Mark Williamson Chairman

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

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

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

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

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

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

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

MWilliamson

Mark Williamson
Chairman

Ensuring our Annual Report is fair, balanced and understandable

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

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

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

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

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

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

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

D N Chairman

2. Alison Cooper, BSC, ACA
Chief Executive Officer

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

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

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

E

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

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

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

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

External appointments No external Director appointments.

E

4. Matthew Phillips, LLB
Chief Development Officer

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

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

External appointments No external Director appointments.

E

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

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

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

Appointment Appointed Non-Executive Director in April 2006.

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

D A N R

6. David Haines
Non-Executive Director

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

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

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

D A N R Chairman

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

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

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

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

D A N R

8. Karen Witts, FCA
Non-Executive Director

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

Appointment Appointed Non-Executive Director in February 2014.

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

D A N R

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

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

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

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

D A Chairman **N R**

10. John Downing, MA, Solicitor
Company Secretary

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

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

Appointment Appointed Company Secretary in June 2012.

S

Key
E Executive Director
D Non-Executive Director
S Company Secretary
N Succession and Nominations Committee
A Audit Committee
R Remuneration Committee

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

Board

Mark Williamson Chairman

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

Members

Mark Williamson
Chairman
Alison Cooper
Ken Burnett
David Haines
Michael Herlihy
Matthew Phillips
Oliver Tant
Karen Witts
Malcolm Wyman

John Downing
Company Secretary

Focus in 2015

– completing the acquisition of assets, including a portfolio of USA cigarette brands and the e-cigarette brand blu, and commencing the integration of our enlarged USA business
– investment prioritisation in our market and brand portfolios
– continuing to support our standalone subsidiary Fontem Ventures, including the integration of the acquired e-cigarette brand blu
– implementing new ways of working to simplify the business and improve our effectiveness and agility
– continuation of our cost optimisation programme
– focus on capital discipline to enhance cash conversion
– ensuring regulatory engagement and preparedness
– maintaining focus on our people agenda including building capabilities and succession
– viability and risk management

Focus for 2016

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

Overview

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

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

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

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

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

Matters Considered by the Board in 2015

Five principal scheduled Board meetings were held during the year

2014		2015						
Oct	Nov-Dec	**Jan**	Feb-Mar	**Apr**	May	**Jun**	Jul-Aug	**Sep**
• Report and accounts • Dividend • Business performance • Business planning • Corporate development • US acquisition class 1 circular • Group funding • Operating model • Group footprint development • Cost optimisation • Capital discipline		• First quarter results • Business performance • Corporate development • AGM • Operating model • Brand strategies • Viability and risk management • Shareholder audit		• Half year report • Dividend • Business performance • Corporate development • Group funding • US acquisition update • Overseas visit – research and development facility, Hamburg • Cost optimisation • Capital discipline • Viability and risk management		• Strategy meeting • Business performance • US acquisition integration		• Business performance • Business plan • Corporate development • Board evaluation • Chairman and NED fees • Viability and risk management

Succession and Nominations Committee

Mark Williamson Chairman

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

Members

Mark Williamson
Chairman[1]
Ken Burnett
David Haines
Michael Herlihy
Karen Witts
Malcolm Wyman

John Downing
Company Secretary

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

Focus in 2015

– the appointment of Matthew Phillips to the role of Chief Development Officer
– increasing the Committee's focus on succession planning
– identifying the skillset required for a new NED appointment and instructing Korn/Ferry Whitehead Mann[2] to identify appropriate candidates

Focus for 2016

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

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

Overview

Role

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

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

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

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

Boardroom Diversity

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

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

Further details on our workforce diversity are set out on page 21.

Director Development

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

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

Succession and Nominations Committee in 2015

Election and re-election of Directors

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

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

Board succession

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

Meetings of the Board, Board Committees and AGM

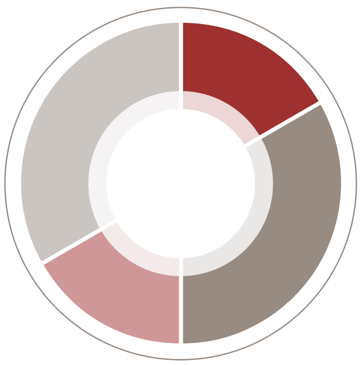
	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting and General Meeting
Total number of meetings in Financial Year	5	2	4	3	1
Number of meetings attended in Financial Year					
Executive Directors					
Alison Cooper	5/5	–	–	–	1/1
Oliver Tant	5/5	–	–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

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

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

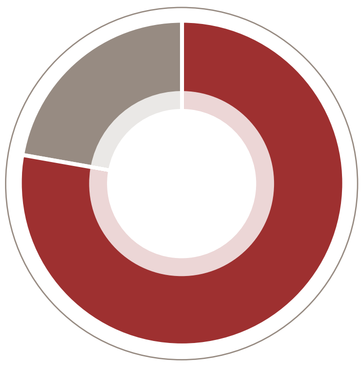
Tenure of Non-Executive Directors

- 8 years and over – 1
- 5 to 7 years – 2
- 3 to 5 years – 1
- 1 to 2 years – 2



Board gender balance

- Male – 7
- Female – 2



Audit Committee

Malcolm Wyman Chairman

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

Members[1]

Malcolm Wyman[2]
Chairman
Ken Burnett
David Haines
Michael Herlihy
Karen Witts[2]

John Downing
Company Secretary

Other regular attendees

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

1 All members are independent NEDs.

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

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

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

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

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

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

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

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

Malcolm Wyman
Chairman of the Audit Committee

Audit Committee continued

Main objective

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

- ensuring the integrity of our financial reporting and confirming that, taken as a whole, our Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- monitoring and evaluating the effectiveness of our risk management and internal control systems and speaking-up process;
- maintaining appropriate oversight over the work and effectiveness of the Internal Audit department, including reviewing its audit findings and monitoring management's responses;
- scrutinising the independence, objectivity and effectiveness of PwC, including reviewing and approving the annual external audit plan, reviewing the audit findings, monitoring compliance with ethical and professional guidance and approving PwC's terms of engagement; and
- throughout the year, considering the key matters, detailed below, including taking account of PwC's views.

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

Audit Committee Meetings held in respect of the 2015 financial year

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

2015

Jan	Feb – Mar	Apr	May – Aug	Sept	Oct
• Audit planning • Group Internal Audit and Risk Management updates • Treasury update • External Auditors' effectiveness • US acquisition accounting • Internal control • Segmental reporting		• Half Year Report • Impairment review • External Auditors' review of Half Year Report • Tax • External Auditors' fees and independence • US acquisition accounting • Group Internal Audit and Risk Management updates • Internal control • Tobacco related litigation • Audit tendering • Restructuring costs and benefits • Foreign Exchange management		• Impairment review • Tax • US acquisition accounting • Group Internal Audit and Risk Management updates • Complex supplier and customer agreements • External Auditors' report and independence • Going concern and viability • Foreign Exchange management • Internal control • Distributable reserves • Restructuring costs • Segmental reporting	• Annual report and accounts • Foreign Exchange management • Impairment review • Going concern and viability statement • External Auditors' report • Group Internal Audit and Risk Management updates • US acquisition accounting • External Auditors' fees and independence • Internal control • Tobacco related litigation • Retirement benefits • Revenue recognition • Use of adjusted measures • Restructuring costs and benefits • Distributable reserves

Key Matters Considered

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

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

Audit Committee continued

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

Risk Management and Internal Control

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

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

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

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

Group Internal Audit

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

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

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

Independence of our External Auditors

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

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

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

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

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

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

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

Audit Quality and Approach to Audit Tender

We place great importance on ensuring that we receive a high standard and effective external audit. To assist the Committee to assess the performance of our external auditors, during the year audit effectiveness questionnaires, covering the audit scope and planning, quality and delivery, challenge and communication and independence, were completed by members of both the Committee and Logista's Audit Committee as well as by senior managers and finance executives from across the Group. Responses indicated that, as with previous reviews, there was a consistently high perception of auditor effectiveness, with no pervasive Group-wide concerns identified.

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

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

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

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

Statement of Auditors' Responsibilities

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

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

Auditors and Disclosure of Information to Auditors

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

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

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

Application of the UK Corporate Governance Code

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

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

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

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

Board and its Committees

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

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

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

Matters Reserved for the Board

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

Division of Responsibilities of our Chairman and Chief Executive

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

Board Composition and Roles

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

Conflicts of Interest and Independence

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

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

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

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

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

External Appointments

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

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

Information and Training

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

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

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

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

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

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

Performance Evaluation

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

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

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

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

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

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

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

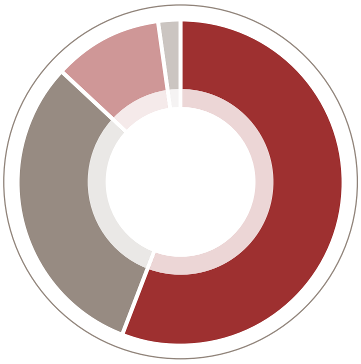
We have addressed the issues identified in the 2014 Board evaluation including enhancing our 'NEDucation' programme as outlined above and on page 35.

Insurance and Indemnities

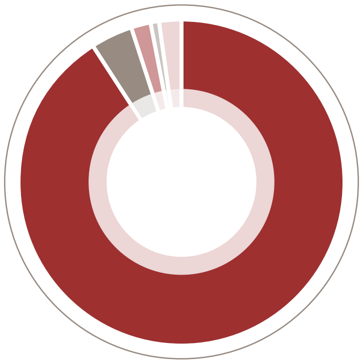
We have purchased and maintain appropriate insurance cover in respect of directors' and officers' liabilities. The Company has also entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Act. These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

Dialogue with our Investors

Geographical Analysis of Shareholders (as at 30 September 2015)



Shareholder Composition (as at 30 September 2015)



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

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

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

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

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

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

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

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

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

Other Information – Introduction

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

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

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

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

Share Capital

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

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

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

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

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

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

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

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

1 Direct holding.

2 Indirect holding.

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

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

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

Financial Results and Dividends

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

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

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

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

The Directors have declared and proposed dividends as follows:

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

Relations With Other Stakeholders

Charitable and Political Donations

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

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

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

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

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

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

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

Pension Fund

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

Further details are contained in our Remuneration Report.

Articles of Association

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

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

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

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

The ten credit agreements are:

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

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

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

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

The bonds issued in such manner are as follows:

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

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

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

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

The bonds issued in such manner are as follows:

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

Update on Tobacco-Related Litigation

Ireland

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

Italy

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

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

Morocco

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

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

Other Information – Listing Rules

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

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

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

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

John Downing
3 November 2015

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