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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 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

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

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

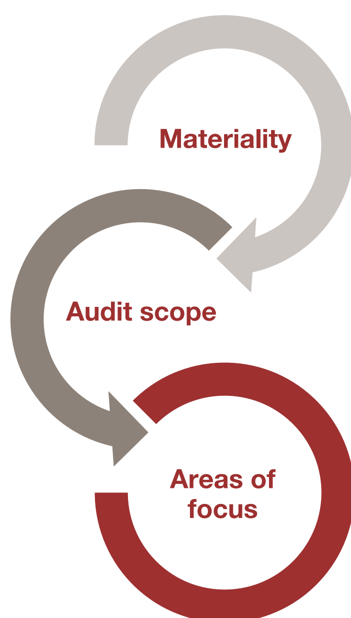
The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Context

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

Overview



- Overall Group materiality: £115 million which represents 4.4% of adjusted Group profit before taxation.

- Following our assessment of the risk of material misstatement we selected 22 reporting entities which represent the principal business units.
- We conducted full scope audit work at 21 of these reporting entities which included significant operations in the UK, Germany, Netherlands, Spain, USA, Morocco, Australia, France and five other locations. We also conducted specific audit procedures in Russia.
- In addition certain central reporting entities and Group functions, including those covering treasury, taxation and retirement benefits, and the Parent Company were subject to a full scope audit.

- Goodwill and intangible assets impairment assessment.
- Acquisition accounting.
- Revenue recognition.
- Accounting for restructuring provisions.
- Tax accounting and the level of tax provisions held against risks.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Goodwill and intangible assets impairment assessment We focused on this area because the determination of whether elements of goodwill and intangible assets are impaired involves complex and subjective judgements by the Directors about the future results of the relevant parts of the business. At September 2015 the Group had £10,380 million of goodwill and £509 million of intangible assets with indefinite lives and reasonable headroom in the majority of the Group's groupings of cash generating units (CGU's). We focused on the valuation of the Growth Markets reporting segment (£1,953 million of goodwill and intangible assets with indefinite lives). Growth Markets is made up of a number of operating segments and individual CGU's, including the Drive Growth CGU grouping and the Other Premium Cigar CGU grouping. For both of these goodwill is analysed separately and management's assessment indicated low headroom (£69 million and £17 million respectively). For the Drive Growth CGU grouping we focused on the valuation of both the Russian and Italian businesses, which represent the most material parts of this CGU grouping. In particular we considered the robustness of short term growth included in the impairment models, together with discount rates and long term growth rates. For the Other Premium Cigar CGU grouping the valuation is dependent on continuing steady profit growth. As such we focused on the assumptions the Directors made about the growth rates in the context of constraints which could reasonably impact their ability to meet forecast.	We challenged the Directors' analysis around the key drivers of the cash flow forecasts including the ability to achieve sustained price increases, market size and market share. We also evaluated the appropriateness of the key assumptions including discount rates, short term and long term growth rates and performed sensitivities across the reporting segments. For the Russian and Italian businesses we considered the evidence supporting the expected ability of the market to absorb future price increases relative to anticipated volume declines. We also considered the impact of current and expected legislative and duty changes on the business and considered the accuracy of management's current year forecasts. For the Other Premium Cigar CGU, we evaluated the reasonableness of the Directors' forecast by challenging key assumptions about growth strategies including supply constraints, opportunities in new markets and changes in the relationship between the USA and Cuba. We also considered the accuracy of management's current year forecasts. As a result of our work we determined that the judgement by management that no impairment was required in respect of Drive Growth and Other Premium Cigar was reasonable. We note however that goodwill and intangibles held by these businesses remain sensitive to changes in key assumptions and, in the case of Russia, to adverse changes in macro-economic factors. Given this management has disclosed relevant sensitivities (see note 11).
Acquisition accounting During the year the Group acquired certain USA cigarette and e-cigarette brands and assets for £4,613 million. The acquisition is accounted for as a business combination in relation to which there are a number of significant and complex judgements involved in the determination of the fair value of the assets and liabilities acquired. A purchase price allocation exercise has been performed by management, assisted by external experts. The primary element of the valuation exercise assessed the fair value of intangible assets in the form of acquired brands (£4,053 million) and goodwill (£381 million). The allocation also considered the fair values of property, plant and equipment, inventory, post retirement obligations and scheme assets, other liabilities and tax.	For the intangible assets, we assessed the methodology adopted by management and their experts for calculating the brand allocation, particularly in respect of the: – cash flow forecasts used in the valuation process – assumed useful lives of the brands – allocation and impact of working capital movements – discount rate applicable to the transaction – impact of synergies in respect of the existing USA business Further to this we analysed management's future projections and assessed the total asset assigned to each brand and goodwill. We tested the remaining acquired items, for example, by attending inventory counts, and examining third party valuations in respect of fixed assets. In respect of post retirement obligations we tested the demographic data used by the reporting actuaries and assessed the assumptions applied. For the pension scheme assets we confirmed existence with custodians and tested the valuation by reference to external price data or, where necessary, used our specialists to independently re-perform the valuation of the asset.

Area of focus	How our audit addressed the area of focus
Revenue recognition Revenue recognition is, under normal Group terms and conditions, not complex with accounts receivable converted to cash in a timely manner. Returns have historically been immaterial and our testing did not identify any evidence of significant levels of returns. We also focused on the timing of revenue recognition because of the risk associated with the levels of inventory sold into, and held in, distribution channels and the contractual terms those goods were sold under.	We tested the timing of revenue recognition, and whether the Group appropriately recorded revenue taking into account contractual terms and obligations with distributors and other customers. For certain key distributors we obtained confirmation of the volume of Imperial Tobacco Group PLC products held in their year-end inventory. We compared this to prior period levels and trends in sales volumes over the year. We noted no instances of inappropriate revenue recognition arising in our testing. We evaluated contractual terms around the year end, including consideration of any complex or judgemental elements included in contractual arrangements, and tested accounts receivable balances through a combination of third party confirmations and subsequent remittances, with no material exceptions noted from our testing. We evaluated evidence of the level of returns received after the year end and noted no material issues arising. We also used a combination of manual and computer assisted audit techniques in order to extract and test journal entries posted to revenue and other general ledger accounts, which did not identify unexplained unusual or irregular items.
Accounting for restructuring provisions The Group has partially completed a significant multi-year cost optimisation programme including factory closures, organisational rationalisation and the establishment of shared service centres. The Group is also integrating the recent US acquisition. Management has indicated they expect these programmes will require several years to complete. In 2015 the charge in the Consolidated Income Statement relating to these programmes was £328 million and there is a total restructuring provision held on the Consolidated Balance Sheet of £278 million. The restructuring charge is separately identified on the face of the income statement and excluded from the non-GAAP earnings measure Adjusted Operating Profit. The recognition of restructuring costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the Group is externally committed. The presentation in the financial statements also requires consideration of whether the amounts included in the charge are fair and whether their separate presentation is helpful in understanding financial performance.	The cost optimisation programme operates predominantly through a series of distinct projects incorporating centralised governance and project management supporting local execution. This process gives rise to a series of specific restructuring charges being booked either at head office level or in individual component businesses. We conducted audit testing through our Group team on centrally held charges and through local testing of charges at component businesses. Because the total restructuring cost also included some costs incurred at business units not included in our full scope audits the Group team tested these on a sample basis. Using this approach we tested the valuation, accuracy and completeness of the individual restructuring costs. These primarily consisted of redundancies and related costs, consulting and professional fees and asset impairments. We found no material exceptions in our testing. The principal areas of judgement underlying this work related to: – the estimation of uncertain liabilities and impairment losses, – the extent to which costs incurred on projects were sufficiently distinct and incremental to warrant inclusion in the restructuring charge and, – projects which did not fit readily into the major elements of the programme but were considered by management to be appropriate for inclusion within the overall restructuring charge. We challenged management over the basis for their judgements in these areas and determined that the amounts included in the charge were reasonable. We also considered the merits of separate disclosure of the restructuring charge and discussed this with management and the Audit Committee. We concurred with their conclusion that the extensive scale and cost of the programme, its duration over several years and the level of centralised Group wide control and Board focus, indicated that separate disclosure was acceptable.

Area of focus	How our audit addressed the area of focus
Tax accounting and the level of tax provisions held against risks There are a number of significant judgements involved in the determination of tax balances, specifically in relation to the recognition of tax losses and the assessment of deferred taxation liabilities in relation to the distribution of reserves held in overseas subsidiaries. The Group also has a number of uncertain tax positions in relation to which management apply judgement in setting provisions. Given the number of judgements involved and the complexities of dealing with tax rules and regulations in numerous jurisdictions, this was an area of focus for us.	In the calculation of deferred taxes, we assessed the adequacy of tax loss recognition and the level of provision established in relation to a number of uncertain tax positions primarily in Europe. We determined that the position adopted in the financial statements was reasonable based on our consideration of management's assessment of the recoverability of tax losses and the basis for their provision for uncertain tax outcomes.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along two business lines being Tobacco and Logistics. The Group financial statements are a consolidation of 272 legal entities represented by 236 reporting entities, comprising the Group's operating businesses and centralised functions.

The Group's accounting process is structured around a local or regional finance function for each of the territories in which the Group operates. These functions maintain their own accounting records and controls and report to the head office finance team in Bristol through an integrated consolidation system. In our view, due to their significance and/or risk characteristics, 21 of the 236 reporting entities, including the Logistics sub-group, required an audit of their complete financial information and we used component auditors from other PwC network firms, and other firms operating under our instruction, who are familiar with the local laws and regulations in each of these territories to perform this audit work. We also conducted specific audit procedures in Russia based on our assessment of the risk of misstatement and the scale of operations at this business unit.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those functions to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group engagement team visits the component teams on a rotational basis. In the current year the Group team visited the USA (the legacy business and the new acquisition), Morocco, the Middle East, Turkey and the Netherlands, as well as in-scope UK reporting locations. Video conferences were held at least once with the component auditors and management of every in-scope reporting entity and those undertaking specific procedures to discuss the results of the work performed. In addition the Group engagement team reviewed working papers of the auditors of the more significant components.

We also met the other auditors used on the Logistics sub-group and reviewed their working papers during the year.

The Group consolidation, financial statement disclosures and a number of complex items were audited by the Group engagement team at the head office. These included derivative financial instruments, net investment hedge accounting, treasury, taxation and retirement benefits. The Parent Company was also subject to a full scope audit.

Taken together, the reporting entities and Group functions where we performed audit work accounted for approximately 83% of Group revenues and in excess of 90% of both Group profit before tax and Group adjusted profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£115 million (2014: £110 million).
How we determined it	4.4% of adjusted Group profit before taxation.
Rationale for benchmark applied	We believe that adjusted profit before tax is the primary measure used by shareholders and other users in assessing the performance of the Group, and that by excluding items (including finance costs and restructuring costs) it provides a clearer view on the performance of the underlying business.
Component materiality	For each component in our audit scope, we allocated a materiality that was less than our overall Group materiality. The range of materiality allocated across components was between £10 million and £30 million for the trading entities and £80 million for the financing and treasury entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2014: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 20, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are also required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– the statement given by the Directors on page 31, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report on pages 37 – 40, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the Directors' explanation in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to longer-term viability of the Group, set out on page 30. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Parent Company financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

3 November 2015

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September

£ million unless otherwise indicated	Notes	2015	2014 (Restated)
Revenue	3	**25,289**	26,460
Duty and similar items		**(12,585)**	(12,928)
Other cost of sales		**(7,533)**	(8,351)
Cost of sales		**(20,118)**	(21,279)
Gross profit		**5,171**	5,181
Distribution, advertising and selling costs		**(1,857)**	(1,929)
Acquisition costs	29	**(40)**	(13)
Amortisation of acquired intangibles	11	**(697)**	(644)
Restructuring costs	5	**(328)**	(305)
Other expenses		**(261)**	(271)
Administrative and other expenses		**(1,326)**	(1,233)
Operating profit	3	**1,988**	2,019
Investment income		**948**	516
Finance costs		**(1,209)**	(1,059)
Net finance costs	7	**(261)**	(543)
Share of profit of investments accounted for using the equity method	13	**29**	49
Profit before taxation	4	**1,756**	1,525
Taxation	8	**(33)**	(80)
Profit for the year		**1,723**	1,445
Attributable to:			
Owners of the parent		**1,691**	1,422
Non-controlling interests		**32**	23
Earnings per ordinary share (pence)			
– Basic	10	**177.4**	148.5
– Diluted	10	**176.9**	148.1

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

£ million	Notes	2015	2014 (Restated)
Profit for the year		1,723	1,445
Other comprehensive income			
Exchange movements		(198)	(581)
Items that may be reclassified to profit and loss		(198)	(581)
Net actuarial (losses)/gains on retirement benefits	22	(28)	45
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	21	5	(1)
Items that will not be reclassified to profit and loss		(23)	44
Other comprehensive income for the year, net of tax		(221)	(537)
Total comprehensive income for the year		1,502	908
Attributable to:			
Owners of the parent		1,489	900
Non-controlling interests		13	8
Total comprehensive income for the year		1,502	908

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2015	2014 (Restated)
Operating profit		1,988	2,019
Acquisition costs	29	40	13
Amortisation of acquired intangibles	11	697	644
Restructuring costs	5	328	305
Adjusted operating profit	3	3,053	2,981

Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2015	2014 (Restated)
Net finance costs		(261)	(543)
Net fair value and exchange gains on financial instruments	7	(226)	(12)
Post-employment benefits net financing cost	7	20	40
Adjusted net finance costs	7	(467)	(515)

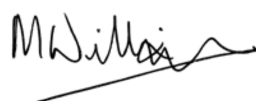
Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

CONSOLIDATED BALANCE SHEET
at 30 September

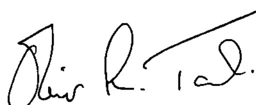
£ million	Notes	2015	2014 (Restated)	2013 (Restated)
Non-current assets				
Intangible assets	11	**18,690**	15,334	16,855
Property, plant and equipment	12	**1,768**	1,854	2,069
Investments accounted for using the equity method	13	**598**	561	546
Retirement benefit assets	22	**92**	44	5
Trade and other receivables	15	**84**	69	80
Derivative financial instruments	20	**901**	605	312
Deferred tax assets	21	**533**	241	153
		22,666	18,708	20,020
Current assets				
Inventories	14	**2,842**	2,875	3,239
Trade and other receivables	15	**2,454**	2,761	2,899
Current tax assets	8	**56**	96	72
Cash and cash equivalents	16	**2,042**	1,413	1,793
Derivative financial instruments	20	**74**	38	245
		7,468	7,183	8,248
Total assets		**30,134**	25,891	28,268
Current liabilities				
Borrowings	18	**(1,957)**	(429)	(3,236)
Derivative financial instruments	20	**(25)**	(46)	(219)
Trade and other payables	17	**(6,795)**	(6,957)	(7,303)
Current tax liabilities	8	**(167)**	(128)	(137)
Provisions	23	**(197)**	(175)	(89)
		(9,141)	(7,735)	(10,984)
Non-current liabilities				
Borrowings	18	**(12,250)**	(9,462)	(7,857)
Derivative financial instruments	20	**(735)**	(645)	(531)
Trade and other payables	17	**(13)**	(21)	(17)
Deferred tax liabilities	21	**(1,170)**	(1,430)	(1,779)
Retirement benefit liabilities	22	**(909)**	(824)	(1,055)
Provisions	23	**(220)**	(311)	(406)
		(15,297)	(12,693)	(11,645)
Total liabilities		**(24,438)**	(20,428)	(22,629)
Net assets		**5,696**	5,463	5,639
Equity				
Share capital	24	**104**	104	107
Share premium and capital redemption		**5,836**	5,836	5,833
Retained earnings		**(315)**	(756)	(791)
Exchange translation reserve		**(298)**	(119)	447
Equity attributable to owners of the parent		**5,327**	5,065	5,596
Non-controlling interests	32	**369**	398	43
Total equity		**5,696**	5,463	5,639

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

The financial statements on page 74 to 115 were approved by the Board of Directors on 3 November 2015 and signed on its behalf by:



Mark Williamson
Chairman



Oliver Tant
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2014 (Restated)	104	5,836	(756)	(119)	5,065	398	5,463
Profit for the year	–	–	1,691	–	1,691	32	1,723
Exchange movements	–	–	–	(179)	(179)	(19)	(198)
Net actuarial losses on retirement benefits	–	–	(28)	–	(28)	–	(28)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	5	–	5	–	5
Other comprehensive income	–	–	(23)	(179)	(202)	(19)	(221)
Total comprehensive income	–	–	1,668	(179)	1,489	13	1,502
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	7	–	7	–	7
Costs of employees' services compensated by share schemes	–	–	22	–	22	–	22
Current tax on share-based payments	–	–	3	–	3	–	3
Dividends paid	–	–	(1,259)	–	(1,259)	(42)	(1,301)
At 30 September 2015	104	5,836	(315)	(298)	5,327	369	5,696
At 1 October 2013 (Restated)	107	5,833	(791)	447	5,596	43	5,639
Profit for the year	–	–	1,422	–	1,422	23	1,445
Exchange movements	–	–	–	(566)	(566)	(15)	(581)
Net actuarial gains on retirement benefits	–	–	45	–	45	–	45
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(1)	–	(1)	–	(1)
Other comprehensive income	–	–	44	(566)	(522)	(15)	(537)
Total comprehensive income	–	–	1,466	(566)	900	8	908
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	6	–	6	–	6
Purchase of shares by Employee Share Ownership Trusts	–	–	(2)	–	(2)	–	(2)
Costs of employees' services compensated by share schemes	–	–	20	–	20	–	20
Current tax on share-based payments	–	–	3	–	3	–	3
Increase in own shares held as treasury shares	–	–	(341)	–	(341)	–	(341)
Cancellation of own shares held as treasury shares	(3)	3	–	–	–	–	–
Changes in non-controlling interests	–	–	(363)	–	(363)	363	–
Proceeds, net of fees, from the disposal of Logista IPO	–	–	395	–	395	–	395
Dividends paid	–	–	(1,149)	–	(1,149)	(16)	(1,165)
At 30 September 2014 (Restated)	104	5,836	(756)	(119)	5,065	398	5,463

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September

£ million	2015	2014 (Restated)
Cash flows from operating activities		
Operating profit	1,988	2,019
Dividends received from investments accounted for under the equity method	24	2
Depreciation, amortisation and impairment	940	919
(Profit)/loss on disposal of property, plant and equipment	(2)	6
Profit on disposal of intellectual property	(31)	–
Loss on disposal of software	–	3
Post-employment benefits	(50)	(156)
Costs of employees' services compensated by share schemes	25	22
Movement in provisions	(67)	17
Operating cash flows before movement in working capital	2,827	2,832
Decrease in inventories	21	121
Decrease/(increase) in trade and other receivables	218	(29)
Increase in trade and other payables	89	29
Movement in working capital	328	121
Taxation paid	(408)	(451)
Net cash generated from operating activities	2,747	2,502
Cash flows from investing activities		
Interest received	10	10
Purchase of property, plant and equipment	(194)	(255)
Proceeds from sale of property, plant and equipment	39	59
Proceeds from the sale of intellectual property	31	–
Purchase of intangible assets – software	(44)	(37)
Purchase of intangible assets – intellectual property rights	–	(46)
Internally generated intellectual property rights	(16)	(4)
Purchase of brands and operations (see note 29)	(4,613)	–
Net cash used in investing activities	(4,787)	(273)
Cash flows from financing activities		
Interest paid	(459)	(543)
Cash from employees on maturity/exercise of share schemes	7	6
Purchase of shares by Employee Share Ownership Trusts	–	(2)
Increase in borrowings	4,720	2,303
Repayment of borrowings	(380)	(3,200)
Repayment of loan to joint ventures	–	52
Cash flows relating to derivative financial instruments	139	(121)
Purchase of treasury shares	–	(341)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 32)	–	395
Dividends paid to non-controlling interests	(42)	(16)
Dividends paid to owners of the parent	(1,259)	(1,149)
Net cash generated from/(used in) financing activities	2,726	(2,616)
Net increase/(decrease) in cash and cash equivalents	686	(387)
Cash and cash equivalents at start of year	1,413	1,793
Effect of foreign exchange rates on cash and cash equivalents	(57)	7
Cash and cash equivalents at end of year	2,042	1,413

Results and financial positions for 30 September 2014 and 30 September 2013 have been restated on adoption of IFRS 11 – see note 1.

1 Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions. This could affect future financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

A summary of the more important Group accounting policies is set out below.

Basis of Consolidation

The consolidated financial statements comprise the results of Imperial Tobacco Group PLC (the Company) and its subsidiary undertakings.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

Joint Ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of profit of investments accounted for using the equity method'.

Foreign Currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intragroup loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

Revenue Recognition

For the Tobacco business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales of services, which include fees for distributing certain third party products, are recognised in the accounting period in which the services are rendered.

For the Logistics business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. The Logistics business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Customer rebates and discounts may be offered to promote sales. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (ie excluded from revenues reported in the Group's consolidated income statement).

Duty and Similar Items

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Where duty is a sales tax, duty is excluded from revenue and cost of sales. Payments due in the USA under the Master Settlement Agreement are considered to be levies having the characteristics of duty and are treated as a production tax.

1 Accounting Policies continued

Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns where the applicable tax regulation is subject to interpretation and establishes provisions on the basis of amounts expected to be paid to the tax authorities only where it is considered more likely than not that an amount will be paid or received. This test is applied to each individual uncertain position which is then measured on the single most likely outcome.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Tax is recognised in the consolidated income statement, except where it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity.

Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

Intangible Assets – Goodwill

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible Assets – Other

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

These assets consist mainly of acquired trademarks, intellectual property, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment.

Intellectual property (including trademarks), supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 5 years	straight line

Property, Plant and Equipment

Property, plant and equipment are shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/ reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

Financial Instruments and Hedging

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the consolidated income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IAS 39) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are net-settled and are therefore netted off the carrying value of those derivatives in the consolidated balance sheet.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Retirement Benefit Schemes

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

Share-Based Payments

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

Treasury Shares

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

1 Accounting Policies continued

Use of Adjusted Measures

Management believes that non-GAAP or adjusted measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, acquisition costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related taxation effects and significant one-off tax provision charges or credits arising from the resolution of prior year tax matters. Reconciliations between adjusted and reported operating profit are included within note 3 to the financial statements, adjusted and reported net finance costs in note 7, adjusted and reported taxation in note 8, and adjusted and reported earnings per share in note 10.

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

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

The principal adjustments made to reported profits are as follows:

Acquisition Costs

Adjusted measures exclude costs associated with major acquisitions as they do not relate to the day to day operational performance of the Group.

Amortisation and Impairment of Acquired Intangibles

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

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

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

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

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

Restructuring Costs

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

Post-Employment Benefits Net Financing Cost

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

Tax Matters

Significant one-off tax charges or credits arising from the resolution of prior year tax matters (outside of changes in estimates in the normal course of business) are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance. The recognition and utilisation of deferred tax assets relating to losses not historically generated as a result of the underlying business performance are excluded on the same basis.

Other Non-GAAP Measures Used by Management

Net Revenue

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

Distribution Fees

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

Adjusted Net Debt

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

New Accounting Standards and Interpretations

The following standards became effective for the current reporting period:

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

Only the application of IFRS 11 had a material effect on the net assets or results of the Group. The impact on the Group's results and net assets is as follows:

Income Statement

£ million	Year ended 30 September 2014 Previously reported	Adjustment	Restated
Revenue	26,625	(165)	26,460
Duty and similar items	(12,928)	–	(12,928)
Other cost of sales	(8,422)	71	(8,351)
Cost of sales	(21,350)	71	(21,279)
Gross profit	5,275	(94)	5,181
Distribution, advertising and selling costs	(1,946)	17	(1,929)
Amortisation of acquired intangibles	(644)	–	(644)
Other expenses	(621)	32	(589)
Administrative and other expenses	(1,265)	32	(1,233)
Operating profit	2,064	(45)	2,019
Investment income	517	(1)	516
Finance costs	(1,061)	2	(1,059)
Net finance costs	(544)	1	(543)
Share of profit of investments accounted for using the equity method	–	49	49
Profit before taxation	1,520	5	1,525
Taxation	(69)	(11)	(80)
Profit for the year	1,451	(6)	1,445
Attributable to:			
Owners of the parent	1,422	–	1,422
Non-controlling interests	29	(6)	23

Balance Sheet

	At 30 September 2014			At 30 September 2013		
£ million	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated
Non-current assets						
Intangible assets	15,859	(525)	15,334	17,382	(527)	16,855
Investments accounted for using the equity method	–	561	561	–	546	546
Other non-current assets	2,844	(31)	2,813	2,652	(33)	2,619
Current assets	7,306	(123)	7,183	8,388	(140)	8,248
Total assets	26,009	(118)	25,891	28,422	(154)	28,268
Current liabilities	(7,813)	78	(7,735)	(11,082)	98	(10,984)
Non-current liabilities	(12,719)	26	(12,693)	(11,688)	43	(11,645)
Total liabilities	(20,532)	104	(20,428)	(22,770)	141	(22,629)
Net assets	5,477	(14)	5,463	5,652	(13)	5,639
Equity						
Share capital	104	–	104	107	–	107
Share premium and capital redemption	5,836	–	5,836	5,833	–	5,833
Retained earnings	(756)	–	(756)	(791)	–	(791)
Exchange translation reserve	(119)	–	(119)	447	–	447
Non-controlling interests	412	(14)	398	56	(13)	43
Total equity	5,477	(14)	5,463	5,652	(13)	5,639

Other New Standards

A number of new standards and interpretations issued, but not yet effective, have not been applied in the preparation of these consolidated financial statements. Management has yet to fully assess the impact of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers which are both effective for the Group for its 2019 financial statements.

There are no other standards or interpretations that are not yet effective that are expected to have a material effect on the Group's net assets or results.

2 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed below.

Legal Proceedings and Disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisors; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

A summary of significant legal cases in which the Group is currently involved is disclosed in note 28.

Intangible Assets and Property, Plant and Equipment

The Group allocates the purchase price of acquired businesses to their identifiable tangible and intangible assets. For major acquisitions we engage external consultants to assist in the valuation of identifiable intangible assets. The valuation process is based on discounted forecast cash flows and is dependent on assumptions about cash flows, economic factors and business strategy.

On acquisition intangible assets and property, plant and equipment are valued at fair value – intangible assets using the income method and property, plant and equipment using assessments of independent valuers. Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Intangible assets (other than goodwill, the Davidoff cigarette trademark and certain premium cigar trademarks) and property, plant and equipment are amortised or depreciated over their useful lives which are based on management's estimates of the period over which the assets will generate revenue, and are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of intangible assets and property, plant and equipment subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, goodwill arising on acquisitions and indefinite lived assets are subject to impairment review. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review of intangible assets and/or property, plant and equipment include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets and property, plant and equipment affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements. Current and future levels of volatility and uncertainty over economic conditions are important factors in assessing the reasonableness of these estimates, assumptions and judgements.

See notes 11 and 12 to these financial statements.

Income Taxes

The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Provisions

The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate.

3 Segment Information

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

The Tobacco business is managed based on the strategic role of groups of markets rather than their geographic proximity, with divisions focused on prioritising growth or returns. Returns Markets are typically mature markets where we have relatively large market shares and our objective is to maximise returns over the long term by growing profits while actively managing market share. Growth Markets are mainly large profit or volume pools where we typically have market shares below 15 per cent and where our total tobacco approach provides many opportunities for share and profit growth both now and in the future. Following the 2015 acquisition, the USA has become a significant market and is therefore disclosed separately.

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

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

Returns Markets North – Australia, Belgium, Germany, Netherlands, Poland, United Kingdom;

Returns Markets South – France, Spain and our African markets including Algeria, Ivory Coast, Morocco;

Growth Markets – Iraq, Norway, Russia, Saudi Arabia, Taiwan;

USA.

Tobacco

£ million unless otherwise indicated	2015	2014 (Restated)
Revenue	19,011	19,501
Net revenue	6,251	6,421
Operating profit	1,910	1,925
Adjusted operating profit	2,895	2,805
Adjusted operating margin %	46.3	43.7

Logistics

£ million unless otherwise indicated	2015	2014 (Restated)
Revenue	7,025	7,774
Distribution fees	749	838
Operating profit	74	84
Adjusted operating profit	154	166
Adjusted distribution margin %	20.6	19.8

Revenue

	2015		2014 (Restated)	
£ million	Total revenue	External revenue	Total revenue	External revenue
Tobacco				
Returns Markets North	12,332	12,303	12,939	12,915
Returns Markets South	2,245	1,576	2,497	1,753
Growth Markets	3,019	2,970	3,192	3,145
USA	1,415	1,415	873	873
Total Tobacco	19,011	18,264	19,501	18,686
Logistics	7,025	7,025	7,774	7,774
Eliminations	(747)	–	(815)	–
Total Group	25,289	25,289	26,460	26,460

3 Segment Information continued

Tobacco net revenue

£ million	2015	2014 (Restated)
Returns Markets North	2,649	2,801
Returns Markets South	1,446	1,600
Growth Markets	1,449	1,513
USA	707	507
Total Tobacco	6,251	6,421

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco-related products of £175 million (2014: £152 million).

Adjusted operating profit and reconciliation to profit before tax

£ million	2015	2014 (Restated)
Tobacco		
Returns Markets North	1,475	1,511
Returns Markets South	636	724
Growth Markets	409	334
USA	375	236
Total Tobacco	2,895	2,805
Logistics	154	166
Eliminations	4	10
Adjusted operating profit	3,053	2,981
Acquisition costs – Tobacco	(40)	(13)
Amortisation of acquired intangibles – Tobacco	(617)	(562)
Amortisation of acquired intangibles – Logistics	(80)	(82)
Restructuring costs – Tobacco	(328)	(305)
Operating profit	1,988	2,019
Net finance costs	(261)	(543)
Share of profit of investments accounted for using the equity method	29	49
Profit before tax	1,756	1,525

Other information

	2015		2014 (Restated)	
£ 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	93	61	100	69
Returns Markets South	35	31	54	41
Growth Markets	32	31	73	34
USA	20	13	12	8
Total Tobacco	180	136	239	152
Logistics	14	29	16	31
Total Group	194	165	255	183

Additions to property, plant and equipment exclude those obtained as part of acquisitions (see note 12).

Additional geographic analysis

External revenue and non-current assets are presented for the UK and for individually significant countries. The Group's products are sold in over 160 countries.

	2015		2014 (Restated)	
£ million	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,498	119	4,750	163
Germany	3,408	3,123	4,003	3,350
France	3,300	2,597	3,661	2,857
USA	1,536	7,308	1,024	2,727
Other	12,547	7,909	13,022	8,652
Total Group	25,289	21,056	26,460	17,749

Non-current assets comprise intangible assets, property, plant and equipment, and investments accounted for using the equity method.

4 Profit Before Taxation

Profit before taxation is stated after charging/(crediting):

£ million	2015	2014 (Restated)
Raw materials and consumables used	1,012	1,265
Changes in inventories of finished goods	6,276	6,938
Operating lease charges	52	56
Net foreign exchange gains	(122)	(110)
Write down of inventories	29	26
(Profit)/loss on disposal of property, plant and equipment	(2)	6
Impairment of trade receivables	3	2

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2015	2014
Audit of Parent Company and consolidated financial statements	0.9	1.0
Audit of the Company's subsidiaries	3.6	3.7
Audit related assurance services	0.2	0.1
	4.7	4.8
Tax advisory services	1.0	0.7
Tax compliance services	0.1	0.2
Other services	3.0	2.1
	8.8	7.8

5 Restructuring Costs

£ million	2015	2014
Employment related	100	149
Asset impairments	113	71
Other charges	115	85
	328	305

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

The cost optimisation programme is expected to have a cash implementation cost in the region of £600 million and generate savings of £300 million by 2018. In 2015 the cash cost of the programme was £169 million (2014: £81 million) bringing the cumulative net cash cost of the programme to £340 million.

The total restructuring cash flow in the year ended 30 September 2015 was £256 million (2014: £120 million).

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

6 Directors and Employees

Employment costs

£ million	2015	2014 (Restated)
Wages and salaries	811	889
Social security costs	161	175
Pension costs (note 22)	75	(21)
Share-based payments (note 25)	25	22
	1,072	1,065

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. These disclosures form part of the financial statements.

Number of people employed by the Group during the year

	2015		2014 (Restated)[1]	
	At 30 September	Average	At 30 September	Average
Tobacco	30,500	29,300	28,800	29,400
Logistics	5,900	5,800	5,900	5,900
	36,400	35,100	34,700	35,300

Number of people employed by the Group by location during the year

	2015		2014 (Restated)[1]	
	At 30 September	Average	At 30 September	Average
European Union	16,500	16,600	16,700	16,800
Americas	9,800	8,300	7,600	7,800
Rest of the World	10,100	10,200	10,400	10,700
	36,400	35,100	34,700	35,300

1 2014 employee numbers have been restated to include all employees (previously just included those who were operative), ie including those on long term sick, maternity leave, unpaid leave and early retirement plans.

7 Net Finance Costs and Reconciliation to Adjusted Net Finance Costs

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2015	2014 (Restated)
Reported net finance costs	261	543
Fair value gains on derivative financial instruments	691	271
Fair value losses on derivative financial instruments	(578)	(358)
Exchange gains on financing activities	113	99
Net fair value and exchange gains on financial instruments	226	12
Interest income on net defined benefit assets	138	138
Interest cost on net defined benefit liabilities	(157)	(174)
Unwind of discount on redundancy and other long-term provisions	(1)	(4)
Post-employment benefits net financing cost	(20)	(40)
Adjusted net finance costs	467	515
Comprising:		
Interest on bank deposits	(6)	(9)
Interest on bank and other loans	473	524
Adjusted net finance costs	467	515

8 Taxation

Analysis of charge in the year

£ million	2015	2014 (Restated)
Current tax		
UK corporation tax	36	7
Overseas taxation	449	405
Total current tax	485	412
Deferred tax		
Origination and reversal of temporary differences	(452)	(332)
Total tax charged to the consolidated income statement	33	80

Reconciliation from reported taxation to adjusted taxation

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2015	2014 (Restated)
Reported taxation	33	80
Deferred tax on amortisation of acquired intangibles	149	281
Tax on net fair value and exchange movement on financial instruments	(11)	13
Tax on post-employment benefits net financing cost	6	12
Tax on restructuring costs	91	84
Tax on unrecognised losses	273	51
Adjusted tax charge	541	521

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 20.5 per cent (2014: 22.0 per cent) as follows:

£ million	2015	2014 (Restated)
Profit before tax	1,756	1,525
Tax at the UK corporation tax rate	360	335
Tax effects of:		
Differences in effective tax rates on overseas earnings	(66)	(103)
Remeasurement of deferred tax balances	(310)	(260)
Remeasurement of deferred tax balances arising from changes in tax rates	(13)	64
Permanent differences	68	61
Adjustments in respect of prior years	(6)	(17)
Total tax charged to the consolidated income statement	33	80

Movement on current tax account

£ million	2015	2014 (Restated)
At 1 October	(32)	(65)
Charged to the consolidated income statement	(485)	(412)
Charged to equity	(3)	(3)
Cash paid	408	451
Other movements	1	(3)
At 30 September	(111)	(32)

Analysed as:

£ million	2015	2014 (Restated)
Assets	56	96
Liabilities	(167)	(128)
	(111)	(32)

9 Dividends

Distributions to ordinary equity holders

£ million	2015	2014	2013
Paid interim of 42.8p per share (2014: 38.8p, 2013: 35.2p)			
– Paid August 2013	–	–	341
– Paid August 2014	–	370	–
– Paid June 2015	204	–	–
– Paid September 2015	204	–	–
Interim dividend paid	408	370	341
Proposed interim of 49.1p per share (2014: nil, 2013: nil)			
– To be paid December 2015	468	–	–
Interim dividend proposed	468	–	–
Proposed final of 49.1p per share (2014: 89.3p, 2013: 81.2p)			
– Paid February 2014	–	–	779
– Paid February 2015	–	851	–
– To be paid March 2016	468	–	–
Final dividend	468	851	779
Total ordinary share dividends of 141.0p per share (2014: 128.1p, 2013: 116.4p)	1,344	1,221	1,120

The third interim dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend of £468 million, which will be paid in December 2015.

The proposed final dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend payment of £468 million in March 2016 based on the number of shares ranking for dividend at 30 September 2015, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2015 will be £1,344 million (2014: £1,221 million). The dividend paid during 2015 is £1,259 million (2014: £1,149 million).

10 Earnings Per Share

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

£ million	2015	2014
Earnings: basic and diluted – attributable to owners of the parent Company	1,691	1,422

Millions of shares	2015	2014
Weighted average number of shares:		
Shares for basic earnings per share	953.4	957.4
Potentially dilutive share options	2.5	2.5
Shares for diluted earnings per share	955.9	959.9

Pence	2015	2014
Basic earnings per share	177.4	148.5
Diluted earnings per share	176.9	148.1

Reconciliation from reported to adjusted earnings and earnings per share

	2015		2014	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	177.4	1,691	148.5	1,422
Acquisition costs	4.2	40	1.4	13
Amortisation of acquired intangibles	57.5	548	35.8	343
Net fair value and exchange gains on financial instruments	(22.7)	(215)	(2.5)	(25)
Post-employment benefits net financing cost	1.5	14	2.8	28
Restructuring costs	24.9	237	23.1	221
Tax on unrecognised losses	(28.6)	(273)	(5.3)	(51)
Adjustments above attributable to non-controlling interests	(1.7)	(16)	(0.4)	(4)
Adjusted	212.5	2,026	203.4	1,947
Adjusted diluted	211.9	2,026	202.8	1,947

11 Intangible Assets

£ million	2015				
	Goodwill	Intellectual property	Supply agreements	Software	Total
Cost					
At 1 October 2014 (Restated)	11,675	6,757	1,239	202	19,873
Additions	–	16	–	44	60
Acquisitions (see note 29)	381	4,053	–	8	4,442
Exchange movements	(358)	(154)	(60)	(10)	(582)
At 30 September 2015	11,698	10,672	1,179	244	23,793
Amortisation and impairment					
At 1 October 2014 (Restated)	1,386	2,432	597	124	4,539
Amortisation charge for the year	–	603	94	23	720
Impairment charge for the year	–	19	–	–	19
Exchange movements	(68)	(71)	(29)	(7)	(175)
Accumulated amortisation	–	2,609	662	140	3,411
Accumulated impairment	1,318	374	–	–	1,692
At 30 September 2015	1,318	2,983	662	140	5,103
Net book value					
At 30 September 2015	10,380	7,689	517	104	18,690

£ million	2014 (Restated)				
	Goodwill	Intellectual property	Supply agreements	Software	Total
Cost					
At 1 October 2013	12,416	7,094	1,330	175	21,015
Additions	–	63	–	37	100
Reclassifications	–	–	–	6	6
Disposals	–	–	–	(4)	(4)
Exchange movements	(741)	(400)	(91)	(12)	(1,244)
At 30 September 2014	11,675	6,757	1,239	202	19,873
Amortisation and impairment					
At 1 October 2013	1,489	2,025	535	111	4,160
Amortisation charge for the year	–	540	104	24	668
Disposals	–	–	–	(1)	(1)
Exchange movements	(103)	(133)	(42)	(10)	(288)
Accumulated amortisation	–	2,077	597	124	2,798
Accumulated impairment	1,386	355	–	–	1,741
At 30 September 2014	1,386	2,432	597	124	4,539
Net book value					
At 30 September 2014	10,289	4,325	642	78	15,334

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Logistics customer relationships and exclusive supply arrangements in Cuba. All were acquired under the purchase of Altadis.

In November 2013, the Group acquired e-vapour intellectual property rights from the Hong Kong based company Dragonite for £46 million.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software are treated as reconciling items between reported operating profit and adjusted operating profit.

11 Intangible Assets continued

Goodwill and intangible asset impairment review

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

	2015		2014 (Restated)	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	3,745	168	3,948	177
Returns Markets South	1,415	88	1,484	93
Growth	1,700	253	1,760	252
USA	2,071	–	1,572	–
Tobacco	8,931	509	8,764	522
Logistics	1,449	–	1,525	–
	10,380	509	10,289	522

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) and ITG Brands in 2015 (USA).

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a CGU, or group of CGUs as appropriate, is based on value-in-use calculations. These calculations use cash flow projections derived from three year financial plans which are approved by the Board annually and are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

Growth rates and discount rates used

The compound annual growth rates implicit in these value-in-use calculations are shown below.

	2015		
%	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Returns Markets North	9.0	2.6	1.8
Returns Markets South	11.3	(0.8)	1.8
Growth Markets	8.9-16.7	5.4-13.5	1.8-4.0
USA	10.0	3.5	2.5
Logistics	9.6	8.0	1.8

Cash flows from the three year plan period are extrapolated out to year five using the growth rate implicit in the three year plan, shown in the table above as the initial growth rate. Estimated long-term weighted average compound annual growth rates of between 1.8 per cent and 4.0 per cent per annum are used beyond year five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the tobacco industry.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs.

Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Growth markets

Within our Growth Markets reporting segment, there are a number of CGU groupings based on our operating segments, including Drive Growth and Other Premium Cigar.

The Drive Growth CGU grouping includes our markets in Russia, Italy and Japan. The major market in this CGU grouping is Russia. Our impairment test for this CGU grouping indicated headroom of £69 million, and assumed a compound annual growth rate for Russia over the first five years of 11.4 per cent. The test also assumed a discount rate for the Russian market of 16.7 per cent reflecting recent political uncertainty and a long-term growth rate of 3.0 per cent. A reduction of 12 per cent in overall forecast cash flows, or an increase in the discount rate by 190 basis points, or a reduction in the long-term growth rate of 310 basis points, or a further 14 per cent devaluation of the Russian rouble would cause the carrying value to equal the recoverable amount.

The impairment test for our Other Premium Cigar CGU grouping that includes our non-Cuban Premium Cigar business indicated headroom of £17 million. A reduction in overall forecast cash flows of 3 per cent, or an increase in the discount rate by 20 basis points from 10.0 per cent, or a reduction in the short-term growth rate of 70 basis points from 5.4 per cent, or a reduction in the long-term growth rate of 30 basis points from 2.2 per cent would cause the carrying value to equal the recoverable amount.

Other CGU groupings

For the rest of the Group, any reasonable movement in the assumptions used in the impairment tests would not result in an impairment.

12 Property, Plant and Equipment

£ million	2015			
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2014 (Restated)	985	1,865	407	3,257
Additions	13	140	41	194
Acquisitions (see note 29)	34	58	14	106
Disposals	(77)	(80)	(69)	(226)
Reclassifications	12	(11)	(8)	(7)
Exchange movements	(41)	(156)	(19)	(216)
At 30 September 2015	926	1,816	366	3,108
Depreciation and impairment				
At 1 October 2014 (Restated)	214	923	266	1,403
Depreciation charge for the year	11	98	33	142
Impairment	–	58	1	59
Disposals	(42)	(64)	(63)	(169)
Reclassifications	–	3	(7)	(4)
Exchange movements	(14)	(63)	(14)	(91)
At 30 September 2015	169	955	216	1,340
Net book value				
At 30 September 2015	757	861	150	1,768

£ million	2014 (Restated)			
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2013	1,140	1,851	437	3,428
Additions	38	175	42	255
Disposals	(129)	(44)	(17)	(190)
Reclassifications	1	16	(26)	(9)
Exchange movements	(65)	(133)	(29)	(227)
At 30 September 2014	985	1,865	407	3,257
Depreciation and impairment				
At 1 October 2013	254	851	254	1,359
Depreciation charge for the year	17	105	37	159
Impairment	30	54	8	92
Disposals	(70)	(39)	(16)	(125)
Reclassifications	1	(2)	(1)	(2)
Exchange movements	(18)	(46)	(16)	(80)
At 30 September 2014	214	923	266	1,403
Net book value				
At 30 September 2014	771	942	141	1,854

The impairment charges in 2015 and 2014 were mainly due to the proposed closure of our Nottingham and Nantes manufacturing facilities, as announced in 2014.

13 Joint Ventures

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the Group's share of joint ventures, which are accounted for under the equity method, is shown below:

	2015			
£ million	Corporación Habanos	Altabana	Others	Total
Revenue	46	114	31	191
Profit after taxation	14	16	4	34
Non-current assets	181	7	10	198
Current assets	35	69	36	140
Total assets	216	76	46	338
Current liabilities	(46)	(24)	(33)	(103)
Non-current liabilities	(6)	(2)	–	(8)
Total liabilities	(52)	(26)	(33)	(111)
Net assets	164	50	13	227

	2014			
£ million	Corporación Habanos	Altabana	Others	Total
Revenue	35	106	24	165
Profit after taxation	9	19	1	29
Non-current assets	173	12	7	192
Current assets	30	70	22	122
Total assets	203	82	29	314
Current liabilities	(35)	(23)	(19)	(77)
Non-current liabilities	(5)	(1)	–	(6)
Total liabilities	(40)	(24)	(19)	(83)
Net assets	163	58	10	231

Transactions and balances with joint ventures

£ million	2015	2014
Sales to	59	61
Purchases from	60	63
Accounts receivable from	8	10
Current loans to	–	8
Accounts payable to	(7)	(11)

IFRS 11 Joint Arrangements came into effect for the Group from 1 October 2014. As a result of this standard the profit and loss items from joint ventures are shown in the consolidated income statement below net finance costs as "Share of investments accounted for using the equity method". Similarly, the asset and liability amounts are classified as "Investments accounted for using the equity method".

See note 1 for details of the impact on the reported results at 30 September 2014 and 30 September 2013.

14 Inventories

£ million	2015	2014 (Restated)
Raw materials	1,028	1,000
Work in progress	51	52
Finished inventories	1,609	1,691
Other inventories	154	132
	2,842	2,875

Other inventories mainly comprise duty-paid tax stamps.

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £358 million (2014: £250 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

15 Trade and Other Receivables

	2015		2014 (Restated)	
£ million	Current	Non-current	Current	Non-current
Trade receivables	2,278	–	2,609	–
Less: provision for impairment of receivables	(54)	–	(54)	–
Net trade receivables	2,224	–	2,555	–
Other receivables	103	66	86	63
Prepayments and accrued income	127	18	120	6
	2,454	84	2,761	69

Trade receivables may be analysed as follows:

	2015		2014 (Restated)	
£ million	Current	Non-current	Current	Non-current
Within credit terms	2,137	–	2,465	–
Past due by less than 3 months	52	–	57	–
Past due by more than 3 months	35	–	33	–
Amounts that are impaired	54	–	54	–
	2,278	–	2,609	–

16 Cash and Cash Equivalents

£ million	2015	2014 (Restated)
Cash at bank and in hand	2,018	1,404
Short-term deposits and other liquid assets	24	9
	2,042	1,413

£137 million (2014: £153 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

17 Trade and Other Payables

	2015		2014 (Restated)	
£ million	Current	Non-current	Current	Non-current
Trade payables	987	–	990	–
Other taxes, duties and social security contributions	5,075	–	5,236	–
Other payables	171	–	210	–
Accruals and deferred income	562	13	521	21
	6,795	13	6,957	21

18 Borrowings

The Group's borrowings are held at amortised cost. Current and non-current borrowings include interest payable of £95 million (2014: £1 million) and £208 million (2014: £291 million) respectively as at the balance sheet date. Interest payable on capital market issuances are at the fixed rates of interest outlined below and interest payable on bank loans and overdrafts are at floating rates of interest.

£ million	2015	2014 (Restated)
Current borrowings		
Bank loans and overdrafts	53	108
Capital market issuance:		
European commercial paper (ECP)	359	321
€500m 4.0% notes due December 2015	380	–
€1,500m 8.375% notes due February 2016	1,165	–
Total current borrowings	1,957	429
Non-current borrowings		
Bank loans	1,479	–
Capital market issuance:		
€500m 4.0% notes due December 2015	–	394
€1,500m 8.375% notes due February 2016	–	1,226
£450m 5.5% notes due November 2016	471	471
$1,250m 2.05% notes due February 2018	825	773
€850m 4.5% notes due July 2018	634	667
$500m 2.05% notes due July 2018	330	–
£200m 6.25% notes due December 2018	210	210
£500m 7.75% notes due June 2019	510	510
€750m 5.0% notes due December 2019	576	606
$1,250m 2.95% notes due July 2020	826	–
€1,000m 2.25% notes due February 2021	745	785
£1,000m 9.0% notes due February 2022	1,054	1,054
$1,250m 3.75% notes due July 2022	827	–
$1,000m 3.5% notes due February 2023	660	618
£600m 8.125% notes due March 2024	626	626
$1,500m 4.25% notes due July 2025	986	–
€650m 3.375% notes due February 2026	488	514
£500m 5.5% notes due September 2026	499	499
£500m 4.875% notes due June 2032	504	509
Total non-current borrowings	12,250	9,462
Total borrowings	14,207	9,891
Analysed as:		
Capital market issuance	12,675	9,783
Bank loans and overdrafts	1,532	108

Non-current bank loans contain committed USD term loan facilities with maturities expiring between one and four years, with interest payable at floating rates.

In June 2015 the Group utilised $7,056 million of committed bank facilities to finance the purchase of certain US brands and assets from Reynolds American Inc. subsequent to its acquisition of Lorillard Inc. $4,500 million was subsequently refinanced in the US debt capital markets in tranches of $500 million, $1,500 million and two tranches of $1,250 million, with maturities between three and ten years.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2014: no defaults).

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current financial liabilities as at 30 September (including net derivative financial liabilities detailed in note 20) is as follows:

£ million	2015 Borrowings	2015 Net derivative financial liabilities/ (assets)	2015 Total	2014 (Restated) Borrowings	2014 (Restated) Net derivative financial liabilities/ (assets)	2014 (Restated) Total
Amounts maturing:						
Between one and two years	1,457	67	1,524	1,620	(47)	1,573
Between two and five years	4,405	(127)	4,278	2,631	26	2,657
In five years or more	6,388	(106)	6,282	5,211	61	5,272
	12,250	(166)	12,084	9,462	40	9,502

Fair value of borrowings

The fair value of borrowings as at 30 September 2015 is estimated to be £15,004 million (2014: £10,887 million restated). £13,472 million (2014: £10,779 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

£ million	2015 Balance sheet amount	2015 Fair value	2014 Balance sheet amount	2014 Fair value
GBP	3,874	4,518	3,879	4,576
EUR	4,347	4,493	4,513	4,826
USD	4,454	4,461	1,391	1,377
Total capital market issuance	12,675	13,472	9,783	10,779

Undrawn borrowing facilities

At 30 September the Group had the following undrawn committed facilities:

£ million	2015	2014
Amounts maturing:		
Between one and two years	739	3,310
Between two and five years	2,594	3,631
In five years or more	–	927
	3,333	7,868

19 Financial Risk Factors

Financial risk management

Overview

In the normal course of business, the Group is exposed to financial risks including market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for managing external and internal funding requirements and financial risks in support of the Group's strategic objectives, specifically its exposure to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The Group operates on a global basis and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity.

The Group's Treasury activities are monitored by the Group Treasury Committee (GTC), which meets regularly throughout the year and comprises the Chief Financial Officer, the Company Secretary and other senior management from Group Finance, Manufacturing and Group Treasury. The GTC operates in accordance with the terms of reference set out by the Board and a framework (the GTC framework) which sets out the expectations and boundaries to assist in the effective oversight of Group Treasury activities. The Group Treasurer reports on a regular basis to the Board, and to the GTC on a monthly basis.

The Board reviews and approves all major treasury decisions and Group Treasury does not operate as a profit centre, nor does it enter into speculative transactions.

19 Financial Risk Factors continued

The Group's management of market, credit and liquidity risk is as follows:

Market risk

Price risk

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 22. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions denominated in foreign currencies, as well as the translation of cash investments, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. At 30 September 2015, after the effect of derivative financial instruments, approximately -2 per cent (2014: 17 per cent) of the Group's reported net debt was denominated in sterling, 60 per cent in euro (2014: 76 per cent), 45 per cent in US dollars (2014: 10 per cent), and -3 per cent in other currencies (2014: -3 per cent).

Management of the Group's foreign exchange transaction and translation risk is as follows.

Transaction risk

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group's sterling dividends to external shareholders are primarily sourced from foreign subsidiary earnings. Foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

Translation risk

In order to reduce foreign currency translation exposure, the Group seeks to match borrowings to the currency of its investments in overseas subsidiaries which are primarily euros and US dollars. The Group has a policy of issuing debt in the most appropriate market or markets at the time of raising new finance and to subsequently enter into derivative financial instruments, primarily cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

Foreign exchange sensitivity analysis

IFRS 7 requires a sensitivity analysis showing the impact of hypothetical changes of exchanges rates in respect of non-functional currency financial assets and liabilities on the Group's Income Statement and Other Comprehensive Income.

The tables below illustrate on an indicative basis, the Group's sensitivity to foreign exchange rates attributable to the translation of monetary items held by Group companies in currencies other than their functional currencies. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2015. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

£ million	**2015 Increase in income**	2014 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2014: 10%)	**60**	251
10% appreciation of US dollar (2014: 10%)	**13**	22
10% appreciation of sterling (2014: 10%)	**7**	3

An equivalent depreciation in the above currencies would cause a decrease in income of £73 million, £16 million and £8 million for euro, US dollar and sterling exchange rates respectively (2014: £307 million, £26 million and £3 million).

Movements in equity in the table below relate to hedging instruments designated as net investment hedges in hedging the Group's euro denominated assets.

£ million	**2015 Change in equity**	2014 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2014: 10%)	**751**	923
10% appreciation of US dollar (2014: 10%)	**101**	–

An equivalent depreciation in the above currencies would result in a change in equity of -£918 million and -£124 million for euro and US dollar exchange rates respectively (2014: -£1,129 million and £0 million).

Interest rate risk
The Group's interest rate risk arises from borrowings net of cash and cash equivalents. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group's financial results are primarily exposed to gains or losses arising from fluctuations in euro and US dollar interest rates. As at 30 September 2015, after adjusting for the effect of derivative financial instruments detailed in note 20, approximately 46 per cent (2014: 50 per cent) of the Group's borrowings were at fixed rates of interest.

The Group manages the interest rate risk on its borrowings by issuing debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency and interest denomination and subsequently entering into derivative financial instruments, primarily cross-currency and interest rate swaps, to change the currency and interest rate mix to the desired position and in line with the GTC framework. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and fair value movements of derivative financial instruments. The Group's debt maturity profile is detailed in the contractual cash flows tables overleaf.

Interest rate sensitivity analysis
IFRS 7 requires a sensitivity analysis showing the impact of hypothetical changes of interest rates in respect of financial assets and liabilities on the Group's Income Statement.

The table below illustrates on an indicative basis, the Group's sensitivity to interest rates on its euro, US dollar and sterling monetary items which are primarily external borrowings, cash and cash equivalents. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2015, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that the net debt and derivatives portfolio remain constant and that there is no net impact on other comprehensive income.

The movement in interest rates is considered reasonable for the purpose of this analysis and the estimated effect assumes a lower limit of zero for interest rates where relevant.

£ million	2015 Change in income	2014 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2014: 1%)	72	32
+/- 1% increase in US dollar interest rates (2014: 1%)	53	13
+/- 1% increase in sterling interest rates (2014: 1%)	3	12

Credit risk
The Group is primarily exposed to credit risk arising from trade receivables due from its customers, cash deposits and financial instruments held with external financial counterparties. The maximum aggregate credit risk to these sources was considered to be £5,296 million at 30 September 2015 (2014: £4,665 million restated).

Trade and other receivables
The Group has some significant concentrations of customer credit risk. In order to manage its exposure to customer credit risk, policies have been implemented to ensure that sales of products are made to customers with an appropriate credit history and that credit support or guarantees are obtained where appropriate. Analysis of trade and other receivables is provided in note 15.

Financial instruments
In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the GTC framework. Utilisation of counterparty credit limits is regularly monitored by Group Treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In very limited cases, collateral is deposited against derivative financial liabilities and supported by an ISDA Credit Support Annex.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2015. Management does not expect these counterparties to default on their current obligations at the balance sheet date. The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

	2015		2014	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	AA-	153	A	179
2nd highest	AA-	131	A	134
3rd highest	AA-	114	A+	129
4th highest	A	114	A	112
5th highest	A+	112	A+	111

19 Financial Risk Factors continued

Liquidity risk

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are designed to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided by a range of instruments including capital market issuance, bank loans and European commercial paper.

The Group borrows centrally in order to meet forecast funding requirements, and Group Treasury is in regular dialogue with subsidiaries to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, loans from central finance companies, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries in order to minimise external borrowing requirements and interest costs. Group Treasury invests surplus cash in bank deposits and uses forward currency contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2015, the Group held liquid assets of £2,042 million (2014: £1,413 million restated).

The table below summarises the Group's financial liabilities by maturity based on their remaining contractual cash flows as at 30 September 2015. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 20.

	2015					
£ 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	1,532	1,573	71	1,000	502	–
Capital market issuance	12,675	15,897	2,374	1,022	5,061	7,440
Trade and other payables	987	987	987	–	–	–
Total non-derivative financial liabilities	15,194	18,457	3,432	2,022	5,563	7,440

	2014 (Restated)					
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	108	108	108	–	–	–
Capital market issuance	9,783	12,677	834	1,994	3,621	6,228
Trade and other payables	990	990	990	–	–	–
Total non-derivative financial liabilities	10,881	13,775	1,932	1,994	3,621	6,228

Capital management

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient financing mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in different countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within its external debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group continues to target an investment grade credit rating which it monitors by reference to a number of key financial ratios. The framework within which the Group's capital base is managed includes the return of capital to shareholders through an appropriate mix of share buybacks and dividends. In order to accelerate the pace of debt repayment associated with the purchase of certain US brands and assets from Reynolds American Inc. subsequent to its acquisition of Lorillard Inc. in June 2015, the Group has ceased its share buyback programme and no shares (2014: c£14.2 million) were repurchased during the financial year.

As at 30 September 2015 the Group was rated Baa3/negative outlook by Moody's Investors Service Ltd, BBB/stable outlook by Standard & Poor's Credit Market Services Europe Limited and BBB/negative outlook by Fitch Ratings Limited.

Hedge accounting

The Group hedges its underlying exposures in an efficient, commercial and structured manner in line with the policies outlined above, although the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS39, the Group has decided not to apply cash flow or fair value hedge accounting in respect of these transactions.

The Group does apply net investment hedge accounting where appropriate, and certain permanent intragroup loans are treated as a reduction in investment in the Group's foreign operations in line with IAS 21. As at 30 September 2015 the Group had designated external euro borrowings with a carrying value of €5,237 million (2014: €5,165 million), US dollar borrowings with a carrying value of $6,750 million (2014: nil), and cross-currency swaps with a notional value of €3,871 million (2014: €2,461 million) as hedges of a net investment in the Group's foreign operations.

Intragroup loans with a notional value of €2,077 million (2014: €5,440 million) and US dollar loans with a notional value of $5,077 million (2014: nil) were treated as a reduction in investment in the Group's foreign operations at the balance sheet date.

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 20. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered to approximate to their carrying amount as outlined in note 18.

Netting arrangements of financial instruments

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to setoff arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

	2015				
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set off	Net financial assets/ liabilities per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	1,016	(41)	975	(607)	368
Cash and cash equivalents	3,281	(1,239)	2,042	–	2,042
	4,297	(1,280)	3,017	(607)	2,410
Liabilities					
Derivative financial instruments	(801)	41	(760)	607	(153)
Bank loans and overdrafts	(1,292)	1,239	(53)	–	(53)
	(2,093)	1,280	(813)	607	(206)

	2014 (Restated)				
£ million	Gross financial assets/ liabilities	Gross financial assets/ liabilities set off	Net financial assets/ liabilities per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	745	(102)	643	(451)	192
Cash and cash equivalents	3,436	(2,023)	1,413	–	1,413
	4,181	(2,125)	2,056	(451)	1,605
Liabilities					
Derivative financial instruments	(793)	102	(691)	451	(240)
Bank loans and overdrafts	(2,131)	2,023	(108)	–	(108)
	(2,924)	2,125	(799)	451	(348)

20 Derivative Financial Instruments

The Group's derivative financial instruments are held at fair value, which was estimated to be a £215 million net asset at 30 September 2015 (2014: £48 million net liability). Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 19.

	2015			2014		
£ million	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments						
Interest rate swaps	55	(20)	35	27	(41)	(14)
Forward foreign currency contracts	13	(5)	8	7	(7)	–
Cross-currency swaps	6	–	6	4	–	4
Total current derivatives	74	(25)	49	38	(48)	(10)
Collateral[1]	–	–	–	–	2	2
	74	(25)	49	38	(46)	(8)
Non-current derivative financial instruments						
Interest rate swaps	666	(753)	(87)	521	(692)	(171)
Cross-currency swaps	235	(23)	212	84	(53)	31
Total non-current derivatives	901	(776)	125	605	(745)	(140)
Collateral[1]	–	41	41	–	100	100
	901	(735)	166	605	(645)	(40)
Total carrying value of derivative financial instruments	975	(760)	215	643	(691)	(48)
Analysed as:						
Interest rate swaps	721	(773)	(52)	548	(733)	(185)
Forward foreign currency contracts	13	(5)	8	7	(7)	–
Cross-currency swaps	241	(23)	218	88	(53)	35
Collateral[1]	–	41	41	–	102	102
Total carrying value of derivative financial instruments	975	(760)	215	643	(691)	(48)

1 Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex.

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Group's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2015. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2015. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non-derivative financial instruments are detailed in note 19.

	2015					
£ 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	(20)	(183)	18	(7)	(13)	(181)
Gross settled derivatives	235					
– receipts		4,660	921	528	752	2,459
– payments		(5,405)	(976)	(550)	(974)	(2,905)
	215	(928)	(37)	(29)	(235)	(627)

	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)

Derivatives as hedging instruments

As outlined in note 19, the Group hedges its underlying interest rate and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross-currency swaps. Forward currency contracts are used to manage the Group's short term liquidity requirements in line with cash flow forecasts as appropriate. Given that the Group does not apply cash flow or fair value hedge accounting, as permitted under IAS 39, fair value gains and losses attributable to derivative financial instruments are recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

Interest rate swaps

Interest rate risk on the Group's borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency and interest denomination, and then using derivative financial instruments, primarily interest rate swaps, to change the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage the Group's interest rate risk over the short, medium and long term in accordance with the GTC framework. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2015, the notional amount of interest rate swaps outstanding that were entered into to change fixed rate borrowings into floating rates of interest at the time of raising new finance were £11,667 million equivalent (2014: £9,141 million equivalent) with a fair value of £721 million asset (2014: £524 million asset). The fixed interest rates vary from 2.0 per cent to 8.7 per cent (2014: 2.0 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

The notional amount of interest rate swaps outstanding at the balance sheet date that were entered into to change the Group's debt into the appropriate proportion of fixed and floating rates to manage the Group's interest rate risk over the short, medium and long term in accordance with the GTC framework were £10,692 million equivalent (2014: £7,942 million equivalent) with a fair value of £741 million liability (2014: £672 million liability). The fixed interest rates vary from 0.8 per cent to 5.2 per cent (2014: 0.8 per cent to 5.2 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £4,990 million equivalent (2014: £2,729 million equivalent) with tenors extending between three and 12 years, starting between October 2015 and October 2020.

Cross-currency swaps

The Group enters into cross-currency swaps to change the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

As at 30 September 2015, the notional amount of cross-currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was £650 million (2014: £650 million) and the fair value of these swaps was £5 million net liability (2014: £30 million net liability).

The notional amount of cross-currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest at the balance sheet date was £3,100 million (2014: £2,000 million) and the fair value of these swaps was £232 million net asset (2014: £71 million net asset).

Hedges of net investments in foreign operations

As at 30 September 2015 cross-currency swaps with a notional amount of €3,871 million (2014: €2,461 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £202 million (2014: £153 million gains) were recognised in other comprehensive income in respect of cross-currency swaps that had been designated as hedges of a net investment in foreign operations.

Forward foreign currency contracts

The Group enters into forward currency contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2015 the notional amount of these contracts was £867 million equivalent (2014: £1,146 million equivalent) and the fair value of these contracts was a net asset of £8 million (2014: nil).

21 Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

Deferred tax assets

	2015				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2014	1	101	1	138	241
Credited/(charged) to consolidated income statement	42	(3)	(1)	268	306
Charged to other comprehensive income	–	(7)	–	–	(7)
Transfers	43	(41)	–	(20)	(18)
Other movements	–	–	–	4	4
Exchange movements	18	(1)	–	(10)	7
At 30 September 2015	104	49	–	380	533

	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

Deferred tax liabilities

	2015				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2014	(1,600)	52	–	118	(1,430)
Credited/(charged) to consolidated income statement	97	(4)	–	53	146
Credited to other comprehensive income	–	12	–	–	12
Acquisitions	–	26	–	10	36
Transfers	122	40	–	(144)	18
Exchange movements	47	(1)	–	2	48
At 30 September 2015	(1,334)	125	–	39	(1,170)

	2014 (Restated)				
£ million	Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2013	(1,967)	58	–	130	(1,779)
Credited/(charged) to consolidated income statement	319	(33)	–	(42)	244
Charged to other comprehensive income	–	(1)	–	–	(1)
Transfers	(54)	32	–	47	25
Exchange movements	102	(4)	–	(17)	81
At 30 September 2014	(1,600)	52	–	118	(1,430)

Deferred tax expected to be recovered within 12 months

£ million	2015	2014 (Restated)
Deferred tax assets	188	59
Deferred tax liabilities	(227)	(233)
	(39)	(174)

Deferred tax expected to be recovered in more than 12 months

£ million	2015	2014 (Restated)
Deferred tax assets	345	182
Deferred tax liabilities	(943)	(1,197)
	(598)	(1,015)

Within other temporary differences, deferred tax assets of £331 million (2014: £92 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

We have reviewed the recoverablility of deferred tax assets in overseas territories in the light of forecast business performance and the impact of the acquisition completed in the year. Consequently we have increased deferred tax assets of £308 million relating to tax losses (2014: £90 million increase) previously not recognised on the basis that it is more likely than not that these are recoverable.

As at the balance sheet date, deferred tax assets of £78 million (2014: £373 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets, £29 million losses are expected to expire in 2016, £15 million (2014: £11 million) are expected to expire within five years and £26 million (2014: £27 million) are expected to expire between 2022 and 2026.

Also within other temporary differences, deferred tax assets of £2 million (2014: £10 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £143 million (2014: £229 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. These unrecognised deferred tax assets are expected to expire between 2021 and 2027.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £5 billion (2014: £7 billion). A provision of £50 million (2014: £4 million) has been made for taxation expected to arise on a planned future remittance of earnings totalling £1.7 billion from various subsidiaries. No liability has been recognised in respect of other differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

The rate of UK corporation tax was reduced by 1 per cent from 21 per cent to 20 per cent from 1 April 2015. No further reductions had been enacted at the balance sheet date. However, as announced in the Chancellor's Budget on 8 July 2015 the UK corporation tax rate is expected to reduce to 19 per cent from 1 April 2017 and to 18 per cent from 1 April 2020. The effect of these reductions, if applied to the deferred tax balance at 30 September 2015 would be to reduce the deferred tax asset by £3 million.

22 Retirement Benefit Schemes

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands Hourly scheme in the US; these schemes represent 65 per cent, 10 per cent and 7 per cent of the Group's total retirement benefit obligations and 53 per cent, 19 per cent and 4 per cent of the current service cost respectively.

Imperial Tobacco Pension Fund

The UK scheme – the Imperial Tobacco Pension Fund or ITPF – is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF is offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 16 years. The population comprises 62 per cent in respect of pensioners, 35 per cent in respect of deferred members and 3 per cent in respect of active employees. New employees in the UK are now offered a defined contribution scheme. Should surplus funds arise in the defined benefit section they may be used to finance defined contribution section contributions with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by Imperial Tobacco Limited, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the fund were to be discontinued.

22 Retirement Benefit Schemes continued

The latest valuation of the ITPF was carried out as at 31 March 2013 when the market value of the invested assets was £2,957 million. Based on the ongoing funding target the total assets were sufficient to cover 100 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 90 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, Imperial Tobacco Limited and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly.

Following the valuation, the level of employer's contributions to the scheme was increased from £31 million per year. The Company paid £47.5 million on 31 March 2014 and £52.5 million in the year to 31 March 2015 and agreed to pay £57.5 million in the year to 31 March 2016 and £65 million each year for the subsequent 12 years. Further contributions were agreed to be paid by the Company in the event of a downgrade in the credit rating of Imperial Tobacco Group's senior unsecured long-term debt. In addition, surety guarantees with a total value of £400 million and a parental guarantee with ITG have been put in place. The contributions agreed, plus the surety guarantees, cover the expected discontinuance cost as at the valuation date.

The Scheme Actuary prepares an annual update of the funding position as at 31 March each year. The latest annual update on an ongoing basis was carried out as at 31 March 2015 and showed a surplus of £329 million in relation to past service accrued benefits.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be influenced by the factors noted above). The level of equity returns will be a key determinant of overall investment return. The investment portfolio is also subject to a range of other risks typical of the asset classes held, in particular credit risk on bonds and exposure to the property market.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to assumptions made about future inflation and salary growth levels, as well as assumptions made about life expectation. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a significant proportion of the assets invested in equities and other return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 18 years. The scheme population comprises 53 per cent in respect of pensioners, 16 per cent in respect of deferred members and 31 per cent in respect of active employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £19 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the defined benefit obligation and the current service cost are sensitive to assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

ITG Brands Hourly Pension Plan

The USA pension scheme, the ITG Brands Hourly Pension Plan (ITGBH), is a defined benefit pension plan that is open to new entrants. It has a weighted average maturity of 11 years. The population comprises 66 per cent in respect of pensioners, 3 per cent in respect of deferred members and 31 per cent in respect of active employees.

The plan is funded and benefits are paid from the plan assets. Over the next year the plan expects to pay £23 million in respect of benefits. Contributions to the plan are determined based on US regulatory requirements.

Annual benefits in payment do not increase. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS19 liability measurement of the defined benefit obligation and the service cost are sensitive to assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

Other plans

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local environments. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2015 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

Defined benefit plans

	2015			2014		
£ million	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(4,315)	3,535	(780)	(4,400)	3,350	(1,050)
Consolidated income statement expense						
Current service cost	(48)	–	(48)	(49)	–	(49)
Past service credit – Spanish free tobacco settlement	–	–	–	52	–	52
Past service credit – curtailment	2	–	2	69	–	69
Cost of termination benefits	(8)	–	(8)	(32)	–	(32)
Net interest (expense)/income on net defined benefit (liability)/asset	(157)	138	(19)	(174)	138	(36)
Administration costs paid from plan assets	–	(2)	(2)	–	(3)	(3)
(Cost)/income recognised in the income statement			(75)			1
Remeasurements						
Actuarial gain due to liability experience	37	–	37	38	–	38
Actuarial loss due to financial assumption changes	(121)	–	(121)	(202)	–	(202)
Actuarial (loss)/gain due to demographic assumption changes	(2)	–	(2)	22	–	22
Return on plan assets excluding amounts in net interest income above	–	58	58	–	187	187
Remeasurement effects recognised in OCI			(28)			45
Cash						
Employer contributions	–	101	101	–	116	116
Employee contributions	(2)	2	–	(2)	2	–
Benefits paid directly by the company	36	(36)	–	46	(46)	–
Benefits paid from plan assets	175	(175)	–	181	(181)	–
Net cash			101			116
Other						
Obligations and assets of acquired operations	(437)	367	(70)	–	–	–
Spanish free tobacco settlement	–	–	–	48	–	48
Exchange movements	50	(15)	35	88	(28)	60
Total other			(35)			108
At 30 September	(4,790)	3,973	(817)	(4,315)	3,535	(780)

Termination benefits in the year ended 30 September 2015 mainly relate to restructuring activity in Germany.

In the year ended 30 September 2014, there were a number of special events that have impacted the liabilities and the costs of the Group's retirement benefit schemes.

The announcement of the proposed closure of the Nottingham factory gave rise to a curtailment gain of £55 million and termination costs of £25 million. Other redundancies in the United Kingdom and Germany gave rise to termination costs of £7 million.

We reached an agreement in Spain with around 70 per cent of pensioners who had previously received payments in respect of former entitlements to free cigarettes to accept a one-off cash payment in full settlement. This has given rise to a past service credit of £52 million. The cash settlement of £48 million was paid at the beginning of October 2014 and the liability was recognised in the balance sheet at 30 September 2014 in other liabilities.

In the Netherlands the defined benefit scheme has been replaced by a multi-employer scheme for most employees (which is accounted for as a defined contribution scheme under IAS 19, because it is not possible to determine the Group's share of the plan assets) and by a defined contribution plan for some employees. As a consequence of these changes a curtailment gain of £14 million was recognised in the year to 30 September 2014.

22 Retirement Benefit Schemes continued

Retirement benefit scheme costs charged to operating profit

£ million	2015	2014
Defined benefit costs/(credit) in operating profit	56	(37)
Defined contribution costs in operating profit	21	19
Total retirement benefit scheme costs/(credit) in operating profit	77	(18)

Split as follows in the consolidated income statement:

£ million	2015	2014
Cost of sales	27	31
Distribution, advertising and selling costs	30	15
Administrative and other expenses	20	(64)
Total retirement benefit scheme costs/(credit) in operating profit	77	(18)

Assets and liabilities recognised in the consolidated balance sheet

£ million	2015	2014
Retirement benefit assets	92	44
Retirement benefit liabilities	(909)	(824)
Net retirement benefit liability	(817)	(780)

Key figures and assumptions used for major plans

	2015			2014	
£ million unless otherwise indicated	ITPF	RCPP	ITGBH	ITPF	RCPP
Benefit obligation (DBO)	3,093	482	361	3,066	502
Fair value of scheme assets	(3,178)	–	(355)	(3,094)	–
Net defined benefit (asset)/liability	(85)	482	6	(28)	502
Current service cost	26	9	2	30	7
Employer contributions	53	19	–	48	21
Principal actuarial assumptions used (% per annum)					
Discount rate	3.7	2.3	4.3	4.0	2.5
Future salary increases	3.5	2.9	n/a	3.7	3.1
Future pension increases	3.0	1.8	n/a	3.2	2.0
Inflation	3.0	1.8	n/a	3.2	1.9

	2015					
	ITPF		RCPP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.6	23.0	18.9	22.9	19.0	23.1
Member currently aged 50	22.9	24.5	20.9	24.8	21.0	25.0

	2014			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.5	22.9	18.9	22.9
Member currently aged 50	22.8	24.4	20.9	24.8

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS All Pensioner Male Amounts table with a 109.8 per cent multiplier. An allowance for improvements in longevity is made using the CMI improvement rates with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for key assumption at the end of the reporting period

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

	2015			2014	
% increase in DBO	ITPF	RCPP	ITGBH	ITPF	RCPP
Discount rate: 0.5% decrease	8.1	9.1	5.7	8.1	8.8
Rate of inflation: 0.5% decrease	(6.6)	(6.3)	n/a	(6.6)	(5.4)
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.7	3.3	3.5	4.5

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5 per cent decrease/(increase) in the discount rate at the start of the reporting period would have increased/(decreased) the consolidated income statement pension expense by approximately £15 million.

An approximate split of the major categories of ITPF scheme assets is as follows:

	2015		2014	
£ million unless otherwise indicated	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	1,380	43	1,361	44
Bonds – index linked government	762	24	650	21
Bonds – corporate and other	536	17	495	16
Property	455	15	402	13
Absolute return pooled funds	–	–	155	5
Other – including derivatives, commodities and cash	45	1	31	1
	3,178	100	3,094	100

The majority of the assets are quoted. Absolute return pooled funds are in overseas, non-quoted assets.

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco PLC amounted to £2 million (2014: £3 million).

An approximate split of the major categories of ITBGH scheme assets is as follows:

	2015	
£ million unless otherwise indicated	Fair value	Percentage of ITGBH scheme assets
Investment funds	312	88
Equities	6	2
Bonds – fixed government	23	6
Bonds – corporate and other	2	1
Other – including derivatives, commodities and cash	12	3
	355	100

The majority of the assets are non-quoted.

23 Provisions

£ million	2015		
	Restructuring	Other	Total
At 1 October 2014 (Restated)	320	166	486
Additional provisions charged to the consolidated income statement	95	22	117
Acquisitions (see note 29)	–	16	16
Unwind of discount on redundancy and other long-term provisions	1	–	1
Amounts used	(103)	(34)	(137)
Unused amounts reversed	(25)	(21)	(46)
Exchange movements	(10)	(10)	(20)
At 30 September 2015	278	139	417

Analysed as:

£ million	2015	2014 (Restated)
Current	197	175
Non-current	220	311
	417	486

Restructuring provisions relate mainly to our cost optimisation programme (see note 5).

Other provisions principally relate to commercial legal claims and disputes and are expected to be used over a period of up to 10 years.

24 Share Capital

£ million	2015	2014
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2014: 1,036,000,000)	104	104

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve.

25 Share Schemes

The Group operates three types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

Share Matching Scheme

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in Imperial Tobacco Group PLC shares for a period of three years, after which additional shares are awarded on a 1:1 ratio.

Long Term Incentive Plan (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria.

Sharesave Plan

Options are granted to eligible employees who participate in a designated savings scheme for a three or five year period.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

Analysis of charge to the consolidated income statement

£ million	2015	2014
Share Matching Scheme	19	19
Long Term Incentive Plan	3	1
Sharesave Plan	3	2
	25	22

The awards are predominantly equity-settled. The balance sheet liability in respect of cash-settled schemes at 30 September 2015 was £3 million (2014: £2 million).

Reconciliation of movements in awards/options

Thousands of shares unless otherwise indicated	2015			
	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2014	2,708	769	1,578	19.36
Granted	827	404	442	25.40
Lapsed/cancelled	(170)	(197)	(94)	19.64
Exercised	(635)	(17)	(407)	19.72
Outstanding at 30 September 2015	2,730	959	1,519	21.05
Exercisable at 30 September 2015	–	–	47	17.66

Thousands of shares unless otherwise indicated	2014			
	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

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £29.71 (2014: £23.60). The weighted average fair value of sharesave options granted during the year was £5.84 (2014: £4.28).

Summary of awards/options outstanding at 30 September 2015

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2013	898	4	n/a
2014	1,035	16	n/a
2015	797	28	n/a
Total awards outstanding	2,730		
Long Term Incentive Plan			
2013	239	2	n/a
2014	316	13	n/a
2015	404	29	n/a
Total awards outstanding	959		
Sharesave Plan			
2010	1	–	15.63
2011	36	–	17.80
2012	77	2	20.45
2013	552	12	18.40
2014	416	22	20.40
2015	437	34	25.40
Total options outstanding	1,519		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

25 Share Schemes continued

Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme and Sharesave Plan. A summary of the assumptions used in the Black-Scholes model for 2015 and 2014 is as follows.

	2015		2014	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	1.1	0.3-1.5	1.5	0.4-1.5
Volatility (based on 3 or 5 year history) %	22.0	22.5-23.0	22.5	22.5-23.0
Expected lives of options granted years	3	3	3	3
Dividend yield %	5.2	5.1-5.2	5.1	5.1
Fair value £	25.88	5.33-6.18	21.88	4.18-4.52
Share price used to determine exercise price £	30.25	31.75-32.63	25.50	25.50
Exercise price £	n/a	25.40	n/a	20.40

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2015 and 2014 are given in the following table.

%	2015	2014
Future Imperial Tobacco Group share price volatility	18.0	18.0
Future Imperial Tobacco Group dividend yield	5.2	5.1
Share price volatility of the tobacco and alcohol comparator group	14.0-32.0	14.0-37.0
Share price volatility of the FTSE 100 comparator group	n/a	n/a
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	30.0	35.0
Correlation between Imperial Tobacco and the FTSE 100 comparator group	n/a	n/a

Employee Share Ownership Trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £181.9 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2015. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

Shares held by Employee Share Ownership Trusts

Millions of shares	2015	2014
At 1 October	4.2	3.3
Distribution of shares held by Employee Share Ownership Trusts	(1.0)	(1.1)
Gift of treasury shares	–	2.0
At 30 September	3.2	4.2

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.4 million (2014: 0.3 million) shares acquired in the open market at a cost of £7.9 million (2014: £7.8 million) and 2.8 million (2014: 3.9 million) treasury shares gifted to the Trusts by the Group. There were no shares gifted in the financial year 2015 (2014: 2.0 million).

26 Treasury Shares

Shares purchased under the Group's buyback programme are normally held in a separate treasury reserve and represent a deduction from equity shareholders' funds (see Consolidated Statement of Changes in Equity) and are only cancelled if the number of treasury shares approaches 10 percent of issued share capital. During the year the Group purchased no shares (2014: 14,163,486 at a cost of £341 million) and cancelled no shares (2014: 31,942,881 shares).

Millions of shares unless otherwise indicated	2015	2014
At 1 October	78.9	98.7
Gift to Employee Share Ownership Trusts	–	(2.0)
Purchase of treasury shares	–	14.1
Cancellation of treasury shares	–	(31.9)
At 30 September	78.9	78.9
Percentage of issued share capital	7.6	7.6

27 Commitments

Capital commitments

£ million	2015	2014
Contracted but not provided for:		
Property, plant and equipment and software	133	177

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases consist of leases where payments fall due:

	2015			2014		
£ million	Property	Other	Total	Property	Other	Total
Within one year	36	10	46	37	12	49
Between one and five years	88	11	99	86	17	103
Beyond five years	32	–	32	29	–	29
	156	21	177	152	29	181

28 Legal Proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements.

29 Acquisitions

On 12 June 2015 the Group completed the purchase of the Winston, Salem, Kool and Maverick cigarette brands and the blu e-cigarette brand from Reynolds, together with the national sales force, office and production facilities previously owned by Lorillard for a cash consideration of $7,056 million (£4,613 million).

The acquisition builds on Imperial's strategy of investing in Growth Markets, making Imperial a major US competitor with around 10 per cent of the cigarette market share and national distribution.

Total acquisition costs of £40 million (2014: £13 million) have been recorded in the income statement. These have been excluded from the Group's adjusted operating profit and adjusted earnings per share (see notes 3 and 10).

In the period from 12 June 2015, the acquisition has contributed £657 million to revenue and generated an operating loss after restructuring and amortisation of £84 million. If the acquisition had taken place on 1 October 2014, Group revenue would have been £26,958 million and Group operating profit would have been £1,939 million.

Provisional fair values represent management's current best estimates. We engaged external consultants to assist in the valuation of the cigarette and e-cigarette brands, which make up the most significant element of the assets acquired and have been valued using the income method. Property valuations have been based on the assessments of independent valuers. Assets have been acquired without historic product liabilities for cigarette brands.

29 Acquisitions continued

Goodwill of £381 million represents the value of the accumulated sales and manufacturing workforces and synergies expected to be realised following the acquisition.

£ million	Provisional fair values
Intangible assets	4,053
Property, plant and equipment	106
Software	8
Retirement benefit assets	7
Deferred tax assets	36
Total non-current assets	4,210
Inventories	152
Trade and other receivables	91
Total current assets	243
Trade and other payables	(128)
Total current liabilities	(128)
Retirement benefit liabilities	(77)
Provisions	(16)
Total non-current liabilities	(93)
Total identifiable net assets	4,232
Consideration	4,613
Goodwill on acquisition	381

30 Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2014 (Restated)	1,413	(429)	(9,462)	(48)	(8,526)
Reallocation of current borrowings from non-current borrowings	–	(1,620)	1,620	–	–
Cash flow	686	33	(4,373)	(139)	(3,793)
Accretion of interest	–	–	(13)	14	1
Change in fair values	–	–	–	388	388
Exchange movements	(57)	59	(22)	–	(20)
At 30 September 2015	2,042	(1,957)	(12,250)	215	(11,950)

Analysis by denomination currency

	2015				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	341	737	598	366	2,042
Total borrowings	(3,858)	(4,390)	(5,942)	(17)	(14,207)
	(3,517)	(3,653)	(5,344)	349	(12,165)
Effect of cross-currency swaps	3,782	(3,570)	–	–	212
	265	(7,223)	(5,344)	349	(11,953)
Derivative financial instruments					3
Net debt					(11,950)

	2014 (Restated)				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	247	396	342	428	1,413
Total borrowings	(3,870)	(4,625)	(1,396)	–	(9,891)
	(3,623)	(4,229)	(1,054)	428	(8,478)
Effect of cross-currency swaps	2,691	(2,661)	–	–	30
	(932)	(6,890)	(1,054)	428	(8,448)
Derivative financial instruments					(78)
Net debt					(8,526)

Adjusted net debt

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

£ million	2015	2014 (Restated)
Reported net debt	(11,950)	(8,526)
Accrued interest	279	280
Fair value of derivatives providing commercial hedges	25	134
Adjusted net debt	(11,646)	(8,112)

31 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2015	2014 (Restated)
Increase/(decrease) in cash and cash equivalents	686	(387)
Cash flows relating to derivative financial instruments	(139)	121
Increase in borrowings	(4,720)	(2,303)
Repayment of borrowings	380	3,200
Change in net debt resulting from cash flows	(3,793)	631
Other non-cash movements including revaluation of derivative financial instruments	389	16
Exchange movements	(20)	320
Movement in net debt during the year	(3,424)	967
Opening net debt	(8,526)	(9,493)
Closing net debt	(11,950)	(8,526)

32 Changes in Non-Controlling Interests

There have been no changes in non-controlling interests in the current year.

In July 2014 the Group completed the IPO of the Logistics business, with 30 per cent of the shares of Compañía de Distribución Integral Logista Holdings SA being listed on Spanish stock exchanges. This increased non-controlling interest by £363 million. Sales proceeds were €518 million. Net proceeds after fees and costs were £395 million and were used to reduce the Group's debt. A gain of £32 million was recognised in equity.

Report on the Parent Company financial statements

Our opinion

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

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- The Balance Sheet as at 30 September 2015; and
- The Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2015.

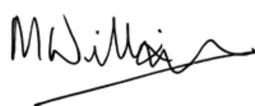
John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Bristol

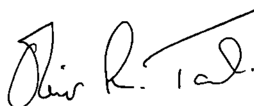
3 November 2015

IMPERIAL TOBACCO GROUP PLC BALANCE SHEET
at 30 September

£ million	Notes	2015	2014
Fixed assets			
Investments	iii	7,968	7,968
Current assets			
Debtors: amounts falling due within one year	iv	67	–
Current liabilties			
Cash at bank and in hand		(1)	(1)
Creditors: amounts falling due within one year	v	–	(163)
Net current assets/(liabilities)		66	(164)
Total assets less current assets/(liabilities)		8,034	7,804
Net assets		8,034	7,804
Capital and reserves			
Called up share capital	vi	104	104
Capital redemption reserve	vii	3	3
Share premium account	vii	5,833	5,833
Profit and loss account	vii	2,094	1,864
Total shareholders' funds		8,034	7,804

The financial statements on pages 117 to 130 were approved by the Board of Directors on 3 November 2015 and signed on its behalf by:





Mark Williamson
Chairman

Oliver Tant
Director

i Accounting Policies

Basis of Preparation

The financial statements have been prepared on the going concern basis in accordance with the historical cost convention, the Companies Act 2006 and UK Generally Accepted Accounting Principles.

As permitted by Section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company. As permitted by FRS 29, the Company has elected not to present FRS 29 Financial Instruments: Disclosures in the notes to its individual financial statements as full equivalent disclosures are presented in the consolidated financial statements. As permitted by FRS 8 Related Party Disclosures the Company has not disclosed transactions with wholly owned subsidiaries.

The principal accounting policies, which have been applied consistently, are set out below.

Investments

Investments comprise the Company's investment in subsidiaries and are shown at cost less any provision for impairment.

Dividends

Final dividends payable are recognised as a liability in the period in which the dividends are approved by shareholders whereas interim dividends payable are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

Financial Instruments

Non-derivative financial assets are classified as cash and debtors. Debtors are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the profit and loss account. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method.

Treasury Shares

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds. When such shares are cancelled they are transferred to the capital redemption reserve.

ii Dividends

Distributions to ordinary equity holders

£ million	2015	2014	2013
Paid interim of 42.8p per share (2014: 38.8p, 2013: 35.2p)			
– Paid August 2013	–	–	341
– Paid August 2014	–	370	–
– Paid June 2015	204	–	–
– Paid September 2015	204	–	–
Interim dividend paid	408	370	341
Proposed interim of 49.1p per share (2014: nil, 2013: nil)			
– To be paid December 2015	468	–	–
Interim dividend proposed	468	–	–
Proposed final of 49.1p per share (2014: 89.3p, 2013: 81.2p)			
– Paid February 2014	–	–	779
– Paid February 2015	–	851	–
– To be paid March 2016	468	–	–
Final dividend	468	851	779
Total ordinary share dividends of 141.0p per share (2014: 128.1p, 2013: 116.4p)	1,344	1,221	1,120

The third interim dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend of £468 million, which will be paid in December 2015.

The proposed final dividend for the year ended 30 September 2015 of 49.1 pence per share amounts to a proposed dividend payment of £468 million in March 2016 based on the number of shares ranking for dividend at 30 September 2015, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2015 will be £1,344 million (2014: £1,221 million). The dividend paid during 2015 is £1,259 million (2014: £1,149 million).

iii Investments

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2015	2014
At 1 October	7,968	7,968
At 30 September	7,968	7,968

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 121 to 130.

iv Debtors: Amounts Falling Due Within One Year

£ million	2015	2014
Amounts owed from Group undertakings	67	–

Amounts owed from Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand.

v Creditors: Amounts Falling Due Within One Year

£ million	2015	2014
Amounts owed to Group undertakings	–	163

Amounts owed to Group undertakings are unsecured, have no fixed date for repayment and are repayable on demand.

vi Called Up Share Capital

£ million	2015	2014
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2014: 1,036,000,000)	104	104

vii Reserves

£ million	Share premium account	Capital redemption reserve	Profit and loss account
At 1 October 2014	5,833	3	1,864
Profit for the year	–	–	1,489
Dividends	–	–	(1,259)
At 30 September 2015	5,833	3	2,094

As permitted by Section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £1,489 million (2014: £1,434 million). This is after charging an audit fee of £0.9 million (2014: £1.0 million).

Treasury shares

In 2011, the Company recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are retained in issue and represent a deduction from shareholders' funds. The share buyback programme was halted on 15 July 2014. During 2014 the Company purchased 14,163,000 shares under the programme at a cost of £341 million, and on 6 March 2014 31,942,881 shares held in Treasury were cancelled, creating a capital redemption reserve.

Millions of shares unless otherwise indicated	2015	2014
At 1 October	78.9	98.7
Gift to Employee Share Ownership Trusts	–	(2.0)
Purchase of treasury shares	–	14.1
Cancellation of treasury shares	–	(31.9)
At 30 September	78.9	78.9
Percentage of issued share capital	7.6	7.6

viii Reconciliation of Movements in Shareholders' Funds

£ million	2015	2014
Profit for the year	1,489	1,434
Dividends	(1,259)	(1,149)
Purchase of own shares	–	(341)
Movements in total shareholders' funds	230	(56)
Opening total shareholders' funds	7,804	7,860
Closing total shareholders' funds	8,034	7,804

ix Guarantees

Imperial Tobacco Group PLC has guaranteed various borrowings and liabilities of certain UK and overseas subsidiary undertakings, including various Dutch and Irish subsidiaries. At 30 September 2015, the contingent liability totalled £14,123 million (2014: £9,965 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2015 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, Imperial Tobacco Group PLC has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2015. The Irish companies, namely John Player & Sons Limited and Imperial Tobacco Mullingar, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

x Related Party Disclosures

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. These disclosures form part of the financial statement.