**	**3,358**
Acquisition costs	13	—	40	53
Restructuring costs	305	—	—	305
Volume adjustment offset	—	30	—	30
Adjusted EBITDA	**3,302**	**444**	**—**	**3,746**

Unaudited reconciliation from Revenue to Net revenue

	As adjusted Reynolds Business for the 12 months ended 31 December 2014 $m	As adjusted Lorillard Business for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 £m
Revenue	2,626	1,133	3,759	2,282
Duty and similar items	(1,240)	(452)	(1,692)	(1,027)
Net Revenue	**1,386**	**681**	**2,067**	**1,255**

Unaudited Net Revenue (excluding logistics revenue) for the Enlarged Group can be reconciled as follows:

	Group for the year ended 30 September 2014 (Restated) £m	Acquired Assets for the 12 months ended 31 December 2014 £m	Enlarged Group for the year ended 30 September 2014 £m
Revenue (excluding logistics revenue)	19,501	2,282	21,783
Duty and similar items (excluding logistics)	(13,080)	(1,027)	(14,107)
Net Revenue (excluding logistics revenue)	**6,421**	**1,255**	**7,676**

Unaudited reconciliation from Gross profit to Brand contribution

	As adjusted Reynolds Business for the 12 months ended 31 December 2014 $m	As adjusted Lorillard Business for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 $m	Acquired Assets for the 12 months ended 31 December 2014 £m
Gross profit	1,200	260	1,460	886
Advertising and support	(230)	(87)	(317)	(192)
Brand contribution	**970**	**173**	**1,143**	**694**

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Unaudited consolidated interim financial statements of Imperial Tobacco Group PLC as at and for the six months ended 31 March 2015 and 2014

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF IMPERIAL TOBACCO GROUP PLC

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the interim management report of Imperial Tobacco Group PLC for the six months ended 31 March 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Imperial Tobacco Group PLC, comprise:

-the Consolidated Balance Sheet as at 31 March 2015;
-the Consolidated Income Statement for the period then ended;
-the Consolidated Statement of Comprehensive Income for the period then ended;
-the Consolidated Cash Flow Statement for the period then ended;
-the Consolidated Statement of Changes in Equity for the period then ended; and
-the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements for half-year ended 31 March 2015.

RESPONSIBILITIES FOR THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND THEIR REVIEW

Our responsibilities and those of the Directors

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

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
6 May 2015

Notes

a. The maintenance and integrity of the Imperial Tobacco Group PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

£ million unless otherwise indicated	Notes	**6 months ended 31 March 2015**	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Revenue	3	**12,129**	12,634	26,460
Duty and similar items		**(6,091)**	(6,094)	(12,928)
Other cost of sales		**(3,626)**	(4,092)	(8,351)
Cost of sales		**(9,717)**	(10,186)	(21,279)
Gross profit		**2,412**	2,448	5,181
Distribution, advertising and selling costs		**(897)**	(967)	(1,929)
Amortisation of acquired intangibles		**(307)**	(326)	(638)
Other expenses		**(249)**	(177)	(595)
Administrative and other expenses		**(556)**	(503)	(1,233)
Operating profit	3	**959**	978	2,019
Investment income	5	**945**	266	516
Finance costs	5	**(873)**	(616)	(1,059)
Net finance income/(costs)		**72**	(350)	(543)
Share of profit of investments accounted for using the equity method		**17**	11	49
Profit before taxation		**1,048**	639	1,525
Taxation	6	**(180)**	(265)	(80)
Profit for the period		**868**	374	1,445
Attributable to:				
Owners of the parent		**853**	366	1,422
Non-controlling interests		**15**	8	23
Earnings per ordinary share (pence)				
- Basic	8	**89.5**	38.1	148.5
- Diluted	8	**89.3**	38.0	148.1

Results and financial positions for prior periods have been restated on adoption of IFRS 11 – see note 1.

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Consolidated Statement of Comprehensive Income

£ million	6 months ended 31 March 2015	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Profit for the period	**868**	374	1,445
Other comprehensive income			
Exchange movements	**(156)**	(259)	(581)
Current tax on exchange movements	**(5)**	(3)	-
Items that may be reclassified to profit and loss	**(161)**	(262)	(581)
Net actuarial (losses)/gains on retirement benefits	**(13)**	72	45
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	**2**	(16)	(1)
Items that will not be reclassified to profit and loss	**(11)**	56	44
Other comprehensive income for the period, net of tax	**(172)**	(206)	(537)
Total comprehensive income for the period	**696**	168	908
Attributable to:			
Owners of the parent	**705**	161	900
Non-controlling interests	**(9)**	7	8
Total comprehensive income for the period	**696**	168	908

Reconciliation from operating profit to adjusted operating profit

£ million	Notes	6 months ended 31 March 2015	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Operating profit		**959**	978	2,019
Acquisition costs		**20**	-	13
Amortisation of acquired intangibles	9	**312**	326	644
Restructuring costs	4	**76**	42	305
Adjusted operating profit		**1,367**	1,346	2,981

Reconciliation from net finance income/(costs) to adjusted net finance income/(costs)

£ million	Notes	6 months ended 31 March 2015	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Net finance income/(costs)		**72**	(350)	(543)
Net fair value and exchange (gains)/losses on financial instruments	5	**(314)**	75	(12)
Post-employment benefits net financing cost	5	**11**	21	40
Adjusted net finance income/(costs)		**(231)**	(254)	(515)

Consolidated Balance Sheet

£ million	Notes	**31 March 2015**	31 March 2014 Restated	30 September 2014 Restated
Non-current assets				
Intangible assets	9	**14,515**	16,365	15,334
Property, plant and equipment		**1,718**	2,002	1,854
Investments accounted for using the equity method		**607**	528	577
Retirement benefit assets		**134**	5	44
Trade and other receivables		**72**	76	69
Derivative financial instruments	11	**1,059**	287	605
Deferred tax assets		**233**	191	241
		18,338	19,454	18,724
Current assets				
Inventories		**3,442**	3,945	2,875
Trade and other receivables		**2,838**	3,023	2,761
Current tax assets		**34**	61	96
Cash and cash equivalents	10	**633**	617	1,413
Derivative financial instruments	11	**91**	298	38
		7,038	7,944	7,183
Total assets		**25,376**	27,398	25,907
Current liabilities				
Borrowings	10	**(2,469)**	(2,260)	(431)
Derivative financial instruments	11	**(52)**	(191)	(46)
Trade and other payables		**(6,366)**	(6,698)	(6,957)
Current tax liabilities		**(105)**	(155)	(128)
Provisions	4	**(188)**	(90)	(175)
		(9,180)	(9,394)	(7,737)
Non-current liabilities				
Borrowings	10	**(7,751)**	(9,544)	(9,460)
Derivative financial instruments	11	**(774)**	(589)	(645)
Trade and other payables		**(15)**	(22)	(21)
Deferred tax liabilities		**(1,267)**	(1,823)	(1,446)
Retirement benefit liabilities		**(868)**	(946)	(824)
Provisions	4	**(232)**	(293)	(311)
		(10,907)	(13,217)	(12,707)
Total liabilities		**(20,087)**	(22,611)	(20,444)
Net assets		**5,289**	4,787	5,463
Equity				
Share capital		**104**	104	104
Share premium and capital redemption		**5,836**	5,836	5,836
Retained earnings		**(772)**	(1,377)	(756)
Exchange translation reserve		**(256)**	186	(119)
Equity attributable to owners of the parent		**4,912**	4,749	5,065
Non-controlling interests		**377**	38	398
Total equity		**5,289**	4,787	5,463

Consolidated Statement of Changes in Equity

£ million	Share capital	Share premium & 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 period	-	-	853	-	853	15	868
Other comprehensive income	-	-	(11)	(137)	(148)	(24)	(172)
Total comprehensive income	-	-	842	(137)	705	(9)	696
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	-	-	1	-	1	-	1
Costs of employees' services compensated by share schemes	-	-	12	-	12	-	12
Dividends paid	-	-	(871)	-	(871)	(12)	(883)
At 31 March 2015	104	5,836	(772)	(256)	4,912	377	5,829
At 1 October 2013 (Restated)	107	5,833	(791)	447	5,596	43	5,639
Profit for the period	-	-	366	-	366	8	374
Other comprehensive income	-	-	56	(261)	(205)	(1)	(206)
Total comprehensive income	-	-	422	(261)	161	7	168
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	-	-	1	-	1	-	1
Costs of employees' services compensated by share schemes	-	-	9	-	9	-	9
Purchase of shares by Employee Share Ownership Trusts	-	-	(2)	-	(2)	-	(2)
Increase in own shares held as treasury shares	-	-	(237)	-	(237)	-	(237)
Cancellation of own shares held as treasury shares	(3)	3	-	-	-	-	-
Dividends paid	-	-	(779)	-	(779)	(12)	(791)
At 31 March 2014 (Restated)	104	5,836	(1,377)	186	4,749	38	4,787

Consolidated Cash Flow Statement

£ million	6 months ended 31 March 2015	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Cash flows from operating activities			
Operating profit	**959**	978	2,019
Dividends received from investments accounted for under the equity method	**-**	-	2
Depreciation, amortisation and impairment	**407**	430	919
Loss on disposal of property, plant and equipment	**-**	4	6
Loss on disposal of software	**-**	2	3
Post-employment benefits	**(54)**	(51)	(156)
Costs of employees' services compensated by share schemes	**11**	11	22
Movement in provisions	**(43)**	(108)	17
Operating cash flows before movement in working capital	**1,280**	1,266	2,832
(Increase)/decrease in inventories	**(754)**	(805)	121
(Increase)/decrease in trade and other receivables	**(162)**	(178)	(29)
(Decrease)/Increase in trade and other payables	**(287)**	(538)	29
Movement in working capital	**(1,203)**	(1,521)	121
Taxation paid	**(235)**	(226)	(451)
Net cash flows (used in)/generated by operating activities	**(158)**	(481)	2,502
Cash flows from investing activities			
Interest received	**5**	4	10
Purchase of property, plant and equipment	**(77)**	(113)	(255)
Proceeds from sale of property, plant and equipment	**11**	26	59
Purchase of intangible assets - software	**(17)**	(16)	(37)
Internally generated intellectual property rights	**(4)**	-	(4)
Purchase of intangible assets - intellectual property rights	**-**	(37)	(46)
Net cash used in investing activities	**(82)**	(136)	(273)
Cash flows from financing activities			
Interest paid	**(343)**	(396)	(543)
Cash from employees on maturity/exercise of share schemes	**1**	1	6
Purchase of shares by Employee Share Ownership Trusts	**-**	(2)	(2)
Increase in borrowings	**914**	3,055	2,303
Repayment of borrowings	**(321)**	(2,165)	(3,200)
Repayment of loan to joint ventures	**-**	-	52
Cash flows relating to derivative financial instruments	**98**	-	(121)
Finance lease payments	**(1)**	-	-
Purchase of treasury shares	**-**	(237)	(341)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees)	**-**	-	395
Dividends paid to non-controlling interests	**(12)**	(11)	(16)
Dividends paid to owners of the parent	**(871)**	(779)	(1,149)
Net cash used in financing activities	**(535)**	(534)	(2,616)
Net decrease in cash and cash equivalents	**(775)**	(1,151)	(387)
Cash and cash equivalents at start of period	**1,413**	1,792	1,793
Effect of foreign exchange rates on cash and cash equivalents	**(5)**	(24)	7
Cash and cash equivalents at end of period	**633**	617	1,413

1 Accounting Policies

Basis of Preparation

The financial information comprises the unaudited results for the six months ended 31 March 2015 and 31 March 2014, together with the audited results for the year ended 30 September 2014.

The information shown for the year ended 30 September 2014 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and is an abridged version of the Group's published financial statements for that year. The Auditors' Report on those statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The financial statements for the year ended 30 September 2014 were approved by the Board of Directors on 4 November 2014 and filed with the Registrar of Companies.

This condensed set of financial statements for the six months ended 31 March 2015 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed set of financial statements for the six months ended 31 March 2015 should be read in conjunction with the annual financial statements for the year ended 30 September 2014 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Except as described below, the Group's principal accounting policies used in preparing this information are as stated in the financial statements for the year ended 30 September 2014, which are available on our website www.imperial-tobacco.com.

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	6 months ended 31 March 2014			Year ended 30 September 2014		
£ million unless otherwise indicated	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated
Revenue:	12,717	(83)	12,634	26,625	(165)	26,460
Duty and similar items	(6,094)	-	(6,094)	(12,928)	-	(12,928)
Other cost of sales	(4,127)	35	(4,092)	(8,422)	71	(8,351)
Cost of sales	(10,221)	35	(10,186)	(21,350)	71	(21,279)
Gross profit	**2,496**	**(48)**	**2,448**	**5,275**	**(94)**	**5,181**
Distribution, advertising and selling costs	(974)	7	(967)	(1,946)	17	(1,929)
Amortisation of acquired intangibles	(326)	-	(326)	(638)	-	(638)
Other expenses	(197)	20	(177)	(627)	32	(595)
Administrative and other expenses	(523)	20	(503)	(1,265)	32	(1,233)
Operating profit	**999**	**(21)**	**978**	**2,064**	**(45)**	**2,019**
Investment Income	266	-	266	517	(1)	516
Finance costs	(617)	1	(616)	(1,061)	2	(1,059)
Net finance income/(costs)	(351)	1	(350)	(544)	1	(543)
Share of profit of investments accounted for using the equity method	-	11	11	-	49	49
Profit before taxation	**648**	**(9)**	**639**	**1,520**	**5**	**1,525**
Taxation	(271)	6	(265)	(69)	(11)	(80)
Profit for the period	**377**	**(3)**	**374**	**1,451**	**(6)**	**1,445**
Attributable to:						
Owners of the parent	366	-	366	1,422	-	1,422
Non-controlling interests	11	(3)	8	29	(6)	23

Balance Sheet	6 months ended 31 March 2014			Year ended 30 September 2014		
£ million unless otherwise indicated	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated
Non-current assets						
Intangible assets	16,877	(512)	16,365	15,859	(525)	15,334
Investments accounted for using the equity method	-	528	528	-	577	577
Other non-current assets	2,591	(30)	2,561	2,844	(31)	2,813
Current assets	8,070	(126)	7,944	7,306	(123)	7,183
Total assets	**27,538**	**(140)**	**27,398**	**26,009**	**(102)**	**25,907**
Current liabilities	(9,473)	79	(9,394)	(7,813)	76	(7,737)
Non-current liabilities	(13,262)	45	(13,217)	(12,719)	12	(12,707)
Total liabilities	**(22,735)**	**124**	**(22,611)**	**(20,532)**	**88**	**(20,444)**
Net assets	**4,803**	**(16)**	**4,787**	**5,477**	**(14)**	**5,463**
Equity						
Share capital	104	-	104	104	-	104
Share premium and capital redemption	5,836	-	5,836	5,836	-	5,836
Retained earnings	(1,377)	-	(1,377)	(756)	-	(756)
Exchange translation reserve	186	-	186	(119)	-	(119)
Non-controlling interests	54	(16)	38	412	(14)	398
Total equity	**4,803**	**(16)**	**4,787**	**5,477**	**(14)**	**5,463**

The effect in the six months ended 31 March 2015 has been to reduce revenue and operating profit by £82 million and £26 million respectively, but increase share of profit of investments accounted for using the equity method by £17 million. Profit attributable to owners of the parent and earnings per share are unaffected by this change.

Other new standards

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

2 Critical Accounting Estimates and Judgements

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

In the future, actual experience may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in the financial statements for the year ended 30 September 2014.

3 Segment Information

Tobacco

£ million unless otherwise indicated	**6 months ended 31 March 2015**	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Revenue	**9,095**	9,237	19,501
Net revenue	**2,945**	3,054	6,421
Operating profit	**925**	948	1,925
Adjusted operating profit	**1,295**	1,275	2,805
Adjusted operating margin %	**44.0**	41.7	43.7

Logistics

£ million unless otherwise indicated	**6 months ended 31 March 2015**	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Revenue	**3,430**	3,819	7,774
Distribution fees	**378**	427	838
Operating profit	**35**	32	84
Adjusted operating profit	**73**	73	166
Adjusted distribution margin %	**19.3**	17.1	19.8

Revenue

	6 months ended 31 March 2015		6 months ended 31 March 2014 Restated		Year ended 30 September 2014 Restated	
£ million	**Total revenue**	**External revenue**	Total revenue	External revenue	Total revenue	External revenue
Tobacco						
Growth Markets	**1,804**	**1,783**	1,765	1,741	4,065	4,018
Returns Markets North	**6,162**	**6,162**	6,202	6,202	12,939	12,915
Returns Markets South	**1,129**	**754**	1,270	872	2,497	1,753
Total Tobacco	**9,095**	**8,699**	9,237	8,815	19,501	18,686
Logistics	**3,430**	**3,430**	3,819	3,819	7,774	7,774
Eliminations	**(396)**	**-**	(422)	-	(815)	-
Total Group	**12,129**	**12,129**	12,634	12,634	26,460	26,460

Tobacco net revenue

£ million	**6 months ended 31 March 2015**	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Growth Markets	**895**	865	2,020
Returns Markets North	**1,320**	1,368	2,801
Returns Markets South	**730**	821	1,600
Total Tobacco	**2,945**	3,054	6,421

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £59 million (2014 6 months: £89 million).
In addition to the amendments as a result of the implementation of IFRS 11 (detailed in note 1), 2014 comparatives have also been restated to reflect the transfer of four markets in the Southern Balkans from Returns Markets South to Growth Markets.

Adjusted operating profit and reconciliation to profit before tax

£ million	**6 months ended 31 March 2015**	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Tobacco			
Growth Markets	**266**	195	570
Returns Markets North	**719**	728	1,511
Returns Markets South	**310**	352	724
Total Tobacco	**1,295**	1,275	2,805
Logistics	**73**	73	166
Eliminations	**(1)**	(2)	10
Adjusted operating profit	**1,367**	1,346	2,981
Acquisition costs - Tobacco	**(20)**	-	(13)
Amortisation of acquired intangibles - Tobacco	**(274)**	(285)	(562)
Amortisation of acquired intangibles - Logistics	**(38)**	(41)	(82)
Restructuring costs - Tobacco	**(76)**	(42)	(305)
Operating profit	**959**	978	2,019
Net finance income/(costs)	**72**	(350)	(543)
Share of profit of investments accounted for using the equity method	**17**	11	49
Profit before tax	**1,048**	639	1,525

4 Restructuring Costs and Provisions

Restructuring costs

£ million	**6 months ended 31 March 2015**	6 months ended 31 March 2014	Year ended 30 September 2014
Employment related	**32**	16	149
Asset impairments	**20**	-	71
Other charges	**24**	26	85
	76	42	305

The restructuring charge in the six months ended 31 March 2015 was £76 million, of which £67 million was in respect of the cost optimisation programme and £9 million related to other projects. The charge comprised £7 million of additional net provisions and £69 million charged directly to the consolidated income statement as incurred.

Provisions

£ million	**Restructuring**	**Other**	**Total**
At 1 October 2014 (Restated)	**321**	**165**	**486**
Additional provisions charged to the consolidated income statement	9	13	22
Unwind of discount on redundancy and other long-term provisions	1	-	1
Amounts used	(32)	(16)	(48)
Unused amounts reversed	(2)	(14)	(16)
Exchange movements	(16)	(9)	(25)
At 31 March 2015	281	139	420

Analysed as:

£ million	**2015**	2014 Restated
Current	**188**	175
Non-current	**232**	311
	420	486

5 Net finance income/(costs) and reconciliation to adjusted net finance income/(costs)

£ million	6 months ended 31 March 2015	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Reported net finance (income)/costs per consolidated income statement	(72)	350	543
Fair value gains on derivative financial instruments	699	193	271
Fair value losses on derivative financial instruments	(561)	(169)	(358)
Exchange gains/(losses) on financing activities	176	(99)	99
Net fair value and exchange gains/(losses) on financial instruments	314	(75)	12
Interest income on net defined benefit assets	67	69	138
Interest cost on net defined benefit liabilities	(77)	(88)	(174)
Unwind of discount on redundancy and other long-term provisions	(1)	(2)	(4)
Post-employment benefits net financing cost	(11)	(21)	(40)
Adjusted net finance costs	231	254	515
Comprising			
Interest on bank deposits	(3)	(4)	(9)
Interest on bank loans and other loans	234	258	524
Adjusted net finance costs	231	254	515

6 Taxation and reconciliation to adjusted tax charge

Reported tax for the six months ended 31 March 2015 has been calculated on the basis of an estimated effective tax rate for the year ended 30 September 2015.

£ million	6 months ended 31 March 2015	6 months ended 31 March 2014 Restated	Year ended 30 September 2014 Restated
Reported taxation per consolidated income statement	180	265	80
Tax on acquisition costs	4	-	-
Deferred tax on amortisation of acquired intangibles	69	(67)	281
Tax on net fair value and exchange gains and losses on financial instruments	(21)	17	13
Tax on post-employment benefits net financing cost	3	6	12
Tax on restructuring costs	19	13	84
Tax on unrecognised losses	(13)	-	51
Adjusted tax charge	241	234	521

On 28 November 2014 a staged reduction from 30% to 25% in the effective rate applicable to Spanish profits was announced. This rate change resulted in a deferred tax credit of £33 million in respect of acquired intangibles being recognised in the consolidated income statement for the six months ended 31 March 2015. This has been excluded from our adjusted tax charge in line with our existing policy regarding the treatment of deferred tax on acquired intangibles.

7 Dividends

Dividend per share in respect of financial year

Pence	2015	2014	2013
Interim	42.8	38.8	35.2
Final	-	89.3	81.2
Total	42.8	128.1	116.4

Amounts recognised as distributions to ordinary equity holders in the period

£ million	6 months ended 31 March 2015	6 months ended 31 March 2014	Year ended 30 September 2014
Final dividend paid in the period in respect of previous financial year	871	779	779
Interim dividend	-	-	370
	871	779	1,149

The declared interim dividend for 2015 amounts to a total dividend of £408 million based on the number of shares ranking for dividend at 31 March 2015.

8 Earnings Per Share

£ million	6 months ended 31 March 2015	6 months ended 31 March 2014	Year ended 30 September 2014
Earnings: basic and diluted	853	366	1,422
Millions of shares			
Weighted average number of shares:			
Shares for basic earnings per share	953.1	961.4	957.4
Potentially dilutive share options	2.0	2.0	2.5
Shares for diluted earnings per share	955.1	963.4	959.9
Pence			
Basic earnings per share	89.5	38.1	148.5
Diluted earnings per share	89.3	38.0	148.1

Reconciliation from reported to adjusted earnings and earnings per share

	6 months ended 31 March 2015		6 months ended 31 March 2014		Year ended 30 September 2014	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	89.5	853	38.1	366	148.5	1,422
Acquisition costs	1.7	16	-	-	1.4	13
Amortisation of acquired intangibles	25.5	243	40.9	393	35.8	343
Net fair value and exchange (gains)/losses on financial instruments	(30.7)	(293)	6.0	58	(2.5)	(25)
Post-employment benefits net financing cost	0.8	8	1.6	15	2.8	28
Restructuring costs	6.0	57	3.0	29	23.1	221
Tax on unrecognised losses	1.3	13	-	-	-	-
Exchange gains/(losses) on financing activities	-	-	-	-	(5.3)	(51)
Adjustments attributable to non-controlling interests	(0.8)	(8)	-	-	(0.4)	(4)
Adjusted	93.3	889	89.6	861	203.4	1,947
Adjusted diluted	93.1	889	89.4	861	202.8	1,947

9 Intangible Assets

Following the application of IFRS 11, £512 million of Group intangibles have been reclassified as share of investments accounted for using the equity method as at 31 March 2014. £525 million of Group intangibles have been reclassified as share of investments accounted for using the equity method as at 30 September 2014.

At the 2014 year end the impairment test for the Drive Growth CGU grouping that includes our markets in Russia, Italy and Japan indicated headroom of £240 million and that an impairment would result in the event of relatively small changes in exchange rate, or in an individual assumption or assumptions. In view of this sensitivity and recent volatility in the Rouble exchange rates and increased discount rates, we have tested the appropriateness of the carrying value of the Drive Growth CGU grouping's intangible assets at 31 March 2015. In doing so, we have revisited our cash flow forecasts and other factors such as growth rates, discount rates and other appropriate assumptions. In spite of the difficult macroeconomic climate, the CGU grouping is performing in line with latest business plan assumptions. Taking account of all of these factors, we have concluded that the carrying value for the Drive Growth CGU grouping included in our 31 March 2015 balance sheet is appropriate. Our test indicated headroom of £40 million and remains sensitive to adverse movements in exchange rates or in any individual assumption or assumptions. We will conduct a further review in the second half of the year in line with our normal impairment review cycle.

10 Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2014 (Restated)	**1,413**	**(431)**	**(9,460)**	**(48)**	**(8,526)**
Reallocation of current borrowings from non-current borrowings	**-**	**(1,620)**	**1,620**	**-**	**-**
Cash flow	**(775)**	**(588)**	**(4)**	**(98)**	**(1,465)**
Accretion of interest	**-**	**57**	**61**	**-**	**118**
Change in fair values	**-**	**-**	**-**	**470**	**470**
Exchange movements	**(5)**	**113**	**32**	**-**	**140**
At 31 March 2015	**633**	**(2,469)**	**(7,751)**	**324**	**(9,263)**

Adjusted net debt

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

£ million	31 March 2015	31 March 2014 Restated	30 September 2014 Restated
Reported net debt	**(9,263)**	(11,378)	(8,526)
Accrued interest	**162**	175	280
Fair value of interest rate derivatives	**45**	176	134
Adjusted net debt	**(9,056)**	(11,027)	(8,112)

The fair value of bonds is estimated to be £10,521 million (2014 6 months: £11,210 million) and has been determined using quoted market prices or discounted cash flow analysis. The carrying value of bonds is £9,216 million (2014 6 months: £10,189 million). The values of other assets and liabilities held at amortised cost are not materially different to their fair values.

11 Derivative Financial Instruments

£ million	31 March 2015	31 March 2014	30 September 2014
Interest rate swaps and options	**794**	505	548
Forward foreign currency contracts	**18**	11	7
Cross currency swaps	**338**	69	88
Assets	**1,150**	585	643
Interest rate swaps and options	**(890)**	(705)	(733)
Forward foreign currency contracts	**(13)**	(6)	(7)
Cross currency swaps	**(7)**	(179)	(53)
Collateral	**84**	110	102
Liabilities	**(826)**	(780)	(691)
	324	(195)	(48)

The valuation techniques used are based on observable market data (level 2) and are consistent with those applied during the year ended 30 September 2014.

12 Retirement Benefit Schemes

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

13 Share Capital and Treasury Shares

The Group suspended its share buyback programme in July 2014 following the announcement to purchase certain assets in the USA. Consequently the Group did not purchase any of its own shares during the six months ended 31 March 2015. During the six months ended 31 March 2014 the Group purchased 10,141,000 shares at a cost of £237 million.

14 Proposed US acquisitions

In July 2014, the Group entered into a purchase agreement with Reynolds American Inc. for the acquisition of assets, including a portfolio of US brands, plus the national sales force, offices and production facilities currently owned by Lorillard Inc. The transaction remains subject to the acquisition of Lorillard by Reynolds which requires US anti-trust approval. It is anticipated that the approval processes are likely to be completed in spring 2015 and that the assets will be acquired for a cash consideration of $7.1 billion in the second half of our 2015 financial year.

Costs of £20 million were incurred in the six months ended 31 March 2015 (year ended 30 September 2014 £13 million) in relation to the transaction, and have been excluded from our adjusted results in line with our accounting policy.

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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 2014 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

Imperial Tobacco Group PLC's financial statements comprise:

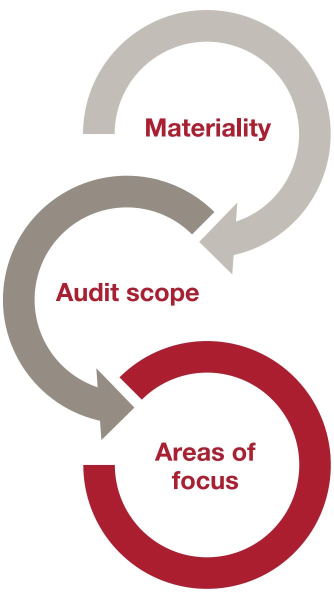
- The Consolidated Balance Sheet as at 30 September 2014;
- The Consolidated Income Statement for the year then ended;
- The Consolidated Statement of Comprehensive Income for the year then ended;
- The Consolidated Statement of Changes in Equity for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts ("Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Overview



- Overall group materiality: £110 million which represents 4.4 per cent of adjusted group profit before taxation.

- Following our assessment of the risk of material misstatement to the Group financial statements we selected 18 reporting entities which represent the principal business units.
- We conducted full scope audit work at these 18 reporting entities, which included significant operations based in the UK, Germany, Spain, USA, Morocco, Australia, France and six other locations.
- We also conducted specific audit procedures in Russia and Ukraine based on our assessment of the risk of misstatement and the scale of operations at those business units.
- In addition certain central reporting entities and group functions, including those covering treasury, taxation and pensions, and the Parent Company were subject to a full scope audit.
- The full scope reporting entities and group functions where we performed audit work accounted for approximately 75 per cent of group revenues and in excess of 90 per cent of both group profit before taxation and adjusted group profit before taxation.
- As part of the supervision process site visits and video conferences were conducted.

Our assessment of the risk of material misstatement also informed our views on the areas of particular focus for our work which are listed below.

- Goodwill and intangible assets impairment assessment.
- Risk of fraud in revenue recognition focused on revenue sold into distribution channels at year end.
- Tax accounting and the level of tax provisions held against risks.
- Accounting for restructuring provisions.

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 and 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 is evidence of bias by the Directors that may represent 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 together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Our observations on the areas below were based on the evidence obtained to support our opinion on the financial statements as a whole.

Area of focus	How our audit addressed the area of focus
Goodwill and intangible assets impairment assessment See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, note 2 for judgements and estimates and note 11 for detailed Intangible assets disclosures.	
We focused on this area because the determination of whether or not certain elements of goodwill and intangible assets were impaired involved complex and subjective judgements by the Directors about the future results of the relevant parts of the business. At 30 September 2014 the Group had £10,568 million of goodwill and £5,291 million of intangible assets and reasonable headroom for the majority of the Group's cash-generating units (CGUs). We focused on the valuation of the Growth Markets reporting segment (£4,106 million of goodwill and intangible assets). Growth Markets is made up of a number of operating segments and individual CGUs, including the Drive Growth operating segment and the Premium Cigar CGU. For both of these businesses goodwill is separately measured and management's assessment indicates lower headroom (£240 million and £170 million respectively). For the Drive Growth operating segment we focused on the valuation of the Russian business, which is the most material CGU included in the segment. In particular we considered the key expectation that the Russian business will achieve a significant profit improvement (see note 11) in the short term. For the Premium Cigar CGU the valuation is dependent on continuing profit growth in emerging markets and operational improvements (see note 11). As such, we focused on the assumptions the Directors made about the growth rates in these areas.	We challenged the Directors' analysis around the key business drivers of the cash flow forecasts supporting their impairment assessment, being pricing, market size, and market share. We also evaluated the appropriateness of the key assumptions including discount rates, short-term growth and long-term growth rates and performed a range of sensitivities across the reporting segments. In particular: – For the Russian business, we considered the Directors' expectations about the impact of the Group's stock optimisation programme and the balance between the capacity for price increases and underlying volume declines. We also discussed the potential impact of duty and regulated pricing changes under consideration by the Russian parliament. – For the Premium Cigar CGU, we evaluated the reasonableness of the Directors' forecast by challenging assumptions about growth strategies involving opportunities in new markets and planned operational improvements. For both Russia and Premium Cigar CGU we reached the view that the planned level of profit growth appears achievable, but that there was sufficient uncertainty to require further sensitivity analysis around the key assumptions. As a result of this we determined that the impairment assessments for both Drive Growth and Premium Cigar were acceptable based on the current business plans. However, for Drive Growth we consider that a deterioration of Russian economic conditions in excess of that reflected in the assumptions or an inability to achieve planned results could reasonably be expected to give rise to an impairment charge in the future.

Area of focus	How our audit addressed the area of focus
Risk of fraud in revenue recognition focused on the occurrence of revenue sold into distribution channels at year end See note 1 to the financial statements for the Directors' disclosures of the related accounting policies.	
We 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. 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. There is however a risk that sales made into distribution channels close to a period end could be overstated. If such sales were not legitimate then this could result in material amounts of revenue being recorded in the incorrect period and could affect management's incentive payments.	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 details of the amount of inventory held by them in the channel and compared this to prior periods. We also used this information in our evaluation of the impact on the financial statements of the Group's stock optimisation programme. We noted no instances of inappropriate revenue recognition arising in our testing. We evaluated contractual terms around the year end and tested accounts receivable balances through a combination of third party confirmations and subsequent remittances, with no 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.

Area of focus	How our audit addressed the area of focus
Tax accounting and the level of tax provision held against risks See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, note 2 for judgements and estimates and notes 8 and 21 for detailed taxation disclosures.	
There are a number of significant judgements involved in the determination of deferred tax balances, specifically in relation to the recognition of tax losses and the assessment of deferred taxation liabilities in certain jurisdictions where the probability of temporary differences reversing is uncertain. 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.	In the calculation of deferred taxes, we challenged management over the adequacy of tax loss recognition in the Netherlands and Spain. We also challenged whether a material deferred taxation provision established in an overseas business was still required. We concluded that the position adopted in the financial statements was reasonable based on our review of management's assessment of the recoverability of tax losses and the basis for their write back of the deferred taxation provision.

Area of focus	How our audit addressed the area of focus
Accounting for restructuring provisions See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, note 5 for restructuring costs disclosure and note 23 for detailed provisions disclosures.	
The Group has a significant restructuring programme underway. The programme is expected to last several years and as part of this programme the Group announced the proposed closures of major factories at Nantes and Nottingham during the year. In 2014 the charge in the Consolidated Income Statement relating to this programme was £305 million and there is a total restructuring provision held on the Consolidated Balance Sheet of £321 million. 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 exceptional in nature.	We assessed the completeness of the restructuring amounts provided for using our knowledge of the business and prior period, inquiries of management, examination of restructuring plans and through consideration of expenses that typically are connected with exit and disposal activities. Based on this, we did not identify any material omissions. We tested the valuation and calculations of the individual restructuring provisions that made up the total including redundancy, impairment and pension curtailment. We found no material exceptions in these tests. We considered management's treatment of the restructuring costs as exceptional and agreed with their conclusion that the extensive scale and material cost of the project, together with the level of centralised group wide control and Board focus, indicated that it was exceptional in nature.

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 349 legal entities represented by 223 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 UK through an integrated consolidation system. In our view, due to their significance and/or risk characteristics, 18 of the 223 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 and Ukraine based on our assessment of the risk of misstatement and the scale of operations at those business units.

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 engagement leader visited the USA, Morocco, Taiwan, Laos, Spain and Germany, 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.

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 pensions. The Parent Company is also subject to a full scope audit.

Taken together, the reporting entities and group functions where we performed audit work accounted for approximately 75 per cent of group revenues and in excess of 90 per cent of both group profit before tax and group adjusted profit before tax.

Materiality

The scope of our audit is 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 and to evaluate 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:

Overall group materiality	£110 million (2013: £114 million).
How we determined it	4.4 per cent of adjusted profit before taxation.
Rationale for benchmark applied	In arriving at this benchmark we have had regard to adjusted profit before taxation as this metric is presented by the Directors as reflective of the business performance and because in our view this is the most relevant measure of results.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2013: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going Concern

Under the Listing Rules we are required to review the Directors' statement in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. 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 and Ireland) Reporting

Under ISAs (UK and 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 arising from this responsibility.

– The statement given by the Directors, 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 arising from this responsibility.
– The section of the Annual Report, 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 arising from this responsibility.

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 the Parent Company's compliance with nine provisions of the UK Corporate Governance 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 Directors' Responsibilities Statement, 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 and 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 2014 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

4 November 2014

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September

£ million unless otherwise indicated	Notes	2014	2013
Revenue	3	**26,625**	28,269
Duty and similar items		**(12,928)**	(13,681)
Other cost of sales		**(8,422)**	(9,059)
Cost of sales		**(21,350)**	(22,740)
Gross profit		**5,275**	5,529
Distribution, advertising and selling costs		**(1,946)**	(2,053)
Acquisition costs	29	**(13)**	–
Amortisation of acquired intangibles	11	**(644)**	(372)
Impairment of acquired intangibles	11	**–**	(580)
Restructuring costs	5	**(305)**	(270)
Other expenses		**(303)**	(296)
Administrative and other expenses		**(1,265)**	(1,518)
Operating profit	3	**2,064**	1,958
Investment income	7	**517**	724
Finance costs	7	**(1,061)**	(1,463)
Net finance costs	7	**(544)**	(739)
Profit before taxation	4	**1,520**	1,219
Taxation	8	**(69)**	(290)
Profit for the year		**1,451**	929
Attributable to:			
Owners of the parent		**1,422**	905
Non-controlling interests		**29**	24
Earnings per ordinary share (pence)			
– Basic	10	**148.5**	92.9
– Diluted	10	**148.1**	92.7

Results and financial positions for 30 September 2013 have been restated on adoption of IAS 19 (Revised) – see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September

£ million	Notes	2014	2013
Profit for the year		**1,451**	929
Other comprehensive income			
Exchange movements		**(581)**	164
Current tax on exchange movements		**–**	40
Items that may be reclassified to profit and loss		**(581)**	204
Net actuarial gains on retirement benefits	22	**45**	43
Deferred tax relating to net actuarial gains on retirement benefits	21	**(1)**	(42)
Items that will not be reclassified to profit and loss		**44**	1
Other comprehensive income for the year, net of tax		**(537)**	205
Total comprehensive income for the year		**914**	1,134
Attributable to:			
Owners of the parent		**900**	1,108
Non-controlling interests		**14**	26
Total comprehensive income for the year		**914**	1,134

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2014	2013
Operating profit		**2,064**	1,958
Acquisition costs	29	**13**	–
Amortisation of acquired intangibles	11	**644**	372
Impairment of acquired intangibles	11	**–**	580
Restructuring costs	5	**305**	270
Adjusted operating profit		**3,026**	3,180

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2014	2013
Net finance costs		**(544)**	(739)
Net fair value and exchange (gains)/losses on financial instruments	7	**(12)**	156
Post-employment benefits net financing cost	7	**40**	51
Adjusted net finance costs		**(516)**	(532)

CONSOLIDATED BALANCE SHEET

for the year ended 30 September

£ million	Notes	2014	2013
Non-current assets			
Intangible assets	11	**15,859**	17,382
Property, plant and equipment	12	**1,862**	2,080
Investments in associates		**17**	17
Retirement benefit assets	22	**44**	5
Trade and other receivables	15	**75**	85
Derivative financial instruments	20	**605**	312
Deferred tax assets	21	**241**	153
		18,703	20,034
Current assets			
Inventories	14	**2,935**	3,296
Trade and other receivables	15	**2,806**	2,966
Current tax assets	8	**96**	72
Cash and cash equivalents	16	**1,431**	1,809
Derivative financial instruments	20	**38**	245
		7,306	8,388
Total assets		**26,009**	28,422
Current liabilities			
Borrowings	18	**(468)**	(3,276)
Derivative financial instruments	20	**(46)**	(219)
Trade and other payables	17	**(6,990)**	(7,354)
Current tax liabilities	8	**(133)**	(141)
Provisions	23	**(176)**	(92)
		(7,813)	(11,082)
Non-current liabilities			
Borrowings	18	**(9,464)**	(7,858)
Derivative financial instruments	20	**(645)**	(531)
Trade and other payables	17	**(21)**	(17)
Deferred tax liabilities	21	**(1,453)**	(1,820)
Retirement benefit liabilities	22	**(824)**	(1,055)
Provisions	23	**(312)**	(407)
		(12,719)	(11,688)
Total liabilities		**(20,532)**	(22,770)
Net assets		**5,477**	5,652
Equity			
Share capital	24	**104**	107
Share premium and capital redemption		**5,836**	5,833
Retained earnings		**(756)**	(791)
Exchange translation reserve		**(119)**	447
Equity attributable to owners of the parent		**5,065**	5,596
Non-controlling interests	32	**412**	56
Total equity		**5,477**	5,652

The financial statements on pages 72 to 114 were approved by the Board of Directors on 4 November 2014 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 2013	**107**	**5,833**	**(791)**	**447**	**5,596**	**56**	**5,652**
Profit for the year	–	–	1,422	–	1,422	29	1,451
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	14	914
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 (see note 32)	–	–	395	–	395	–	395
Dividends paid	–	–	(1,149)	–	(1,149)	(21)	(1,170)
At 30 September 2014	**104**	**5,836**	**(756)**	**(119)**	**5,065**	**412**	**5,477**
At 1 October 2012	107	5,833	(150)	245	6,035	49	6,084
Profit for the year	–	–	905	–	905	24	929
Exchange movements	–	–	–	162	162	2	164
Current tax on exchange movements	–	–	–	40	40	–	40
Net actuarial gains on retirement benefits	–	–	43	–	43	–	43
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(42)	–	(42)	–	(42)
Other comprehensive income	–	–	1	202	203	2	205
Total comprehensive income	–	–	906	202	1,108	26	1,134
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	6	–	6	–	6
Purchase of shares by Employee Share Ownership Trusts	–	–	(4)	–	(4)	–	(4)
Costs of employees' services compensated by share schemes	–	–	14	–	14	–	14
Current tax on share-based payments	–	–	2	–	2	–	2
Increase in own shares held as treasury shares	–	–	(500)	–	(500)	–	(500)
Dividends paid	–	–	(1,065)	–	(1,065)	(19)	(1,084)
At 30 September 2013	107	5,833	(791)	447	5,596	56	5,652

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September

£ million	2014	2013
Cash flows from operating activities		
Operating profit	2,064	1,958
Share of post-tax (profit)/loss of associates	(3)	1
Depreciation, amortisation and impairment	920	1,215
Loss/(profit) on disposal of property, plant and equipment	6	(5)
Loss on disposal of software	3	1
Loss on disposal of businesses	–	13
Post-employment benefits	(156)	(34)
Costs of employees' services compensated by share schemes	22	18
Movement in provisions	19	(47)
Operating cash flows before movement in working capital	2,875	3,120
Decrease/(increase) in inventories	119	(93)
(Increase)/decrease in trade and other receivables	(33)	151
Increase/(decrease) in trade and other payables	44	(140)
Movement in working capital	130	(82)
Taxation paid	(457)	(686)
Net cash flows generated by operating activities	2,548	2,352
Cash flows from investing activities		
Interest received	10	9
Purchase of property, plant and equipment	(256)	(269)
Proceeds from sale of property, plant and equipment	59	14
Purchase of intangible assets – software	(37)	(27)
Internally generated intellectual property rights	(4)	(9)
Purchase of intangible assets – intellectual property rights	(46)	–
Purchases of businesses – net of cash acquired	–	(35)
Proceeds from sale of businesses – net of cash disposed	–	1
Net cash used in investing activities	(274)	(316)
Cash flows from financing activities		
Interest paid	(550)	(522)
Cash from employees on maturity/exercise of share schemes	6	6
Purchase of shares by Employee Share Ownership Trusts	(2)	(6)
Increase in borrowings	2,324	4,884
Repayment of borrowings	(3,200)	(3,443)
Cash flows relating to derivative financial instruments	(121)	(28)
Finance lease payments	–	(20)
Purchase of treasury shares	(341)	(500)
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	(21)	(19)
Dividends paid to owners of the parent	(1,149)	(1,065)
Net cash used in financing activities	(2,659)	(713)
Net (decrease)/increase in cash and cash equivalents	(385)	1,323
Cash and cash equivalents at start of year	1,809	631
Effect of foreign exchange rates on cash and cash equivalents	7	(145)
Cash and cash equivalents at end of year	1,431	1,809

1 Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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 has the power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. 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

Joint ventures are those businesses which the Group and third parties jointly control. The financial statements of joint ventures are consolidated using the proportionate method, with the Group's share of assets and liabilities recognised in the consolidated balance sheet classified according to their nature. In the same way, the Group's share of income and expenses is presented in the consolidated income statement in accordance with their function.

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 collectibility 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.

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 United States of America 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.

With effect from 1 October 2013 we have revised the estimated lives over which certain brands, trademarks and supply agreements in the Tobacco business will be amortised. In line with our strategy to focus on Growth and Specialist Brands, we have reduced the estimated remaining useful lives for all other brands to a maximum of five years. 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:

Buildings	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 twelve 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 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.

1 Accounting Policies continued

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.

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

Tax 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.

Other Non-GAAP Measures Used by Management continued

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

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

Pensions Accounting

Under IAS 19 (Revised), which became mandatory for the Group in its 2014 accounts, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. The impact on the Group's results and net assets is as follows:

	Year ended 30 September 2013		
£ million	Previously reported	Adjustment	Restated
Investment income	766	(42)	724
Finance costs	(1,463)	–	(1,463)
Net finance costs	(697)	(42)	(739)
Profit before taxation	1,261	(42)	1,219
Taxation	(300)	10	(290)
Profit for the period	961	(32)	929
EPS basic (pence)	96.2	(3.3)	92.9
EPS diluted (pence)	96.0	(3.3)	92.7
Retirement benefit assets	1	4	5
Retirement benefit liabilities	(1,055)	–	(1,055)
Net assets	5,648	4	5,652

The effect in the year ended 30 September 2014 has been to reduce reported investment income by £42 million and profit for the period by £32 million.

Valuation of Derivative Financial Instruments

IFRS 13 Fair Value Measurement, which is mandatory for this financial year, has clarified the measurement criteria for derivative financial instruments. The impact has not had a material effect on the results or net assets of the Group.

Joint Ventures

IFRS 11 will become mandatory for the Group in its 2015 accounts and will require the Group to equity account for its joint ventures which are currently proportionately consolidated. It is not expected to have a material effect on the results or net assets of the Group. See note 13 to the financial statements.

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

2 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 advisers; 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.

Property, Plant and Equipment and Intangible 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 property, plant and equipment and intangible assets 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 property, plant and equipment and/or intangible assets 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 property, plant and equipment and intangible assets 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.

Retirement Benefits

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Group are determined using methods relying on actuarial estimates and assumptions. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements. Details of the key assumptions are set out in note 22.

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.

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) 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, United States of America.

Tobacco

£ million unless otherwise indicated	2014	2013
Revenue	19,656	20,881
Net revenue	6,576	7,007
Operating profit	1,970	1,888
Adjusted operating profit	2,850	3,003
Adjusted operating margin %	43.3	42.9

Logistics

£ million unless otherwise indicated	2014	2013
Revenue	7,784	8,288
Distribution fees	848	850
Operating profit	84	69
Adjusted operating profit	166	176
Adjusted distribution margin %	19.6	20.7

Revenue

	2014		2013	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Returns Markets North	12,939	12,915	13,527	13,506
Returns Markets South	2,824	2,080	3,051	2,222
Growth Markets	3,893	3,846	4,303	4,253
Total Tobacco	19,656	18,841	20,881	19,981
Logistics	7,784	7,784	8,288	8,288
Eliminations	(815)	–	(900)	–
Total Group	26,625	26,625	28,269	28,269

Tobacco net revenue

£ million	2014	2013
Returns Markets North	2,801	2,929
Returns Markets South	1,662	1,824
Growth Markets	2,113	2,254
Total Tobacco	6,576	7,007

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £152 million (2013: £193 million).

3 Segment Information continued

Adjusted operating profit and reconciliation to profit before tax

£ million	2014	2013
Tobacco		
Returns Markets North	1,511	1,543
Returns Markets South	742	792
Growth Markets	597	668
Total Tobacco	2,850	3,003
Logistics	166	176
Eliminations	10	1
Adjusted operating profit	3,026	3,180
Acquisition costs – Tobacco	(13)	–
Amortisation of acquired intangibles – Tobacco	(562)	(288)
Amortisation of acquired intangibles – Logistics	(82)	(84)
Impairment of acquired intangibles – Tobacco	–	(580)
Restructuring costs – Tobacco	(305)	(247)
Restructuring costs – Logistics	–	(23)
Operating profit	2,064	1,958
Net finance costs	(544)	(739)
Profit before tax	1,520	1,219

Other information

	2014		2013	
£ million	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Returns Markets North	100	69	148	82
Returns Markets South	54	41	28	34
Growth Markets	86	43	70	34
Total Tobacco	240	153	246	150
Logistics	16	31	23	35
Total Group	256	184	269	185

Additional geographic analysis

External revenue and non-current assets are presented for the UK and for individually significant countries. ITG's products are sold in over 160 countries.

	2014		2013	
£ million	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,750	163	5,007	182
Germany	4,003	3,350	4,105	3,180
Spain	2,128	1,716	1,832	2,080
France	3,661	2,857	3,834	3,206
USA	1,024	2,727	1,147	2,874
Other	11,059	6,925	12,344	7,957
Total Group	26,625	17,738	28,269	19,479

Non-current assets comprise intangible assets, property, plant and equipment, and investments in associates.

4 Profit Before Taxation

Profit before taxation is stated after charging/(crediting):

£ million	2014	2013
Raw materials and consumables used	1,265	1,408
Changes in inventories of finished goods	6,938	7,438
Operating lease charges	56	60
Net foreign exchange (gains)/losses	(96)	47
Write down of inventories	26	55
Loss/(profit) on disposal of property, plant and equipment	6	(5)
Impairment of trade receivables	2	(1)

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2014	2013
Audit of Parent Company and consolidated financial statements	1.0	1.0
Audit of the Company's subsidiaries	3.7	3.6
Audit related assurance services	0.1	0.1
Other assurance services	–	–
	4.8	4.7
Tax advisory services	0.7	0.8
Tax compliance services	0.2	0.1
Other services	2.1	0.2
	7.8	5.8

5 Restructuring Costs

£ million	2014	2013
Employment related	149	107
Asset impairments	71	83
Other charges	85	80
	305	270

The net charge for the year of £305 million (2013: £270 million) included £9 million (2013: £24 million) of unused provisions reversed during the year, £193 million (2013: £163 million) of additional restructuring provisions and £71 million (2013: £83 million) impairment of tangible assets. The remaining charge of £50 million (2013: £48 million) was charged directly to the consolidated income statement as incurred. Restructuring cash flow in the year was approximately £120 million (2013: £200 million), mainly due to the cost optimisation programme.

In January 2013 we announced our cost optimisation programme, aligned to our strategy, with a target of generating annual savings of £300 million by 2018, and with an anticipated cash implementation cost in the region of £600 million. The programme includes major restructuring of a number of sales forces to align with our strategy, rationalisation of our manufacturing footprint, and aligning organisational structures, processes and resource levels with future requirements. A number of initiatives delivered savings of over £60 million in our 2014 results (2013: £30 million).

Asset impairments in 2014 relate mainly to the proposed closure of our manufacturing facilities in Nottingham and Nantes while in 2013 they were mainly due to the closure of our facility in Cadiz.

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

6 Directors and Employees

Employment costs

£ million	2014	2013
Wages and salaries	901	907
Social security costs	177	191
Pension costs (note 22)	(21)	81
Share-based payments (note 25)	22	16
	1,079	1,195

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

	2014		2013	
	At 30 September	Average	At 30 September	Average
Tobacco	28,300	28,500	29,600	30,200
Logistics	5,600	5,700	5,700	5,800
	33,900	34,200	35,300	36,000

Number of people employed by the Group by location during the year

	2014		2013	
	At 30 September	Average	At 30 September	Average
European Union	16,200	16,200	16,100	16,600
Americas	7,500	7,700	8,200	8,200
Rest of the World	10,200	10,300	11,000	11,200
	33,900	34,200	35,300	36,000

7 Net Finance Costs and Reconciliation to Adjusted Net Finance Costs

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2014	2013
Reported net finance costs	544	739
Fair value gains on derivative financial instruments	271	479
Fair value losses on derivative financial instruments	(358)	(589)
Exchange gains/(losses) on financing activities	99	(46)
Net fair value and exchange gains/(losses) on financial instruments	12	(156)
Interest income on net defined benefit assets	138	126
Interest cost on net defined benefit liabilities	(174)	(168)
Unwind of discount on redundancy and other long-term provisions	(4)	(9)
Post-employment benefits net financing cost	(40)	(51)
Adjusted net finance costs	516	532
Comprising		
Interest credit on bank deposits	(9)	(8)
Interest charge on bank and other loans	525	540
Adjusted net finance costs	516	532

Amounts in 2013 have been reclassified from fair value gains/losses on derivative financial instruments to exchange gains/losses on financing activities, to better reflect the nature of the transactions and the way the Group manages its financial risks and to ensure comparable data from year to year.

8 Taxation

Analysis of charge in the year

£ million	2014	2013
Current tax		
UK corporation tax	7	6
Overseas taxation	412	472
Total current tax	419	478
Deferred tax		
Origination and reversal of temporary differences	(350)	(188)
Total tax charged to the consolidated income statement	69	290

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	2014	2013
Reported taxation	69	290
Deferred tax on amortisation of acquired intangibles	301	72
Deferred tax on impairment of acquired intangibles	–	107
Tax on net fair value and exchange losses on financial instruments	13	9
Tax on post-employment benefits net financing cost	12	15
Tax on restructuring costs	84	79
Tax on unrecognised losses	51	–
Adjusted tax charge	530	572

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 22 per cent (2013: 23.5 per cent) as follows:

£ million	2014	2013
Profit before tax	1,520	1,219
Tax at the UK corporation tax rate	334	286
Tax effects of:		
Differences in effective tax rates on overseas earnings	(105)	(156)
Remeasurement of deferred tax balances	(260)	44
Remeasurement of deferred tax balances arising from changes in tax rates	46	–
Permanent differences	71	51
Non-deductible goodwill impairment	–	67
Adjustments in respect of prior years	(17)	(2)
Total tax charged to the consolidated income statement	69	290

Movement on current tax account

£ million	2014	2013
At 1 October	(69)	(317)
Charged to the consolidated income statement	(419)	(478)
Credited to other comprehensive income	–	40
Credited to equity	3	2
Cash paid	457	686
Exchange movements	–	2
Other movements	(9)	(4)
At 30 September	(37)	(69)

Analysed as:

£ million	2014	2013
Assets	96	72
Liabilities	(133)	(141)
	(37)	(69)

9 Dividends

Dividend per share in respect of financial year

Pence	2014	2013	2012
Interim	38.8	35.2	31.7
Final	89.3	81.2	73.9
Total	128.1	116.4	105.6

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

Amounts recognised as distributions to ordinary equity holders in the year

£ million	2014	2013
Final dividend paid in the period in respect of previous financial year	779	724
Interim dividend	370	341
	1,149	1,065

The proposed final dividend for the year ended 30 September 2014 of 89.3p per share amounts to a proposed final dividend payment of £851 million based on the number of shares ranking for dividend at 30 September 2014, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2014 will be £1,221 million (2013: £1,120 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	2014	2013
Earnings: basic and diluted – attributable to owners of the Parent Company	1,422	905

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	957.4	973.9
Potentially dilutive share options	2.5	2.6
Shares for diluted earnings per share	959.9	976.5

Pence		
Basic earnings per share	148.5	92.9
Diluted earnings per share	148.1	92.7

Reconciliation from reported to adjusted earnings and earnings per share

	2014		2013	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	148.5	1,422	92.9	905
Acquisition costs	1.4	13	–	–
Amortisation of acquired intangibles	35.8	343	30.8	300
Impairment of acquired intangibles	–	–	48.6	473
Net fair value and exchange (gains)/losses on financial instruments	(2.5)	(25)	15.1	147
Post-employment benefits net financing cost	2.8	28	3.7	36
Restructuring costs	23.1	221	19.6	191
Tax on unrecognised losses	(5.3)	(51)	–	–
Adjustments above attributable to non-controlling interests	(0.4)	(4)	–	–
Adjusted	203.4	1,947	210.7	2,052
Adjusted diluted	202.8	1,947	210.1	2,052

11 Intangible Assets

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total
	2014				
Cost					
At 1 October 2013	12,697	7,264	1,414	175	21,550
Additions	–	64	–	37	101
Reclassifications	–	–	–	7	7
Disposals	–	–	–	(4)	(4)
Exchange movements	(743)	(400)	(91)	(12)	(1,246)
At 30 September 2014	11,954	6,928	1,323	203	20,408
Amortisation and impairment					
At 1 October 2013	1,489	2,025	543	111	4,168
Amortisation charge for the year	–	540	104	24	668
Disposals	–	–	–	(1)	(1)
Exchange movements	(103)	(132)	(41)	(10)	(286)
Accumulated amortisation	–	2,078	606	124	2,808
Accumulated impairment	1,386	355	–	–	1,741
At 30 September 2014	1,386	2,433	606	124	4,549
Net book value					
At 30 September 2014	10,568	4,495	717	79	15,859

£ million	Goodwill	Intellectual property	Supply agreements	Software	Total
	2013				
Cost					
At 1 October 2012	12,178	7,019	1,354	151	20,702
Additions	–	9	–	27	36
Acquisitions	41	–	–	–	41
Disposals	–	–	–	(7)	(7)
Exchange movements	478	236	60	4	778
At 30 September 2013	12,697	7,264	1,414	175	21,550
Amortisation and impairment					
At 1 October 2012	1,208	1,366	428	91	3,093
Amortisation charge for the year	–	276	96	22	394
Impairment charge for the year	225	355	–	–	580
Disposals	–	–	–	(6)	(6)
Exchange movements	56	28	19	4	107
Accumulated amortisation	–	1,670	543	111	2,324
Accumulated impairment	1,489	355	–	–	1,844
At 30 September 2013	1,489	2,025	543	111	4,168
Net book value					
At 30 September 2013	11,208	5,239	871	64	17,382

Intellectual property mainly comprises brands acquired 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.

11 Intangible Assets continued

With effect from 1 October 2013 we have revised the estimated useful lives over which certain brands, trademarks and supply agreements in the Tobacco business will be amortised. In line with our strategy to focus on Growth and Specialist Brands, we have reduced the estimated remaining useful lives for all other brands to a maximum of five years. This change in estimate is the main reason for the increase in the charge for amortisation of acquired intangibles for the year ended 30 September 2014.

Impairment charges in 2013 of £0.6 billion were in respect of goodwill and other intangible assets relating to the Spanish market.

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.

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. Goodwill and intangible assets have been reallocated from the previously reported geographically based CGU groupings. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2014		2013	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	3,948	177	4,243	190
Returns Markets South	1,484	93	1,597	100
Growth Markets	3,611	495	3,728	507
Tobacco	9,043	765	9,568	797
Logistics	1,525	–	1,640	–
	10,568	765	11,208	797

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (Growth Markets) and Altadis in 2008 (all CGU groupings).

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.

	2014		
%	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Returns Markets North	8.9	1.9	1.8
Returns Markets South	11.6	(2.2)	1.8
Growth Markets	8.6-12.9	0.9-23.4	1.8-4.0
Logistics	9.6	7.8	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, and has been affected in 2014 by destocking in Russia, the major market in this CGU grouping. Our impairment test for this CGU grouping indicated headroom of £240 million, and assumed a compound annual growth rate for Russia over the first five years of 23.4 per cent, reflecting maintenance of more consistent levels of trade inventory together with price increases achieved in 2014 and anticipated over the plan period. The test also assumed a discount rate for the Russian market of 12.9 per cent reflecting recent political uncertainty and a long-term growth rate of 3.0 per cent. A reduction of 24 per cent in overall forecast cash flows, or an increase in the discount rate by 290 basis points, or a reduction in the long-term growth rate of 300 basis points, or a further 24 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 £170 million. A reduction in overall forecast cash flows of 25 per cent, or an increase in the discount rate by 240 basis points from 9.9 per cent, or a reduction in the short-term growth rate of 630 basis points from 9.8 per cent, or a reduction in the long-term growth rate of 180 basis points from 2.3 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

	2014			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2013	1,152	1,859	444	3,455
Additions	38	176	42	256
Disposals	(135)	(44)	(17)	(196)
Reclassifications	1	16	(27)	(10)
Exchange movements	(66)	(134)	(29)	(229)
At 30 September 2014	990	1,873	413	3,276
Depreciation and impairment				
At 1 October 2013	260	860	255	1,375
Depreciation charge for the year	17	106	37	160
Impairment	30	54	8	92
Disposals	(76)	(39)	(16)	(131)
Reclassifications	1	(2)	(1)	(2)
Exchange movements	(18)	(46)	(16)	(80)
At 30 September 2014	214	933	267	1,414
Net book value				
At 30 September 2014	776	940	146	1,862

12 Property, Plant and Equipment continued

£ million	2013 Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2012	1,086	1,683	429	3,198
Additions	21	201	47	269
Disposals	–	(29)	(27)	(56)
Disposals of businesses	(7)	(16)	(4)	(27)
Reclassifications	7	2	(14)	(5)
Exchange movements	45	18	13	76
At 30 September 2013	1,152	1,859	444	3,455
Depreciation and impairment				
At 1 October 2012	184	752	237	1,173
Depreciation charge for the year	16	106	41	163
Impairment	54	22	2	78
Disposals	(3)	(18)	(26)	(47)
Disposals of businesses	–	(14)	(3)	(17)
Exchange movements	9	12	4	25
At 30 September 2013	260	860	255	1,375
Net book value				
At 30 September 2013	892	999	189	2,080

The impairment charges in 2013 were mainly due to the closure of our facility in Cadiz under our cost optimisation programme.

The impairment charges in 2014 are mainly due to the proposed closure of our Nottingham and Nantes manufacturing facilities, as announced in April 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 proportional consolidation method, is shown below:

£ 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

£ million	2013 Corporación Habanos	Altabana	Others	Total
Revenue	51	111	14	176
Profit after taxation	15	19	3	37
Non-current assets	178	8	3	189
Current assets	35	71	9	115
Total assets	213	79	12	304
Current liabilities	(17)	(20)	(3)	(40)
Non-current liabilities	(9)	(2)	–	(11)
Total liabilities	(26)	(22)	(3)	(51)
Net assets	187	57	9	253

Transactions and balances with joint ventures

£ million	2014	2013
Sales to	**61**	68
Purchases from	**63**	80
Accounts receivable from	**10**	9
Current loans to	**8**	53
Accounts payable to	**(11)**	(10)

A new accounting standard, IFRS 11 Joint Arrangements, comes into effect for the Group from 1 October 2014. For future results, equity accounting will be compulsory for joint arrangements, and our current policy of proportionately consolidating joint ventures' results and assets and liabilities will no longer be permitted.

If the standard had been in effect in FY14, the revenue and profit after taxation figures above for 2014 would not have been included in revenue and profit after taxation in the Group's consolidated income statement. Instead, the profit and loss items would have been shown in the consolidated income statement below net finance costs as "post-tax share of investments accounted for using the equity method".

Similarly, the asset and liability amounts would not have been included in the corresponding line items in the Group's consolidated balance sheet, but would have been reclassified as "Investments accounted for using the equity method".

14 Inventories

£ million	2014	2013
Raw materials	**1,004**	1,119
Work in progress	**54**	55
Finished inventories	**1,741**	1,922
Other inventories	**136**	200
	2,935	3,296

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 £250 million (2013: £262 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	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Trade receivables	2,648	–	2,809	–
Less: provision for impairment of receivables	(55)	–	(51)	–
Net trade receivables	2,593	–	2,758	–
Other receivables	86	63	88	73
Prepayments and accrued income	127	12	120	12
	2,806	75	2,966	85

Trade receivables may be analysed as follows:

£ million	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Within credit terms	2,501	–	2,645	–
Past due by less than 3 months	42	–	68	–
Past due by more than 3 months	50	–	45	–
Amounts that are impaired	55	–	51	–
	2,648	–	2,809	–

16 Cash and Cash Equivalents

£ million	2014	2013
Cash at bank and in hand	1,422	1,677
Short-term deposits and other liquid assets	9	132
	1,431	1,809

Cash at 30 September 2014 and 2013 was held partly in preparation for repayments of borrowings due in the early part of the new financial year.

£153 million (2013: £169 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	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Trade payables	1,014	–	1,055	–
Other taxes, duties and social security contributions	5,245	–	5,679	–
Other payables	210	–	165	–
Accruals and deferred income	521	21	455	17
	6,990	21	7,354	17

18 Borrowings

The Group's borrowings at amortised cost at the balance sheet date were as follows:

£ million	2014	2013
Current borrowings		
Bank loans and overdrafts	147	24
Capital market issuance:		
European commercial paper (ECP)	321	1,143
€500m 5.125% notes due October 2013	–	439
€1,200m 4.375% notes due November 2013	–	1,041
€750m 7.25% notes due September 2014	–	629
Total current borrowings	468	3,276
Non-current borrowings		
Bank loans	2	1
Capital market issuance:		
€500m 4.0% notes due December 2015	394	409
€1,500m 8.375% notes due February 2016	1,226	1,318
£450m 5.5% notes due November 2016	471	471
$1,250m 2.05% notes due February 2018	773	773
€850m 4.5% notes due July 2018	667	717
£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	606	652
€1,000m 2.25% notes due February 2021	785	–
£1,000m 9.0% notes due February 2022	1,054	1,054
$1,000m 3.5% notes due February 2023	618	619
£600m 8.125% notes due March 2024	626	625
€650m 3.375% notes due February 2026	514	–
£500m 5.5% notes due September 2026	499	499
£500m 4.875% notes due June 2032	509	–
Total non-current borrowings	9,464	7,858
Total borrowings	9,932	11,134
Analysed as:		
Capital market issuance	9,783	11,109
Bank loans and overdrafts	149	25

Current borrowings and non-current borrowings at 30 September 2014 include interest payable of £1 million (2013: £64 million) and £291 million (2013: £257 million) respectively.

During the year, €2,450 million notes were repaid, and in February 2014 the Group issued three tranches of debt in the capital markets for €1,000 million, €650 million and £500 million at fixed rates of 2.25 per cent, 3.375 per cent and 4.875 per cent respectively with an average maturity of 12 years.

The bank loans and overdrafts are floating rate liabilities. The capital market issuances in place at the balance sheet date bear interest (before the effects of financial derivatives which are detailed in note 20) at a fixed rate throughout their life. The Group has not defaulted on any borrowings during the year (2013: no defaults).

All borrowings are unsecured.

18 Borrowings continued

Undrawn borrowing facilities

In July 2014 the Group entered into term loan facilities of £4.4 billion equivalent to fund the purchase of certain US assets announced in July 2014. At the same time, the Group refinanced its core bank facility and entered into an additional revolving credit facility to provide working capital headroom in respect of the US acquisition.

All of these facilities were undrawn at 30 September 2014.

£ million	2014	2013
Amounts maturing:		
Between one and two years	3,310	251
Between two and five years	3,631	3,474
In five years or more	927	–
	7,868	3,725

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) was as follows:

	2014			2013		
£ million	Borrowings	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities	Total
Amounts maturing:						
Between one and two years	1,622	(47)	1,575	1	72	73
Between two and five years	2,631	26	2,657	3,688	24	3,712
In five years or more	5,211	61	5,272	4,169	123	4,292
	9,464	40	9,504	7,858	219	8,077

19 Financial Risk Factors

Financial risk management

Overview

In the normal course of business, the Group is exposed to financial risks including market, liquidity and credit 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. Imperial Tobacco 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 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.

Market risk

Price risk

The Group is not exposed to equity securities price risk or financial instrument price risk other than its pension assets 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 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 cash investments, borrowings and derivatives in non-functional currencies. The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates.

Foreign currency transaction exposures arising on internal and external trade flows are not hedged. The Group minimises the transaction risk associated with overseas operating subsidiaries by matching local currency flows where possible.

Translation risk
In order to reduce foreign currency translation exposure, the Group seeks to match borrowings to the currency of underlying net assets 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 to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investment in overseas assets are treated as a hedge against the net investment wherever possible.

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 dividend to external shareholders is sourced from foreign subsidiary earnings. Cash flows are managed using liquidity swaps in line with the Group's daily cash management processes, and the timing of internal and external dividend flows as appropriate.

Foreign exchange sensitivity analysis
The tables below illustrate on an indicative basis, the Group's sensitivity to foreign exchange rates on 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 2014. 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 derivative financial instruments' fair value movements.

The effect in the consolidated income statement from foreign exchange rate movements primarily relates to financial instruments that commercially hedge Group exposures, but which are not accounted for as hedges under IAS 39. This value is expected to be substantially offset by related movements through other comprehensive income and, accordingly, any residual gain or loss is excluded from our adjusted performance measures.

At 30 September 2014, after the effect of derivative financial instruments, approximately 17 per cent (2013: 25 per cent) of reported net debt was denominated in sterling, 73 per cent in euro (2013: 69 per cent) and 10 per cent in US dollars (2013: 6 per cent).

£ million	2014 Increase/ (decrease) in income	2013 Increase/ (decrease) in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2013: 10%)	251	(172)
10% appreciation of US dollar (2013: 10%)	22	2
10% appreciation of sterling (2013: 10%)	3	18

An equivalent depreciation in the above currencies would cause a decrease in income of £307 million, £26 million and £3 million for euro, US dollar and sterling exchange rates respectively (2013: £211 million, -£3 million and -£22 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	2014 Change in equity	2013 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2013: 10%)	923	1,124
10% appreciation of US dollar (2013: 10%)	–	–
10% appreciation of sterling (2013: 10%)	–	–

An equivalent depreciation in the above currencies would result in a change in equity of -£1,129 million, £0 million and £0 million for euro, US dollar and sterling exchange rates respectively (2013: -£1,374 million, £0 million and £0 million).

Interest rate risk
Interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and subsequently entering into derivative financial instruments to change the currency and interest rate mix 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 of derivative financial instruments. The Group's debt maturity profile is detailed in the contractual cash flows table below.

At 30 September 2014, including the effect of derivative financial instruments detailed in note 20, 71 per cent (2013: 49 per cent) of reported net debt was at floating rates of interest and 29 per cent (2013: 51 per cent) was at fixed rates of interest.

19 Financial Risk Factors continued

Interest rate sensitivity analysis

The tables below illustrate 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 consolidated income statement due to changes in interest rates 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 2014, and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements.

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 purposes of this analysis and the estimated effect assumes a lower limit of zero for interest rates where relevant.

£ million	2014 Change in net income	2013 Change in net income
Income statement impact of interest rate movements:		
1% increase in euro interest rates (2013: 1%)	32	20
1% increase in US dollar interest rates (2013: 1%)	13	9
1% increase in sterling interest rates (2013: 1%)	12	22

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 for 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 bank loans, commercial paper and capital market issuance. Counterparty credit risk associated with the Group's investment and derivative portfolio is discussed in the credit risk section below.

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 structures are used to centralise cash and minimise external borrowings as appropriate and cash flow forecasts and funding requirements are reviewed by Group Treasury on a regular basis. Management periodically performs stress tests and sensitivity analysis on forecasts, which are subsequently reviewed by the Audit Committee.

The table below summarises the Group's financial liabilities by maturity based on their contractual cash flows. The contractual cash flows disclosed in the table include interest to be paid, are undiscounted and have been calculated using spot rates of exchange at the relevant balance sheet date. Net derivative financial instruments' contractual cash flows are as detailed in note 20.

	2014					
£ 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	149	149	147	2	–	–
Capital market issuance	9,783	12,677	834	1,994	3,621	6,228
Trade and other payables	1,014	1,014	1,014	–	–	–
Total non-derivative financial liabilities	10,946	13,840	1,995	1,996	3,621	6,228

	2013					
£ 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	25	25	24	1	–	–
Capital market issuance	11,109	13,851	3,096	1,514	4,725	4,516
Trade and other payables	1,055	1,055	1,055	–	–	–
Total non-derivative financial liabilities	12,189	14,931	4,175	1,515	4,725	4,516

Capital management

The Group manages the capital structure through an appropriate mix of debt and equity in order to minimise the cost of capital whilst ensuring ongoing access to the external markets at an appropriate rate of interest. The Group defines capital as adjusted net debt and equity attributable to the owners of the Company. 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 external debt facilities, within which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group seeks to maintain 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 buy backs and dividends.

In order to accelerate the pace of debt repayment associated with the acquisition of certain US assets as announced in July 2014, the Group has suspended its share buy-back programme. As at 30 September 2014 c14.2 million shares had been repurchased during the financial year at a cost of approximately £341 million (2013: £500 million).

The Group is currently rated Baa3/negative outlook by Moody's Investors Service Limited, BBB/stable outlook by Standard & Poor's Credit Market Services Europe Limited and BBB/negative outlook by Fitch Ratings Limited. The Group's investment grade credit rating is not expected to be impacted by the US acquisition.

Credit risk

The Group is exposed to credit risk arising from trade receivables due from its customers, cash deposits and financial instruments held with external counterparties.

Trade and other receivables

The Group has some significant concentrations of customer credit risk. However, policies have been implemented to ensure that sales of products are made to customers with an appropriate credit history and 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 GTC approved limits. Utilisation of counterparty credit limits is regularly monitored by Group Treasury and to reduce credit exposures, the Group has ISDA Agreements in place with most of its counterparties which permit net settlement of assets and liabilities in certain circumstances. In very limited cases, collateral is deposited against derivative financial liabilities which are all supported by an ISDA Credit Support Annex.

The Group considers its maximum aggregate credit risk to be £4,722 million at 30 September 2014 (2013: £5,175 million), which includes trade receivables, derivative financial assets and cash and cash equivalents.

The table below summarises the Group's five largest financial institution counterparties, based on maximum exposure to credit risk, by credit rating and balances at 30 September 2014. As at the balance sheet date, management does not expect these counterparties to default on their current obligations.

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.

	2014		2013	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A	179	A	113
2nd highest	A	134	A	112
3rd highest	A+	129	A+	112
4th highest	A	112	A	112
5th highest	A+	111	A	111

19 Financial Risk Factors continued

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. All 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).

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. Set out below is a comparison of carrying amount and fair value of the Group's capital market issuance (as detailed in note 18) by currency. The fair value of these bonds has been determined by reference to market prices as at the balance sheet date.

	2014		2013	
£ million	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	3,879	4,576	3,369	4,047
EUR	4,192	4,505	5,205	5,516
USD	1,391	1,377	1,392	1,348
Total capital market issuance	9,462	10,458	9,966	10,911

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 set off 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.

	2014				
£ million	Gross financial assets/ (liabilities)	Gross amounts offset	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	745	(102)	643	(451)	192
Cash and cash equivalents	3,454	(2,023)	1,431	–	1,431
	4,199	(2,125)	2,074	(451)	1,623
Liabilities					
Derivative financial instruments	(793)	102	(691)	451	(240)
Bank loans and overdrafts	(2,170)	2,023	(147)	–	(147)
	(2,963)	2,125	(838)	451	(387)

	2013				
£ million	Gross financial assets/ (liabilities)	Gross amounts offset	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	667	(110)	557	(426)	131
Cash and cash equivalents	1,898	(89)	1,809	–	1,809
	2,565	(199)	2,366	(426)	1,940
Liabilities					
Derivative financial instruments	(860)	110	(750)	426	(324)
Bank loans and overdrafts	(113)	89	(24)	–	(24)
	(973)	199	(774)	426	(348)

20 Derivative Financial Instruments

The following table presents the Group's derivative financial instruments that are measured at fair value in accordance with the Level 2 IFRS 7 classification hierarchy. Level 2 instruments are not traded in an active market, but the fair values are based on inputs other than quoted market prices that are observable either directly (that is, as prices) or indirectly (that is, other observable values).

There were no changes to the valuation methods or transfers between hierarchies during the year.

	2014			2013		
£ million	Assets	Liabilities	Net fair value	Assets	Liabilities	Net fair value
Current derivative financial instruments						
Interest rate swaps and swaptions	27	(41)	(14)	203	(158)	45
Forward foreign currency contracts	7	(7)	–	3	(50)	(47)
Cross currency swaps	4	–	4	39	(17)	22
Total current derivatives	38	(48)	(10)	245	(225)	20
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	–	2	2	–	6	6
	38	(46)	(8)	245	(219)	26
Non-current derivative financial instruments						
Interest rate swaps and swaptions	521	(692)	(171)	312	(470)	(158)
Cross currency swaps	84	(53)	31	–	(165)	(165)
Total non-current derivatives	605	(745)	(140)	312	(635)	(323)
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	–	100	100	–	104	104
	605	(645)	(40)	312	(531)	(219)
Total carrying value of derivative financial instruments	643	(691)	(48)	557	(750)	(193)

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current according to their undiscounted contractual cash settlements applying spot rates as at the balance sheet date. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below shows all contractual cash flows (interest and exchange of principals) for all derivative financial instruments held at the balance sheet date.

	2014					
£ million	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)

	2013					
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	(76)	62	42	18	1	1
Gross settled derivatives	(117)					
– receipts		6,491	3,445	1,145	640	1,261
– payments		(6,534)	(3,444)	(1,103)	(616)	(1,371)
	(193)	19	43	60	25	(109)

20 Derivative Financial Instruments continued

Derivatives as hedging instruments

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.

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.

Interest rate swaps

As outlined in note 19, interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the GTC framework where necessary.

Interest rate swaps entered into to change fixed rate borrowings into floating rate borrowings are as follows:

	2014			
£ million unless otherwise indicated	Notional	Fair value	Receiving rates	Paying rates
GBP	**3,670**	**281**	**3.7% to 8.7%**	**LIBOR plus 212bps to 511bps**
EUR	**4,081**	**255**	**2.2% to 8.0%**	**EURIBOR plus 109bps to 503bps**
USD	**1,390**	**(12)**	**2.0% to 3.4%**	**LIBOR plus 94bps to 126bps**
	9,141	**524**		

	2013			
£ million unless otherwise indicated	Notional	Fair value	Receiving rates	Paying rates
GBP	1,166	268	5.4% to 8.7%	LIBOR plus 269bps to 511bps
EUR	4,954	238	3.9% to 8.0%	EURIBOR plus 55bps to 503bps
USD	452	(24)	2.0% to 3.4%	LIBOR plus 94bps to 126bps
	6,572	482		

Interest rate swaps entered into to manage the Group's exposure to interest rate risk are as follows:

	2014			
£ million unless otherwise indicated	Notional	Fair value	Paying rates	Receiving
GBP	**1,266**	**(96)**	**2.7% to 4.4%**	**LIBOR**
EUR	**5,193**	**(558)**	**0.8% to 5.2%**	**EURIBOR**
USD	**1,483**	**(18)**	**1.4% to 4.1%**	**LIBOR**
	7,942	**(672)**		

	2013			
£ million unless otherwise indicated	Notional	Fair value	Paying rates	Receiving
GBP	2,600	(125)	3.0% to 4.4%	LIBOR
EUR	5,166	(436)	1.5% to 5.2%	EURIBOR
USD	1,452	(23)	1.4% to 4.1%	LIBOR
	9,218	(584)		

A small number of the interest rate swaps used to hedge interest rate risk have embedded options. Assumptions have been made based on market information and from counterparties' expectations at 30 September 2014 to determine whether, and if so when, such options are likely to be exercised in order to determine the probable maturity date. The actual maturity date could be earlier depending upon future market conditions and a cancellation would not result in a cash flow other than in respect of interest outstanding at the cancellation date. The effect of the cancellation of any of these interest rate swaps would be to reduce the proportion of the Group's borrowings that were at a fixed rate, increasing the Group's exposure to cash flow interest rate risk.

Included in the above are forward starting interest rate swaps with a total notional amount of £2,729 million equivalent (2013: £1,266 million equivalent) with tenors extending between 5 and 10 years, starting between October 2015 and May 2017. The fair value of these swaps was a net liability of £115 million (2013: net liability of £43 million) as at the balance sheet date.

Forward foreign currency contracts

The Group has entered into forward currency contracts to manage short-term foreign currency exposures. As at 30 September 2014 the notional amount of these contracts was £1,146 million equivalent (2013: £3,011 million equivalent) and the fair value of these contracts was a net asset of £nil (2013: £47 million net liability).

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. As at 30 September 2014, 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 (2013: £650 million) and the fair value liability of these swaps was £30 million (2013: £73 million net liability).

As at 30 September 2014, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,000 million (2013: £1,000 million) and the fair value asset of these swaps was £71 million (2013: £1 million net liability).

Hedges of net investments in foreign operations

As at 30 September 2014 external debt with a carrying value of €5,165 million (2013: €6,507 million) and cross currency swaps with a notional value of €2,461 million (2013: €2,835 million) have been designated as hedges of the net investment in the Group's foreign operations. To the extent that these hedges are effective, gains or losses on the retranslation of these borrowings and derivatives are recognised in other comprehensive income to offset any gains or losses on translation of the net investments in the Group's foreign operations. Permanent intra-group loans with a fair value of €5,440 million (2013: €5,608 million) as at the balance sheet date have been treated as a reduction in investments in the Group's foreign operations, in line with IAS 21.

During the year, as a result of net investment hedging, foreign exchange gains amounting to £831 million (2013: £662 million losses) were transferred to reserves through other comprehensive income.

Reconciliation of fair value of derivative financial instruments

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

	2014			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on derivative instruments (note 7)	–	62	271	333
Losses arising on derivative instruments (note 7)	–	(81)	(358)	(439)
Gains arising on instruments designated as net investment hedges	150	–	–	150
Accretion of accrued interest	–	–	(20)	(20)
Net fair value gains/(losses) on derivative financial instruments	150	(19)	(107)	24
Net fair value of derivatives at 30 September 2013				(193)
Cash flows relating to derivative financial instruments				121
Net fair value of derivatives at 30 September 2014				(48)

	2013			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on derivative instruments (note 7)	–	111	479	590
Losses arising on derivative instruments (note 7)	–	(99)	(589)	(688)
Losses arising on instruments designated as net investment hedges	(114)	–	–	(114)
Net fair value gains/(losses) on derivative financial instruments	(114)	12	(110)	(212)
Net fair value of derivatives at 30 September 2012				(9)
Cash flows relating to derivative financial instruments				28
Net fair value of derivatives at 30 September 2013				(193)

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

	2014				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
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

	2013				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(67)	158	3	48	142
Credited/(charged) to consolidated income statement	31	12	(1)	10	52
Charged to other comprehensive income	–	(36)	–	–	(36)
Transfers	–	7	–	(9)	(2)
Exchange movements	(16)	15	–	(2)	(3)
At 30 September 2013	(52)	156	2	47	153

Deferred tax liabilities

	2014				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2013	(2,008)	58	–	130	(1,820)
Credited/(charged) to consolidated income statement	337	(33)	–	(42)	262
Charged to other comprehensive income	–	(1)	–	–	(1)
Transfers	(54)	32	–	47	25
Exchange movements	103	(4)	–	(18)	81
At 30 September 2014	(1,622)	52	–	117	(1,453)

	2013				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(2,123)	63	–	183	(1,877)
Credited/(charged) to consolidated income statement	198	(1)	–	(61)	136
Charged to other comprehensive income	–	(6)	–	–	(6)
Transfers	–	(3)	–	5	2
Exchange movements	(83)	5	–	3	(75)
At 30 September 2013	(2,008)	58	–	130	(1,820)

Deferred tax expected to be recovered within 12 months

£ million	2014	2013
Deferred tax assets	59	65
Deferred tax liabilities	(233)	(121)
	(174)	(56)

Deferred tax expected to be recovered in more than 12 months

£ million	2014	2013
Deferred tax assets	182	88
Deferred tax liabilities	(1,220)	(1,699)
	(1,038)	(1,611)

Within Other temporary differences, deferred tax assets of £92 million (2013: £25 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.

As at the balance sheet date, deferred tax assets of £373 million (2013: £598 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, £332 million (2013: £486 million) losses are expected to expire at approximately £50 million (2013: £60 million) per annum between 2015 and 2021, £11 million (2013: £12 million) are expected to expire within 5 years and £27 million are expected to expire between 2022 and 2026.

Also within Other temporary differences, deferred tax assets of £10 million (2013: £22 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 £229 million (2013: £131 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.

We have reviewed the recoverability of deferred tax assets in an overseas territory in the light of forecast business performance. Consequently, we have increased deferred tax assets of £90 million (2013: £76 million reduction) previously de-recognised on the basis that it is more likely than not that these are recoverable.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £7 billion (2013: £7 billion). A provision of £4 million (2013: £6 million) has been made for taxation expected to arise on a planned future dividend payment of £54 million from one subsidiary. 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.

A deferred tax liability of £48 million arising on an internal disposal has not been recognised as the Group is in a position to control the timing of the reversal of the temporary difference, and it is probable that the liability will not crystallise in the foreseeable future. In addition, the liability is less than current unrecognised deferred tax assets which will be available to reduce the liability to nil.

The rate of UK corporation tax was reduced by 2 per cent from 23 per cent to 21 per cent from 1 April 2014. A further reduction to 20 per cent from 1 April 2015 was enacted at the balance sheet date and is reflected in the deferred tax balances.

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 two principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited in the UK and Reemtsma Cigarettenfabriken GmbH in Germany; these schemes represent 71 per cent and 12 per cent of the Group's total retirement benefit obligations and 61 per cent and 15 per cent of the current service cost respectively.

During the year ITG has adopted IAS 19 (Revised) with effects as described in note 1, Accounting Policies, and also resulting in the revised presentation formats set out below.

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 59 per cent in respect of pensioners, 37 per cent in respect of deferred members and 4 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.

22 Retirement Benefit Schemes continued

Imperial Tobacco Pension Fund continued

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.

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, 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 agreed to pay £52.5 million in the year to 31 March 2015, £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 2014 and showed a surplus of £196 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 the assumptions made about future inflation and salary growth levels, as well as the 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 17 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 £20 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 the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro 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 2014 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

	2014			2013 (restated)		
£ million	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(4,400)	3,350	(1,050)	(4,138)	3,095	(1,043)
Consolidated income statement expense						
Current service cost	(49)	–	(49)	(55)	–	(55)
Past service credit – Spanish free tobacco settlement	52	–	52	2	–	2
Past service credit – curtailment	69	–	69	3	–	3
Settlement	–	–	–	1	–	1
Cost of termination benefits	(32)	–	(32)	(15)	–	(15)
Net interest (expense)/income on net defined benefit (liability)/asset	(174)	138	(36)	(167)	128	(39)
Administration costs paid from plan assets	–	(3)	(3)	–	(2)	(2)
Cost recognised in the income statement			1			(105)
Remeasurements						
Actuarial gain/(loss) due to liability experience	38	–	38	(5)	–	(5)
Actuarial loss due to financial assumption changes	(202)	–	(202)	(188)	–	(188)
Actuarial gain/(loss) due to demographic assumption changes	22	–	22	(1)	–	(1)
Return on plan assets excluding amounts included in net interest (expense)/income above	–	187	187	–	237	237
Remeasurement effects recognised in OCI			45			43
Cash						
Employer contributions	–	116	116	–	98	98
Employee contributions	(2)	2	–	(2)	2	–
Benefits paid directly by the company	46	(46)	–	47	(47)	–
Benefits paid from plan assets	181	(181)	–	171	(171)	–
Net cash			116			98
Other						
Spanish free tobacco settlement	48	–	48	–	–	–
Exchange movements	88	(28)	60	(53)	10	(43)
Total other			108			(43)
At 30 September	(4,315)	3,535	(780)	(4,400)	3,350	(1,050)

During the year, there have been some special events that have impacted the liabilities and the cost of the Group's retirement benefit schemes.

The announcement of the proposed closure of the Nottingham factory has given 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 has been recognised.

22 Retirement Benefit Schemes continued

Retirement benefit scheme costs charged to operating profit

£ million	2014	2013
Defined benefit (credit)/costs in operating profit	(37)	66
Defined contribution costs in operating profit	19	17
Total retirement benefit scheme (credit)/costs in operating profit	(18)	83

Split as follows in the consolidated income statement:

£ million	2014	2013
Cost of sales	31	35
Distribution, advertising and selling costs	15	28
Administrative and other expenses	(64)	20
Total retirement benefit scheme (credit)/costs in operating profit	(18)	83

Assets and liabilities recognised in the consolidated balance sheet

£ million	2014	2013 (restated)
Retirement benefit assets	44	5
Retirement benefit liabilities	(824)	(1,055)
Net retirement benefit liability	(780)	(1,050)

Key figures and assumptions used for major plans

	2014		2013	
£ million unless otherwise indicated	ITPF	RCPP	ITPF	RCPP
Benefit obligation (DBO)	3,066	502	3,086	459
Fair value of scheme assets	(3,094)	–	(2,924)	–
Net defined benefit (asset)/liability	(28)	502	162	459
Current service cost	30	7	32	7
Employer contributions	48	21	31	22
Principal actuarial assumptions used (% per annum)				
Discount rate	4.0	2.5	4.3	3.5
Future salary increases	3.7	3.1	4.8	3.1
Future pension increases	3.2	2.0	3.3	2.0
Inflation	3.2	1.9	3.3	2.0

	2014			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.5	22.9	18.9	22.9
Member currently aged 50	22.8	24.4	20.9	24.8

	2013			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.1	23.0	18.7	22.8
Member currently aged 50	22.1	24.2	20.7	24.7

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 continuous mortality investigation 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.

	2014		2013	
% increase in DBO	ITPF	RCPP	ITPF	RCPP
Discount rate: 0.5% decrease	8.1	8.8	7.6	8.0
Rate of inflation: 0.5% decrease	(6.6)	(5.4)	(6.1)	(5.0)
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.5	3.2	4.2

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:

	2014		2013 (restated)	
£ million unless otherwise indicated	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	1,361	44	1,345	46
Bonds – index linked government	650	21	556	19
Bonds – corporate and other	495	16	409	14
Property	402	13	322	11
Absolute return pooled funds	155	5	263	9
Other – including derivatives, commodities and cash	31	1	29	1
	3,094	100	2,924	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 £3 million (2013: £3 million).

The Group has applied amendments made to IAS 19 in November 2013 that relate to the treatment of member contributions to the results presented in these financial statements.

23 Provisions

	2014		
£ million	Restructuring	Other	Total
At 1 October 2013	222	277	499
Additional provisions charged to the consolidated income statement	193	34	227
Unwind of discount on redundancy and other long-term provisions	3	1	4
Amounts used	(70)	(50)	(120)
Unused amounts reversed	(9)	(79)	(88)
Exchange movements	(18)	(16)	(34)
At 30 September 2014	321	167	488

Analysed as:

£ million	2014	2013
Current	176	92
Non-current	312	407
	488	499

Restructuring provisions relate mainly to our cost optimisation programme (see note 5) and to projects arising from the integration of Imperial Tobacco and Altadis, purchased in 2008. These provisions include employee social plans arising from restructuring activity and are expected to be used over the next ten years.

Other provisions principally relate to commercial legal claims and disputes and are expected to be used over a period of up to ten years.

24 Share Capital

£ million	2014	2013
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2013: 1,067,942,881)	104	107

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	2014	2013
Share Matching Scheme	19	16
Long Term Incentive Plan	1	(2)
Sharesave Plan	2	2
	22	16

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2014 was £2 million (2013: £2 million).

Reconciliation of movements in awards/options

	2014			
Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
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

	2013			
Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2012	2,738	929	1,799	17.31
Granted	1,119	333	666	18.40
Lapsed/cancelled	(175)	(266)	(259)	18.21
Exercised	(959)	(60)	(469)	15.36
Outstanding at 30 September 2013	2,723	936	1,737	18.12
Exercisable at 30 September 2013	–	22	72	15.67

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £23.60 (2013: £23.27). The weighted average fair value of sharesave options granted during the year was £4.28 (2013: £2.68).

Summary of awards/options outstanding at 30 September 2014

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2012	661	4	n/a
2013	949	16	n/a
2014	1,098	28	n/a
Total awards outstanding	2,708		
Long Term Incentive Plan			
2012	214	1	n/a
2013	239	14	n/a
2014	316	25	n/a
Total awards outstanding	769		
Sharesave Plan			
2009	10	–	12.54
2010	39	10	15.63
2011	73	1	17.80
2012	404	16	20.45
2013	604	24	18.40
2014	448	34	20.40
Total options outstanding	1,578		

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.

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 2014 and 2013 is as follows.

	2014		2013	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	1.5	0.4-1.5	0.5	0.6-1.2
Volatility (based on 3 or 5 year history) %	22	22.5-23.0	18.0	10.1-23.0
Expected lives of options granted years	3	3	3	3-5
Dividend yield %	5.1	5.1	4.4	4.4
Fair value £	21.88	4.18-4.52	20.32	2.22-4.61
Share price used to determine exercise price £	25.50	25.50	23.18	23.00
Exercise price £	n/a	20.40	n/a	18.40

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2014 and 2013 are given in the following table.

%	2014	2013
Future Imperial Tobacco Group share price volatility	18	18
Future Imperial Tobacco Group dividend yield	5.1	4.4
Share price volatility of the tobacco and alcohol comparator group	14-37	14-29
Share price volatility of the FTSE 100 comparator group	n/a	15-50
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	35	40
Correlation between Imperial Tobacco and the FTSE 100 comparator group	n/a	40

25 Share Schemes continued

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 (2013: £19.2 million) and an interest free loan of £181.9 million (2013: £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 2014. 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	2014	2013
At 1 October	3.3	4.1
Distribution of shares held by Employee Share Ownership Trusts	(1.1)	(1.2)
Gift of treasury shares	2.0	0.4
At 30 September	4.2	3.3

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.3 million (2013: 0.8 million) shares acquired in the open market at a cost of £7.8 million (2013: £16.7 million) and 3.9 million (2013: 2.5 million) treasury shares gifted to the Trusts by the Group, of which 2.0 million were gifted in this financial year (2013: 0.4 million).

26 Treasury Shares

In 2011, the Group 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 equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During 2014 the Group purchased 14,163,000 shares under the programme (2013: 21,287,000) at a cost of £341 million (2013: £500 million) and cancelled 31,942,881 shares. The share buyback programme was suspended on 15 July 2014.

Millions of shares	2014	2013
At 1 October	98.7	77.8
Gift to Employee Share Ownership Trusts	(2.0)	(0.4)
Purchase of treasury shares	14.1	21.3
Cancellation of treasury shares	(31.9)	–
At 30 September	78.9	98.7
Percentage of issued share capital	7.6	9.2

27 Commitments

Capital commitments

£ million	2014	2013
Contracted but not provided for:		
Property, plant and equipment and software	177	159

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

£ million	2014	2013
Property		
Within one year	37	35
Between one and five years	86	78
Beyond five years	29	18
	152	131

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

In July 2013, the Group purchased the sales and distribution business of our former agent in Cambodia, for a total consideration £41 million, of which £6 million was deferred until 2014. This gave rise to goodwill of £41 million, largely representing the value of the sales force in place.

In July 2014, the Group entered into a purchase agreement with Reynolds American Inc. for the acquisition of assets, including a portfolio of US brands, plus the national sales force, offices and production facilities currently owned by Lorillard Inc. The transaction is subject to the acquisition of Lorillard by Reynolds and requires US anti-trust and shareholder approvals. The approval processes are likely to take a minimum of six to nine months. If approved, the assets are to be acquired for cash consideration of $7.1 billion.

Costs of £13 million were incurred in 2014 in relation to the transaction, and have been excluded from our adjusted results in line with our accounting policy.

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 2013	1,809	(3,276)	(7,858)	(193)	(9,518)
Cash flow	(385)	2,706	(1,830)	121	612
Accretion of interest	–	31	(39)	–	(8)
Change in fair values	–	–	–	24	24
Exchange movements	7	71	263	–	341
At 30 September 2014	1,431	(468)	(9,464)	(48)	(8,549)

Analysis by denomination currency

	2014				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	247	414	342	428	1,431
Total borrowings	(3,870)	(4,666)	(1,396)	–	(9,932)
	(3,623)	(4,252)	(1,054)	428	(8,501)
Effect of cross currency swaps	2,691	(2,661)	–	–	30
	(932)	(6,913)	(1,054)	428	(8,471)
Derivative financial instruments					(78)
Net debt					(8,549)

	2013				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	153	1,114	26	516	1,809
Total borrowings	(3,450)	(6,275)	(1,399)	(10)	(11,134)
	(3,297)	(5,161)	(1,373)	506	(9,325)
Effect of cross currency swaps	1,650	(1,650)	–	–	–
	(1,647)	(6,811)	(1,373)	506	(9,325)
Derivative financial instruments					(193)
Net debt					(9,518)

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	2014	2013
Reported net debt	(8,549)	(9,518)
Accrued interest	280	321
Fair value of derivatives providing commercial hedges	134	99
Adjusted net debt	(8,135)	(9,098)

31 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2014	2013
(Decrease)/increase in cash and cash equivalents	**(385)**	1,323
Cash flows relating to derivative financial instruments	**121**	28
Increase in borrowings	**(2,324)**	(4,884)
Repayment of borrowings	**3,200**	3,443
Repayment of finance leases	**–**	20
Change in net debt resulting from cash flows	**612**	(70)
Other non-cash movements including revaluation of derivative financial instruments	**16**	(246)
Exchange movements	**341**	(237)
Movement in net debt during the year	**969**	(553)
Opening net debt	**(9,518)**	(8,965)
Closing net debt	**(8,549)**	(9,518)

32 Changes in Non-controlling Interests

In July 2014 the Group completed the IPO of the Logistics business, with 30% 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.

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Independent Auditors' Report

to the Members of Imperial Tobacco Group PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our Opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2013 and of the Group's 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.

This opinion is to be read in the context of what we say below.

What We Have Audited

The Group financial statements, which are prepared by Imperial Tobacco Group PLC, comprise:

- the Group Consolidated Balance Sheet as at 30 September 2013;
- the Group Consolidated Income Statement for the year then ended;
- the Group Consolidated Statement of Comprehensive Income for the year then ended;
- the Group Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended; and
- the notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the Annual Report), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an Audit of Financial Statements Involves

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group 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.

Overview of Our Audit Approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £114 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the Scope of our Audit

The Group is structured along two business lines, being Tobacco and Logistics. The Group financial statements are a consolidation of 352 legal entities represented by 230 reporting entities, comprising the Group's operating businesses and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at reporting entities by us, as the Group engagement team, or component auditors from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting entities 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.

Our Group audit scope focused on eighteen Imperial Tobacco reporting entities, which included entities with significant Group operations based in the UK, Germany, Spain, USA, Morocco, Australia, and six other locations, as well as the Logistics sub-group, all of which were subject to a full scope audit. These operations accounted for approximately 75 per cent of Group turnover and in excess of 90 per cent of Group profit before tax. In addition certain central reporting entities and Group functions including those covering treasury, taxation and pensions and the Parent Company were subject to a full scope audit. Taken collectively these reporting entities represent the principal business units of the Group.

The Group audit team follows a programme of planned site visits that is designed so that senior team members visit the full scope audit reporting entities regularly on a rotational basis. In addition to these visits, video conferences are held with each full scope reporting entity's management and component auditors at least once a year.

For the year ended 30 September 2013 nine reporting entities were visited, a Group planning meeting was held in the UK for full scope audit component teams and video conferences held with an additional nine reporting entities.

Areas of Particular Audit Focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 51.

Area of focus	How the scope of our audit addressed the area of focus
Impairment assessment We focused on this area because the determination of whether or not an impairment charge for goodwill and intangible assets was necessary involved complex and subjective judgements by the Directors about the future results of the relevant parts of the business. Goodwill has arisen principally on the acquisitions of Reemtsma, Commonwealth Brands and Altadis. Intangible assets principally represent acquired trademarks and supply agreements. The Directors booked an impairment charge of £580 million. We needed to obtain evidence for the remaining £11,208 million of goodwill and £6,174 million of intangible assets. (Refer to note 11 to the financial statements.)	We evaluated the Directors' future cash flow forecasts, including comparing them to the latest Board approved budgets and testing the underlying calculations. We challenged the Directors' key assumptions regarding discount, initial and long-term growth rates by comparing them to historical results and the prospects for the business and industry. We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being pricing, market size, market shares and cost inflation. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, we considered the likelihood of such a movement in those key assumptions arising.
Revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We focused on the timing of revenue recognition and its presentation in the consolidated income statement, because of the risk associated with such fast moving consumer goods and the levels of inventory sold into, and held in, distribution channels, as well as the contractual terms those goods were sold under. (Refer to note 1 to the financial statements.)	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. We evaluated any changes to contractual terms around the year end and tested accounts receivable balances through a combination of third party confirmations and subsequent remittances. We also tested journal entries posted to revenue to identify unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We tested manual journal entries, including material consolidation journals. We also examined the significant accounting estimates for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 60, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement the Directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. 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 and the Parent Company's ability to continue as a going concern.

Opinions on Matter Prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Other Matters on Which We are Required to Report by Exception
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 if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 60 of the Annual Report, as required by the Code Provision C.1.1, the Directors state 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. On page 51, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report 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 arising from this responsibility.

Other Information in the Annual Report
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 Group 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
- is otherwise misleading.

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 Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group 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 Group 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.

Other Matter
We have reported separately on the Parent Company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2013 and on the information in the Directors' Remuneration Report described as having been audited.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

5 November 2013

Consolidated Income Statement

for the year ended 30 September

£ million unless otherwise indicated	Notes	2013	2012
Revenue	3	**28,269**	28,574
Duty and similar items		**(13,681)**	(13,902)
Other cost of sales		**(9,059)**	(9,178)
Cost of sales		**(22,740)**	(23,080)
Gross profit		**5,529**	5,494
Distribution, advertising and selling costs		**(2,053)**	(2,005)
Impairment of acquired intangibles	11	**(580)**	(1,187)
Other expenses		**(938)**	(784)
Administrative and other expenses		**(1,518)**	(1,971)
Operating profit	3	**1,958**	1,518
Investment income	7	**766**	1,036
Finance costs	7	**(1,463)**	(1,473)
Net finance costs	7	**(697)**	(437)
Profit before taxation	4	**1,261**	1,081
Taxation	8	**(300)**	(382)
Profit for the year		**961**	699
Attributable to:			
Owners of the parent		**937**	678
Non-controlling interests		**24**	21
Earnings per ordinary share (pence)			
– Basic	10	**96.2**	68.1
– Diluted	10	**96.0**	67.9

Consolidated Statement of Comprehensive Income

for the year ended 30 September

£ million	Notes	2013	2012
Profit for the year		**961**	699
Other comprehensive income			
Exchange movements		**164**	(523)
Current tax on exchange movements		**40**	6
Items that may be reclassified to profit and loss		**204**	(517)
Net actuarial losses on retirement benefits	22	**(3)**	(404)
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	21	**(32)**	96
Items that will not be reclassified to profit and loss		**(35)**	(308)
Other comprehensive income for the year, net of tax		**169**	(825)
Total comprehensive income for the year		**1,130**	(126)
Attributable to:			
Owners of the parent		**1,104**	(144)
Non-controlling interests		**26**	18
Total comprehensive income for the year		**1,130**	(126)

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2013	2012
Operating profit		**1,958**	1,518
Acquisition accounting adjustments		**–**	(10)
Amortisation of acquired intangibles	11	**372**	365
Impairment of acquired intangibles	11	**580**	1,187
Restructuring costs	5	**270**	101
Adjusted operating profit		**3,180**	3,161

RECONCILIATION FROM NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	2013	2012
Net finance costs		**(697)**	(437)
Net fair value and exchange losses/(gains) on financial instruments providing commercial hedges	7	**156**	(125)
Post-employment benefits net financing cost	7	**9**	27
Adjusted net finance costs		**(532)**	(535)

Consolidated Balance Sheet

at 30 September

£ million	Notes	2013	2012
Non-current assets			
Intangible assets	11	**17,382**	17,609
Property, plant and equipment	12	**2,080**	2,025
Investments in associates		**17**	16
Retirement benefit assets	22	**1**	–
Trade and other receivables	15	**85**	98
Derivative financial instruments	20	**312**	636
Deferred tax assets	21	**153**	142
		20,030	20,526
Current assets			
Inventories	14	**3,296**	3,132
Trade and other receivables	15	**2,966**	3,029
Current tax assets	8	**72**	55
Cash and cash equivalents	16	**1,809**	631
Derivative financial instruments	20	**245**	266
		8,388	7,113
Total assets		**28,418**	27,639
Current liabilities			
Borrowings	18	**(3,276)**	(1,254)
Derivative financial instruments	20	**(219)**	(182)
Trade and other payables	17	**(7,354)**	(7,231)
Current tax liabilities	8	**(141)**	(372)
Provisions	23	**(92)**	(103)
		(11,082)	(9,142)
Non-current liabilities			
Borrowings	18	**(7,858)**	(8,333)
Derivative financial instruments	20	**(531)**	(729)
Trade and other payables	17	**(17)**	(18)
Deferred tax liabilities	21	**(1,820)**	(1,877)
Retirement benefit liabilities	22	**(1,055)**	(1,046)
Provisions	23	**(407)**	(410)
		(11,688)	(12,413)
Total liabilities		**(22,770)**	(21,555)
Net assets		**5,648**	6,084
Equity			
Share capital	24	**107**	107
Share premium		**5,833**	5,833
Retained earnings		**(795)**	(150)
Exchange translation reserve		**447**	245
Equity attributable to owners of the parent		**5,592**	6,035
Non-controlling interests		**56**	49
Total equity		**5,648**	6,084

The financial statements on pages 87 to 130 were approved by the Board of Directors on 5 November 2013 and signed on its behalf by:

Iain Napier
Chairman

Robert Dyrbus
Director

Consolidated Statement of Changes in Equity

for the year ended 30 September

£ million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2012	**107**	**5,833**	**(150)**	**245**	**6,035**	**49**	**6,084**
Profit for the year	**–**	**–**	**937**	**–**	**937**	**24**	**961**
Exchange movements	**–**	**–**	**–**	**162**	**162**	**2**	**164**
Current tax on exchange movements	**–**	**–**	**–**	**40**	**40**	**–**	**40**
Net actuarial losses on retirement benefits	**–**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Deferred tax relating to net actuarial losses on retirement benefits	**–**	**–**	**(32)**	**–**	**(32)**	**–**	**(32)**
Other comprehensive income	**–**	**–**	**(35)**	**202**	**167**	**2**	**169**
Total comprehensive income	**–**	**–**	**902**	**202**	**1,104**	**26**	**1,130**
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	**–**	**–**	**6**	**–**	**6**	**–**	**6**
Purchase of shares by Employee Share Ownership Trusts	**–**	**–**	**(4)**	**–**	**(4)**	**–**	**(4)**
Costs of employees' services compensated by share schemes	**–**	**–**	**14**	**–**	**14**	**–**	**14**
Current tax on share-based payments	**–**	**–**	**2**	**–**	**2**	**–**	**2**
Increase in own shares held as treasury shares	**–**	**–**	**(500)**	**–**	**(500)**	**–**	**(500)**
Dividends paid	**–**	**–**	**(1,065)**	**–**	**(1,065)**	**(19)**	**(1,084)**
At 30 September 2013	**107**	**5,833**	**(795)**	**447**	**5,592**	**56**	**5,648**
At 1 October 2011	107	5,833	956	759	7,655	55	7,710
Profit for the year	–	–	678	–	678	21	699
Exchange movements	–	–	–	(520)	(520)	(3)	(523)
Current tax on exchange movements	–	–	–	6	6	–	6
Net actuarial losses on retirement benefits	–	–	(404)	–	(404)	–	(404)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	96	–	96	–	96
Other comprehensive income	–	–	(308)	(514)	(822)	(3)	(825)
Total comprehensive income	–	–	370	(514)	(144)	18	(126)
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	8	–	8	–	8
Costs of employees' services compensated by share schemes	–	–	20	–	20	–	20
Current tax on share-based payments	–	–	1	–	1	–	1
Deferred tax on share-based payments	–	–	1	–	1	–	1
Changes in non-controlling interests	–	–	5	–	5	(5)	–
Increase in own shares held as treasury shares	–	–	(528)	–	(528)	–	(528)
Dividends paid	–	–	(983)	–	(983)	(19)	(1,002)
At 30 September 2012	107	5,833	(150)	245	6,035	49	6,084

Consolidated Cash Flow Statement

for the year ended 30 September

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

Notes to the Financial Statements

1 ACCOUNTING POLICIES

Basis of Preparation

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

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.

Change of Segments

During 2013 we reorganised the Tobacco business to manage our footprint based on the strategic role of groups of markets rather than their geographic proximity, with divisions focused on prioritising growth or returns. Following this reorganisation we have revised our segment reporting as required under IFRS 8. This change of segments does not affect the results or financial position of the Group. For details of the change, and to see our results on the new and former segments, refer to note 3.

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 has the power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. 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. A list of the principal undertakings is included on pages 137 and 138.

Joint Ventures

Joint ventures are those businesses which the Group and third parties jointly control. The financial statements of joint ventures are consolidated using the proportionate method, with the Group's share of assets and liabilities recognised in the consolidated balance sheet classified according to their nature. In the same way, the Group's share of income and expenses is presented in the consolidated income statement in accordance with their function.

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 collectibility 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.

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. Payments due in the United States under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

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. Other trademarks, intellectual property, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Trademarks and 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.

1 ACCOUNTING POLICIES CONTINUED

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:

Buildings	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 twelve 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.

A credit representing the expected return on plan assets of the retirement benefit schemes during the year is included within net finance costs. This is based on the market value of the assets of the schemes at the start of the financial year. A charge is also made within net finance costs for the expected increase in the present value of the liabilities of the retirement benefit schemes during the year arising from the schemes being one year closer to payment.

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 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 cancelled, 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.

Use of Adjusted Measures

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

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

Amortisation and Impairment of Acquired Intangibles

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

1 ACCOUNTING POLICIES CONTINUED

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

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

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

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

Restructuring Costs

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

Post-Employment Benefits Net Financing Cost

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

Tax Provisions

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

Other Non-GAAP Measures Used by Management

Net Revenue

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

Distribution Fees

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

Adjusted Net Debt

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

New Accounting Standards and Interpretations

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

Under IAS 19 (Revised) which becomes mandatory for the Group in its 2014 accounts, the interest charge on retirement benefit liabilities and the expected return on pension plan assets will be replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. We are monitoring the potential impact, which we expect to be an increase of around £40 million in our reported net finance costs. While the volatility of reported net finance costs is expected to increase, adjusted net finance costs will be unaffected. We do not expect the effect on the net assets of the Group to be material.

IFRS 11 will become mandatory for the Group in its 2015 accounts and will require the Group to equity account for its joint ventures which are currently proportionately consolidated. It is not expected to have a material effect on the results or net assets of the Group.

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

2 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 advisers; 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.

Property, Plant and Equipment and Intangible 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 property, plant and equipment and intangible assets 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 property, plant and equipment and/or intangible assets 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 property, plant and equipment and intangible assets 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.

Retirement Benefits

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Group are determined using methods relying on actuarial estimates and assumptions. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements. Details of the key assumptions are set out in note 22.

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.

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.

During 2013 we reorganised the Tobacco business to manage our footprint based on the strategic role of groups of markets rather than their geographic proximity, with divisions focused on prioritising growth or returns. Returns markets are typically mature markets where we have relatively large market shares and our objective is to maximise returns over the long term by growing profits while actively managing market share. Growth markets are mainly large profit or volume pools where we typically have 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 introduction of these changes we have revised our segmental reporting as required under IFRS 8.

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

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

Returns Markets North – Australia, Belgium, Germany, Netherlands, Poland, United Kingdom;

Returns Markets South – France, Spain and our African markets including Algeria, Ivory Coast, Morocco;

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

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

Tobacco

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

Logistics

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

New segments – revenue

	2013		2012	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Returns Markets North	13,527	13,506	13,836	13,834
Returns Markets South	3,051	2,222	3,174	2,286
Growth Markets	4,303	4,253	4,151	4,086
Total Tobacco	20,881	19,981	21,161	20,206
Logistics	8,288	8,288	8,368	8,368
Eliminations	(900)	–	(955)	–
Total Group	28,269	28,269	28,574	28,574

New segments – tobacco net revenue

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

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £193 million (2012: £254 million).

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

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

New segments – other information

	2013		2012	
£ million	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Returns Markets North	**148**	**82**	225	69
Returns Markets South	**28**	**34**	25	35
Growth Markets	**70**	**34**	33	32
Total Tobacco	**246**	**150**	283	136
Logistics	**23**	**35**	17	35
Total Group	**269**	**185**	300	171

Additional geographic analysis

External revenue and non-current assets are presented for the UK and for individually significant countries.

	2013		2012	
£ million	External revenue	Non-current assets	External revenue	Non-current assets
UK	**5,007**	**182**	5,390	166
Germany	**4,105**	**3,180**	3,931	3,064
Spain	**1,832**	**2,080**	1,849	2,691
France	**3,834**	**3,206**	3,814	3,160
USA	**1,147**	**2,874**	1,211	2,908
Other	**12,344**	**7,957**	12,379	7,661
Total Group	**28,269**	**19,479**	28,574	19,650

Revenue is allocated to countries and tobacco segments based on the location of the customer.

Non-current assets comprise intangible assets, property, plant and equipment, and investments in associates.

3 SEGMENT INFORMATION CONTINUED

Former segments – revenue

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

Former segments – tobacco net revenue

£ million	2013	2012
UK	**915**	936
Germany	**907**	861
Spain	**435**	470
Rest of European Union	**1,515**	1,534
Americas	**653**	660
Rest of the World	**2,582**	2,544
Total Tobacco	**7,007**	7,005

Former segments – adjusted operating profit

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

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

4 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting):

£ million	2013	2012
Raw materials and consumables used	**1,408**	1,467
Operating lease charges	**60**	62
Net foreign exchange losses/(gains)	**47**	(86)
Write down of inventories	**55**	27
Profit on disposal of property, plant and equipment	**(5)**	–
Impairment of trade receivables	**(1)**	1

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2013	2012
Audit of parent company and consolidated financial statements	**1.0**	0.4
Audit of the company's subsidiaries	**3.6**	4.0
Audit related assurance services	**0.1**	0.3
Other assurance services	**–**	0.1
	4.7	4.8
Tax advisory services	**0.8**	0.9
Tax compliance services	**0.1**	0.2
Other services	**0.2**	0.3
	5.8	6.2

5 RESTRUCTURING COSTS

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

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

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

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

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

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

6 DIRECTORS AND EMPLOYEES

Employment costs

£ million	2013	2012
Wages and salaries	907	929
Social security costs	191	189
Pension costs (note 22)	81	45
Share-based payments (note 25)	16	22
	1,195	1,185

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 on pages 62 to 82. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2013		2012	
	At 30 September	Average	At 30 September	Average
Tobacco	29,600	30,200	31,000	30,900
Logistics	5,700	5,800	6,200	6,400
	35,300	36,000	37,200	37,300

Number of people employed by the Group by location during the year

	2013		2012	
	At 30 September	Average	At 30 September	Average
European Union	16,100	16,600	17,000	17,100
Americas	8,200	8,200	8,600	8,600
Rest of the World	11,000	11,200	11,600	11,600
	35,300	36,000	37,200	37,300

7 NET FINANCE COSTS

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

Reconciliation from reported net finance costs to adjusted net finance costs

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

8 TAXATION

Analysis of charge in the year

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

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

Reconciliation from reported taxation to adjusted taxation

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

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

8 TAXATION CONTINUED

Factors affecting the tax charge for the year

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

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

Movement on current tax account

£ million	2013	2012
At 1 October	(317)	(392)
Charged to the consolidated income statement	(478)	(378)
Credited to other comprehensive income	40	6
Credited to equity	2	1
Cash paid	686	442
Exchange movements	2	8
Other movements	(4)	(4)
At 30 September	(69)	(317)
Analysed as:		
Assets	72	55
Liabilities	(141)	(372)
	(69)	(317)

9 DIVIDENDS

Dividend per share in respect of financial year

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

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

Amounts recognised as distributions to ordinary equity holders in the year

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

The proposed final dividend for the year ended 30 September 2013 of 81.2p per share amounts to a proposed final dividend payment of £783 million based on the number of shares ranking for dividend at 30 September 2013, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2013 will be £1,124 million (2012: £1,038 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	2013	2012
Earnings: basic and diluted	937	678

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	973.9	995.4
Potentially dilutive share options	2.6	2.9
Shares for diluted earnings per share	976.5	998.3

Pence		
Basic earnings per share	96.2	68.1
Diluted earnings per share	96.0	67.9

Reconciliation from reported to adjusted earnings and earnings per share

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

11 INTANGIBLE ASSETS

	2013				
£ million	Goodwill	Trademarks	Supply agreements	Software	Total
Cost					
At 1 October 2012	12,178	7,019	1,354	151	20,702
Additions	–	9	–	27	36
Acquisitions	41	–	–	–	41
Disposals	–	–	–	(7)	(7)
Exchange movements	478	236	60	4	778
At 30 September 2013	12,697	7,264	1,414	175	21,550
Amortisation and impairment					
At 1 October 2012	1,208	1,366	428	91	3,093
Amortisation charge for the year	–	276	96	22	394
Impairment charge for the year	225	355	–	–	580
Disposals	–	–	–	(6)	(6)
Exchange movements	56	28	19	4	107
Accumulated amortisation	–	1,670	543	111	2,324
Accumulated impairment	1,489	355	–	–	1,844
At 30 September 2013	1,489	2,025	543	111	4,168
Net book value					
At 30 September 2013	11,208	5,239	871	64	17,382

11 INTANGIBLE ASSETS CONTINUED

	2012				
£ million	Goodwill	Trademarks	Supply agreements	Software	Total
Cost					
At 1 October 2011	13,035	7,485	1,456	142	22,118
Additions	–	–	–	24	24
Disposals	–	–	–	(6)	(6)
Exchange movements	(857)	(466)	(102)	(9)	(1,434)
At 30 September 2012	12,178	7,019	1,354	151	20,702
Amortisation and impairment					
At 1 October 2011	21	1,165	363	82	1,631
Amortisation charge for the year	–	271	94	21	386
Impairment charge for the year	1,187	–	–	–	1,187
Disposals	–	–	–	(5)	(5)
Exchange movements	–	(70)	(29)	(7)	(106)
Accumulated amortisation	–	1,366	428	91	1,885
Accumulated impairment	1,208	–	–	–	1,208
At 30 September 2012	1,208	1,366	428	91	3,093
Net book value					
At 30 September 2012	10,970	5,653	926	60	17,609

Trademarks mainly comprises brands acquired through the purchases of Altadis in 2008 and Commonwealth Brands in 2007, and also includes intellectual property. During the year the Group purchased £9 million of intellectual property rights.

Supply agreements include Logistics customer relationships and exclusive supply arrangements in Cuba. All were acquired under the purchase of Altadis.

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.

Impairment charges include £0.6 billion (2012: £1.2 billion) in respect of goodwill and other intangible assets relating to the Spanish market, which are explained in more detail below.

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 the groups of CGUs are based on the geographic areas in which the Group operates. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2013		2012	
£ million	**Goodwill**	**Intangible assets with indefinite lives**	Goodwill	Intangible assets with indefinite lives
Spain	**–**	**–**	218	–
Other European Union	**4,663**	**122**	4,466	117
Americas	**1,780**	**102**	1,776	102
Cuban cigar joint ventures	**281**	**243**	281	242
Rest of the World	**2,844**	**330**	2,663	315
Tobacco	**9,568**	**797**	9,404	776
Logistics	**1,640**	**–**	1,566	–
	11,208	**797**	10,970	776

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (mainly Other European Union and Rest of the World), Commonwealth Brands in 2007 (Americas) and Altadis in 2008 (all CGUs).

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.

	2013		2012	
%	Initial growth rate	Long-term rate	Initial growth rate	Long-term rate
Spain	(6.5)	1.5	1.7	1.5
Other European Union	0.7	1.8	5.8	1.8
Americas	3.4	2.5	5.0	2.5
Cuban cigar joint ventures	7.1	4.0	9.7	4.0
Rest of the World	6.9	4.0	12.0	4.0
Logistics	6.3	1.7	7.4	1.7

Cash flows from the three year plan period are extrapolated out to year five using the growth rate implicit in the three year plan. Estimated long-term weighted average compound annual growth rates of between 1.5 per cent and 4.0 per cent per annum are used beyond year five. In addition to the initial growth rates shown above applied to cash flows arising in existing markets, the valuation of the Cuban cigar joint ventures includes assumptions about the timing and extent of cash flows from entry to new markets.

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. Pre-tax discount rates in 2013 ranged from 8.4 per cent to 13.5 per cent (2012: 8.5 per cent to 13.1 per cent).

Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Spain

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

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

Other CGUs

The impairment test for Americas indicated headroom of £268 million, and that an impairment would result in the event of either an increase in the discount rate of 80 basis points from 9.9 per cent, or a 200 basis point reduction in the short-term growth rate, or a 100 basis point reduction in the long-term growth rate, or an 8 per cent reduction in overall cash flows as compared to those used in our impairment test.

For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

Effect of segment changes

We have performed the 2013 impairment tests as described above and as required by IAS 36 on the basis of our existing CGUs and groups of CGUs established for this purpose in accordance with our accounting policy. Following our change of segments to align with our strategy and the way we manage the business (see note 3), we will in future monitor our goodwill and other intangibles on the basis of CGUs and groups of CGUs consistent with our new segments.

12 PROPERTY, PLANT AND EQUIPMENT

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
	2013			
Cost				
At 1 October 2012	**1,086**	**1,683**	**429**	**3,198**
Additions	**21**	**201**	**47**	**269**
Disposals	**–**	**(29)**	**(27)**	**(56)**
Disposals of businesses	**(7)**	**(16)**	**(4)**	**(27)**
Reclassifications	**7**	**2**	**(14)**	**(5)**
Exchange movements	**45**	**18**	**13**	**76**
At 30 September 2013	**1,152**	**1,859**	**444**	**3,455**
Depreciation and impairment				
At 1 October 2012	**184**	**752**	**237**	**1,173**
Depreciation charge for the year	**16**	**106**	**41**	**163**
Impairment	**54**	**22**	**2**	**78**
Disposals	**(3)**	**(18)**	**(26)**	**(47)**
Disposals of businesses	**–**	**(14)**	**(3)**	**(17)**
Exchange movements	**9**	**12**	**4**	**25**
At 30 September 2013	**260**	**860**	**255**	**1,375**
Net book value				
At 30 September 2013	**892**	**999**	**189**	**2,080**

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
	2012			
Cost				
At 1 October 2011	1,125	1,576	437	3,138
Additions	32	220	48	300
Disposals	(9)	(41)	(25)	(75)
Reclassifications	14	(3)	(12)	(1)
Exchange movements	(76)	(69)	(19)	(164)
At 30 September 2012	1,086	1,683	429	3,198
Depreciation and impairment				
At 1 October 2011	161	709	230	1,100
Depreciation charge for the year	13	99	38	150
Impairment	26	11	2	39
Disposals	(3)	(28)	(23)	(54)
Reclassifications	3	(1)	(3)	(1)
Exchange movements	(16)	(38)	(7)	(61)
At 30 September 2012	184	752	237	1,173
Net book value				
At 30 September 2012	902	931	192	2,025

The impairment charge in 2013 is mainly due to the closure of our facility in Cadiz under our cost optimisation programme. The 2012 charge related mainly to reductions in the carrying value of surplus property, acquired through the Altadis acquisition, to reflect current property market conditions, and idle machinery.

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 proportional consolidation method, is shown below:

£ million	2013 Corporación Habanos	Altabana	Others	Total
Revenue	51	111	14	176
Profit after taxation	15	19	3	37
Non-current assets	178	8	3	189
Current assets	35	71	9	115
Total assets	213	79	12	304
Current liabilities	(17)	(20)	(3)	(40)
Non-current liabilities	(9)	(2)	–	(11)
Total liabilities	(26)	(22)	(3)	(51)
Net assets	187	57	9	253

£ million	2012 Corporación Habanos	Altabana	Others	Total
Revenue	49	104	13	166
Profit after taxation	15	18	2	35
Non-current assets	184	8	3	195
Current assets	38	62	12	112
Total assets	222	70	15	307
Current liabilities	(35)	(21)	(2)	(58)
Non-current liabilities	(7)	(1)	–	(8)
Total liabilities	(42)	(22)	(2)	(66)
Net assets	180	48	13	241

Transactions and balances with joint ventures

£ million	2013	2012
Sales to	68	73
Purchases from	80	97
Accounts receivable from	9	11
Current loans to	53	3
Accounts payable to	(10)	(13)

14 INVENTORIES

£ million	2013	2012
Raw materials	1,119	1,006
Work in progress	55	65
Finished inventories	1,922	1,913
Other inventories	200	148
	3,296	3,132

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 £262 million (2012: £120 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	2013 Current	2013 Non-current	2012 Current	2012 Non-current
Trade receivables	**2,809**	**–**	2,910	–
Less: provision for impairment of receivables	**(51)**	**–**	(58)	–
Net trade receivables	**2,758**	**–**	2,852	–
Other receivables	**88**	**73**	73	80
Prepayments and accrued income	**120**	**12**	104	18
	2,966	**85**	3,029	98

Trade receivables may be analysed as follows:

£ million	2013 Current	2013 Non-current	2012 Current	2012 Non-current
Within credit terms	**2,645**	**–**	2,759	–
Past due by less than 3 months	**68**	**–**	57	–
Past due by more than 3 months	**45**	**–**	36	–
Amounts that are impaired	**51**	**–**	58	–
	2,809	**–**	2,910	–

16 CASH AND CASH EQUIVALENTS

£ million	2013	2012
Cash at bank and in hand	**1,677**	608
Short-term deposits and other liquid assets	**132**	23
	1,809	631

Cash at 30 September 2013 was held partly in preparation for repayments of borrowings due in the early part of the new financial year.

£169 million (2012: £183 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	2013 Current	2013 Non-current	2012 Current	2012 Non-current
Trade payables	**1,055**	**–**	1,036	–
Other taxes, duties and social security contributions	**5,679**	**–**	5,594	–
Other payables	**165**	**–**	151	–
Accruals and deferred income	**455**	**17**	450	18
	7,354	**17**	7,231	18

18 BORROWINGS

The Group's borrowings at amortised cost at the balance sheet date were as follows:

£ million	2013	2012
Current borrowings		
Finance lease liabilities	–	20
Bank loans and overdrafts	24	84
Capital market issuance:		
European commercial paper (ECP)	1,143	1,150
€500m 5.125% notes due October 2013	439	–
€1,200m 4.375% notes due November 2013	1,041	–
€750m 7.25% notes due September 2014	629	–
Total current borrowings	3,276	1,254
Non-current borrowings		
Bank loans	1	–
Capital market issuance:		
€500m 5.125% notes due October 2013	–	418
€1,200m 4.375% notes due November 2013	–	993
€750m 7.25% notes due September 2014	–	600
€500m 4.0% notes due December 2015	409	389
€1,500m 8.375% notes due February 2016	1,318	1,258
£450m 5.5% notes due November 2016	471	471
$1,250m 2.05% notes due February 2018	773	–
€850m 4.5% notes due July 2018	717	682
£200m 6.25% notes due December 2018	210	212
£500m 7.75% notes due June 2019	510	509
€750m 5.0% notes due December 2019	652	623
£1,000m 9.0% notes due February 2022	1,054	1,054
$1,000m 3.5% notes due February 2023	619	–
£600m 8.125% notes due March 2024	625	625
£500m 5.5% notes due September 2026	499	499
Total non-current borrowings	7,858	8,333
Total borrowings	11,134	9,587
Analysed as:		
Capital market issuance	11,109	9,483
Finance lease liabilities	–	20
Bank loans and overdrafts	25	84

Current borrowings and non-current borrowings at 30 September 2013 include interest payable of £64 million (2012: £2 million) and £257 million (2012: £285 million) respectively.

On 2 October 2013, the €500 million 5.125% notes were repaid.

The bank loans and overdrafts are floating rate liabilities. The capital market issuances in place at the balance sheet date bear interest (before the effects of derivative financial instruments which are detailed in note 20) at a fixed rate throughout their life. The Group has not defaulted on any borrowings during the year (2012: no defaults).

All borrowings except finance leases are unsecured.

18 BORROWINGS CONTINUED

Undrawn borrowing facilities

At 30 September the Group had the following undrawn committed facilities in respect of which all conditions precedent had been met at that date:

£ million	2013	2012
Amounts maturing:		
Between one and two years	251	639
Between two and five years	3,474	2,415
	3,725	3,054

Included within the amount of £3,474 million maturing between two and five years is a facility of £990 million which was contractually agreed as at the year end but is not available to be drawn down until 22 November 2013.

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current financial liabilities at 30 September (including net derivative financial liabilities detailed in note 20) was as follows:

	2013			2012		
£ million	Borrowings	Net derivative financial liabilities	Total	Borrowings	Net derivative financial liabilities	Total
Amounts maturing:						
Between one and two years	1	72	73	2,011	(29)	1,982
Between two and five years	3,688	24	3,712	2,118	34	2,152
In five years or more	4,169	123	4,292	4,204	88	4,292
	7,858	219	8,077	8,333	93	8,426

19 FINANCIAL RISK FACTORS

Financial risk management

Overview

In the normal course of business, the Group is exposed to (amongst other risks) market, liquidity and credit 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, Group Treasury, which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. It does not operate as a profit centre, nor does it enter into speculative transactions. The Group Treasury Committee (GTC) oversees the operation of Group Treasury in accordance with terms of reference set out by the Board. The Board reviews and approves all major treasury decisions. The GTC currently comprises the Group Finance Director, the Company Secretary and other senior management from Group Finance, Manufacturing and Group Treasury.

The GTC agrees a framework which sets out the current expectations and boundaries to assist in the effective oversight of Group Treasury activities, covering all key areas within Group Treasury. The Group Treasurer reports on a regular basis to the Board, including the provision of a monthly treasury report which is also provided to the GTC.

Market risk

Price risk

The Group is not exposed to equity securities price risk or financial instrument price risk other than its pension assets 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 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, foreign currency cash deposits, borrowings and non-sterling derivatives. Currently, the Group's financial results are principally exposed to gains or losses arising from fluctuations in sterling-euro and sterling-US dollar exchange rates.

Translation risk

The Group has a policy of managing its balance sheet translation risk by funding material acquisitions and the underlying material business assets with borrowings (post cross currency swaps, where necessary) in the currency of the underlying net assets. This also results in foreign currency operating profits being partially offset by foreign currency interest costs thereby minimising the translation exposure on foreign currency profits after tax.

The Group issues debt in the market or markets that are most appropriate at the time of raising new finance and has a policy of using derivative financial instruments, such as cross currency swaps and foreign exchange swaps where necessary, to change the debt into the desired currency.

Transaction risk

Material costs denominated in currencies other than the functional currencies of subsidiaries include 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. After taking into account other US dollar inflows the Group currently does not consider this foreign exchange cash flow risk to be material enough to hedge.

The Group's sterling dividend to shareholders is partly sourced from foreign subsidiary earnings. In order to manage the foreign exchange cash flow risk, and to provide greater certainty as to the amount of sterling available to pay expected future dividends, the Group has entered into transactional cross currency swaps maturing between now and 2015 that will convert expected euro dividends from subsidiaries into sterling.

Foreign currency sensitivity analysis

The tables below illustrate the Group's currency exposures arising on financial assets and liabilities held by Group companies in currencies other than their functional currencies and resulting in exchange movements in the income statement and balance sheet.

	2013			
£ million	GBP	EUR	USD	Other
Financial assets				
Trade and other receivables	14	4	103	6
Derivative financial instruments principal amounts	–	1,432	802	392
Cash and cash equivalents	–	913	12	7
Intra-Group assets	4	3,834	1,046	219
	18	6,183	1,963	624
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency value	(1)	(562)	(178)	(57)
10% decrease in functional currency value	2	687	218	69
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	–	–	–
10% decrease in functional currency value	–	–	–	–
Financial liabilities				
Trade and other payables	2	42	114	5
Derivative financial instruments principal amounts	–	293	–	305
Borrowings	8	5,435	1,396	23
Intra-Group liabilities	204	10,885	477	76
	214	16,655	1,987	409
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency value	19	390	180	37
10% decrease in functional currency value	(24)	(476)	(221)	(45)
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	1,124	–	–
10% decrease in functional currency value	–	(1,374)	–	–

19 FINANCIAL RISK FACTORS CONTINUED

	2012			
£ million	GBP	EUR	USD	Other
Financial assets				
Trade and other receivables	5	–	79	2
Derivative financial instruments principal amounts	–	1,978	564	350
Cash and cash equivalents	58	19	127	4
Intra-Group assets	–	4,475	1,518	58
	63	6,472	2,288	414
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency value	(6)	(588)	(208)	(38)
10% decrease in functional currency value	7	719	254	46
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency value	–	–	–	–
10% decrease in functional currency value	–	–	–	–
Financial liabilities				
Trade and other payables	1	4	21	–
Derivative financial instruments principal amounts	–	4,363	1,184	113
Borrowings	–	5,404	113	27
Intra-Group liabilities	–	10,638	718	206
	1	20,409	2,036	346
Potential impact on consolidated income statement – (loss)/gain				
10% increase in functional currency	–	684	185	29
10% decrease in functional currency	–	(837)	(226)	(35)
Potential impact on other comprehensive income – (loss)/gain				
10% increase in functional currency	–	1,171	–	2
10% decrease in functional currency	–	(1,431)	–	(3)

The above movements in foreign exchange rates are considered to represent reasonably possible changes. Other larger or smaller changes are also possible. The sensitivity analysis has been prepared on the basis that the amount of net debt and the proportion of financial instruments in foreign currencies are all constant and on the basis of the designated net investment hedges in place at 30 September. 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 derivative financial instruments' fair value movements.

The effect in the consolidated income statement from foreign exchange rate movements primarily relates to financial instruments that commercially hedge Group exposures, but which are not accounted for as hedges under IAS 39 although commercially effective (see note 20 for hedge accounting). This value is expected to be substantially offset by related movements through other comprehensive income and, accordingly, any residual gain or loss is excluded from our adjusted performance measures.

At 30 September 2013, approximately 16 per cent (2012: 24 per cent) of reported net debt was denominated in sterling, 70 per cent in euro (2012: 56 per cent) and 14 per cent in US dollars (2012: 20 per cent).

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

The Group transacts interest rate swaps to achieve an appropriate balance of fixed and floating interest rates within limits set out in the interest rate risk section of the framework, approved by the GTC.

At 30 September 2013, including the effect of derivative financial instruments detailed in note 20, 49 per cent (2012: 31 per cent) of reported net debt was at floating rates of interest and 51 per cent (2012: 69 per cent) was at fixed rates of interest.

Interest rate sensitivity analysis
The table below illustrates the effect on the income statement of movements in interest rates related to the Group's net variable rate debt. These movements have no net impact on other comprehensive income.

	2013				
£ million	**Total**	**GBP**	**EUR**	**USD**	**Other**
Borrowings	**(11,134)**	**(3,450)**	**(6,275)**	**(1,399)**	**(10)**
Cash	**1,809**	**153**	**1,114**	**26**	**516**
Net debt	**(9,325)**	**(3,297)**	**(5,161)**	**(1,373)**	**506**
Fixed rate debt	**9,966**	**3,369**	**5,205**	**1,392**	**–**
Adjust for the effect of derivative financial instruments	**(5,181)**	**(2,241)**	**(2,046)**	**(894)**	**–**
Net variable rate debt exposure	**(4,540)**	**(2,169)**	**(2,002)**	**(875)**	**506**
Potential impact on consolidated income statement – (loss)/gain					
100bps increase applied to variable rate debt	**(46)**	**(22)**	**(20)**	**(9)**	**5**
Up to 100bps decrease applied to variable rate debt	**15**	**11**	**5**	**2**	**(3)**

	2012				
£ million	Total	GBP	EUR	USD	Other
Borrowings	(9,587)	(3,420)	(6,093)	–	(74)
Cash	631	–	221	20	390
Net debt	(8,956)	(3,420)	(5,872)	20	316
Fixed rate debt	8,353	3,390	4,963	–	–
Adjust for the effect of derivative financial instruments	(2,151)	(597)	(1,461)	(140)	47
Net variable rate debt exposure	(2,754)	(627)	(2,370)	(120)	363
Potential impact on consolidated income statement – (loss)/gain					
100bps increase applied to variable rate debt	(27)	(6)	(24)	(1)	4
Up to 100bps decrease applied to variable rate debt	7	4	5	–	(2)

The impact of a decrease in market interest rates has been curtailed by the low rates prevailing at the balance sheet date, such that a reduction of 100 basis points is not reasonably foreseeable; therefore this sensitivity reduces the relevant benchmark rate for each currency to zero per cent.

The above movements in interest rates are considered to represent reasonably possible changes. Other larger or smaller changes are also possible. The sensitivity analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives portfolio are all constant.

The impact in the consolidated income statement due to changes in interest rates reflects the effect on net finance costs in respect of the Group's floating rate debt at 30 September, and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements.

Interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments where necessary to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the interest rate risk management section of the framework. Interest rate swaps entered into in order to change fixed rate debt into floating rate debt match the maturity profile of the underlying debt. The Group is therefore exposed to the risk that interest rates will increase over time which will increase the cost of the floating rate portion of the debt portfolio. The maturity profile of the Group's borrowings is detailed in the contractual cash flows table below, which also includes the net contractual cash flows on derivative financial instruments (as detailed in note 20), as part of the Group's liquidity risk.

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 for 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 bank loans, credit facilities, commercial paper and corporate bonds. Management periodically performs stress tests and sensitivity analyses on these forecasts, which are subsequently reviewed by the Audit Committee. The Group is exposed to liquidity risk as a result of credit risk on undrawn committed borrowing facilities or when drawn committed facilities are due to be rolled over; that is to say if a counterparty was unable to provide credit as it was required to do so, the Group would have increased liquidity risk. Undrawn committed borrowing facilities are detailed in note 18. Credit risk for financial counterparties is discussed below in the credit risk section.

19 FINANCIAL RISK FACTORS CONTINUED

As well as forecasting and monitoring the Group's core liquidity needs, the Group Treasury function is in regular dialogue with subsidiary companies 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 on commercial terms, or in some limited cases through local borrowings by the subsidiaries in the required currencies. Available liquidity from subsidiary companies is remitted to Group Treasury where practical and possible on a regular basis.

The table below summarises the Group's non-derivative financial liabilities by maturity based on their contractual cash flows. The contractual cash flows disclosed in the table include interest to be paid, are undiscounted and have been calculated using spot rates of exchange at the relevant balance sheet date. Net derivative financial instruments' contractual cash flows are detailed in note 20.

	2013					
£ 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	**25**	**25**	**24**	**1**	**–**	**–**
Capital market issuance	**11,109**	**13,851**	**3,096**	**1,514**	**4,725**	**4,516**
Trade payables	**1,055**	**1,055**	**1,055**	**–**	**–**	**–**
Total non-derivative financial liabilities	**12,189**	**14,931**	**4,175**	**1,515**	**4,725**	**4,516**

	2012					
£ 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	84	84	84	–	–	–
Capital market issuance	9,483	13,103	1,695	2,422	3,091	5,895
Trade payables	1,036	1,036	1,036	–	–	–
Finance lease liabilities	20	20	20	–	–	–
Total non-derivative financial liabilities	10,623	14,243	2,835	2,422	3,091	5,895

Capital management

The Group manages the capital structure in an efficient manner in order to minimise the cost of capital whilst ensuring access to ongoing sources of finance such as the debt capital markets. The Group defines capital as adjusted net debt (see note 30) and equity attributable to owners of the parent company (see Consolidated Statement of Changes in Equity). The only externally imposed capital requirements for the Group are interest cover and gearing covenants under the terms of the bank facilities, with which we have fully complied during both the current period and the prior period.

The Group manages the capital structure to maintain an investment grade credit rating and has taken and will continue to take the appropriate measures to maintain this, including ongoing consideration of the return of capital to shareholders through an appropriate mix of share buybacks and dividends, or raising equity to finance material acquisitions.

Fair value estimation and fair values of financial assets and financial liabilities

All financial assets and financial liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments, which are carried at fair value. All 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 of IFRS 7).

With the exception of issued bonds, the fair value of all financial assets and financial liabilities is considered to be approximate to their carrying amount. Set out below is a comparison of carrying amount of the Group's bonds (as detailed in note 18) to their fair value, by currency. The fair value of these bonds has been determined by reference to market prices as at the balance sheet date.

	2013		2012	
£ million	**Balance sheet amount**	**Fair value**	Balance sheet amount	Fair value
GBP	**3,369**	**4,047**	3,370	4,374
EUR	**5,205**	**5,516**	4,963	5,581
USD	**1,392**	**1,348**	–	–
Total bonds	**9,966**	**10,911**	8,333	9,955

Credit risk

The Group is exposed to credit risk arising from its trade receivables due from customers, as well as from cash and cash equivalents and the fair value of derivative financial instruments in asset positions transacted with financial institutions.

Trade and other receivables

The Group has some significant concentrations of customer credit risk. However, the Group has implemented policies to ensure that sales of products are made to customers with an appropriate credit history and obtains guarantees or other means of credit support to reduce the risk where this is considered necessary. Analysis of trade and other receivables is provided in note 15.

Financial instruments

The Group has a policy of having no concentrations of credit risk from financial institutions that are in excess of limits agreed by the Group Treasury Committee. The Group has placed cash deposits and entered into derivative financial instruments with a diversified group of financial institutions with suitable credit ratings in order to manage its credit risk with any one financial institution. Utilisation of credit limits is regularly monitored and to reduce credit exposures, the Group has ISDA Master Agreements with most of its counterparties for financial derivatives, which permit net settlement of assets and liabilities in certain circumstances. In limited cases, collateral is deposited against derivative financial liabilities and these are supported by an ISDA Credit Support Annex in each case.

The table below summarises the Group's 5 largest financial institution counterparties, based on maximum exposure to credit risk, by credit rating and balances at 30 September. As at the balance sheet date, management does not expect these counterparties to default on their current obligations.

	2013		2012	
	S&P credit rating	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Counterparty exposure				
Highest	**A**	**113**	A+	128
2nd highest	**A**	**112**	A-	115
3rd highest	**A+**	**112**	A	113
4th highest	**A**	**112**	AA-	92
5th highest	**A**	**111**	A	74

The Group considers its maximum aggregate credit risk to be £5,175 million at 30 September 2013 (2012: £4,443 million), which includes trade receivables, derivative financial assets and cash and cash equivalents.

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments, at fair value, at the balance sheet date were as follows:

	2013			2012		
£ million	**Assets**	**Liabilities**	**Net fair value**	Assets	Liabilities	Net fair value
Current derivative financial instruments						
Interest rate swaps and swaptions	**203**	**(158)**	**45**	205	(175)	30
Forward foreign currency contracts	**3**	**(50)**	**(47)**	11	(9)	2
Cross currency swaps	**39**	**(17)**	**22**	37	(9)	28
Total current derivatives	**245**	**(225)**	**20**	253	(193)	60
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	**–**	**6**	**6**	13	11	24
	245	**(219)**	**26**	266	(182)	84
Non-current derivative financial instruments						
Interest rate swaps and swaptions	**312**	**(470)**	**(158)**	620	(652)	(32)
Cross currency swaps	**–**	**(165)**	**(165)**	19	(138)	(119)
Total non-current derivatives	**312**	**(635)**	**(323)**	639	(790)	(151)
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	**–**	**104**	**104**	(3)	61	58
	312	**(531)**	**(219)**	636	(729)	(93)
Total carrying value of derivative financial instruments	**557**	**(750)**	**(193)**	902	(911)	(9)

20 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current according to their undiscounted contractual cash settlements applying spot rates as at the balance sheet date as required. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
	2013					
Net settled derivatives	(76)	62	42	18	1	1
Gross settled derivatives:	(117)					
Receipts		6,491	3,445	1,145	640	1,261
Payments		(6,534)	(3,444)	(1,103)	(616)	(1,371)
	(193)	19	43	60	25	(109)

£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
	2012					
Net settled derivatives	46	(44)	35	22	(61)	(40)
Gross settled derivatives:	(55)					
Receipts		7,620	3,589	429	1,847	1,755
Payments		(7,262)	(3,544)	(389)	(1,689)	(1,640)
	(9)	314	80	62	97	75

The tables above show all contractual cash flows (interest and exchange of principals) for all derivative financial instruments held at the balance sheet date. In order to disclose more comparable data from year-to-year, the presentation of these tables has been changed to include all derivative financial instruments, as prior year disclosures showed only derivative financial liabilities.

Derivatives as hedging instruments

The Group has entered into various cross currency swaps, forward foreign currency contracts, interest rate swaps and swaptions to manage foreign exchange and interest rate risk arising on financial assets and liabilities. These risks are discussed in more detail in note 19.

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.

Applied as commercial hedges

As mentioned in note 19, interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments where necessary to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the interest rate risk section of the risk management framework.

Interest rate swaps and swaptions

Interest rate swaps entered into to change fixed rate borrowings into floating rate borrowings:

£ million	Notional	Fair value	Receiving rates between	Paying rates between
	2013			
GBP	1,166	268	5.4% to 8.7%	LIBOR plus 269bps to 511bps
EUR	4,954	238	3.9% to 8.0%	EURIBOR plus 55bps to 503bps
USD	452	(24)	2.0% to 3.4%	LIBOR plus 94bps to 126bps
	6,572	482		

£ million	Notional	Fair value	Receiving rates between	Paying rates between
	2012			
GBP	2,100	392	7.5% to 8.7%	LIBOR plus 301bps to 511bps
EUR	4,150	289	3.9% to 8.0%	EURIBOR plus 55bps to 503bps
USD	1,242	107	4.2% to 5.5%	LIBOR plus 175bps to 285bps
	7,492	788		

The movement in USD receiving rates from 2012 to 2013 is due to the replacement of synthetic USD variable rate debt, created by cross currency swaps, with fixed rate bonds (as detailed in note 18) issued in the year and subsequently changed into floating rate using interest rate swaps.

Interest rate swaps entered into to manage the Group's exposure to interest rate risk:

	2013			
£ million	**Notional**	**Fair value**	**Paying rates between**	**Receiving**
GBP	**2,600**	**(125)**	**3.0% to 4.4%**	**LIBOR**
EUR	**5,166**	**(436)**	**1.5% to 5.2%**	**EURIBOR**
USD	**1,452**	**(23)**	**1.4% to 4.1%**	**LIBOR**
	9,218	**(584)**		

	2012			
£ million	Notional	Fair value	Paying rates between	Receiving
GBP	1,726	(255)	3.0% to 5.7%	LIBOR
EUR	4,509	(274)	2.0% to 5.1%	EURIBOR
USD	1,102	(176)	1.4% to 4.7%	LIBOR
	7,337	(705)		

A small number of the interest rate swaps used to hedge interest rate risk have embedded options. Assumptions have been made based on market information and from counterparties expectations at 30 September 2013 to determine whether, and if so when, such options are likely to be exercised in order to determine the probable maturity date. The actual maturity date could be earlier or later depending upon future market conditions and a cancellation would not result in a cash flow other than in respect of interest outstanding at the cancellation date. The effect of the cancellation of any of these interest rate swaps would be to reduce the proportion of the Group's borrowings that were at a fixed rate, increasing the Group's exposure to cash flow interest rate risk. The embedded options are as follows:

- £15 million interest rate swap maturing in 2031 where the counterparty has the option to cancel every six months throughout the life of the trade. This trade is expected to be cancelled in October 2023.
- £50 million interest rate swap maturing in 2041 where the counterparty has the option to cancel every five years throughout the life of the trade. This trade is expected to be cancelled in October 2023.

Additionally, the Group has entered into several forward starting interest rate swaps with a total notional amount of £1,266 million equivalent (2012: £1,135 million equivalent) with tenors extending between 5 and 10 years, starting between April 2014 and May 2017. The fair value of these swaps was a net liability of £43 million (2012: net liability of £73 million) as at the balance sheet date.

The Group has sold options to two counterparties providing them with the right to transact interest rate swaps with notional values of €100 million and £100 million. The options are available for exercise by the counterparty on 27 March 2014 and 30 April 2014 and if exercised, would result in the Group paying fixed rates of 2.79 per cent and 2.72 per cent respectively for 5 years. The fair value of these instruments was a net liability of £11 million as at the balance sheet date (2012: net liability of £13 million).

Forward foreign currency contracts

The Group has entered into forward foreign currency contracts to manage short-term foreign currency exposures. As at 30 September 2013 the notional amount of these contracts was £3,011 million equivalent (2012: £2,373 million equivalent) and the fair value of these swaps and contracts was a net liability of £47 million (2012: net asset of £2 million) as at the balance sheet date.

Cross currency swaps

The Group has entered into cross currency swaps to manage the risk of foreign exchange cash flows relating to interest and dividends. As at the balance sheet date, the following cross currency swaps were in place for the reasons set out below.

To manage foreign exchange cash flow risk associated with converting euro dividends from subsidiaries into sterling. As at 30 September 2013 the notional amount of these contracts was £1,299 million equivalent (2012: £2,311 million) and the fair value of these swaps was a net liability of £69 million (2012: net asset of £9 million). Principal amounts are exchanged at the start and maturity of these trades.

To convert issued fixed rate debt into the desired currency at floating rates of interest. As at 30 September 2013 the notional amount of these contracts was £650 million equivalent (2012: £1,828 million equivalent) and the fair value of these swaps was a net liability of £73 million (2012: net liability of £100 million). Principal amounts are exchanged at the start and maturity of these trades.

To convert floating rate sterling debt (after interest rate swaps) into the desired currency at floating rates of interest. As at 30 September 2013 the notional amount of these contracts was £1,000 million equivalent (2012: £nil) and the fair value of these swaps was a net liability of £1 million (2012: £nil). Principal amounts will be exchanged at maturity of these trades.

20 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Designated as hedges of net investments in foreign operations

At 30 September 2013 external debt with a carrying value of €6,507 million (2012: €6,424 million) and cross currency swaps with a notional value of €2,835 million (2012: €2,922 million) have been designated as hedges of the net investment in the Group's foreign operations. To the extent that these hedges are effective, gains or losses on the retranslation of these borrowings and derivatives are recognised in other comprehensive income to offset any gains or losses on translation of the net investments in the Group's foreign operations. Permanent intra-Group loans with a fair value of €5,608 million (2012: €6,792 million) as at the balance sheet date have been treated as a reduction in investments in the Group's foreign operations, in line with IAS 21.

During the year, as a result of net investment hedging, foreign exchange losses amounting to £662 million (2012: £1,143 million gain) were transferred to reserves through other comprehensive income.

Reconciliation of fair value gains/(loss) on derivative financial instruments

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

	2013			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on commercial hedges (note 7)	–	99	479	578
Losses arising on commercial hedges (note 7)	–	(99)	(589)	(688)
Gains offsetting underlying borrowings (note 7)	–	12	–	12
Losses arising on instruments designated as net investment hedges	(114)	–	–	(114)
Net fair value gains/(losses) on derivative financial instruments	(114)	12	(110)	(212)
Net fair value of derivatives at 30 September 2012				(9)
Cash flows relating to derivative financial instruments				28
Net fair value of derivatives at 30 September 2013				(193)

	2012			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on commercial hedges (note 7)	–	122	639	761
Losses arising on commercial hedges (note 7)	–	(157)	(566)	(723)
Losses offsetting underlying borrowings (note 7)	–	(5)	–	(5)
Gains arising on instruments designated as net investment hedges	288	–	–	288
Net fair value gains/(losses) on derivative financial instruments	288	(40)	73	321
Net fair value of derivatives at 30 September 2011				(409)
Cash flows relating to derivative financial instruments				79
Net fair value of derivatives at 30 September 2012				(9)

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.

£ million	2013	2012
Deferred tax assets	153	142
Deferred tax liabilities	(1,820)	(1,877)
	(1,667)	(1,735)

Deferred tax expected to be recovered within 12 months

£ million	2013	2012
Deferred tax assets	65	32
Deferred tax liabilities	(121)	(100)
	(56)	(68)

Deferred tax assets

	2013				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(67)	158	3	48	142
Credited/(charged) to consolidated income statement	31	2	(1)	10	42
Charged to other comprehensive income	–	(26)	–	–	(26)
Transfers	–	7	–	(9)	(2)
Exchange movements	(16)	15	–	(2)	(3)
At 30 September 2013	(52)	156	2	47	153

	2012				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2011	(65)	100	–	67	102
Credited/(charged) to consolidated income statement	14	(11)	(1)	37	39
Credited to other comprehensive income	–	79	–	–	79
Credited to equity	–	–	–	1	1
Transfers	(50)	8	4	(47)	(85)
Other movements	–	–	–	(4)	(4)
Exchange movements	34	(18)	–	(6)	10
At 30 September 2012	(67)	158	3	48	142

Deferred tax liabilities

	2013				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(2,123)	63	–	183	(1,877)
Credited/(charged) to consolidated income statement	198	(1)	–	(61)	136
Charged to other comprehensive income	–	(6)	–	–	(6)
Transfers	–	(3)	–	5	2
Exchange movements	(83)	5	–	3	(75)
At 30 September 2013	(2,008)	58	–	130	(1,820)

21 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

	2012				
£ million	Fixed and intangible assets	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2011	(2,365)	58	4	247	(2,056)
Credited/(charged) to consolidated income statement	54	–	–	(97)	(43)
Credited to other comprehensive income	–	17	–	–	17
Transfers	50	(8)	(4)	47	85
Exchange movements	138	(4)	–	(14)	120
At 30 September 2012	(2,123)	63	–	183	(1,877)

Within other temporary differences, deferred tax assets of £25 million (2012: £24 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.

As at the balance sheet date, deferred tax assets of £598 million (2012: £593 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, £486 million (2012: £539 million) losses are expected to expire at approximately £60 million (2012: £60 million) per annum between 2014 and 2021, £12 million (2012: £12 million) are expected to expire within 5 years, £15 million (2012: nil) are expected to expire within 7 years and £69 million (2012: £38 million) are expected to expire between 2023 and 2029.

Also within other temporary differences, deferred tax assets of £22 million (2012: £48 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 £131 million (2012: £57 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 2016 and 2021.

We have reviewed the recoverability of deferred tax assets in an overseas territory in the light of further economic deterioration in economic indicators. Consequently, we have reduced deferred tax assets by £44 million (2012: £55 million) relating to losses and tax credits previously recognised on the basis that it was more likely than not that these were not recoverable.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £7 billion (2012: £8 billion). A provision of £6 million (2012: £6 million) has been made for taxation expected to arise on a planned future dividend payment of £92 million from one subsidiary. 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 24 per cent to 23 per cent from 1 April 2013. Further reductions to 21 per cent from 1 April 2014 and 20 per cent from 1 April 2015 were enacted at the balance sheet date and are reflected in the deferred tax balances.

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 two principal schemes are final salary defined benefit schemes and are operated by Imperial Tobacco Limited in the UK and Reemtsma Cigarettenfabriken GmbH in Germany. The UK scheme's assets are held in trustee administered funds, whereas the German scheme is unfunded. The UK defined benefit scheme was closed to new members with effect from 1 October 2010 and since that date new employees are offered a defined contribution scheme instead.

The results of the most recent actuarial valuation for the principal UK scheme have been updated to 30 September 2013 by Towers Watson Limited, actuaries and consultants, in order to determine the amounts to be included in the Group's consolidated financial statements. Actuarial valuations of the pension liabilities of other schemes of the Group were made as at or updated to 30 September 2013 by the various actuaries to those schemes.

Amounts recognised in the consolidated income statement

£ million	2013	2012
Current service cost	55	43
Past service cost	(2)	(18)
Losses from special termination benefits	11	2
Defined benefit costs in operating profit	64	27
Interest on retirement benefit liabilities	168	187
Expected return on retirement benefit assets	(168)	(168)
Retirement benefits net financing costs in net finance costs (note 7)	–	19
Total defined benefit scheme cost	64	46
Defined contribution costs in operating profit	17	18
Total retirement benefit scheme costs in the consolidated income statement	81	64

Retirement benefit scheme costs charged to operating profit

£ million	2013	2012
Defined benefit costs in operating profit	64	27
Defined contribution costs in operating profit	17	18
Total retirement benefit scheme costs in operating profit	81	45

Split as follows in the consolidated income statement:

£ million	2013	2012
Cost of sales	35	33
Distribution, advertising and selling costs	28	22
Administrative and other expenses	18	(10)
Total retirement benefit scheme costs in operating profit	81	45

Defined benefit schemes – amounts recognised in the consolidated balance sheet

£ million	2013	2012
Present value of funded obligations	(3,566)	(3,361)
Fair value of scheme assets	3,349	3,099
	(217)	(262)
Present value of unfunded obligations	(837)	(784)
	(1,054)	(1,046)

Recognised in the consolidated balance sheet as:

£ million	2013	2012
Retirement benefit assets	1	–
Retirement benefit liabilities	(1,055)	(1,046)
	(1,054)	(1,046)

Defined benefit scheme obligations – changes in present value

£ million	2013	2012
At 1 October	4,145	3,630
Current service cost	55	43
Past service cost	(2)	(18)
Special termination benefits	11	2
Interest cost	168	187
Actuarial losses	199	588
Contributions by employees	2	3
Benefits paid	(218)	(212)
Other adjustments	(7)	–
Exchange movements	50	(78)
At 30 September	4,403	4,145

Defined benefit scheme assets – changes in fair value

£ million	2013	2012
At 1 October	3,099	2,876
Expected return on scheme assets	168	168
Actuarial gains	196	184
Contributions by employees	2	3
Contributions by employer	98	101
Benefits paid	(218)	(212)
Other adjustments	(5)	–
Exchange movements	9	(21)
At 30 September	3,349	3,099

The actual return on defined benefit scheme assets was £364 million (2012: £352 million).

22 RETIREMENT BENEFIT SCHEMES CONTINUED

Amounts recognised in other comprehensive income

£ million	2013	2012
Net actuarial losses	3	404
Cumulative net actuarial losses since 1 October 2004	812	809

Defined benefit scheme – principal actuarial assumptions used in scheme valuations

	2013		
%	UK	Germany	Other
Discount rate	4.30	3.45	3.68
Expected return on scheme assets	5.76	n/a	4.54
Future salary increases	4.80	3.10	3.44
Future pension increases	3.30	2.00	1.32
Inflation	3.30	2.00	2.09

	2012		
%	UK	Germany	Other
Discount rate	4.30	3.60	3.56
Expected return on scheme assets	5.70	n/a	4.86
Future salary increases	4.30	3.10	3.66
Future pension increases	2.80	2.00	1.35
Inflation	2.80	2.00	2.20

Other represents the weighted averages of the rates used for schemes outside the UK and Germany.

We estimate that a 0.5 per cent increase in the discount rate for all plans would have increased the IAS 19 pension expense by approximately £0.3 million and a 0.5 per cent decrease would have reduced the pension expense by £1.4 million. We estimate that a 0.5 per cent decrease/(increase) in the expected return on plan assets would have increased/(decreased) the IAS 19 pension expense by approximately £15.0 million.

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory, and are provided in the table below for the defined benefit schemes in the UK and Germany, which in aggregate represent 84 per cent (2012: 84 per cent) of the Group's total defined benefit scheme obligations at the year end. The average life expectancy, in years, of a pensioner retiring at age 65 is as follows:

	2013			
	UK		Germany	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.1	23.0	18.7	22.8
Member currently aged 50	22.1	24.2	20.7	24.7

	2012			
	UK		Germany	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.0	22.9	18.6	22.6
Member currently aged 50	22.1	24.1	20.6	24.6

Categories of scheme assets

£ million unless otherwise indicated	2013 UK Fair value	2013 UK Percentage of UK assets %	2013 Germany Fair value	2013 Germany Percentage of other assets %
Equities	**1,345**	**46**	**141**	**33**
Bonds	**965**	**33**	**244**	**57**
Property	**322**	**11**	**11**	**3**
Other	**292**	**10**	**29**	**7**
	2,924	**100**	**425**	**100**

£ million unless otherwise indicated	2012 UK Fair value	2012 UK Percentage of UK assets %	2012 Germany Fair value	2012 Germany Percentage of other assets %
Equities	1,189	44	134	34
Bonds	920	34	216	55
Property	325	12	13	3
Other	271	10	31	8
	2,705	100	394	100

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco Group PLC amounted to £3 million (2012: £3 million).

History of the plans

£ million	**2013**	2012	2011	2010	2009
At 30 September					
Present value of defined benefit obligations	**4,403**	4,145	3,630	3,802	3,592
Fair value of total plan assets	**3,349**	3,099	2,876	2,960	2,798
Net total (deficit)/surplus on plans	**(1,054)**	(1,046)	(754)	(842)	(794)
Experience (loss)/gain on total plan liabilities	**(5)**	(36)	(24)	63	8
Experience gain/(loss) on total plan assets	**196**	184	(158)	146	(58)

UK scheme triennial valuation and contribution levels

Following completion in 2011 of the triennial valuation of the Imperial Tobacco Pension Fund (ITPF – the main UK Group scheme) as at 31 March 2010, the level of employer's contributions to this scheme was increased from nil to £31 million per year as set by the ITPF actuary. This level of contribution will be reviewed again when the next triennial valuation is completed later this year at which time future payments may be increased or decreased.

In relation to the last triennial valuation, the assumptions which had the most significant effect when valuing the ITPF's liabilities were those relating to the rate of investment return on the ITPF's existing assets, the rates of increase in pay and pensions and estimated mortality rates. On the basis that the ITPF is continuing, it was assumed that the future investment returns relative to market values at the valuation date would be 5.5 per cent per annum and that pay and pension increases would average 5.0 per cent and 3.5 per cent respectively. The assets were brought into account at their market value.

At 31 March 2010 the market value of the invested assets of the ITPF was £2,622 million. 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 88 per cent of the total benefits that had accrued to members for past service and future service benefits for current members.

23 PROVISIONS

£ million	Restructuring 2013	Other 2013	Total 2013
At 1 October 2012	221	292	513
Additional provisions charged to the consolidated income statement	163	49	212
Unwind of discount on redundancy and other long-term provisions	3	6	9
Amounts used	(152)	(61)	(213)
Unused amounts reversed	(24)	(22)	(46)
Exchange movements	11	13	24
At 30 September 2013	222	277	499

Analysed as:

£ million	2013	2012
Current	92	103
Non-current	407	410
	499	513

Restructuring provisions relate mainly to our cost optimisation programme (see note 5) and to projects arising from the integration of Imperial Tobacco and Altadis, purchased in 2008. These provisions include employee social plans arising from restructuring activity and are expected to be used over the next ten years.

Other provisions principally relate to commercial legal claims and disputes and are expected to be used over a period of up to ten years.

24 SHARE CAPITAL

£ million	2013	2012
Issued and fully paid		
1,067,942,881 ordinary shares of 10p each (2012: 1,067,942,881)	107	107

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 on pages 62 to 82.

Analysis of charge to the consolidated income statement

£ million	2013	2012
Share Matching Scheme	16	17
Long Term Incentive Plan	(2)	2
Sharesave Plan	2	3
	16	22

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2013 was £2.1 million (2012: £2.1 million).

Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated	2013 Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2012	**2,738**	**929**	**1,799**	**17.31**
Granted	**1,119**	**333**	**666**	**18.40**
Lapsed/cancelled	**(175)**	**(266)**	**(259)**	**18.21**
Exercised	**(959)**	**(60)**	**(469)**	**15.36**
Outstanding at 30 September 2013	**2,723**	**936**	**1,737**	**18.12**
Exercisable at 30 September 2013	**–**	**22**	**72**	**15.67**

Thousands of shares unless otherwise indicated	2012 Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2011	2,981	1,089	2,157	14.64
Granted	856	349	610	20.45
Lapsed/cancelled	(174)	(264)	(97)	15.77
Exercised	(925)	(245)	(871)	12.96
Outstanding at 30 September 2012	2,738	929	1,799	17.31
Exercisable at 30 September 2012	–	–	107	15.59

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £23.27 (2012: £24.20). The weighted average fair value of sharesave options granted during the year was £2.68 (2012: £3.55).

Summary of awards/options outstanding at 30 September 2013

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2011	**927**	**4**	**n/a**
2012	**750**	**16**	**n/a**
2013	**1,046**	**28**	**n/a**
Total awards outstanding	**2,723**		
Long Term Incentive Plan			
2008	**5**	**–**	**n/a**
2009	**17**	**–**	**n/a**
2010	**284**	**1**	**n/a**
2011	**299**	**13**	**n/a**
2012	**331**	**26**	**n/a**
Total awards outstanding	**936**		
Sharesave Plan			
2008	**2**	**–**	**17.50**
2009	**152**	**10**	**12.54**
2010	**114**	**8**	**15.63**
2011	**361**	**13**	**17.80**
2012	**455**	**24**	**20.45**
2013	**653**	**35**	**18.40**
Total options outstanding	**1,737**		

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.

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 2013 and 2012 is as follows.

	2013		2012	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	**0.5**	**0.6 – 1.2**	0.5	0.7 – 1.3
Volatility (based on 3 or 5 year history) %	**18.0**	**10.1 – 23.0**	24.7	23.1 – 31.5
Expected lives of options granted years	**3**	**3 – 5**	3	3 – 5
Dividend yield %	**4.4**	**4.4**	4.7	4.7
Fair value £	**20.32**	**2.22 – 4.61**	21.46	3.51 – 4.94
Share price used to determine exercise price £	**23.18**	**23.00**	24.73	25.56
Exercise price £	**n/a**	**18.40**	n/a	20.45

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2013 and 2012 are given in the following table.

%	2013	2012
Future Imperial Tobacco Group share price volatility	**18**	22
Future Imperial Tobacco Group dividend yield	**4.4**	4.7
Share price volatility of the tobacco and alcohol comparator group	**14 – 29**	18 – 44
Share price volatility of the FTSE 100 comparator group	**15 – 50**	18 – 104
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**40**	35
Correlation between Imperial Tobacco and the FTSE 100 comparator group	**40**	40

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 (2012: £19.2 million) and an interest free loan of £181.9 million (2012: £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 2013. 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	2013	2012
At 1 October	**4.1**	4.8
Distribution of shares held by Employee Share Ownership Trusts	**(1.2)**	(1.8)
Gift of treasury shares	**0.4**	1.1
At 30 September	**3.3**	4.1

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.8 million (2012: 1.8 million) shares acquired in the open market at a cost of £16.7 million (2012: £23.3 million) and 2.5 million (2012: 2.3 million) treasury shares gifted to the Trusts by the Group, of which 0.4 million were gifted in this financial year (2012: 1.1 million).

26 TREASURY SHARES

On 16 May 2011, the Group 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 not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During 2013 the Group purchased 21,287,000 shares under the programme (2012: 21,865,000) at a cost of £500 million (2012: £528 million).

Millions of shares	2013	2012
At 1 October	**77.8**	57.0
Gift to Employee Share Ownership Trusts	**(0.4)**	(1.1)
Purchase of treasury shares	**21.3**	21.9
At 30 September	**98.7**	77.8
Percentage of issued share capital %	**9.2**	7.3

27 COMMITMENTS

Capital commitments

£ million	2013	2012
Contracted but not provided for:		
Property, plant and equipment and software	159	123

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

£ million	2013	2012
Property		
Within one year	35	35
Between one and five years	78	80
Beyond five years	18	16
	131	131

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.

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

ITU's appeal against the decision was upheld by the Circuit Administrative Court in Kiev in October 2012. The Department's appeal to the Kiev Administrative Court of Appeal was dismissed in February 2013 and its further appeal to the Superior Administrative Court of Ukraine was dismissed in June 2013. In August 2013, the Superior Administrative Court of Ukraine dismissed the Department's application for its decision to be reviewed by the Supreme Court of Ukraine. There are limited circumstances in which the Department could file a further appeal and ITU has been advised that the prospect of this happening is low. As a consequence, the Group has not provided for any amount in the financial statements in respect of this matter.

29 ACQUISITIONS

In July 2013, the Group purchased the sales and distribution business of our former agent in Cambodia, for a total consideration £41 million, of which £6 million is deferred until 2014. This gave rise to goodwill of £41 million, largely representing the value of the sales force in place.

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

30 NET DEBT CONTINUED

Analysis by denomination currency

	2013				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	**153**	**1,114**	**26**	**516**	**1,809**
Total borrowings	**(3,450)**	**(6,275)**	**(1,399)**	**(10)**	**(11,134)**
	(3,297)	**(5,161)**	**(1,373)**	**506**	**(9,325)**
Effect of cross currency swaps	**1,650**	**(1,650)**	**–**	**–**	
	(1,647)	**(6,811)**	**(1,373)**	**506**	**(9,325)**
Derivative financial instruments					**(193)**
Net debt					**(9,518)**

	2012				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	–	221	20	390	631
Total borrowings	(3,420)	(6,093)	–	(74)	(9,587)
	(3,420)	(5,872)	20	316	(8,956)
Effect of cross currency swaps	1,150	678	(1,828)	–	–
	(2,270)	(5,194)	(1,808)	316	(8,956)
Derivative financial instruments					(9)
Net debt					(8,965)

Adjusted net debt

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

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

31 RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2013	2012
Increase/(decrease) in cash and cash equivalents	**1,323**	(438)
Cash flows relating to derivative financial instruments	**28**	79
Increase in borrowings	**(4,884)**	(1,335)
Repayment of borrowings	**3,443**	1,486
Repayment of finance leases	**20**	2
Change in net debt resulting from cash flows	**(70)**	(206)
Other non-cash movements including revaluation of derivative financial instruments	**(246)**	331
Exchange movements	**(237)**	351
Movement in net debt during the year	**(553)**	476
Opening net debt	**(8,965)**	(9,441)
Closing net debt	**(9,518)**	(8,965)

INDEX TO THE HISTORICAL FINANCIAL INFORMATION RELATING TO THE LORILLARD BUSINESS

This Historical Financial Information was prepared using the books and records of third parties and is not derived from the Group's systems. See "*Risk Factors—Risks Relating to the Offering—The financial information in respect of the Acquired Assets included and incorporated by reference in this Offering Memorandum was prepared using the books and records of third parties and is not derived from the Group's systems, and does not comply with Regulation S-X*".

Historical financial information relating to the Lorillard Business for the years ended 31 December 2014, 2013 and 2012

Accountants' report on the historical financial information relating to the Lorillard Business for the year ended 31 December 2014 . . . . . F-118

Combined income statement for the year ended 31 December 2014, 2013 and 2012 . . . . . F-120

Combined balance sheet at 31 December 2014, 2013 and 2012 . . . . . F-123

Combined statement of changes in invested capital/(deficit) for the year ended 31 December 2014, 2013 and 2012 . . . . . F-124

Combined statement of cash flows for the year ended 31 December 2014, 2013 and 2012 . . . . . F-125

Notes to the combined historical financial information F-126

The Directors
Imperial Tobacco Finance PLC
121 Winterstoke Road
Bristol
BS3 2LL

15 July 2015

Dear Sirs

Historical financial information relating to the assets acquired as part of the Acquisition which were previously owned by, or related to, Lorillard, Inc. (the Lorillard Business)

We report on the financial information relating to the Lorillard Business as at and for the year ended 31 December 2014 as set out in the section entitled "*Historical Financial Information Relating to the Lorillard Business*" (the "**Lorillard Business Historical Financial Information**") and prepared on the basis of the accounting policies set out in note 2 to the Lorillard Business Historical Financial Information.

The Lorillard Business Historical Financial Information has been prepared for inclusion in the listing particulars that will list the senior notes of Imperial Tobacco Finance PLC (the "**Issuer**") (the "**Notes**") on the Professional Securities Market (the "**Listing Particulars**").

An application has been made to list the Notes on the Professional Securities Market. This report is required by item 11.1 of Annex IX to the PD Regulation, by virtue of item 4.2.3 of the Listing Rules, and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Issuer are responsible for preparing the Lorillard Business Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the Lorillard Business Historical Financial Information gives a true and fair view, for the purposes of the Listing Particulars, and to report our opinion to the Directors of the Issuer.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept

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any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex IX to the PD Regulation, by virtue of item 4.2.3 of the Listing Rules, consenting to its inclusion in the Listing Particulars.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Lorillard Business Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Lorillard Business Historical Financial Information and whether the accounting policies are appropriate to the Lorillard Business' circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Lorillard Business Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Lorillard Business Historical Financial Information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of the Lorillard Business as at 31 December 2014 and of its profits, cash flows and changes in invested capital for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of item 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 we are responsible for this report as part of the Listing Particulars and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Listing Particulars in compliance with item 1.2 of Annex IX to the PD Regulation, by virtue of item 4.2.3 of the Listing Rules.

Yours faithfully

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants

Historical Financial Information Relating to the Lorillard Business

Combined Income Statement
for the year ended 31 December

$ million	Note	2014	2013	2012
Revenue	**4**	**7,864**	**7,900**	**7,521**
Duty and similar items		(3,528)	(3,581)	(3,550)
Other cost of sales		(623)	(656)	(535)
Cost of sales	**4**	**(4,151)**	**(4,237)**	**(4,085)**
Gross profit	**4**	**3,713**	**3,663**	**3,436**
Distribution, advertising and selling costs		(1,119)	(1,194)	(1,103)
Acquisition costs		—	(4)	(6)
Amortisation and impairment of acquired intangibles	8	(128)	(12)	(4)
Other expenses		(344)	(298)	(285)
Administrative and other expenses		**(472)**	**(314)**	**(295)**
Operating profit and profit before taxation	**5**	**2,122**	**2,155**	**2,038**
Taxation	7	(819)	(817)	(756)
Profit for the year		**1,303**	**1,338**	**1,282**

Profit for the periods presented is entirely attributable to the owners of the Lorillard Business (as defined in note 1).

The combined financial information may not be representative of future results, for example, the historical capital structure does not reflect the future capital structure and future interest income and expense, pension costs and certain other operating costs and tax charges may be significantly different from those that resulted from being wholly owned by Lorillard.

Combined Statement of Comprehensive Income
for the year ended 31 December

$ million	Note	2014	2013	2012
Profit for the year		**1,303**	**1,338**	**1,282**
Other comprehensive (loss)/income:				
Exchange movements		(3)	1	—
Items that may be reclassified to profit and loss		**(3)**	**1**	**—**
Net actuarial (losses)/gains on retirement benefits	15	(72)	77	2
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	13	29	(32)	(1)
Items that will not be reclassified to profit and loss		**(43)**	**45**	**1**
Other comprehensive (loss)/income for the year , net of tax		**(46)**	**46**	**1**
Total comprehensive income for the year		**1,257**	**1,384**	**1,283**

Reconciliation from operating profit to adjusted EBITDA

$ million	2014	2013	2012
Operating profit / Profit before taxation	2,122	2,155	2,038
Depreciation	48	43	39
Amortisation and impairment	130	13	4
EBITDA	**2,300**	**2,211**	**2,081**
Acquisition costs	—	4	6
Volume adjustment offset	49	57	52
Adjusted EBITDA	**2,349**	**2,272**	**2,139**

A non-recurring volume adjustment offset of approximately US$49 million relating to the Initial State Settlements was incurred by the Lorillard Business in financial year 2014 (2013: $57 million, 2012: $52 million). The volume adjustment offset is dependent on total profitability of the U.S. tobacco industry and is reviewed and calculated on an annual basis should certain thresholds be met.

Reconciliation from Revenue to Net revenue

$ million	2014	2013	2012
Revenue	7,864	7,900	7,521
Duty and similar items	(3,528)	(3,581)	(3,550)
Net Revenue	**4,336**	**4,319**	**3,971**

Reconciliation from Gross profit to Brand contribution

$ million	2014	2013	2012
Gross profit	3,713	3,663	3,436
Advertising and support	(960)	(1,034)	(952)
Brand contribution	**2,753**	**2,629**	**2,484**

Combined Balance Sheet
at 31 December

$ million	Note	2014	2013	2012
Non-current assets				
Intangible assets	8	75	192	119
Property, plant and equipment	9	281	303	297
Deferred tax assets	13	578	504	497
Retirement benefit assets	15	—	55	—
Other		4	3	9
		938	**1,057**	**922**
Current assets				
Inventories	10	687	764	655
Trade and other receivables	11	66	72	58
		753	**836**	**713**
Total assets		**1,691**	**1,893**	**1,635**
Current liabilities				
Trade and other payables	12	(1,504)	(1,524)	(1,503)
		(1,504)	**(1,524)**	**(1,503)**
Non-current liabilities				
Retirement benefit obligations	15	(139)	(108)	(111)
Provisions	14	(39)	(27)	—
		(178)	**(135)**	**(111)**
Total liabilities		**(1,682)**	**(1,659)**	**(1,614)**
Net assets		**9**	**234**	**21**
Invested capital attributable to owners of the Lorillard Business				
Invested capital		9	234	21
Total invested capital		**9**	**234**	**21**

Combined Statement of Changes in Invested Capital

$ million	Note	Invested Capital
At 1 January 2014		**234**
Profit for the year		1,303
Other comprehensive loss		(46)
Total comprehensive income		**1,257**
Transactions with owners		
Share based compensation	6	20
Excess tax benefit on share-based compensation		9
Transactions with owners of the Lorillard Business		(1,511)
At 31 December 2014		**9**
At 1 January 2013		**21**
Profit for the year		1,338
Other comprehensive income		46
Total comprehensive income		**1,384**
Transactions with owners		
Share based compensation	6	18
Excess tax benefit on share-based compensation		14
Transactions with owners of the Lorillard Business		(1,203)
At 31 December 2013		**234**
At 1 January 2012		**(194)**
Profit for the year		1,282
Other comprehensive income		1
Total comprehensive income		**1,283**
Transactions with owners		
Share based compensation	6	20
Excess tax benefit on share-based compensation		11
Transactions with owners of the Lorillard Business		(1,099)
At 31 December 2012		**21**

Combined Statement of Cash Flows

$ million	Note	2014	2013	2012
Cash flows from operating activities				
Operating profit		2,122	2,155	2,038
Depreciation, amortisation and impairment	8, 9	178	56	43
Post-retirement benefits		14	18	18
Costs of employees' services compensated by share schemes	6	20	18	20
Operating cash flows before movement in working capital		2,334	2,247	2,119
Decrease / (increase) in inventories		77	(109)	(139)
Decrease / (increase) in trade and other receivables		9	(14)	(3)
(Decrease) / Increase in trade and other payables		(19)	17	93
Increase in other		16	26	7
Movement in working capital		83	(80)	(42)
Taxation paid	7	(864)	(856)	(769)
Net cash flows generated from operating activities		**1,553**	**1,311**	**1,308**
Cash flows from investing activities				
Purchase of property, plant and equipment	9	(26)	(50)	(73)
Purchase of intangible assets—software	8	(16)	(12)	(1)
Purchase of business, net of cash acquired	18	—	(46)	(135)
Net cash used in investing activities		**(42)**	**(108)**	**(209)**
Cash flows from financing activities				
Transactions with owners of the Lorillard Business		(1,511)	(1,203)	(1,099)
Net cash used in financing activities		**(1,511)**	**(1,203)**	**(1,099)**
Net increase in cash and cash equivalents		**—**	**—**	**—**
Cash and cash equivalents at start of year		**—**	**—**	**—**
Cash and cash equivalents at end of year		**—**	**—**	**—**

Lorillard and its subsidiaries from time to time and, where context requires, each one of them (the **Lorillard Group**) uses a centralised approach to cash management and financing its operations. Transactions between Lorillard and the carve-out group are accounted for through invested capital. Accordingly, none of the cash, cash equivalents, debt or related interest expense at the corporate level has been assigned to the carve-out in this historical financial information.

Notes to the historical financial information

1 Background to the transaction and nature of the business

Background to the transaction

On 15 July 2014, Reynolds, Lorillard, Inc. (**Lorillard**) and Lantern Acquisition Co., a wholly owned subsidiary of Reynolds American Inc. (**Reynolds**), entered into an agreement and plan of merger (the **Merger Agreement**). Pursuant to, and subject to the terms of, the Merger Agreement, Lantern Acquisition Co. merged with and into Lorillard. As a result of the merger, the separate corporate existence of Lantern Acquisition Co. ceased, and Lorillard is the surviving corporation in the merger such that Reynolds owns, directly or indirectly, 100 percent of the outstanding capital stock of Lorillard (the **Merger**).

Concurrently with the execution of the Merger Agreement, Imperial, ITG Brands, LLC (formerly called Lignum-2 L.L.C.) (a wholly-owned subsidiary of Imperial) (**ITG Brands**), and Reynolds entered into an agreement (the **Asset Purchase Agreement**), pursuant to which Reynolds agreed, following consummation of the Merger, to sell to ITG Brands (and/or any one or more of Imperial's subsidiaries from time to time (the **Imperial Group**)) the cigarette brands known as *Winston*, *Kool*, *Salem* and *Maverick* and the e-cigarette brand *blu*, and the associated assets, employees, offices, production facilities and certain associated liabilities of Reynolds and Lorillard and their relevant affiliates (the **Acquired Assets**) (the **Acquisition**). Reynolds also agreed, pursuant to the terms of the Asset Purchase Agreement, to transfer to ITG Brands the cigarette brand known as *Doral* for no additional consideration in the event that the aggregate market share in the U.S. of *Winston*, *Kool* and *Salem* for the three months prior to completion of the Acquisition was less than 4.9 percent (*Winston*, *Kool* and *Salem*, together with *Maverick* and, if applicable, the *Doral* brand being the **Acquired Tobacco Cigarette Brands**).

The completion of the Acquisition occurred immediately following the completion of the Merger on 12 June 2015.

Nature of the business

The *Maverick* and *blu* brands, and the associated assets, properties, licences, rights, employees and certain associated liabilities which form part of the Acquired Assets and were acquired by ITG Brands or another member of the Imperial Group as part of the Acquisition and that were owned by, or related to, the Lorillard Group prior to the completion of the Acquisition are hereafter referred to as the **Lorillard Business**.

The accompanying historical financial information (the **Lorillard Historical Financial Information** or **Lorillard HFI**) reflects the assets, liabilities, revenues and expenses attributed to the Lorillard Business which includes the revenue earned and expenses incurred by Lorillard on those brands produced by it which were not acquired by Imperial but which will be manufactured for Reynolds under the Reciprocal Manufacturing Agreement.

Note 4 to this Lorillard HFI discloses the split of revenue and gross profit attributable to the acquired and non-acquired brands of the Lorillard Business.

The Reynolds HFI on the Acquired Assets owned prior to the completion of the Acquisition by Reynolds is set out starting on page F-155 of this document.

2 Accounting Policies

Basis of Preparation

The Lorillard Business has not comprised a separate legal entity or group of entities for the years ended 31 December 2014, 2013 and 2012. The Lorillard HFI, which has been prepared specifically for the purpose of this document, is therefore prepared on a basis that combines the results, assets and liabilities of the Lorillard Business by applying the principles underlying the consolidation procedures of IFRS 10 'Consolidated Financial Statements' (**IFRS 10**) for each of the three years ended 31 December 2014, 2013 and 2012 and as at these dates. On such basis, the Lorillard HFI sets out the combined balance sheet as at 31 December 2014, 2013 and 2012 and the results of operations and cash flows for the three years then ended.

The Lorillard HFI has been prepared in accordance with this basis of preparation. This basis of preparation describes how the Lorillard HFI has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the IFRS Interpretations Committee interpretations (together **IFRS**). References to "IFRS" hereafter should be construed as references to IFRS as adopted by the EU. The principal accounting policies that have been applied to the Lorillard HFI are set out below. These policies have been consistently applied to all years presented unless otherwise stated. The Lorillard HFI has been prepared in accordance with IFRS consistent with that applied by Imperial in its 30 September 2014 financial statements.

IFRS does not provide for the preparation of combined financial information and accordingly in preparing the Lorillard HFI certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the U.K. Auditing Practices Board have been applied.

The Lorillard HFI is presented in millions of U.S. dollars ('$') and is prepared on an historical cost and going concern basis. The planned separation of the Lorillard Business has been considered and it is expected that the appropriate funding will be available for future operations as the separation occurs. It is expected that following separation from Lorillard the Lorillard Business will continue operating. The Lorillard Business' forecasts and projections, taking account of possible changes in trading performance show that the Lorillard Business will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The following summarises the accounting and other principles applied in preparing the Lorillard HFI:

The Lorillard HFI was prepared using the Lorillard Business' historical records of its assets and liabilities, and includes all sales, costs, assets and liabilities directly attributable to the Lorillard Business. Costs directly associated with the Business, for example, the costs associated with manufacturing, are separately identifiable and have been included directly within the Lorillard HFI.

All such costs and expenses have been deemed to have been paid by the Lorillard Business to Lorillard in the period in which the costs were incurred. Invested capital in the Lorillard Business as shown in the Combined Balance Sheet includes amounts due to / from Lorillard.

Lorillard used a centralised approach to cash management and financing its operations. Transactions between Lorillard and the Lorillard Business are accounted for through invested capital. Accordingly, none of the cash, cash equivalents, debt or related interest expense at the corporate level has been assigned to the Lorillard Business in the Lorillard HFI.

The income taxes charged to the Combined Income Statement have been prepared on a separate return basis as if the carve-out group was a stand-alone entity. Historically, it was included in tax filings with other group entities. It does not maintain taxes payable to/from Lorillard, and it is deemed to settle the annual current tax balances immediately with the legal entities that pay tax. These settlements are reflected as changes in invested capital.

The Acquisition did not include historical liabilities relating to tobacco litigation and associated external fees. Accordingly, Imperial management has carved out the tobacco litigation costs and provisions and related external legal fees in defending the actions from the Lorillard HFI on the basis that such claims are against Lorillard and are not brand specific. Similarly, while the Lorillard HFI includes estimated amounts payable under the Master Settlement Agreement (**MSA**), it excludes the impact of recent settlements of disputes under the MSA involving payment adjustments relating to non-participating manufacturers as these were agreed by Lorillard and are not brand specific.

Foreign Currency

Items included in the Lorillard HFI of the Lorillard Business are measured using the currency of the primary economic environment in which the Lorillard Business operates (the functional currency).

The income and cash flow statements of the Lorillard Business' subsidiaries using non-U.S. dollar functional currencies are translated to U.S. dollars (the Lorillard Business' 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 the Lorillard Business' 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 combined 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.

Revenue Recognition

Revenue comprises the invoiced value for the sale of goods net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when ownership of the goods transfers to customers and collectability of the related receivables is reasonably assured.

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 Combined income statement. Where duty is a sales tax, duty is excluded from revenue. Payments due in the U.S. under the MSA are considered to be levies having the characteristics of duty and are treated as a production tax.

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.

Lorillard Business 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 Lorillard HFI 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 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.

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 Lorillard Business' 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 Combined 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 (which relate primarily to acquired trademarks and rights and software) are initially recognised in the Combined Balance Sheet at historical cost unless they were 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. Trademarks, intellectual property, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Amortizable intangible assets:

blu eCigs Non-compete agreement and Technology	5 years	straight line
blu eCigs trademark and trade-name	10 years	straight line
SKYCIG Non-compete agreement and Customer list	5 years	straight line
SKYCIG trademark and trade-name	18 months	straight line
Software	3 years	straight line

Following completion of the Acquisition, intangible assets are recognised at fair value and the estimated useful economic lives assessed. This process has not yet been completed and accordingly the presented historical determination may not necessarily be reflective of Imperial's future assessment.

Property, Plant and Equipment

Property, plant and equipment are shown in the Combined 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 Lorillard Business 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	40 years	straight line
Plant and equipment	3 - 12 years	straight line
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

Non-derivative financial assets are classified as 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 Lorillard Business 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 Combined Income Statement.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost for leaf tobacco is determined using the average cost method. Cost for other inventories 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 Combined Balance Sheet when the Lorillard Business 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.

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.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

Share-Based Payments

The Lorillard Business applies the requirements of IFRS 2 Share-Based Payment Transactions to equity-settled share-based employee compensation schemes. All of the Lorillard Business' 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. Earnings per share vesting conditions are reflected in the estimate of awards that will eventually vest. Where applicable the Lorillard Business recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

Promotional Programmes

Retail sales incentives include retail price discounts, coupons and retail display allowances and are recorded as an expense based on amounts estimated as due to customers and consumers at the end of a period based primarily on use and redemption rates.

New Accounting Standards and Interpretations

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

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

3 Critical Accounting Estimates and Judgements

The Lorillard Business 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

Lorillard has historically recognised provisions for tobacco-related legal claims in its consolidated financial statements for litigations made against its group companies. These legal claims are not directly attributable to specific brands and relate to periods prior to those presented in the Lorillard HFI. Additionally, the *Maverick* brand was acquired without historic product liabilities. An indemnity against such liabilities was also provided by Reynolds in the Asset Purchase Agreement and took effect from completion of the Acquisition. Therefore, as there is no rational basis for allocating legal costs to the Lorillard Business, provisions for tobacco-related legal claims and the associated external legal costs have not been allocated or attributed to the Lorillard Business and are excluded from the Lorillard HFI.

The Lorillard Business reviews other 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 Lorillard HFI but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Lorillard Business management as to how it will respond to the litigation, claim or assessment.

To the extent that the Lorillard Business' 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 Lorillard Business' operating profit, financial position and liquidity.

A summary of significant legal cases in which the Lorillard Business is currently involved is disclosed in note 17.

Goodwill and Intangible Assets

The acquisitions of *blu* eCigs on 24 April 2012 and *SKYCIG* on 1 October 2013 resulted in the recording of goodwill, trademarks and other intangible assets. Upon acquisition, the purchase price was first allocated to identifiable assets and liabilities, including trademarks and trade names and other intangible assets, and the remainder of the purchase price was recorded as goodwill. The goodwill recorded as a part of the *blu* eCigs CGU is considered to be an indefinite lived intangible asset and as such is not amortized. The *blu e*Cigs trademark recorded as part of the *blu e*CIG CGU has an estimated useful life of 10 years and is being amortised over that life on a straight line basis starting in the month of acquisition. The *SKYCIG* trademark recorded as part of the *SKYCIG* CGU has an estimated useful life of 18 months and is being amortised over that life on a straight line basis starting on the date of acquisition (1 October 2013). This is due to the rebranding of SKYCIG to *blu* eCigs 18 months from the date of acquisition. The *SKYCIG* goodwill, also recorded as part of the *SKYCIG* CGU, is considered an indefinite lived intangible asset. Both the *blu* eCigs and *SKYCIG* CGUs are components of the Electronic Cigarettes reporting segment.

Impairment of Property, Plant and Equipment and Intangible Assets

Intangible assets (other than goodwill) and property, plant and equipment are amortised or depreciated over their useful lives which are based on 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 Lorillard Business assesses the impairment of property, plant and equipment and intangible assets 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 is subject to impairment review. The Lorillard Business' management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, Imperial management has also performed its own impairment review at each balance sheet date. Factors considered important that could trigger an impairment review of property, plant and equipment and/or intangible assets 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 Lorillard Business' accounting estimates in relation to property, plant and equipment and intangible assets affect the amounts reported in the Lorillard HFI, 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 Lorillard Business' Lorillard HFI. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements.

Following completion of the Acquisition, Imperial management has performed an annual impairment review which has resulted in an impairment of $64 million in respect of *blu* eCigs goodwill and $36 million in respect of *SKYCIG* goodwill being recognised in the year ended 31 December 2014. See note 8 to the historical financial information.

Income Taxes

The Lorillard Business 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 Lorillard Business 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.

Pension and Postretirement Benefit Obligations

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Lorillard Business are determined using methods relying on actuarial estimates and assumptions. The Lorillard Business takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Lorillard HFI. Details of the key assumptions are set out in note 15.

4 Segment Information

The Lorillard Business has two reportable segments, Cigarettes and Electronic Cigarettes. The Lorillard Business identifies segments based on how the Chief Operating Decision Maker (defined in IFRS 8) assesses performance and allocates resources, which is based on the types of products sold by each segment.

The function of Chief Operating Decision Maker is performed by the Chief Executive Officer, who is regularly provided with information on the two segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Chief Executive Officer is adjusted operating profit. Centrally incurred costs, such as the cost of the Lorillard Business' sales force and administrative overhead costs, are allocated to each segment based on the percentage of each segment's budgeted net sales (excluding federal excise taxes) of the Lorillard Business' consolidated net sales (excluding federal excise taxes). Segment balance sheet information is provided to the Chief Executive Officer on a total assets basis only.

The Cigarettes segment consists principally of the operations of the tobacco business and related entities. Its principal products are marketed under the brand names of *Newport, Kent, True, Maverick* and *Old Gold* with substantially all of its sales in the U.S.

The Electronic Cigarettes segment consists of the operations of LOEC, Inc (**LOEC**) (doing business as *blu* eCigs), Cygnet (trading as *SKYCIG* or Blu U.K.) and related entities. LOEC is an electronic cigarette company in the U.S., and markets its products under the *blu* eCigs brand. The Lorillard Business acquired the *blu* eCigs brand and other assets used in the manufacture, distribution, development, research, marketing, advertising and sale of electronic cigarettes on 24 April 2012. The Lorillard Business acquired certain of the assets and operations of *SKYCIG*, a United Kingdom based electronic cigarette business on 1 October 2013.

Prior to the acquisition of *blu* eCigs on 24 April 2012, the Lorillard Business managed its operations on the basis of one operating and reportable segment being Cigarettes.

Revenues of approximately $2,354 million (2013: $2,273 million; 2012: $2,149 million) are derived from a single external customer. These revenues are attributable to the cigarette segment. The Lorillard Business has no intra-group transactions between its operating segments, other than for centrally managed Legal, Compliance and Research and Development activities which totalled $1 million, $1 million, and $1 million in 2014, 2013 and 2012, respectively.

The Lorillard Business maintained its headquarters and manufactures all of its cigarette products at its Greensboro, North Carolina facilities. Substantially all of the Lorillard Business' sales and fixed assets are in the United States of America. *Newport, Kent, True, Maverick, Old Gold, blu* eCigs and *SKYCIG* are the registered trademarks of the Lorillard Group and its subsidiaries. The Lorillard Group sold its major cigarette trademarks outside of the U.S. in 1977.

	2014			2013			2012		
$ million	**Cigarettes**	**e-Cigarettes**	**Total**	**Cigarettes**	**e-Cigarettes**	**Total**	**Cigarettes**	**e-Cigarettes**	**Total**
Revenue	7,699	165	**7,864**	7,656	244	**7,900**	7,460	61	**7,521**
Profit before taxation	2,321	(199)	**2,122**	2,161	(6)	**2,155**	2,041	(3)	**2,038**
—Acquisition expenses	—	—	**—**	4	—	**4**	5	1	**6**
—Amortisation and impairment of acquired brand	—	128	**128**	—	12	**12**	—	4	**4**
Adjusted profit/(loss) before taxation	2,321	(71)	**2,250**	2,165	6	**2,171**	2,046	2	**2,048**

	2014			
$ million	**Cigarettes**	**e-Cigarettes**	**Consolidating Adjustments**	**Total**
Depreciation amortisation and impairment	49	129	—	**178**
Additions to PPE	24	2	—	**26**
Total assets	1,589	227	(125)	**1,691**

$ million	2013 Cigarettes	e-Cigarettes	Consolidating Adjustments	Total
Depreciation and amortisation	44	12	—	**56**
Additions to PPE	49	1	—	**50**
Total assets	1,727	291	(125)	**1,893**

$ million	2012 Cigarettes	e-Cigarettes	Consolidating Adjustments	Total
Depreciation and amortisation	38	5	—	**43**
Additions to PPE	75	—	—	**75**
Total assets	1,556	204	(125)	**1,635**

The results of the Lorillard Business for the year end 31 December are presented below split between the results of the brands acquired by Imperial as part of the Acquisition and non-acquired brands manufactured but excluded from Imperial's Acquisition.

$ million	2014 Acquired brands	Non-acquired brands	Total
Revenue	859	7,005	7,864
Duty and similar items	(452)	(3,076)	(3,528)
Other cost of sales	(172)	(451)	(623)
Cost of sales	**(624)**	**(3,527)**	**(4,151)**
Gross profit	**235**	**3,478**	**3,713**
Distribution, advertising and selling costs			(1,119)
Amortisation of acquired intangibles			(128)
Other expenses			(344)
Administrative and other expenses			**(472)**
Operating profit / Profit before taxation			**2,122**
Taxation			(819)
Profit for the year			**1,303**

$ million	2013 Acquired brands	2013 Non-acquired brands	2013 Total
Revenue	912	6,988	7,900
Duty and similar items	(493)	(3,088)	(3,581)
Other cost of sales	(218)	(438)	(656)
Cost of sales	**(711)**	**(3,526)**	**(4,237)**
Gross profit	**201**	**3,462**	**3,663**
Distribution, advertising and selling costs			(1,194)
Acquisition costs			(4)
Amortisation of acquired intangibles			(12)
Other expenses			(298)
Administrative and other expenses			**(314)**
Operating profit / Profit before taxation			**2,155**
Taxation			(817)
Profit for the year			**1,338**

$ million	2012 Acquired brands	2012 Non-acquired brands	2012 Total
Revenue	732	6,789	7,521
Duty and similar items	(493)	(3,057)	(3,550)
Other cost of sales	(103)	(432)	(535)
Cost of sales	**(596)**	**(3,489)**	**(4,085)**
Gross profit	**136**	**3,300**	**3,436**
Distribution, advertising and selling costs			(1,103)
Acquisition costs			(6)
Amortisation of acquired intangibles			(4)
Other expenses			(285)
Administrative and other expenses			**(295)**
Operating profit / Profit before taxation			**2,038**
Taxation			(756)
Profit for the year			**1,282**

5 Profit Before Taxation

Profit before taxation is stated after charging:

$ million	2014	2013	2012
Raw materials and consumables used	371	373	363
Operating lease charges	6	5	4
Research and development	25	21	20
Write down of inventories	11	7	—
Amortisation	30	13	4
Impairment of intangible assets	100	—	—
Depreciation	48	43	39

6 Employees

Employment costs

$ million	2014	2013	2012
Wages and salaries	289	291	280
Social security costs	17	17	17
Pension and post-retirement costs	47	54	51
Share-based payments	20	18	20
	373	**380**	**368**

Number of people employed by the Lorillard Business during the year

	2014	2013	2012
Average (rounded to the nearest 100)	2,900	2,900	2,800

Key management compensation

Key management includes directors (executive and non-executive) and named executive officers. Certain members of key management did not transfer to Imperial on completion of the Acquisition. The compensation paid or payable to key management for employee services is shown below:

$ million	2014	2013	2012
Salaries and other short-term employee benefits	12	13	10
Post-employment benefits	2	—	1
Directors' fees	1	1	1
Share-based payments	2	10	9
Total	**17**	**24**	**21**

7 Taxation

Analysis of charge in the year $ million	2014	2013	2012
Current tax			
Federal	712	682	630
State and other	152	174	139
Total current tax	**864**	**856**	**769**
Deferred tax			
Federal	(50)	(24)	(10)
State and other	5	(15)	(3)
Total deferred tax	**(45)**	**(39)**	**(13)**
Total tax charged to the Combined income statement	**819**	**817**	**756**

The income taxes charged to the Combined Income Statement have been prepared on a separate return basis as if the Lorillard Business was a stand-alone entity. Historically, the Lorillard Business was included in tax filings with other group entities. The Lorillard Business does not maintain taxes payable to/from Lorillard, and the Lorillard Business is deemed to settle the annual current tax balances immediately with the legal taxpaying entities. These settlements are reflected as changes in invested capital.

Factors affecting the tax charge for the year

The tax on the Lorillard Business' profit before tax differs from the theoretical amount that would arise using the average U.S. federal income tax rate for the year of 35 percent (2013: 35 percent, 2012: 35 percent) as follows:

$ million	2014	2013	2012
Profit before tax	**2,122**	**2,155**	**2,038**
Tax at the U.S. corporate tax rate of 35%	743	754	713
Tax effects of:			
State tax, net of federal effect	100	104	89
Differences in effective tax rates on overseas earnings	7	1	—
Permanent differences	(31)	(42)	(46)
Total tax charged to the Combined income statement	**819**	**817**	**756**

8 Intangible Assets

	2014			
$ million	Goodwill	Trademarks	Software	Total
Cost				
At 1 January 2014	102	93	92	287
Additions	—	—	16	16
Foreign currency exchange loss	(2)	(1)	—	(3)
At 31 December 2014	**100**	**92**	**108**	**300**
Accumulated amortisation				
At 1 January 2014	—	16	79	95
Impairment	100	—	—	100
Amortisation charge for the year	—	28	2	30
At 31 December 2014	**100**	**44**	**81**	**225**
Net book value				
At 31 December 2014	**—**	**48**	**27**	**75**

	2013			
$ million	Goodwill	Trademarks	Software	Total
Cost				
At 1 January 2013	64	57	80	201
Additions (note 18)	38	36	12	86
At 31 December 2013	**102**	**93**	**92**	**287**
Accumulated amortisation				
At 1 January 2013	—	4	78	82
Amortisation charge for the year	—	12	1	13
At 31 December 2013	**—**	**16**	**79**	**95**
Net book value				
At 31 December 2013	**102**	**77**	**13**	**192**

$ million	2012 Goodwill	Trademarks	Software	Total
Cost				
At 1 January 2012	—	—	79	79
Additions (note 18)	64	57	1	122
At 31 December 2012	**64**	**57**	**80**	**201**
Accumulated amortisation				
At 1 January 2012	—	—	78	78
Amortisation charge for the year	—	4	—	4
At 31 December 2012	**—**	**4**	**78**	**82**
Net book value				
At 31 December 2012	**64**	**53**	**2**	**119**

Trademarks principally comprise brands acquired through the purchases of *blu* eCigs and *SKYCIG*. See note 18.

Intangible amortisation is included within administrative and other expenses in the Combined income statement.

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. Goodwill is allocated to the *blu* eCigs and *SKYCIG* CGUs, which are components of the e-cigarettes segment. A summary of the carrying value of goodwill is set out below.

$ million	2014 Goodwill	2013 Goodwill	2012 Goodwill
blu eCigs	—	64	64
SKYCIG	—	38	—

Goodwill arose on the acquisitions of *blu* eCigs and *SKYCIG.* See note 18.

The Lorillard Business tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen. Additionally, Imperial management has also performed its own impairment review at each balance sheet date.

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 detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. The financial plan for *blu* eCigs and *SKYCIG* is greater than five years due to the rapid growth of the e-cigarettes market and Imperial management's expectation that significant growth will occur over a period greater than five years. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer preferences and other changes in product mix, based on long- term market trends, market data, anticipated regulatory developments, and Imperial management's experience and expectations. Imperial management considers that pricing, market size, market shares and cost inflation are the key assumptions used in its plans.

Following completion of the Acquisition, Imperial management performed an annual impairment review which resulted in an impairment of $64 million in respect of *blu* eCigs goodwill and $36 million in respect of *SKYCIG* goodwill being recognised in the year ended 31 December 2014.

This reflects uncertainties at this time regarding the future profitability of the *blu* eCigs and SKYCIG businesses in light of the current challenging market conditions and early stage of the business, respectively.

Growth rates and discount rates used

The compound annual revenue growth rate implicit in the value-in-use calculations was 4 percent for blu eCigs and 25 percent for SKYCIG (2013: 36 percent for blu eCigs, 20 for SKYCIG; 2012: 73 percent for blue Cigs, n/a for SKYCIG).

Estimated long-term weighted average compound annual revenue growth rates of 2 percent per annum are used beyond year nine for blu eCigs and year seven for SKYCIG and are based on Imperial management's long-term expectations taking into account industry specific factors.

Discount rates used are based on the Lorillard Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. The pre-tax discount rate was 14.7 percent for blu eCigs and 18.1 percent for SKYCIG (2013: 15.7 percent for blu eCigs and 13.9 percent for SKYCIG, 2012: 16.3 percent for blu eCigs and n/a for SKYCIG).

Imperial management's impairment projections are prepared under the basis set out in IAS 36 which can differ from its internal plans.

Any reasonable movement in the assumptions used in the impairment tests would not result in any further impairment.

9 Property, Plant and Equipment

	2014			
$ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 January 2014	108	532	59	699
Additions	2	17	7	26
Disposals	—	(21)	—	(21)
At 31 December 2014	**110**	**528**	**66**	**704**
Accumulated depreciation				
At 1 January 2014	65	283	48	396
Depreciation charge for the year	3	27	18	48
Disposals	—	(21)	—	(21)
At 31 December 2014	**68**	**289**	**66**	**423**
Net book value				
At 31 December 2014	**42**	**239**	**—**	**281**

$ million	2013			
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 January 2013	98	523	54	675
Additions	10	34	6	50
Disposals	—	(25)	(1)	(26)
At 31 December 2013	**108**	**532**	**59**	**699**
Accumulated depreciation				
At 1 January 2013	64	270	44	378
Depreciation charge for the year	1	35	7	43
Disposals	—	(22)	(3)	(25)
At 31 December 2013	**65**	**283**	**48**	**396**
Net book value				
At 31 December 2013	**43**	**249**	**11**	**303**

$ million	2012			
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 January 2012	93	468	50	611
Additions	5	65	5	75
Disposals	—	(10)	(1)	(11)
At 31 December 2012	**98**	**523**	**54**	**675**
Accumulated depreciation				
At 1 January 2012	62	246	42	350
Depreciation charge for the year	2	33	4	39
Disposals	—	(9)	(2)	(11)
At 31 December 2012	**64**	**270**	**44**	**378**
Net book value				
At 31 December 2012	**34**	**253**	**10**	**297**

Included within Property, Plant and Equipment are assets in the course of construction of US$20 million (2013: US$37 million and 2012: US$40 million) for which no depreciation has been charged.

10 Inventories

$ million	2014	2013	2012
Raw materials	558	588	534
Work in progress	7	7	3
Finished inventories	122	169	118
	687	**764**	**655**

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. Lorillard Business management estimates that around US$237 million

(2013: US$247 million, 2012: US$238 million) of leaf tobacco held within raw materials will not be utilized within a year of the balance sheet date.

11 Trade and Other Receivables

$ million	2014	2013	2012
Amounts due within one year:			
Trade receivables	15	22	20
Less: provision for impairment of receivables	(2)	(3)	(3)
Net trade receivables	**13**	**19**	**17**
Other receivables	26	29	21
Prepayments and accrued income	27	24	20
	66	**72**	**58**

Trade receivables may be analysed as follows:

$ million	2014	2013	2012
Within credit terms	13	19	17
Amounts that are past due and impaired	2	3	3
	15	**22**	**20**

The carrying amount of trade and other receivables is a reasonable approximation to their fair value.

12 Trade and Other Payables

$ million	2014	2013	2012
Trade payables	31	42	39
Tobacco settlement accruals	1,215	1,228	1,183
Other taxes, duties and social security contributions	78	62	71
Accruals and deferred income	180	192	210
	1,504	**1,524**	**1,503**

The carrying amount of trade and other payables is a reasonable approximation to their fair value.

13 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 Combined Balance Sheet.

$ million	2014	2013	2012
Deferred tax assets	644	573	577
Deferred tax liabilities	(66)	(69)	(80)
	578	**504**	**497**

Deferred tax expected to be recovered within 12 months

$ million	2014	2013	2012
Deferred tax assets	517	529	543
Deferred tax liabilities	—	—	—
	517	**529**	**543**

Deferred tax assets

$ million	2014			
	Fixed and intangible assets	Retirement benefits	Other temporary differences	Total
At 1 January 2014	1	23	549	573
Credited to Combined income statement	39	7	(4)	42
Credited to other comprehensive income	—	29	—	29
At 31 December 2014	**40**	**59**	**545**	**644**

$ million	2013			
	Fixed and intangible assets	Retirement benefits	Other temporary differences	Total
At 1 January 2013	1	34	542	577
Credited to Combined income statement	—	21	7	28
Charged to other comprehensive income	—	(32)	—	(32)
At 31 December 2013	**1**	**23**	**549**	**573**

$ million	2012			
	Fixed and intangible assets	Retirement benefits	Other temporary differences	Total
At 1 January 2012	1	27	529	557
Credited to Combined income statement	—	8	13	21
Charged to other comprehensive income	—	(1)	—	(1)
At 31 December 2012	**1**	**34**	**542**	**577**

Other temporary differences primarily arise on the timing of the tax deduction for the MSA accrual.

Deferred tax liabilities

$ million	2014			
	Fixed and intangible assets	Retirement benefits	Other temporary differences	Total
At 1 January 2014	(69)	—	—	(69)
Credited to Combined income statement	3	—	—	3
At 31 December 2014	**(66)**	**—**	**—**	**(66)**

$ million	2013			
	Fixed and intangible assets	Retirement benefits	Other temporary differences	Total
At 1 January 2013	(64)	—	(16)	(80)
(Charged) / credited to Combined income statement	(5)	—	16	11
At 31 December 2013	**(69)**	**—**	**—**	**(69)**

$ million	2012			
	Fixed and intangible assets	Retirement benefits	Other temporary differences	Total
At 1 January 2012	(57)	—	(15)	(72)
Charged to Combined income statement	(7)	—	(1)	(8)
At 31 December 2012	**(64)**	**—**	**(16)**	**(80)**

14 Provisions

$ million	2014	2013	2012
At 1 January	(27)	—	—
Additional provisions arising from business combination (see note 18)	—	(25)	—
Charged to income statement	(12)	(2)	—
At 31 December	**(39)**	**(27)**	**—**

Analysed as:

$ million	2014	2013	2012
Current	(21)	—	—
Non-current	(18)	(27)	—
	(39)	**(27)**	**—**

A current provision of $21 million has been recorded in relation to the on-going litigation between Lorillard Inc. and Zippmark, Inc. and certain affiliated entities (“Zippo”). This litigation was settled for $21 million in April 2015. See note 17.

Non-current provisions relate primarily to the earn out liability (2014: US$17 million, 2013: US$27 million) arising on the acquisition of *SKYCIG*. See note 18.

15 Retirement Benefit Schemes

The Lorillard Business has defined benefit and defined contribution pensions, post-retirement benefits, profit sharing and savings plans for eligible employees.

Historically, the Lorillard Group has had two defined benefit pension schemes:

- The Salaried Pension Plan provides benefits based on employees’ compensation and service. The Salaried Pension Plan was not included in the Acquisition and accordingly the related net liability has been excluded from the balance sheet of this carve out combined historical financial information; and

- The Hourly Pension Plan provides benefits based on fixed amounts for each year of service. The Hourly Pension Plan was included in the Acquisition and accordingly the related net asset has been included on the balance sheet of this carve out combined historical financial information.

The Lorillard Group also provides medical and life insurance benefits to eligible employees, across two schemes (the 'Salaried and Hourly post-employment medical plans'). The benefits for active employees who transferred with the Lorillard Business were included in the Acquisition and accordingly the related net liability has been included on the balance sheet of this carve out combined historical financial information. The benefits for non-active employees were not included in the Acquisition and accordingly the related net liability has not been included on the balance sheet of this carve out combined historical financial information.

The Lorillard Business also provides certain senior level management employees with nonqualified, unfunded supplemental retirement plans. While these plans are unfunded, the Lorillard Business has certain assets invested in an executive life insurance policy that are to be used to provide for certain of these benefits.

These plans operate under trust law and are managed and administered by the Trustees (represented by certain Lorillard employees) with advisement from Cambridge Associates.

The full charge for all schemes, acquired and non-acquired, are reflected in the income statement of the Lorillard Business.

The results of the most recent actuarial valuations have been updated to 31 December 2014 by independent qualified actuaries in order to determine the amounts to be included in the combined financial information. The Lorillard Business uses a December 31 measurement date for its plans.

The amounts recognised in the balance sheet are determined as follows:

Defined benefit schemes—amounts recognised in the combined balance sheet

$ million	2014	2013	2012
Present value of funded obligations	(572)	(497)	(542)
Fair value of scheme assets	565	552	541
(Deficit)/surplus of funded plans	(7)	55	(1)
Present value of unfunded obligations	(132)	(108)	(110)
Total deficit of defined retirement benefit plans	**(139)**	**(53)**	**(111)**

The movement in the defined benefit obligation over the year is as follows:

Acquired retirement benefits

$ million Balance Sheet and Income Statement Expense	2014 Liabilities	2014 Assets	2014 Total	2013 Liabilities	2013 Assets	2013 Total	2012 Liabilities	2012 Assets	2012 Total
Amounts recognised on the balance sheet at beginning of year	**(605)**	**552**	**(53)**	**(652)**	**541**	**(111)**	**(614)**	**520**	**(94)**
Income statement expense									
Current service cost	(13)	—	(13)	(15)	—	(15)	(13)	—	(13)
Past service cost	—	—	—	—	—	—	(1)	—	(1)
Net (Interest) / Income on Net Defined Benefit (Liability)/Asset	(26)	25	(1)	(25)	21	(4)	(28)	23	(5)
Cost Recognised in income statement	**(39)**	**25**	**(14)**	**(40)**	**21**	**(19)**	**(42)**	**23**	**(19)**
Remeasurements									
Actuarial (Loss)/Gain due to Liability Experience	(94)	—	(94)	53	—	53	(31)	—	(31)
Return on Plan Assets Greater than Discount Rate	—	22	22	—	24	24	—	33	33
Remeasurement Effects Recognised in OCI	**(94)**	**22**	**(72)**	**53**	**24**	**77**	**(31)**	**33**	**2**
Cash									
Benefits paid directly by the company	—	—	—	—	—	—	—	—	—
Benefits paid from plan assets	34	(34)	—	34	(34)	—	35	(35)	—
Net Cash	**34**	**(34)**	**—**	**34**	**(34)**	**—**	**35**	**(35)**	**—**
Amounts recognised on the balance sheet at end of year	**(704)**	**565**	**(139)**	**(605)**	**552**	**(53)**	**(652)**	**541**	**(111)**

Total amounts recognised in the income statement in the year are as follows:

Total amounts recognised in the combined income statement

	2014	2013	2012
		$ million	
Cost recognised in respect of acquired retirement benefits	16	19	18
Cost recognised in respect of non-acquired retirement benefits	26	30	28
Cost recognised in respect of defined contribution benefit plan	5	5	5
Total charge recognised within administrative and other expenses	**47**	**54**	**51**

Defined benefit scheme—principal actuarial assumptions used in scheme valuations

%	2014 Pension benefits	2014 Other post-retirement benefits
Discount rate	4.0	4.0
Inflation	—	2.5

	2013	
%	Pension benefits	Other post-retirement benefits
Discount rate	4.7	4.7
Inflation	—	2.5

	2012	
%	Pension benefits	Other post-retirement benefits
Discount rate	3.9	4.0
Inflation	—	2.5

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience, and are provided in the table below. The average life expectancy, in years, of a pensioner retiring at age 65 is as follows:

	2014			
	Pension benefits		Other post-retirement benefits	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	20.6	23.2	20.6	23.2
Member currently aged 50	21.9	24.5	21.9	24.5

	2013			
	Pension benefits		Other post-retirement benefits	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	18.4	20.5	18.4	20.5
Member currently aged 50	18.4	20.5	18.4	20.5

	2012			
	Pension benefits		Other post-retirement benefits	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	18.4	20.4	18.4	20.4
Member currently aged 50	18.4	20.4	18.4	20.4

Assumed health care cost trend rates for the hourly post-employment medical plan is as follows:

	2014	2013	2012
Pre-65 healthcare cost trend rate assumed for next year	8.0%	8.0%	8.5%
Post-65 healthcare cost trend rate assumed for next year	5.3%	6.0%	6.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%	4.5%
Year that the rate reaches the ultimate trend rate: Pre-65	2023	2021	2021
Year that the rate reaches the ultimate trend rate: Post-65	2023	2021	2021

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions are:

Defined benefit pension plan	**Changes in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 2.5%	Increase by 2.4%
Salaried post-employment medical plan			
Discount rate	0.25%	Decrease by 3.2%	Increase by 3.4%
Inflation	0.25%	Increase by 0.1%	Decrease by 0.1%
Hourly post-employment medical plan			
Discount rate	0.25%	Decrease by 3.4%	Increase by 3.5%
Health care trend increases	0.25%	Increase by 2.6%	Decrease by 2.5%
Inflation	0.25%	Increase by 0.2%	Decrease by 0.2%

Life expectancy	**Increase by 1 year in assumption**	**Decrease by 1 year in assumption**
Defined benefit pension plan	Increase by 4.3%	Decrease by 4.5%
Salaried post-employment medical plan	Increase by 2.2%	Decrease by 2.3%
Hourly post-employment medical plan	Increase by 0.7%	Decrease by 0.8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Categories of scheme assets

	2014			
	Pension benefits			
	Fair value			
$ million	**Quoted**	**Unquoted**	**Total**	**Percentage of assets %**
Equities	9	132	141	25.0%
Bonds	—	195	195	34.5%
Property	—	26	26	4.6%
Other	—	203	203	35.9%
	9	**556**	**565**	**100.0%**

$ million	2013 Pension benefits Fair value Quoted	Unquoted	Total	Percentage of assets %
Equities	7	126	133	24.2%
Bonds	—	163	163	29.6%
Property	—	3	3	0.5%
Other	—	252	252	45.7%
	7	**544**	**551**	**100.0%**

$ million	2012 Pension benefits Fair value Quoted	Unquoted	Total	Percentage of assets %
Equities	25	117	142	26.3%
Bonds	121	81	202	37.3%
Property	—	4	4	0.7%
Other	—	193	193	35.7%
	146	**395**	**541**	**100.0%**

Scheme valuation and contribution levels

Through its defined benefit pension plans and post-employment medical plans, the Lorillard Business is exposed to a number of risks, the most significant of which are discount rate applied, the trend in healthcare costs and estimated mortality rates.

The Lorillard Business expects to contribute less than $1 million to its pension plan and $1 million to its other postretirement benefit plans in 2015.

The general principles guiding the investment of the plan assets are embodied in the Employee Retirement Income Security Act of 1974 (**ERISA**). These principles include discharging the Lorillard Business' investment responsibilities for the exclusive benefit of plan participants and in accordance with the "prudent expert standards" and other ERISA rules and regulations. Investment objectives for the Lorillard Business' pension plan assets are to optimize the long-term return on plan assets while maintaining an acceptable level of risk, to diversify assets among asset classes and investment styles, and to maintain a long-term focus.

The plan is managed using a Liability Driven Investment (**LDI**) framework which focuses on achieving the plan's return goals while assuming a reasonable level of funded status volatility.

Based on this LDI framework the asset allocation has two primary components. The first component of the asset allocation is the "hedging portfolio" which uses the plan's fixed income portfolio to hedge a portion of the interest rate risk associated with the plan's liabilities, thereby reducing the plan's expected funded status volatility. The second component is the "growth/equity portfolio" which is designed to enhance portfolio returns. The growth portfolio is broadly diversified across the following asset classes: Global Equities, Long Short Equities, Absolute Return Hedge Funds, Private Equity (including growth equity, buyouts, and other illiquid assets designed to enhance returns), and Private Real Assets. Alternative investments, including hedge funds, are used judiciously to enhance risk adjusted long-term returns while improving portfolio diversification. Overlay derivatives are used to assist in the rebalancing of the total portfolio to the strategic asset allocation. Derivatives may be used to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an on-going basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews.

The assumptions that have the most impact on pension and postretirement costs are the discount rate, the expected return on plan assets, the expected rate of compensation increases, assumed future mortality experience and assumed healthcare cost trend rates. These assumptions are evaluated on an annual basis relative to current market factors such as inflation, interest rates and fiscal and monetary policies. Changes in these assumptions can have a material impact on pension obligations and pension expense

The weighted average durations of the defined benefit pension plan, hourly post-employment medical plan and salaried post-employment medical plan are 9.88, 12.97 and 12.82 years, respectively.

Expected maturity analysis of undiscounted pension and post-employment medical benefits:

$ million at 31 December 2014	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	36	37	111	1,029	1,213
Post-employment medical benefits	2	4	19	386	411
Total	**38**	**41**	**130**	**1,415**	**1,624**

16 Commitments

Capital commitments

$ million	2014	2013	2012
Contracted but not provided for:			
Property, plant and equipment and software	53	61	69

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

$ million	2014	2013	2012
Property			
Within one year	2	2	2
Between one and five years	4	4	2
	6	**6**	**4**

17 Legal Proceedings and Disputes

Tobacco Settlement Agreement Costs

In 1998, Lorillard Tobacco, Philip Morris Incorporated, RJR Tobacco and Brown & Williamson Tobacco Corporation (now an affiliate of RJR Tobacco) (the **Original Participating Manufacturers** or **OPMs**) entered into the Master Settlement Agreement (the **MSA**) with 46 states and various other governments and jurisdictions to settle asserted and unasserted health care cost recovery and other claims of those States which were a party to the MSA (the **Settling States**). These same parties had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (the **Initial State Settlements** and, together with the MSA, are referred to as the **State Settlement Agreements**).

The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the OPMs to avoid the further expense, inconvenience, burden and uncertainty of litigation. The portion of on-going adjusted settlement payments and legal fees to be paid by each OPM is based on its relative share (among the OPMs) of domestic cigarette shipments in the year preceding that in which the payment is due for the MSA and the year in which the payment is due for the other State settlements.

Lorillard and the other OPMs and certain Subsequent Participating Manufacturers (**SPMs**) under the MSA are currently involved in an arbitration with certain of the settling States with respect to the availability for certain market years of a downward adjustment to the annual MSA settlement payment obligation, known as the "**NPM Adjustment**".

On 17 December 2012, Lorillard and certain of the other OPMs and SPMs agreed to settle with 17 States and the District of Columbia and Puerto Rico disputes under the MSA related to the NPM Adjustment. Five additional States subsequently joined this settlement. The settlement resolves the claims for the years 2003 through 2012 and puts in place a new method for calculating this adjustment with respect to the States that signed the settlement, beginning for volume year 2013. Under the terms of the settlement, Lorillard and other manufacturers will receive credits against their future MSA payments over /six years, and the signatory states will be entitled to receive their allocable share of the amounts currently being held in escrow resulting from these disputes.

While the Lorillard HFI includes estimated amounts payable under the MSA, it excludes the impact of recent settlements of disputes under the MSA involving payment adjustments relating to non-participating manufacturers as these were agreed by Lorillard and are not brand specific.

The Lorillard Business believes that the State Settlement Agreements will materially adversely affect its cash flows and operating income in future years. The degree of the adverse impact will depend, among other things, on the rates of decline in domestic cigarette sales in the premium price and discount price segments, the Lorillard Business' share of the domestic premium price and discount price cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to significant payment obligations under the State Settlement Agreements.

From time to time, lawsuits have been brought against participating manufacturers to the MSA, or against one or more of the Settling States, challenging the validity of the MSA on certain grounds, including as a violation of the antitrust laws.

Defenses

Each of Lorillard Tobacco and Lorillard, Inc. believes that it has defences to the above cases pending against it as well as bases for appeal should any adverse verdicts be returned against either of them.

Other Litigation

On 22 April 2015, a purported class action complaint was filed in state court in Orange County, California against LOEC Inc., Lorillard Technologies Inc., and Lorillard Tobacco Company regarding allegedly false and misleading advertising concerning blu e-cigarettes. The complaint alleges that blu marketing erroneously made a number of claims regarding e-cigarettes, including with respect to usage, safety and comparison to traditional cigarettes. While damages have not been quantified, the complaint asserts that the individual claims of the plaintiff and the members of the proposed class are under the $75,000 threshold for federal court. The marketing and labelling of e-cigarettes is current being considered by the FDA and may be subject to an FDA deeming rule, which could potentially pre-empt the majority, if not all, of the allegations in the complaint. The Lorillard Business recorded a

$21 million charge during the year ended 31 December 2014 related to this matter, as a component of other expenses. This amount was settled in May 2015.

Lorillard is also party to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of Imperial management, materially affect Lorillard's results of operations or invested capital.

18 Acquisitions

On 24 April 2012, the Lorillard Group, through its wholly owned subsidiary, Lorillard Holdings Company, Inc. (**LHCI**), and its subsidiaries acquired *blu* eCigs and other assets used in the manufacture, distribution, development, research, marketing, advertising, and sale of electronic cigarettes for $135 million in cash. This gave rise to goodwill of $64 million which is attributable to acquired customer base and economies of scale expected from combining the operations of the Lorillard Business. The acquisition was made pursuant to an asset purchase agreement (the **Agreement**) with BLEC, LLC, Intermark Brands, LLC and QSN Technologies, LLC (the **Sellers**). The Agreement contains customary representations, warranties, covenants and indemnities by the Sellers and LHCI. This acquisition provided Lorillard with the *blu* eCigs brand and an electronic cigarette product line.

The results of operations of *blu* eCigs are included in the consolidated Lorillard HFI beginning as of 24 April 2012. The Lorillard Business' consolidated revenues include $240 million and $61 million of sales of *blu* eCigs during the years ended 2013 and 2012, respectively. *blu* eCigs had operating income of $1 million and an operating loss of $3 million during the years ended, 2013 and 2012, respectively. The Lorillard Business incurred $6 million of acquisition-related expenses during 2012, recorded in Administrative and other expenses in the Income Statement.

The fair values of the assets acquired and liabilities assumed at the date of acquisition are summarised below:

Assets acquired:	$ million
Current assets:	
Accounts receivable	2
Inventories	15
Total current assets	**17**
Goodwill	64
Intangible assets	58
Total assets	**139**
Liabilities assumed:	
Current liabilities:	
Accounts payable	(4)
Purchase price	**135**

On 1 October 2013, the Lorillard Business acquired certain assets and operations of *SKYCIG®*, a United Kingdom-based electronic cigarette (e-cigarette) business for approximately £28 million (approximately $46 million at 1 October 2013 exchange rates) in cash paid at closing and contingent consideration of up to an additional £30 million (approximately $49 million at 1 October 2013 exchange rates) to be paid in 2016 based on the achievement of certain financial performance benchmarks. This gave rise to goodwill of $38 million which is attributable to acquired customer base and economies of scale expected from combining the operations of the Lorillard Business.

The results of operations of *SKYCIG* are included in the consolidated Lorillard HFI beginning as of 1 October 2013. The Lorillard Business' consolidated revenues include $4 million of sales of *SKYCIG* during the year ended 2013. *SKYCIG* had an operating loss of US$7 million since the date of acquisition. The Lorillard Business incurred $4 million of acquisition-related expenses during 2013, recorded in administrative and other expenses in the Income Statement.

The Lorillard Business is still in the process of finalizing a working capital adjustment that may increase total consideration transferred by up to $2 million. Therefore, the purchase price and goodwill amounts noted below could increase by up to $2 million as a result of finalising this working capital adjustment. The fair values of the assets acquired and liabilities assumed at the date of acquisition are summarised below:

	$ million
Assets acquired:	
Current assets:	
Accounts receivable	2
Total current assets	**2**
Goodwill	38
Intangible assets	35
Total assets	**75**
Liabilities assumed:	
Current liabilities:	
Accounts payable	(3)
Accrued liabilities	(1)
Total current liabilities	**(4)**
Earn out liability	(25)
Purchase price	**46**

The fair value of the *SKYCIG* earn out liability (the **Earn Out**), classified as Level 3, was determined utilizing a discounted cash flows approach using various probability-weighted *SKYCIG* 2015 financial performance scenarios, upon which the ultimate earn out liability to be paid in 2016 will be based. Significant unobservable inputs used in calculating the fair value of the Earn Out include various *SKYCIG* financial performance scenarios, the probability of achieving those scenarios, and the discount rate. Based upon this calculation, the fair value of the Earn Out was determined to be £15 million (approximately $25 million) as of the date of the acquisition (1 October 2013) and 31 December 2013. The amount of the Earn Out that will be ultimately paid in 2016 could range from £0 to £30 million (approximately $0 to $47 million at 31 December 2014 exchange rates).

19 Related parties

Key management compensation is presented in note 6.

Included in administrative and other expenses in the accompanying combined income statement are fees paid to related parties of members of the Board of Directors of Lorillard of nil (2013: $2 million; 2012: $2 million).

Lorillard Investment in the Lorillard Business

It is not meaningful to show share capital or retained earnings for the Business. The net assets are represented by the net investment of Lorillard, which comprises share capital and retained earnings of the Lorillard Business after eliminating investments and transactions between the Lorillard Business, Lorillard or its subsidiaries.

All significant intercompany transactions between Lorillard and the Lorillard Business have been included in these combined Lorillard HFI and are considered to be effectively settled for cash at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the combined statements of cash flows as a financing activity and in the combined statements of changes in equity.

20 Financial Risk Management

In the normal course of commercial activity the Lorillard Business is exposed to certain financial risks, as outlined below:

The Lorillard Business has minimal exposure to liquidity risk arising from insufficient funds to meet its financing needs because it has no cash or debt as Lorillard uses a centralised approach to cash management and financing its operations.

The Lorillard Business has minimal exposure to most market risks as it has no debt and its sales transactions are all denominated in U.S. dollars and therefore is not exposed to movements in foreign exchange rates. Refer to note 15 for market risk associated with the Lorillard Business' pension assets.

There is exposure to commodity price risk in that there may be fluctuations in the price of tobacco leaf. In the production of cigarettes, Lorillard uses domestic and foreign grown burley and flue-cured leaf tobaccos, as well as aromatic tobaccos grown primarily in Turkey and other Near Eastern countries. Lorillard believes that there is an adequate supply of leaf tobacco of the type and quality they require at competitive prices from a combination of global sources, and that Lorillard is not dependent on any one geographic region or country for its requirements. Lorillard purchases its leaf tobacco through tobacco dealers, which contract with leaf growers. Such purchases are made at prevailing market prices in the country of origin. Due to the varying size and quality of annual crops, changes in the value of the U.S. dollar in relation to other foreign currencies and other economic factors, tobacco prices have historically fluctuated. Lorillard directs these dealers in the purchase of tobacco according to its specifications for quality, grade, yield, particle size, moisture content, and other characteristics. The dealers purchase and process the whole leaf and then dry and package it for shipment to and storage at Lorillard's Danville, Virginia facility. Lorillard has not experienced any difficulty in purchasing its requirement of leaf tobacco. Lorillard purchased approximately 80 percent, 86 percent and 90 percent of its leaf tobacco through a limited number of suppliers in 2014, 2013 and 2012. If these suppliers become unwilling or unable to supply leaf tobacco to Lorillard, it believes that it can readily obtain high quality leaf tobacco from well-established, alternative industry sources. However, Lorillard believes that such high quality leaf tobacco may not be available at prices comparable to those it currently pays.

The Business is exposed to credit risk arising from its trade receivables due from customers, but has implemented policies to ensure that sales of products are made to customers with an appropriate credit history and in 2014, approximately 99 percent of cigarette customers purchased cigarettes using electronic funds transfer, which provides immediate payment to us.

The Business' objectives when managing capital are to safeguard the Business' ability to continue as a going concern in order to provide returns for Lorillard and benefits for other stakeholders and to maintain an optimal capital structure. The Business manages its capital through a centralised approach with Lorillard.

21 Subsequent events

The Acquisition was completed on 12 June 2015 following regulatory approval in the U.S.

INDEX TO THE HISTORICAL FINANCIAL INFORMATION RELATING TO THE REYNOLDS BUSINESS

This Historical Financial Information was prepared using the books and records of third parties and is not derived from the Group's systems. See "*Risk Factors—Risks Relating to the Offering—The financial information in respect of the Acquired Assets included and incorporated by reference in this Offering Memorandum was prepared using the books and records of third parties and is not derived from the Group's systems, and does not comply with Regulation S-X*".

Historical financial information relating to the Reynolds Business for the years ended 31 December 2014, 2013 and 2012

Accountants' report on the historical financial information relating to the Reynolds Business for the year ended 31 December 2014 . . . . F-156

Combined income statement for the year ended 31 December 2014, 2013 and 2012 . . . . F-158

Combined balance sheet at 31 December 2014, 2013 and 2012 . . . . F-160

Combined statement of changes in invested capital/(deficit) for the year ended 31 December 2014, 2013 and 2012 . . . . F-161

Combined statement of cash flows for the year ended 31 December 2014, 2013 and 2012 . . . . F-162

Notes to the combined historical financial information F-163

The Directors
Imperial Tobacco Finance PLC
121 Winterstoke Road
Bristol
BS3 2LL

15 July 2015

Dear Sirs

Historical financial information relating to the assets acquired as part of the Acquisition which were previously owned by, or related to, Reynolds American Inc. (the Reynolds Business)

We report on the financial information relating to the Reynolds Business as at for the year ended 31 December 2014 as set out in the section entitled "*Historical Financial Information Relating to the Reynolds Business*" (the "**Reynolds Business Historical Financial Information**"). and prepared on the basis of the accounting policies set out in note 2 to the Reynolds Business Historical Financial Information.

The Reynolds Business Historical Financial Information has been prepared for inclusion in the listing particulars that will list the senior notes of Imperial Tobacco Finance PLC (the "**Issuer**") (the "**Notes**") on the Professional Securities Market (the "**Listing Particulars**").

An application has been made to list the Notes on the Professional Securities Market. This report is required by item 11.1 of Annex IX to the PD Regulation, by virtue of item 4.2.3 of the Listing Rules, and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Issuer are responsible for preparing the Reynolds Business Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the Reynolds Business Historical Financial Information gives a true and fair view, for the purposes of the Listing Particulars and to report our opinion to the Directors of the Issuer.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept

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any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex IX to the PD Regulation, by virtue of item 4.2.3 of the Listing Rules, consenting to its inclusion in the Listing Particulars.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Reynolds Business Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Reynolds Business Historical Financial Information and whether the accounting policies are appropriate to the Reynolds Business' circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Reynolds Business Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Reynolds Business Historical Financial Information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of the Reynolds Business as at 31 December 2014 and of its profits, cash flows and changes in invested deficit for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of item 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 we are responsible for this report as part of the Listing Particulars and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Listing Particulars in compliance with item 1.2 of Annex IX to the PD Regulation, by virtue of item 4.2.3 of the Listing Rules.

Yours faithfully

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants

Historical Financial Information Relating to the Reynolds Business

Combined Income Statement

for the year ended 31 December

$ million	Note	2014	2013	2012
Revenue		**2,626**	**2,800**	**3,076**
Duty and similar items		(1,240)	(1,347)	(1,504)
Other cost of sales		(176)	(183)	(184)
Cost of sales		(1,416)	(1,530)	(1,688)
Gross profit		**1,210**	**1,270**	**1,388**
Distribution, advertising and selling costs		(298)	(320)	(434)
Amortisation of acquired intangibles		—	(69)	(93)
Other expenses	7	(112)	(117)	(87)
Administrative and other expenses		**(112)**	**(186)**	**(180)**
Operating profit / profit before taxation		**800**	**764**	**774**
Taxation	6	(290)	(293)	(278)
Profit for the year		**510**	**471**	**496**

Profit for the years presented is entirely attributable to the owners of the Reynolds Business (as defined in note 1).

There are no other items of comprehensive income or expense. Accordingly, no Combined Statement of Comprehensive Income is presented.

The combined financial information may not be representative of future results, for example, the historical capital structure does not reflect the future capital structure and future interest income and expense, pension costs and certain other operating costs and tax charges may be significantly different from those that resulted from being wholly owned by Reynolds.

Reconciliation from operating profit to EBITDA

$ million	2014	2013	2012
Operating profit / profit before taxation	800	764	774
Amortisation	—	69	93
EBITDA	**800**	**833**	**867**

Reconciliation from Revenue to Net revenue

$ million	2014	2013	2012
Revenue	2,626	2,800	3,076
Duty and similar items	(1,240)	(1,347)	(1,504)
Net Revenue	**1,386**	**1,453**	**1,572**

Reconciliation from Gross profit to Brand contribution

$ million	2014	2013	2012
Gross profit	1,210	1,270	1,388
Advertising and support	(230)	(246)	(356)
Brand contribution	**980**	**1,024**	**1,032**

Combined Balance Sheet
at 31 December

$ million	Note	2014	2013	2012
Non-current assets				
Intangible assets	7	—	—	69
Deferred tax assets	11	160	172	198
		160	**172**	**267**
Current assets				
Inventories	8	108	119	109
Trade and other receivables	9	46	55	50
		154	**174**	**159**
Total assets		**314**	**346**	**426**
Current liabilities				
Trade and other payables	10	(466)	(516)	(680)
		(466)	**(516)**	**(680)**
Total liabilities		**(466)**	**(516)**	**(680)**
Net liabilities		**(152)**	**(170)**	**(254)**
Invested deficit attributable to owners of Reynolds Business				
Invested deficit		(152)	(170)	(254)
Total invested deficit		**(152)**	**(170)**	**(254)**

Combined Statement of Changes in Invested Deficit
for the year ended 31 December

$ million	Invested Deficit
At 1 January 2014	**(170)**
Profit for the year	510
Total comprehensive income	**510**
Transactions with owners	
Transactions with owners of Reynolds Business	(492)
At 31 December 2014	**(152)**
At 1 January 2013	(254)
Profit for the year	471
Total comprehensive income	**471**
Transactions with owners	
Transactions with owners of Reynolds Business	(387)
At 31 December 2013	**(170)**
At 1 January 2012	(196)
Profit for the year	496
Total comprehensive income	**496**
Transactions with owners	
Transactions with owners of Reynolds Business	(554)
At 31 December 2012	**(254)**

Combined Statement of Cash Flows
for the year ended 31 December

$ million	2014	2013	2012
Cash flows from operating activities			
Operating profit	800	764	774
Amortisation	—	69	93
Tax paid	(278)	(267)	(305)
Operating cash flows before movement in working capital	522	566	562
Decrease/(increase) in inventories	11	(10)	4
Decrease/(increase) in trade and other receivables	9	(5)	10
Decrease in trade and other payables	(50)	(164)	(22)
Movement in working capital	**(30)**	**(179)**	**(8)**
Net cash flows generated from operating activities	**492**	**387**	**554**
Cash flows from financing activities			
Transactions with owners of Reynolds Business	(492)	(387)	(554)
Net cash used in financing activities	**(492)**	**(387)**	**(554)**
Net increase in cash and cash equivalents	**—**	**—**	**—**
Cash and cash equivalents at start of year	**—**	**—**	**—**
Cash and cash equivalents at end of year	**—**	**—**	**—**

The Reynolds Group uses a centralised approach to cash management and financing its operations. Transactions between Reynolds and the carve-out group are accounted for through invested deficit. Accordingly, none of the cash, cash equivalents, debt or related interest expense at the corporate level has been assigned to the carve-out in this historical financial information.

Notes to the Combined Historical Financial Information

1 Background to the transaction and nature of the business

Background to the transaction

On 15 July 2014, Reynolds, Lorillard, Inc. (**Lorillard**) and Lantern Acquisition Co., a wholly owned subsidiary of Reynolds American Inc. (**Reynolds**), entered into an agreement and plan of merger (the **Merger Agreement**). Pursuant to, and subject to the terms of, the Merger Agreement, Lantern Acquisition Co. merged with and into Lorillard. As a result of the merger, the separate corporate existence of Lantern Acquisition Co. ceased, and Lorillard is the surviving corporation in the merger such that Reynolds owns, directly or indirectly, 100 percent of the outstanding capital stock of Lorillard (the **Merger**).

Concurrently with the execution of the Merger Agreement, Imperial, ITG Brands, LLC (formerly called Lignum-2 L.L.C.) (a wholly-owned subsidiary of Imperial) (**ITG Brands**), and Reynolds entered into an agreement (the **Asset Purchase Agreement**), pursuant to which Reynolds agreed, following consummation of the Merger, to sell to ITG Brands (and/or any one or more of Imperial's subsidiaries from time to time (the **Imperial Group**)) the cigarette brands known as *Winston*, *Kool*, *Salem* and *Maverick* and the e-cigarette brand *blu*, and the associated assets, employees, offices, production facilities and certain associated liabilities of Reynolds and Lorillard and their relevant affiliates (the **Acquired Assets**) (the **Acquisition**). Reynolds also agreed, pursuant to the terms of the Asset Purchase Agreement, to transfer to ITG Brands the cigarette brand known as *Doral* for no additional consideration in the event that the aggregate market share in the U.S. of *Winston*, *Kool* and *Salem* for the three months prior to completion of the Acquisition was less than 4.9 percent (*Winston*, *Kool* and *Salem*, together with *Maverick* and, if applicable, the *Doral* brand being the **Acquired Tobacco Cigarette Brands**).

Nature of the business

The *Winston, Salem* and *Kool* brands (**WSK**) and the associated assets, licences, rights and certain associated liabilities which form part of the Acquired Assets and were acquired by ITG Brands as part of the Acquisition and that were owned by, or related to, the Reynolds Group prior to the completion of the Acquisition are hereafter referred to as the **Reynolds Business**.

The accompanying historical financial information reflects the assets, liabilities, revenues and expenses directly attributed to the Reynolds Business (**Reynolds Historical Financial Information** or **Reynolds HFI**).

The Lorillard HFI on the Acquired Assets owned prior to the completion of the Acquisition by Lorillard is set out starting on page F-117 of this document.

2 Accounting Policies

Basis of Preparation

The Reynolds Business has not comprised a separate legal entity or group of entities for the years ended 31 December 2014, 2013 and 2012. The Reynolds HFI, which has been prepared specifically for the purpose of this document, is therefore prepared on a basis that combines the results, assets and liabilities of the Reynolds Business by applying the principles underlying the consolidation procedures of IFRS 10 'Consolidated Financial Statements' (**IFRS 10**) for each of the three years ended 31 December 2014, 2013 and 2012 and as at these dates. On such basis, the Reynolds HFI sets out the combined balance sheet as at 31 December 2014, 2013 and 2012 and the results of operations and cash flows for the three years then ended.

The Reynolds HFI has been prepared in accordance with the requirements of the Listing Rules, and in accordance with this basis of preparation. This basis of preparation describes how the Reynolds HFI has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the IFRS Interpretation Committee interpretations (together **IFRS**). References to "IFRS" hereafter should be construed as references to IFRS as adopted by the EU. The principal accounting policies that have been applied to the Reynolds HFI are set out below. These policies have been consistently applied to all years presented unless otherwise stated. The Reynolds HFI has been prepared in accordance with IFRS consistent with that applied by Imperial in its 30 September 2014 financial statements.

IFRS does not provide for the preparation of combined financial information and accordingly in preparing the Reynolds HFI certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the U.K. Auditing Practices Board have been applied.

The Reynolds HFI is presented in millions of U.S. dollars ('$') and is prepared on an historical cost and going concern basis. The separation of the Reynolds Business has been considered and it is expected that the appropriate funding will be available for future operations after the separation occurs. It is expected that following separation from Reynolds, the Reynolds Business will continue operating. The Business' forecasts and projections, taking account of possible changes in trading performance show that the Reynolds Business will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The following summarises the accounting and other principles applied in preparing the Reynolds HFI:

The Reynolds HFI was prepared using the Reynolds Business' historical records of its assets and liabilities, and includes all sales, costs, assets and liabilities directly attributable to the Reynolds Business. Costs directly associated with the Reynolds Business, for example, the costs associated with manufacturing, are separately identifiable and have been included directly within the Reynolds HFI.

In addition, there are a number of other indirect central costs which have been allocated into the Reynolds HFI to reflect the fact that the Reynolds Business operated as part of the wider Reynolds Group. These costs primarily relate to the sales force, general marketing and merchandising, and general corporate expenses related to finance, legal, information technology, human resources, communications, and internal audit. These expenses have been allocated to the Business on the basis of direct usage when identifiable, with the remainder allocated on the basis of volumes.

All such costs and expenses have been deemed to have been settled by the Reynolds Business to Reynolds in the period in which the costs were incurred. Invested deficit in the Reynolds Business as shown in the Combined Balance Sheet includes amounts due to / from Reynolds as well as intercompany receivables / payables with Reynolds.

Reynolds uses a centralised approach to cash management and financing its operations. Transactions between Reynolds and the Reynolds Business are accounted for through invested deficit. Accordingly, none of the cash, cash equivalents, debt or related interest expense at the corporate level has been assigned to the Reynolds Business in the Reynolds HFI.

The income taxes charged to the Combined Income Statement have been prepared on a separate return basis as if the carve-out group was a stand-alone entity. Historically, it was included in tax filings with other group entities. It does not maintain taxes payable to/from Reynolds, and it is deemed to settle the annual current tax balances immediately with the legal tax-paying entities. These settlements are reflected as changes in invested deficit.

The Acquisition did not include historical liabilities relating to tobacco litigation and associated external fees. Accordingly, the tobacco litigation costs and provisions and related external legal fees in defending the actions have been carved out from the Reynolds HFI on the basis that such claims are against R.J. Reynolds Tobacco Company, a wholly owned subsidiary of Reynolds which did not form part of the Acquisition (**RJR Tobacco**), and are not brand specific. Similarly, while the Reynolds HFI includes estimated amounts payable under the MSA (as such term is defined in these notes), it excludes the impact of recent settlements of disputes under the MSA involving payment adjustments relating to non-participating manufacturers as these were agreed by RJR Tobacco and are not brand specific.

Foreign Currency

Items included in the Reynolds HFI are measured using the currency of the primary economic environment in which the Business operates (the functional currency). The Reynolds HFI is presented in U.S. dollars ($), which is also the Reynolds Business' functional currency. There are no transactions in currencies other than U.S. dollar.

Revenue Recognition

Revenue comprises the invoiced value for the sale of goods net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when the Reynolds Business has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

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 Combined Income Statement. Where duty is a sales tax, duty is excluded from revenue. Payments due in the U.S. under the MSA are considered to be levies having the characteristics of duty and are treated as a production tax.

Promotional Programmes

Retail sales incentives include retail price discounts, coupons and retail display allowances and are recorded as an expense based on amounts estimated as due to customers and consumers at the end of a period based primarily on use and redemption rates.

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 combined historical financial information 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 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.

Intangible Assets

Intangible assets (which relate entirely to trademarks and acquired rights) are initially recognised in the Combined 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 were acquired) less accumulated amortisation and impairment. Trademarks and acquired rights are both amortised over a five year estimated useful life when they change from growth to support brands.

Financial instruments

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 Reynolds Business 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 Combined Income Statement.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method.

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.

Employee benefits

The Reynolds Business is a member of the Reynolds Group Pension Plan. Because of the nature of the information available to the Reynolds Business it is not possible for the Reynolds Business to obtain sufficient information to enable it to account for the plan as a defined benefit plan. Accordingly it accounts for the plan as a defined contribution plan.

New Accounting Standards and Interpretations

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

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

3 Critical Accounting Estimates and Judgments

The Reynolds Business makes estimates and assumptions regarding the future. Estimates and judgments 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.

Allocations

The Reynolds HFI includes cost allocations for certain functions provided by Reynolds, which require the use of estimates. These costs have been allocated on a relative volume basis. These costs were affected by the arrangements that existed in the Reynolds Group and are not necessarily representative of the position that will prevail in the future.

Legal Proceedings and Disputes

Reynolds has historically recognised provisions for tobacco-related legal claims in its consolidated financial statements for litigation against its group companies, specifically RJR Tobacco. These legal claims are not directly attributable to specific brands and relate to periods prior to those presented in the Reynolds HFI. Additionally, the *Winston*, *Salem* and *Kool* brands were acquired without historic product liabilities. An indemnity against such liabilities was also provided by Reynolds in the Asset Purchase Agreement and took effect from completion of the Acquisition. Therefore, as there is no rational basis for allocating legal costs to the Reynolds Business, provisions for tobacco-related legal claims and the associated external legal costs have not been allocated or attributed to the Reynolds Business and are excluded from the Reynolds HFI.

Income Taxes

The Reynolds Business is subject to income tax in numerous jurisdictions and significant judgment is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Reynolds Business 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.

4 Profit Before Taxation

Profit before taxation is stated after charging:

$ million	2014	2013	2012
Raw materials and consumables used	124	121	109
Allocation of general administrative expenses from Reynolds (note 13)	137	143	141
Amortisation	—	69	93

5 Employee costs

There were no employees transferred as part of the acquisition of the Reynolds Business. The employee costs represented below are the allocated expense for the sales force and manufacturing labour that form part of the Reynolds Business.

$ million	2014	2013	2012
Wages and salaries	92	86	97
Social security costs	6	5	6
Pension and postretirement costs	14	21	(18)

In 2012, a negative past service cost arose due to plan amendments resulting from plan design changes primarily impacting the Medicare eligible retirees within RJR Tobacco. These plan changes had the effect of an overall negative pension and postretirement cost. Accordingly, the Reynolds Business has been allocated its proportion of the credit.

Additionally, the Reynolds Business does not have any directors or employees considered to be key management.

6 Taxation

Analysis of charge in the year

$ million	2014	2013	2012
Current tax			
Federal	241	229	266
State and other	37	38	39
Total current tax	**278**	**267**	**305**
Deferred tax			
Federal	11	27	(25)
State and other	1	(1)	(2)
Total deferred tax	**12**	**26**	**(27)**
Total tax charged to the Combined Income Statement	**290**	**293**	**278**

The income taxes charged to the Combined Income Statement have been prepared on a separate return basis as if the Reynolds Business was a stand-alone entity. Historically, the Reynolds Business was included in tax filings with other group entities. The Reynolds Business does not maintain taxes payable to/from Reynolds, and the Reynolds Business is deemed to settle the annual current tax balances immediately with the legal taxpaying entities. These settlements are reflected as changes in invested deficit.

Factors affecting the tax charge for the year

The tax on the Business' profit before tax differs from the theoretical amount that would arise using the average U.S. federal income tax rate for the year of 35 percent (2013: 35 percent, 2012: 35 percent) as follows:

$ million	2014	2013	2012
Profit before tax	**800**	**764**	**774**
Tax at the federal tax rate of 35% (2013 and 2012: 35%)	280	267	271
Tax effects of:			
State Taxes (Net of Federal Benefit)	38	37	36
Permanent Differences	(26)	(10)	(22)
Prior Year Adjustments	(1)	(2)	(4)
Other	(1)	1	(3)
Total tax charged to the Combined income statement	**290**	**293**	**278**

7 Intangible Assets

	2014		
$ million	Trademarks	Acquired rights	Total
Cost at 1 January 2014	**2,729**	**12**	**2,741**
Accumulated amortisation			
At 31 December 2013	2,729	12	2,741
Amortisation charge for the year	—	—	—
At 31 December 2014	**2,729**	**12**	**2,741**
Net book value			
At 31 December 2014	—	—	—

	2013		
$ million	Trademarks	Acquired rights	Total
Cost at 1 January 2013	**2,729**	**12**	**2,741**
Accumulated amortisation			
At 31 December 2013	2,660	12	2,672
Amortisation charge for the year	69	—	69
At 31 December 2013	**2,729**	**12**	**2,741**
Net book value			
At 31 December 2013	**—**	**—**	**—**

$ million	2012 Trademarks	2012 Acquired rights	2012 Total
Cost at 1 January 2012	**2,729**	**12**	**2,741**
Accumulated amortisation			
At 1 January 2012	2,567	12	2,579
Amortisation charge for the year	93	—	93
At 31 December 2012	**2,660**	**12**	**2,672**
Net book value			
At 31 December 2012	69	—	69

Trademarks comprise brands acquired through the purchases of WSK. Acquired rights relate to the distribution rights for *Winston* and *Salem* in U.S. duty-free and overseas U.S. military bases.

Intangible amortisation is included within administrative and other expenses in the Combined Income Statement.

8 Inventories

$ million	2014	2013	2012
Raw materials	85	96	85
Work in progress	7	6	6
Finished inventories	16	17	18
	108	**119**	**109**

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. It is estimated that around $14 million (2013: $18 million, 2012: $15 million) of leaf tobacco held within raw materials will not be utilized within a year of the balance sheet date.

9 Trade and Other Receivables

$ million	2014	2013	2012
Amounts due within one year:			
Trade receivables	20	18	16
Prepayments and accrued income	26	37	34
	46	**55**	**50**

Trade receivables may be analysed as follows:

$ million	2014	2013	2012
Within credit terms	18	16	15
Past due by less than 3 months	2	2	1
	20	**18**	**16**

There were no provisions for impairment of trade receivables in any years. Trade receivables that were written off during the years are less than US$1 million. The carrying amount of trade and other receivables is a reasonable approximation to their fair value.

10 Trade and Other Payables

$ million	2014	2013	2012
Amounts due within one year:			
Trade payables	7	13	25
Tobacco settlement accruals	399	432	581
Other taxes, duties and social security contributions	28	39	36
Other payables	14	11	16
Accruals and deferred income	18	21	22
	466	**516**	**680**

The carrying amount of trade and other payables is a reasonable approximation to their fair value.

11 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 Combined Balance Sheet.

$ million	2014	2013	2012
Deferred tax assets	160	172	224
Deferred tax liabilities	—	—	(26)
Deferred tax asset (net)	**160**	**172**	**198**

Deferred tax expected to be recovered within 12 months

$ million	2014	2013	2012
Deferred tax assets	160	172	224
Deferred tax liabilities	—	—	(26)
Deferred tax asset (net)	**160**	**172**	**198**

Deferred tax assets

$ million	Other temporary differences	Total
At 1 January 2014	172	172
Charged to Combined income statement	(12)	(12)
At 31 December 2014	**160**	**160**

$ million	Other temporary differences	Total
At 1 January 2013	224	224
Charged to Combined income statement	(52)	(52)
At 31 December 2013	**172**	**172**

$ million	Other temporary differences	Total
At 1 January 2012	233	233
Charged to Combined income statement	(9)	(9)
At 31 December 2012	**224**	**224**

Temporary differences primarily arise on the timing of the tax deduction for the MSA accrual.

Deferred tax liabilities

Deferred tax liabilities at 1 January 2014 and 31 December 2014 were $nil.

$ million	Intangible assets	Total
At 1 January 2013	(26)	(26)
Credited to Combined income statement	26	26
At 31 December 2013	**—**	**—**

$ million	Intangible assets	Total
At 1 January 2012	(62)	(62)
Credited to Combined income statement	36	36
At 31 December 2012	**(26)**	**(26)**

12 Legal proceedings

Tobacco Settlement Agreement costs

In 1998, Lorillard Tobacco, Philip Morris Incorporated, RJR Tobacco and Brown & Williamson Tobacco Corporation (now an affiliate of RJR Tobacco) (the **Original Participating Manufacturers** or **OPMs**) entered into the Master Settlement Agreement (the **MSA**) with 46 states and various other governments and jurisdictions to settle asserted and unasserted health care cost recovery and other claims of those States which were a party to the MSA (the **Settling States**). These same parties had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (the **Initial State Settlements** and, together with the MSA, are referred to as the **State Settlement Agreements**).

The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the OPMs to avoid the further expense, inconvenience, burden and uncertainty of litigation. The portion of on-going adjusted settlement payments and legal fees to be paid by each OPM is based on its relative share (among the OPMs) of domestic cigarette shipments in the year preceding that in which the payment is due for the MSA and the year in which the payment is due for the other State settlements.

RJR Tobacco and certain of the other participating manufacturers under the MSA are currently involved in an arbitration with certain of the settling States with respect to the availability for certain market years of a downward adjustment to the annual MSA settlement payment obligation, known as the “NPM Adjustment”.

On 17 December 2012, Reynolds and certain of the other OPMs and SPMs agreed to settle with 17 States and the District of Columbia and Puerto Rico disputes under the MSA related to the NPM Adjustment. Five additional States subsequently joined this settlement. The settlement resolves the claims for the years 2003 through 2012 and puts in place a new method for calculating this adjustment with respect to the States that signed the settlement, beginning for volume year 2013. Under the terms of the settlement, Reynolds and other manufacturers will receive credits against their future MSA payments over six years, and the signatory states will be entitled to receive their allocable share of the amounts currently being held in escrow resulting from these disputes.

While the Reynolds HFI includes estimated amounts payable under the MSA, it excludes the impact of recent settlements of disputes under the MSA involving payment adjustments relating to non-participating manufacturers as these were agreed by RJR Tobacco and are not brand specific.

The Reynolds Business believes that the State Settlement Agreements will materially adversely affect its cash flows and operating income in future years. The degree of the adverse impact will depend, among other things, on the rates of decline in domestic cigarette sales in the premium price and discount price segments, the Reynolds Business’ share of the domestic premium price and discount price cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to significant payment obligations under the State Settlement Agreements.

From time to time, lawsuits have been brought against participating manufacturers to the MSA, or against one or more of the Settling States, challenging the validity of the MSA on certain grounds, including as a violation of the antitrust laws.

13 Commitments

Operating lease commitments in relation to the Reynolds Business are included within the allocation of general administrative expenses.

14 Related parties

The ultimate controlling party of the Reynolds Business is Reynolds.

The Reynolds HFI includes expense allocations for certain functions provided by Reynolds, including, but not limited to, the sales force, general marketing and merchandising, and general corporate expenses related to finance, legal, information technology, human resources, communications, and internal audit. These expenses have been allocated to the Reynolds Business on the basis of direct usage when identifiable, with the remainder allocated on the basis of volumes. During the years ended 31 December 2014, 31 December 2013 and 31 December 2012, the Reynolds Business was allocated the following general corporate and other expenses incurred by Reynolds, which are included in the Combined Income Statement as follows:

$ million	2014	2013	2012
Other expenses	137	143	141

The other expense allocations have been determined on a basis that both Reynolds and the Reynolds Business consider to be a reasonable reflection of the utilisation of services provided or the benefit received by the Reynolds Business during the years presented. The allocations may not, however, reflect the expense the Reynolds Business would have incurred as an independent business for the years presented. Actual costs that may have been incurred if the Reynolds Business had been operating on a stand-alone basis would depend on a number of factors, including the chosen organisation structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

Parent Investment in the Reynolds Business

It is not meaningful to show share capital or retained earnings for the Reynolds Business. The net assets are represented by the net investment of Reynolds, which comprises share capital and retained earnings of the Reynolds Business after eliminating investments and transactions between the Reynolds Business, Reynolds or its subsidiaries.

All significant intercompany transactions between Reynolds and the Reynolds Business have been included in this Reynolds HFI and are considered to be effectively settled for cash at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the combined statements of cash flows as a financing activity and in the combined statements of changes in equity.

15 Financial Risk Management

In the normal course of commercial activity the Business is exposed to certain financial risks, as outlined below:

The Reynolds Business has minimal exposure to liquidity risk arising from insufficient funds to meet its financing needs because it has no cash or debt as Reynolds uses a centralised approach to cash management and financing its operations.

The Reynolds Business has minimal exposure to most market risks as it has no debt and its sales transactions are all denominated in U.S. dollars and therefore is not exposed to movements in foreign exchange rates.

There is exposure to commodity price risk in that there may be fluctuations in the price of tobacco leaf. Management actively monitors excess inventories of sellers to purchase when favourable price variances are observed or to delay purchases until prices stabilise. Several months of tobacco leaf supply is held at any point in time, allowing the Reynolds Business to be able to manage its price risk.

The Reynolds Business is exposed to credit risk arising from its trade receivables due from customers, but has implemented policies to ensure that sales of products are made to customers with an appropriate credit history. Management also mitigates its exposure to credit risk by requiring most of its customers to pay in advance of distribution.

The Reynolds Business manages its capital through a centralised approach with Reynolds.

16 Subsequent events

The Acquisition was completed on 12 June 2015 following regulatory approval in the U.S.

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Imperial Tobacco Limited and
Imperial Tobacco Group PLC

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Imperial Tobacco Finance PLC

US$4,500,000,000 Senior Notes

consisting of

US$500,000,000 2.050 percent Senior Notes due 2018

US$1,250,000,000 2.950 percent Senior Notes due 2020

US$1,250,000,000 3.750 percent Senior Notes due 2022

US$1,500,000,000 4.250 percent Senior Notes due 2025

Guaranteed by Imperial Tobacco Group PLC and Imperial Tobacco Limited

OFFERING MEMORANDUM
17 JULY 2015

Joint Book-Running Managers

BofA MERRILL LYNCH
BNP PARIBAS
HSBC
MIZUHO SECURITIES

Co-managers

BANCA IMI
CREDIT AGRICOLE CIB
MUFG
RBS
SMBC NIKKO
UNICREDIT BANK