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

Our Approach

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

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

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

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

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

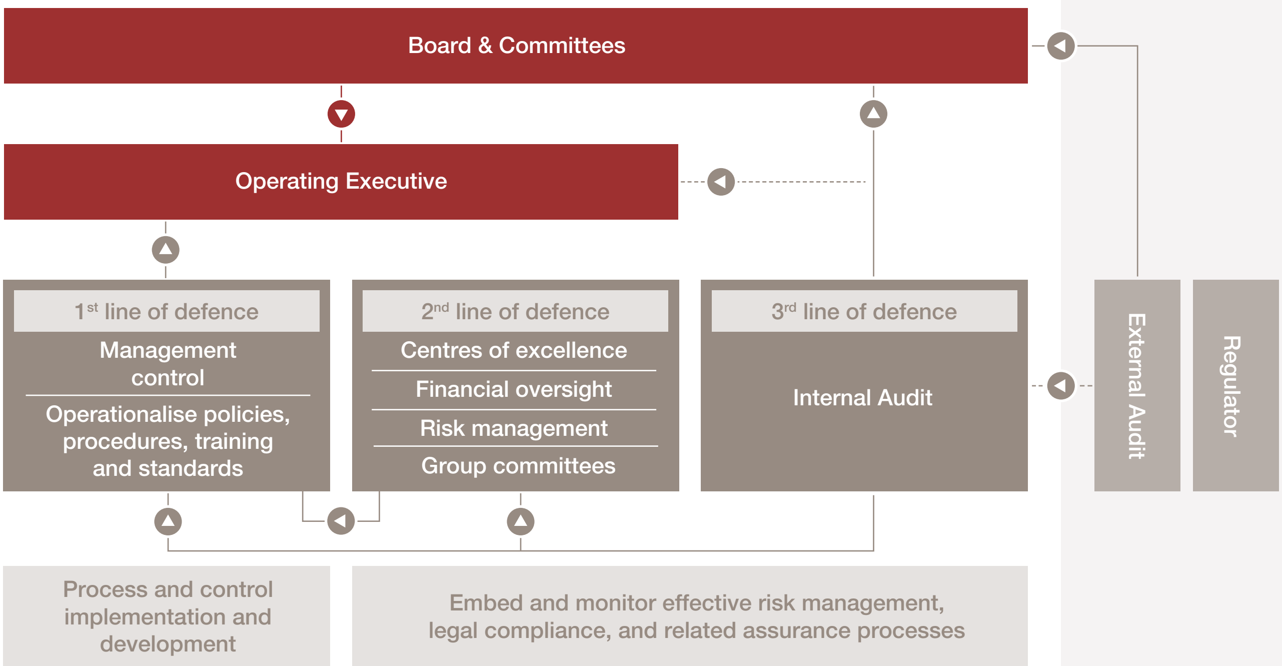
Additionally a year end certification process is completed, under which management confirms that risk mitigation controls have operated effectively throughout the year, or that appropriate further mitigating actions are being taken to address control weaknesses. This certification process also includes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

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

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

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

Risk Management Framework



Code of Conduct
Defines the culture of the organisation and sets the standards of business practice within which our people perform their roles

Risk Management Framework

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

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

The Board and Audit Committee

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

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

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

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

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

The Operating Executive (OPEX)

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

Operational Management

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

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

Centres of excellence

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

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

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

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

Assurance

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

Principal Risks Overview

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

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

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

Risk – Reduction in the size of the legitimate tobacco market

What affects us	What we do
Changes in regulation	
Regulatory restrictions exist in many of our markets which impact our consumers by influencing availability, demand and freedom to use our products. The introduction of excessive and disproportionate regulation, both present and future, could have an adverse effect on consumer choice, potentially impacting the demand for our products, as well as the cost of continuing to comply with such increasing regulation. Several of the US cigarette brands acquired in the year are menthol brands or include menthol variants and any future Food and Drug Administration (FDA) regulation of menthol in cigarettes, in particular, may adversely affect our ability to derive the full benefits expected from the acquisition.	The Group's regulatory engagement strategy seeks to inform key stakeholders about our views, to ensure balanced debate and proportionate regulatory outcomes. This engagement includes: – consulting with external experts to provide advice and guidance; – engagement, where possible, with regulators; – providing industry-specific information to ensure that regulators have a more balanced fact base; – highlighting the unintended consequences of proposed regulatory change; and – making legal challenges against excessive regulation. We prioritise the Group's expertise and resources according to the relevant key regulatory issues. Cross-market liaison is promoted within the Group to ensure best practice and opportunities from markets already impacted are identified, understood, and applied.
Increases in excise duty	
Governments across the world perceive the use of tobacco excise rates to be a means of raising additional public funding and/or the satisfying of public/private tobacco control agendas.	We engage with local tax and customs authorities as well as politicians/legislators and media where appropriate to provide informed input to the unintended consequences of disproportionate excise increases. The widening price differential between tobacco products in neighbouring countries increases both the availability and attractiveness to the consumer of purchasing non-domestic duty paid product. We take commercial steps to mitigate the impact of this issue through the monitoring and compilation of ongoing analysis to ensure strategic price and product offerings exist in the context of the excise duty structures in each market. Through our portfolio of products we are able to meet consumer preferences across different price points.
Illicit trade	
The consequence of excise and regulatory regimes is a widening gap between the price of legitimate and illegitimate product. As a result the legitimate tobacco industry continues to be subject to the significant impact and increasing threat of illicit trade. The sale of counterfeit product and smuggled "illicit whites" in our markets act as a direct competitor to legitimate domestic duty-paid, travel retail and duty-free products, eroding our volumes and market shares.	We seek to partner with governments and law enforcement agencies around the world on anti-illicit trade initiatives, and work alongside the European Commission's Anti-Fraud Office (OLAF) and law enforcement agencies both in the EU and elsewhere. In order to achieve this we employ specialist teams to provide effective support to the business, governments, and law enforcement agencies, performing market analysis and intelligence to provide appropriate and targeted solutions to the combating of illicit trade. We maintain strong business conduct standards and controls, both for our business and our first-line customers, in order to prevent our products being diverted.
Macro-economic conditions	
A material decline in the economic conditions affecting consumers, notably an impact upon disposable income, may change their consumption patterns, including an increased propensity to purchase illicit products.	We monitor and analyse consumption patterns and economic indicators in order to ensure that our current and future portfolio provides the consumer with a range of products across different price points. This analysis is a key input to our product development and pricing strategies.

Risk – Marketplace

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

Financing

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

Legal and regulatory compliance

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

Legal and regulatory compliance continued

What affects us	What we do

Tobacco and e-vapour products litigation

What affects us

Tobacco litigation claims are pending against the Group in a number of countries.

More claims may be brought in the future, including claims for personal injury and the recovery of medical costs allegedly incurred in treating smokers. Claims may also be brought against the Group in relation to the use of e-vapour products. The USA, the jurisdiction with the greatest prevalence of smoking and health-related litigation, is also now a key country for the Group. If any claim were to be successful, it might result in a significant liability for damages and might lead to further claims against us. Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable.

What we do

To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages.

The American cigarette brands acquired in the year have been acquired without historic product liabilities and with an indemnity from Reynolds in respect of any liabilities relating to the period prior to acquisition.

We employ internal and external lawyers specialising in the defence of product liability and consumer protection law litigation to provide advice and guidance on defence strategies and to direct and manage litigation risk and monitor potential claims around the Group.

Significant market positions

What affects us

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

What we do

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

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

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

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

Material strategic initiatives

What affects us	What we do

What affects us

In order to achieve its strategic objectives, the Group may be required to undertake material initiatives, including acquisitions and change programmes.

The Group also operates within a regulatory environment that can require the implementation of material initiatives to address changing legal requirements.

In particular, on 12 June 2015 we completed the acquisition of certain American cigarette and e-cigarette brands and assets previously owned by Reynolds and Lorillard. The integration of the acquired assets could involve particular challenges and require management attention that would otherwise be devoted to running our business, and we may be unable to realise the potential benefits of the acquisition to the extent envisaged and within the timeframe contemplated. This could have an adverse effect on the expected revenue, profit and financial condition of the Group.

What we do

The Group operates a formal project sign-off approach, ensuring an appropriate and transparent review and selection of project proposals aligned to the Group's strategic and operational objectives.

To support the successful delivery of material initiatives within the organisation the Group has developed and implemented a standardised project management process that provides a robust framework to enable effective change management.

This approach is adopted across the Group and provides a consistent and disciplined approach to the management of material initiatives, supported by the employment of project managers across the Group to ensure the right skills are available to successfully deliver such initiatives.

The majority of the Group's material change programmes are coordinated under a single umbrella programme, ensuring alignment of deliverables management of interdependencies, and limiting the impact of change upon our operational activities.

The OPEX receives regular reporting on the progress of key projects. This provides a continuing assessment of deliverables in changing markets, and the evaluation of interdependencies across the business.

In respect of the USA acquisition, we have a strong track record of successfully integrating acquired businesses into the Group and, building on this previous experience, we put in place senior integration resources and a strong management team for the enlarged USA business. We were also able to utilise the period since entering into the acquisition agreement in July 2014 to put in place detailed and comprehensive integration plans that we were then able to begin execution of immediately upon completion.

Viability Statement

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

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

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

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

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

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

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