CONSOLIDATED INCOME STATEMENT
for the year ended 30 September

£ million unless otherwise indicated	Notes	2014	2013
Revenue	3	**26,625**	28,269
Duty and similar items		**(12,928)**	(13,681)
Other cost of sales		**(8,422)**	(9,059)
Cost of sales		**(21,350)**	(22,740)
Gross profit		**5,275**	5,529
Distribution, advertising and selling costs		**(1,946)**	(2,053)
Acquisition costs	29	**(13)**	–
Amortisation of acquired intangibles	11	**(644)**	(372)
Impairment of acquired intangibles	11	**–**	(580)
Restructuring costs	5	**(305)**	(270)
Other expenses		**(303)**	(296)
Administrative and other expenses		**(1,265)**	(1,518)
Operating profit	3	**2,064**	1,958
Investment income	7	**517**	724
Finance costs	7	**(1,061)**	(1,463)
Net finance costs	7	**(544)**	(739)
Profit before taxation	4	**1,520**	1,219
Taxation	8	**(69)**	(290)
Profit for the year		**1,451**	929
Attributable to:			
Owners of the parent		**1,422**	905
Non-controlling interests		**29**	24
Earnings per ordinary share (pence)			
– Basic	10	**148.5**	92.9
– Diluted	10	**148.1**	92.7

Results and financial positions for 30 September 2013 have been restated on adoption of IAS 19 (Revised) – see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September

£ million	Notes	2014	2013
Profit for the year		**1,451**	929
Other comprehensive income			
Exchange movements		(581)	164
Current tax on exchange movements		–	40
Items that may be reclassified to profit and loss		(581)	204
Net actuarial gains on retirement benefits	22	45	43
Deferred tax relating to net actuarial gains on retirement benefits	21	(1)	(42)
Items that will not be reclassified to profit and loss		44	1
Other comprehensive income for the year, net of tax		**(537)**	205
Total comprehensive income for the year		**914**	1,134
Attributable to:			
Owners of the parent		900	1,108
Non-controlling interests		14	26
Total comprehensive income for the year		**914**	1,134

Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2014	2013
Operating profit		**2,064**	1,958
Acquisition costs	29	13	–
Amortisation of acquired intangibles	11	644	372
Impairment of acquired intangibles	11	–	580
Restructuring costs	5	305	270
Adjusted operating profit		**3,026**	3,180

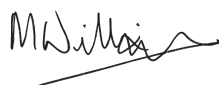
Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

£ million	Notes	2014	2013
Net finance costs		**(544)**	(739)
Net fair value and exchange (gains)/losses on financial instruments	7	(12)	156
Post-employment benefits net financing cost	7	40	51
Adjusted net finance costs		**(516)**	(532)

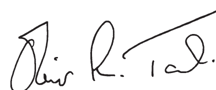
CONSOLIDATED BALANCE SHEET
for the year ended 30 September

£ million	Notes	2014	2013
Non-current assets			
Intangible assets	11	15,859	17,382
Property, plant and equipment	12	1,862	2,080
Investments in associates		17	17
Retirement benefit assets	22	44	5
Trade and other receivables	15	75	85
Derivative financial instruments	20	605	312
Deferred tax assets	21	241	153
		18,703	20,034
Current assets			
Inventories	14	2,935	3,296
Trade and other receivables	15	2,806	2,966
Current tax assets	8	96	72
Cash and cash equivalents	16	1,431	1,809
Derivative financial instruments	20	38	245
		7,306	8,388
Total assets		26,009	28,422
Current liabilities			
Borrowings	18	(468)	(3,276)
Derivative financial instruments	20	(46)	(219)
Trade and other payables	17	(6,990)	(7,354)
Current tax liabilities	8	(133)	(141)
Provisions	23	(176)	(92)
		(7,813)	(11,082)
Non-current liabilities			
Borrowings	18	(9,464)	(7,858)
Derivative financial instruments	20	(645)	(531)
Trade and other payables	17	(21)	(17)
Deferred tax liabilities	21	(1,453)	(1,820)
Retirement benefit liabilities	22	(824)	(1,055)
Provisions	23	(312)	(407)
		(12,719)	(11,688)
Total liabilities		(20,532)	(22,770)
Net assets		5,477	5,652
Equity			
Share capital	24	104	107
Share premium and capital redemption		5,836	5,833
Retained earnings		(756)	(791)
Exchange translation reserve		(119)	447
Equity attributable to owners of the parent		5,065	5,596
Non-controlling interests	32	412	56
Total equity		5,477	5,652

The financial statements on pages 72 to 114 were approved by the Board of Directors on 4 November 2014 and signed on its behalf by:



Mark Williamson
Chairman



Oliver Tant
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2013	**107**	**5,833**	**(791)**	**447**	**5,596**	**56**	**5,652**
Profit for the year	–	–	1,422	–	1,422	29	1,451
Exchange movements	–	–	–	(566)	(566)	(15)	(581)
Net actuarial gains on retirement benefits	–	–	45	–	45	–	45
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(1)	–	(1)	–	(1)
Other comprehensive income	–	–	44	(566)	(522)	(15)	(537)
Total comprehensive income	–	–	1,466	(566)	900	14	914
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	6	–	6	–	6
Purchase of shares by Employee Share Ownership Trusts	–	–	(2)	–	(2)	–	(2)
Costs of employees' services compensated by share schemes	–	–	20	–	20	–	20
Current tax on share-based payments	–	–	3	–	3	–	3
Increase in own shares held as treasury shares	–	–	(341)	–	(341)		(341)
Cancellation of own shares held as treasury shares	(3)	3	–	–	–	–	–
Changes in non-controlling interests	–	–	(363)	–	(363)	363	–
Proceeds, net of fees, from the disposal of Logista IPO (see note 32)	–	–	395	–	395	–	395
Dividends paid	–	–	(1,149)	–	(1,149)	(21)	(1,170)
At 30 September 2014	**104**	**5,836**	**(756)**	**(119)**	**5,065**	**412**	**5,477**

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2012	107	5,833	(150)	245	6,035	49	6,084
Profit for the year	–	–	905	–	905	24	929
Exchange movements	–	–	–	162	162	2	164
Current tax on exchange movements	–	–	–	40	40	–	40
Net actuarial gains on retirement benefits	–	–	43	–	43	–	43
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(42)	–	(42)	–	(42)
Other comprehensive income	–	–	1	202	203	2	205
Total comprehensive income	–	–	906	202	1,108	26	1,134
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	6	–	6	–	6
Purchase of shares by Employee Share Ownership Trusts	–	–	(4)	–	(4)	–	(4)
Costs of employees' services compensated by share schemes	–	–	14	–	14	–	14
Current tax on share-based payments	–	–	2	–	2	–	2
Increase in own shares held as treasury shares	–	–	(500)	–	(500)	–	(500)
Dividends paid	–	–	(1,065)	–	(1,065)	(19)	(1,084)
At 30 September 2013	107	5,833	(791)	447	5,596	56	5,652

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September

£ million	2014	2013
Cash flows from operating activities		
Operating profit	2,064	1,958
Share of post-tax (profit)/loss of associates	(3)	1
Depreciation, amortisation and impairment	920	1,215
Loss/(profit) on disposal of property, plant and equipment	6	(5)
Loss on disposal of software	3	1
Loss on disposal of businesses	–	13
Post-employment benefits	(156)	(34)
Costs of employees' services compensated by share schemes	22	18
Movement in provisions	19	(47)
Operating cash flows before movement in working capital	2,875	3,120
Decrease/(increase) in inventories	119	(93)
(Increase)/decrease in trade and other receivables	(33)	151
Increase/(decrease) in trade and other payables	44	(140)
Movement in working capital	130	(82)
Taxation paid	(457)	(686)
Net cash flows generated by operating activities	2,548	2,352
Cash flows from investing activities		
Interest received	10	9
Purchase of property, plant and equipment	(256)	(269)
Proceeds from sale of property, plant and equipment	59	14
Purchase of intangible assets – software	(37)	(27)
Internally generated intellectual property rights	(4)	(9)
Purchase of intangible assets – intellectual property rights	(46)	–
Purchases of businesses – net of cash acquired	–	(35)
Proceeds from sale of businesses – net of cash disposed	–	1
Net cash used in investing activities	(274)	(316)
Cash flows from financing activities		
Interest paid	(550)	(522)
Cash from employees on maturity/exercise of share schemes	6	6
Purchase of shares by Employee Share Ownership Trusts	(2)	(6)
Increase in borrowings	2,324	4,884
Repayment of borrowings	(3,200)	(3,443)
Cash flows relating to derivative financial instruments	(121)	(28)
Finance lease payments	–	(20)
Purchase of treasury shares	(341)	(500)
Proceeds from sale of shares in a subsidiary to non-controlling interests (net of fees) (see note 32)	395	–
Dividends paid to non-controlling interests	(21)	(19)
Dividends paid to owners of the parent	(1,149)	(1,065)
Net cash used in financing activities	(2,659)	(713)
Net (decrease)/increase in cash and cash equivalents	(385)	1,323
Cash and cash equivalents at start of year	1,809	631
Effect of foreign exchange rates on cash and cash equivalents	7	(145)
Cash and cash equivalents at end of year	1,431	1,809

1 Accounting Policies

Basis of Preparation

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

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

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

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

Basis of Consolidation

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

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

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

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

Joint Ventures

Joint ventures are those businesses which the Group and third parties jointly control. The financial statements of joint ventures are consolidated using the proportionate method, with the Group's share of assets and liabilities recognised in the consolidated balance sheet classified according to their nature. In the same way, the Group's share of income and expenses is presented in the consolidated income statement in accordance with their function.

Foreign Currency

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

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

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

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

Revenue Recognition

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

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

Duty and Similar Items

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

1 Accounting Policies continued

Taxes

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

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

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

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

Dividends

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

Intangible Assets – Goodwill

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

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

Intangible Assets – Other

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

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

With effect from 1 October 2013 we have revised the estimated lives over which certain brands, trademarks and supply agreements in the Tobacco business will be amortised. In line with our strategy to focus on Growth and Specialist Brands, we have reduced the estimated remaining useful lives for all other brands to a maximum of five years. Intellectual property (including trademarks), supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

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

Property, Plant and Equipment

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

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

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

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

Financial Instruments and Hedging

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

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

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

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

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

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

Inventories

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

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

Provisions

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

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

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

Retirement Benefit Schemes

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

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

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

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

Share-Based Payments

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

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

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

1 Accounting Policies continued

Treasury Shares

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

Use of Adjusted Measures

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

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

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

The principal adjustments made to reported profits are as follows:

Acquisition Costs

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

Amortisation and Impairment of Acquired Intangibles

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

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

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

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

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

Restructuring Costs

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

Post-Employment Benefits Net Financing Cost

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

Tax Matters

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

Other Non-GAAP Measures Used by Management

Net Revenue

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

Other Non-GAAP Measures Used by Management continued

Distribution Fees

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

Adjusted Net Debt

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

New Accounting Standards and Interpretations

New standards or interpretations which came into effect for the current reporting period did not have a material impact on the net assets or results of the Group.

Pensions Accounting

Under IAS 19 (Revised), which became mandatory for the Group in its 2014 accounts, the interest charge on retirement benefit liabilities and the expected return on pension plan assets have been replaced by a net interest income or expense on net defined benefit assets or liabilities based on high quality corporate bond rates. The impact on the Group's results and net assets is as follows:

	Year ended 30 September 2013		
£ million	Previously reported	Adjustment	Restated
Investment income	766	(42)	724
Finance costs	(1,463)	–	(1,463)
Net finance costs	(697)	(42)	(739)
Profit before taxation	1,261	(42)	1,219
Taxation	(300)	10	(290)
Profit for the period	961	(32)	929
EPS basic (pence)	96.2	(3.3)	92.9
EPS diluted (pence)	96.0	(3.3)	92.7
Retirement benefit assets	1	4	5
Retirement benefit liabilities	(1,055)	–	(1,055)
Net assets	5,648	4	5,652

The effect in the year ended 30 September 2014 has been to reduce reported investment income by £42 million and profit for the period by £32 million.

Valuation of Derivative Financial Instruments

IFRS 13 Fair Value Measurement, which is mandatory for this financial year, has clarified the measurement criteria for derivative financial instruments. The impact has not had a material effect on the results or net assets of the Group.

Joint Ventures

IFRS 11 will become mandatory for the Group in its 2015 accounts and will require the Group to equity account for its joint ventures which are currently proportionately consolidated. It is not expected to have a material effect on the results or net assets of the Group. See note 13 to the financial statements.

Other standards and interpretations issued, but not yet effective, are not expected to have a material effect on the Group's net assets or results.

2 Critical Accounting Estimates and Judgements

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

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

Legal Proceedings and Disputes

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

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

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

Property, Plant and Equipment and Intangible Assets

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

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

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

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

See notes 11 and 12 to these financial statements.

Retirement Benefits

The costs, assets and liabilities of the defined benefit retirement schemes operating within the Group are determined using methods relying on actuarial estimates and assumptions. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Group's financial statements. Details of the key assumptions are set out in note 22.

Income Taxes

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

Provisions

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

3 Segment Information

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

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

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

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

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

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

Growth Markets – Iraq, Norway, Russia, Saudi Arabia, Taiwan, United States of America.

Tobacco

£ million unless otherwise indicated	2014	2013
Revenue	19,656	20,881
Net revenue	6,576	7,007
Operating profit	1,970	1,888
Adjusted operating profit	2,850	3,003
Adjusted operating margin %	43.3	42.9

Logistics

£ million unless otherwise indicated	2014	2013
Revenue	7,784	8,288
Distribution fees	848	850
Operating profit	84	69
Adjusted operating profit	166	176
Adjusted distribution margin %	19.6	20.7

Revenue

£ million	2014 Total revenue	2014 External revenue	2013 Total revenue	2013 External revenue
Tobacco				
Returns Markets North	12,939	12,915	13,527	13,506
Returns Markets South	2,824	2,080	3,051	2,222
Growth Markets	3,893	3,846	4,303	4,253
Total Tobacco	19,656	18,841	20,881	19,981
Logistics	7,784	7,784	8,288	8,288
Eliminations	(815)	–	(900)	–
Total Group	26,625	26,625	28,269	28,269

Tobacco net revenue

£ million	2014	2013
Returns Markets North	2,801	2,929
Returns Markets South	1,662	1,824
Growth Markets	2,113	2,254
Total Tobacco	6,576	7,007

Tobacco net revenue excludes revenue from the sale of peripheral and non-tobacco related products of £152 million (2013: £193 million).

3 Segment Information continued

Adjusted operating profit and reconciliation to profit before tax

£ million	2014	2013
Tobacco		
Returns Markets North	1,511	1,543
Returns Markets South	742	792
Growth Markets	597	668
Total Tobacco	2,850	3,003
Logistics	166	176
Eliminations	10	1
Adjusted operating profit	3,026	3,180
Acquisition costs – Tobacco	(13)	–
Amortisation of acquired intangibles – Tobacco	(562)	(288)
Amortisation of acquired intangibles – Logistics	(82)	(84)
Impairment of acquired intangibles – Tobacco	–	(580)
Restructuring costs – Tobacco	(305)	(247)
Restructuring costs – Logistics	–	(23)
Operating profit	2,064	1,958
Net finance costs	(544)	(739)
Profit before tax	1,520	1,219

Other information

	2014		2013	
£ million	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco				
Returns Markets North	100	69	148	82
Returns Markets South	54	41	28	34
Growth Markets	86	43	70	34
Total Tobacco	240	153	246	150
Logistics	16	31	23	35
Total Group	256	184	269	185

Additional geographic analysis

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

	2014		2013	
£ million	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,750	163	5,007	182
Germany	4,003	3,350	4,105	3,180
Spain	2,128	1,716	1,832	2,080
France	3,661	2,857	3,834	3,206
USA	1,024	2,727	1,147	2,874
Other	11,059	6,925	12,344	7,957
Total Group	26,625	17,738	28,269	19,479

Non-current assets comprise intangible assets, property, plant and equipment, and investments in associates.

4 Profit Before Taxation

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

£ million	2014	2013
Raw materials and consumables used	1,265	1,408
Changes in inventories of finished goods	6,938	7,438
Operating lease charges	56	60
Net foreign exchange (gains)/losses	(96)	47
Write down of inventories	26	55
Loss/(profit) on disposal of property, plant and equipment	6	(5)
Impairment of trade receivables	2	(1)

Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

£ million	2014	2013
Audit of Parent Company and consolidated financial statements	1.0	1.0
Audit of the Company's subsidiaries	3.7	3.6
Audit related assurance services	0.1	0.1
Other assurance services	–	–
	4.8	4.7
Tax advisory services	0.7	0.8
Tax compliance services	0.2	0.1
Other services	2.1	0.2
	7.8	5.8

5 Restructuring Costs

£ million	2014	2013
Employment related	149	107
Asset impairments	71	83
Other charges	85	80
	305	270

The net charge for the year of £305 million (2013: £270 million) included £9 million (2013: £24 million) of unused provisions reversed during the year, £193 million (2013: £163 million) of additional restructuring provisions and £71 million (2013: £83 million) impairment of tangible assets. The remaining charge of £50 million (2013: £48 million) was charged directly to the consolidated income statement as incurred. Restructuring cash flow in the year was approximately £120 million (2013: £200 million), mainly due to the cost optimisation programme.

In January 2013 we announced our cost optimisation programme, aligned to our strategy, with a target of generating annual savings of £300 million by 2018, and with an anticipated cash implementation cost in the region of £600 million. The programme includes major restructuring of a number of sales forces to align with our strategy, rationalisation of our manufacturing footprint, and aligning organisational structures, processes and resource levels with future requirements. A number of initiatives delivered savings of over £60 million in our 2014 results (2013: £30 million).

Asset impairments in 2014 relate mainly to the proposed closure of our manufacturing facilities in Nottingham and Nantes while in 2013 they were mainly due to the closure of our facility in Cadiz.

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

6 Directors and Employees

Employment costs

£ million	2014	2013
Wages and salaries	901	907
Social security costs	177	191
Pension costs (note 22)	(21)	81
Share-based payments (note 25)	22	16
	1,079	1,195

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

Number of people employed by the Group during the year

	2014		2013	
	At 30 September	Average	At 30 September	Average
Tobacco	28,300	28,500	29,600	30,200
Logistics	5,600	5,700	5,700	5,800
	33,900	34,200	35,300	36,000

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

	2014		2013	
	At 30 September	Average	At 30 September	Average
European Union	16,200	16,200	16,100	16,600
Americas	7,500	7,700	8,200	8,200
Rest of the World	10,200	10,300	11,000	11,200
	33,900	34,200	35,300	36,000

7 Net Finance Costs and Reconciliation to Adjusted Net Finance Costs

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2014	2013
Reported net finance costs	544	739
Fair value gains on derivative financial instruments	271	479
Fair value losses on derivative financial instruments	(358)	(589)
Exchange gains/(losses) on financing activities	99	(46)
Net fair value and exchange gains/(losses) on financial instruments	12	(156)
Interest income on net defined benefit assets	138	126
Interest cost on net defined benefit liabilities	(174)	(168)
Unwind of discount on redundancy and other long-term provisions	(4)	(9)
Post-employment benefits net financing cost	(40)	(51)
Adjusted net finance costs	516	532
Comprising		
Interest credit on bank deposits	(9)	(8)
Interest charge on bank and other loans	525	540
Adjusted net finance costs	516	532

Amounts in 2013 have been reclassified from fair value gains/losses on derivative financial instruments to exchange gains/losses on financing activities, to better reflect the nature of the transactions and the way the Group manages its financial risks and to ensure comparable data from year to year.

8 Taxation

Analysis of charge in the year

£ million	2014	2013
Current tax		
UK corporation tax	7	6
Overseas taxation	412	472
Total current tax	419	478
Deferred tax		
Origination and reversal of temporary differences	(350)	(188)
Total tax charged to the consolidated income statement	69	290

Reconciliation from reported taxation to adjusted taxation

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

£ million	2014	2013
Reported taxation	69	290
Deferred tax on amortisation of acquired intangibles	301	72
Deferred tax on impairment of acquired intangibles	–	107
Tax on net fair value and exchange losses on financial instruments	13	9
Tax on post-employment benefits net financing cost	12	15
Tax on restructuring costs	84	79
Tax on unrecognised losses	51	–
Adjusted tax charge	530	572

Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average of the enacted UK corporation tax rates for the year of 22 per cent (2013: 23.5 per cent) as follows:

£ million	2014	2013
Profit before tax	1,520	1,219
Tax at the UK corporation tax rate	334	286
Tax effects of:		
Differences in effective tax rates on overseas earnings	(105)	(156)
Remeasurement of deferred tax balances	(260)	44
Remeasurement of deferred tax balances arising from changes in tax rates	46	–
Permanent differences	71	51
Non-deductible goodwill impairment	–	67
Adjustments in respect of prior years	(17)	(2)
Total tax charged to the consolidated income statement	69	290

Movement on current tax account

£ million	2014	2013
At 1 October	(69)	(317)
Charged to the consolidated income statement	(419)	(478)
Credited to other comprehensive income	–	40
Credited to equity	3	2
Cash paid	457	686
Exchange movements	–	2
Other movements	(9)	(4)
At 30 September	(37)	(69)

Analysed as:

£ million	2014	2013
Assets	96	72
Liabilities	(133)	(141)
	(37)	(69)

9 Dividends

Dividend per share in respect of financial year

Pence	2014	2013	2012
Interim	38.8	35.2	31.7
Final	89.3	81.2	73.9
Total	128.1	116.4	105.6

Interim dividends are paid and recognised in the second half of the year, and final dividends in respect of a year are paid and recognised in the following financial period.

Amounts recognised as distributions to ordinary equity holders in the year

£ million	2014	2013
Final dividend paid in the period in respect of previous financial year	779	724
Interim dividend	370	341
	1,149	1,065

The proposed final dividend for the year ended 30 September 2014 of 89.3p per share amounts to a proposed final dividend payment of £851 million based on the number of shares ranking for dividend at 30 September 2014, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2014 will be £1,221 million (2013: £1,120 million).

10 Earnings Per Share

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

£ million	2014	2013
Earnings: basic and diluted – attributable to owners of the Parent Company	1,422	905

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	957.4	973.9
Potentially dilutive share options	2.5	2.6
Shares for diluted earnings per share	959.9	976.5

Pence		
Basic earnings per share	148.5	92.9
Diluted earnings per share	148.1	92.7

Reconciliation from reported to adjusted earnings and earnings per share

	2014		2013	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	148.5	1,422	92.9	905
Acquisition costs	1.4	13	–	–
Amortisation of acquired intangibles	35.8	343	30.8	300
Impairment of acquired intangibles	–	–	48.6	473
Net fair value and exchange (gains)/losses on financial instruments	(2.5)	(25)	15.1	147
Post-employment benefits net financing cost	2.8	28	3.7	36
Restructuring costs	23.1	221	19.6	191
Tax on unrecognised losses	(5.3)	(51)	–	–
Adjustments above attributable to non-controlling interests	(0.4)	(4)	–	–
Adjusted	203.4	1,947	210.7	2,052
Adjusted diluted	202.8	1,947	210.1	2,052

11 Intangible Assets

£ million	2014 Goodwill	Intellectual property	Supply agreements	Software	Total
Cost					
At 1 October 2013	12,697	7,264	1,414	175	21,550
Additions	–	64	–	37	101
Reclassifications	–	–	–	7	7
Disposals	–	–	–	(4)	(4)
Exchange movements	(743)	(400)	(91)	(12)	(1,246)
At 30 September 2014	11,954	6,928	1,323	203	20,408
Amortisation and impairment					
At 1 October 2013	1,489	2,025	543	111	4,168
Amortisation charge for the year	–	540	104	24	668
Disposals	–	–	–	(1)	(1)
Exchange movements	(103)	(132)	(41)	(10)	(286)
Accumulated amortisation	–	2,078	606	124	2,808
Accumulated impairment	1,386	355	–	–	1,741
At 30 September 2014	1,386	2,433	606	124	4,549
Net book value					
At 30 September 2014	10,568	4,495	717	79	15,859

£ million	2013 Goodwill	Intellectual property	Supply agreements	Software	Total
Cost					
At 1 October 2012	12,178	7,019	1,354	151	20,702
Additions	–	9	–	27	36
Acquisitions	41	–	–	–	41
Disposals	–	–	–	(7)	(7)
Exchange movements	478	236	60	4	778
At 30 September 2013	12,697	7,264	1,414	175	21,550
Amortisation and impairment					
At 1 October 2012	1,208	1,366	428	91	3,093
Amortisation charge for the year	–	276	96	22	394
Impairment charge for the year	225	355	–	–	580
Disposals	–	–	–	(6)	(6)
Exchange movements	56	28	19	4	107
Accumulated amortisation	–	1,670	543	111	2,324
Accumulated impairment	1,489	355	–	–	1,844
At 30 September 2013	1,489	2,025	543	111	4,168
Net book value					
At 30 September 2013	11,208	5,239	871	64	17,382

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

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

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

11 Intangible Assets continued

With effect from 1 October 2013 we have revised the estimated useful lives over which certain brands, trademarks and supply agreements in the Tobacco business will be amortised. In line with our strategy to focus on Growth and Specialist Brands, we have reduced the estimated remaining useful lives for all other brands to a maximum of five years. This change in estimate is the main reason for the increase in the charge for amortisation of acquired intangibles for the year ended 30 September 2014.

Impairment charges in 2013 of £0.6 billion were in respect of goodwill and other intangible assets relating to the Spanish market.

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

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

Goodwill and intangible asset impairment review

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

	2014		2013	
£ million	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Returns Markets North	3,948	177	4,243	190
Returns Markets South	1,484	93	1,597	100
Growth Markets	3,611	495	3,728	507
Tobacco	9,043	765	9,568	797
Logistics	1,525	–	1,640	–
	10,568	765	11,208	797

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

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

Growth rates and discount rates used

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

	2014		
%	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Returns Markets North	8.9	1.9	1.8
Returns Markets South	11.6	(2.2)	1.8
Growth Markets	8.6-12.9	0.9-23.4	1.8-4.0
Logistics	9.6	7.8	1.8

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

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

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

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

Growth Markets

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

The Drive Growth CGU grouping includes our markets in Russia, Italy and Japan, and has been affected in 2014 by destocking in Russia, the major market in this CGU grouping. Our impairment test for this CGU grouping indicated headroom of £240 million, and assumed a compound annual growth rate for Russia over the first five years of 23.4 per cent, reflecting maintenance of more consistent levels of trade inventory together with price increases achieved in 2014 and anticipated over the plan period. The test also assumed a discount rate for the Russian market of 12.9 per cent reflecting recent political uncertainty and a long-term growth rate of 3.0 per cent. A reduction of 24 per cent in overall forecast cash flows, or an increase in the discount rate by 290 basis points, or a reduction in the long-term growth rate of 300 basis points, or a further 24 per cent devaluation of the Russian rouble would cause the carrying value to equal the recoverable amount.

The impairment test for our Other Premium Cigar CGU grouping that includes our non-Cuban Premium Cigar business indicated headroom of £170 million. A reduction in overall forecast cash flows of 25 per cent, or an increase in the discount rate by 240 basis points from 9.9 per cent, or a reduction in the short-term growth rate of 630 basis points from 9.8 per cent, or a reduction in the long-term growth rate of 180 basis points from 2.3 per cent would cause the carrying value to equal the recoverable amount.

Other CGU groupings

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

12 Property, Plant and Equipment

	2014			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2013	1,152	1,859	444	3,455
Additions	38	176	42	256
Disposals	(135)	(44)	(17)	(196)
Reclassifications	1	16	(27)	(10)
Exchange movements	(66)	(134)	(29)	(229)
At 30 September 2014	990	1,873	413	3,276
Depreciation and impairment				
At 1 October 2013	260	860	255	1,375
Depreciation charge for the year	17	106	37	160
Impairment	30	54	8	92
Disposals	(76)	(39)	(16)	(131)
Reclassifications	1	(2)	(1)	(2)
Exchange movements	(18)	(46)	(16)	(80)
At 30 September 2014	214	933	267	1,414
Net book value				
At 30 September 2014	776	940	146	1,862

12 Property, Plant and Equipment continued

£ million	2013 Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2012	1,086	1,683	429	3,198
Additions	21	201	47	269
Disposals	–	(29)	(27)	(56)
Disposals of businesses	(7)	(16)	(4)	(27)
Reclassifications	7	2	(14)	(5)
Exchange movements	45	18	13	76
At 30 September 2013	1,152	1,859	444	3,455
Depreciation and impairment				
At 1 October 2012	184	752	237	1,173
Depreciation charge for the year	16	106	41	163
Impairment	54	22	2	78
Disposals	(3)	(18)	(26)	(47)
Disposals of businesses	–	(14)	(3)	(17)
Exchange movements	9	12	4	25
At 30 September 2013	260	860	255	1,375
Net book value				
At 30 September 2013	892	999	189	2,080

The impairment charges in 2013 were mainly due to the closure of our facility in Cadiz under our cost optimisation programme.

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

13 Joint Ventures

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

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

£ million	2013 Corporación Habanos	Altabana	Others	Total
Revenue	51	111	14	176
Profit after taxation	15	19	3	37
Non-current assets	178	8	3	189
Current assets	35	71	9	115
Total assets	213	79	12	304
Current liabilities	(17)	(20)	(3)	(40)
Non-current liabilities	(9)	(2)	–	(11)
Total liabilities	(26)	(22)	(3)	(51)
Net assets	187	57	9	253

Transactions and balances with joint ventures

£ million	2014	2013
Sales to	61	68
Purchases from	63	80
Accounts receivable from	10	9
Current loans to	8	53
Accounts payable to	(11)	(10)

A new accounting standard, IFRS 11 Joint Arrangements, comes into effect for the Group from 1 October 2014. For future results, equity accounting will be compulsory for joint arrangements, and our current policy of proportionately consolidating joint ventures' results and assets and liabilities will no longer be permitted.

If the standard had been in effect in FY14, the revenue and profit after taxation figures above for 2014 would not have been included in revenue and profit after taxation in the Group's consolidated income statement. Instead, the profit and loss items would have been shown in the consolidated income statement below net finance costs as "post-tax share of investments accounted for using the equity method".

Similarly, the asset and liability amounts would not have been included in the corresponding line items in the Group's consolidated balance sheet, but would have been reclassified as "Investments accounted for using the equity method".

14 Inventories

£ million	2014	2013
Raw materials	1,004	1,119
Work in progress	54	55
Finished inventories	1,741	1,922
Other inventories	136	200
	2,935	3,296

Other inventories mainly comprise duty-paid tax stamps.

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the processing cycle, ordinarily would not be consumed within one year. We estimate that around £250 million (2013: £262 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

15 Trade and Other Receivables

£ million	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Trade receivables	**2,648**	**–**	2,809	–
Less: provision for impairment of receivables	**(55)**	**–**	(51)	–
Net trade receivables	**2,593**	**–**	2,758	–
Other receivables	**86**	**63**	88	73
Prepayments and accrued income	**127**	**12**	120	12
	2,806	**75**	2,966	85

Trade receivables may be analysed as follows:

£ million	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Within credit terms	**2,501**	**–**	2,645	–
Past due by less than 3 months	**42**	**–**	68	–
Past due by more than 3 months	**50**	**–**	45	–
Amounts that are impaired	**55**	**–**	51	–
	2,648	**–**	2,809	–

16 Cash and Cash Equivalents

£ million	2014	2013
Cash at bank and in hand	**1,422**	1,677
Short-term deposits and other liquid assets	**9**	132
	1,431	1,809

Cash at 30 September 2014 and 2013 was held partly in preparation for repayments of borrowings due in the early part of the new financial year.

£153 million (2013: £169 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

17 Trade and Other Payables

£ million	2014 Current	2014 Non-current	2013 Current	2013 Non-current
Trade payables	**1,014**	**–**	1,055	–
Other taxes, duties and social security contributions	**5,245**	**–**	5,679	–
Other payables	**210**	**–**	165	–
Accruals and deferred income	**521**	**21**	455	17
	6,990	**21**	7,354	17

18 Borrowings

The Group's borrowings at amortised cost at the balance sheet date were as follows:

£ million	2014	2013
Current borrowings		
Bank loans and overdrafts	147	24
Capital market issuance:		
European commercial paper (ECP)	321	1,143
€500m 5.125% notes due October 2013	–	439
€1,200m 4.375% notes due November 2013	–	1,041
€750m 7.25% notes due September 2014	–	629
Total current borrowings	468	3,276
Non-current borrowings		
Bank loans	2	1
Capital market issuance:		
€500m 4.0% notes due December 2015	394	409
€1,500m 8.375% notes due February 2016	1,226	1,318
£450m 5.5% notes due November 2016	471	471
$1,250m 2.05% notes due February 2018	773	773
€850m 4.5% notes due July 2018	667	717
£200m 6.25% notes due December 2018	210	210
£500m 7.75% notes due June 2019	510	510
€750m 5.0% notes due December 2019	606	652
€1,000m 2.25% notes due February 2021	785	–
£1,000m 9.0% notes due February 2022	1,054	1,054
$1,000m 3.5% notes due February 2023	618	619
£600m 8.125% notes due March 2024	626	625
€650m 3.375% notes due February 2026	514	–
£500m 5.5% notes due September 2026	499	499
£500m 4.875% notes due June 2032	509	–
Total non-current borrowings	9,464	7,858
Total borrowings	9,932	11,134
Analysed as:		
Capital market issuance	9,783	11,109
Bank loans and overdrafts	149	25

Current borrowings and non-current borrowings at 30 September 2014 include interest payable of £1 million (2013: £64 million) and £291 million (2013: £257 million) respectively.

During the year, €2,450 million notes were repaid, and in February 2014 the Group issued three tranches of debt in the capital markets for €1,000 million, €650 million and £500 million at fixed rates of 2.25 per cent, 3.375 per cent and 4.875 per cent respectively with an average maturity of 12 years.

The bank loans and overdrafts are floating rate liabilities. The capital market issuances in place at the balance sheet date bear interest (before the effects of financial derivatives which are detailed in note 20) at a fixed rate throughout their life. The Group has not defaulted on any borrowings during the year (2013: no defaults).

All borrowings are unsecured.

18 Borrowings continued

Undrawn borrowing facilities

In July 2014 the Group entered into term loan facilities of £4.4 billion equivalent to fund the purchase of certain US assets announced in July 2014. At the same time, the Group refinanced its core bank facility and entered into an additional revolving credit facility to provide working capital headroom in respect of the US acquisition.

All of these facilities were undrawn at 30 September 2014.

£ million	2014	2013
Amounts maturing:		
Between one and two years	3,310	251
Between two and five years	3,631	3,474
In five years or more	927	–
	7,868	3,725

Non-current financial liabilities

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

	2014			2013		
£ million	Borrowings	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities	Total
Amounts maturing:						
Between one and two years	1,622	(47)	1,575	1	72	73
Between two and five years	2,631	26	2,657	3,688	24	3,712
In five years or more	5,211	61	5,272	4,169	123	4,292
	9,464	40	9,504	7,858	219	8,077

19 Financial Risk Factors

Financial risk management

Overview

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

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

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

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

Market risk

Price risk

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

Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions denominated in foreign currencies, as well as cash investments, borrowings and derivatives in non-functional currencies. The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates.

Foreign currency transaction exposures arising on internal and external trade flows are not hedged. The Group minimises the transaction risk associated with overseas operating subsidiaries by matching local currency flows where possible.

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

Transaction risk
The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies.

The Group's sterling dividend to external shareholders is sourced from foreign subsidiary earnings. Cash flows are managed using liquidity swaps in line with the Group's daily cash management processes, and the timing of internal and external dividend flows as appropriate.

Foreign exchange sensitivity analysis
The tables below illustrate on an indicative basis, the Group's sensitivity to foreign exchange rates on monetary items held by Group companies in currencies other than their functional currencies. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2014. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements.

The effect in the consolidated income statement from foreign exchange rate movements primarily relates to financial instruments that commercially hedge Group exposures, but which are not accounted for as hedges under IAS 39. This value is expected to be substantially offset by related movements through other comprehensive income and, accordingly, any residual gain or loss is excluded from our adjusted performance measures.

At 30 September 2014, after the effect of derivative financial instruments, approximately 17 per cent (2013: 25 per cent) of reported net debt was denominated in sterling, 73 per cent in euro (2013: 69 per cent) and 10 per cent in US dollars (2013: 6 per cent).

£ million	2014 Increase/ (decrease) in income	2013 Increase/ (decrease) in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2013: 10%)	251	(172)
10% appreciation of US dollar (2013: 10%)	22	2
10% appreciation of sterling (2013: 10%)	3	18

An equivalent depreciation in the above currencies would cause a decrease in income of £307 million, £26 million and £3 million for euro, US dollar and sterling exchange rates respectively (2013: £211 million, -£3 million and -£22 million).

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

£ million	2014 Change in equity	2013 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2013: 10%)	923	1,124
10% appreciation of US dollar (2013: 10%)	–	–
10% appreciation of sterling (2013: 10%)	–	–

An equivalent depreciation in the above currencies would result in a change in equity of -£1,129 million, £0 million and £0 million for euro, US dollar and sterling exchange rates respectively (2013: -£1,374 million, £0 million and £0 million).

Interest rate risk
Interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and subsequently entering into derivative financial instruments to change the currency and interest rate mix in line with the GTC framework. Group Treasury monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and fair value of derivative financial instruments. The Group's debt maturity profile is detailed in the contractual cash flows table below.

At 30 September 2014, including the effect of derivative financial instruments detailed in note 20, 71 per cent (2013: 49 per cent) of reported net debt was at floating rates of interest and 29 per cent (2013: 51 per cent) was at fixed rates of interest.

19 Financial Risk Factors continued

Interest rate sensitivity analysis

The tables below illustrate on an indicative basis the Group's sensitivity to interest rates on its euro, US dollar and sterling monetary items which are primarily external borrowings, cash and cash equivalents.

The impact in the consolidated income statement due to changes in interest rates reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2014, and ignores any taxation implications and offsetting effects of derivative financial instruments' fair value movements.

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

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

£ million	2014 Change in net income	2013 Change in net income
Income statement impact of interest rate movements:		
1% increase in euro interest rates (2013: 1%)	32	20
1% increase in US dollar interest rates (2013: 1%)	13	9
1% increase in sterling interest rates (2013: 1%)	12	22

Liquidity risk

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

The Group borrows centrally in order to meet forecast funding requirements, and Group Treasury is in regular dialogue with subsidiaries to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, loans from central finance companies, and in very limited cases through external local borrowings. Cash pooling structures are used to centralise cash and minimise external borrowings as appropriate and cash flow forecasts and funding requirements are reviewed by Group Treasury on a regular basis. Management periodically performs stress tests and sensitivity analysis on forecasts, which are subsequently reviewed by the Audit Committee.

The table below summarises the Group's financial liabilities by maturity based on their contractual cash flows. The contractual cash flows disclosed in the table include interest to be paid, are undiscounted and have been calculated using spot rates of exchange at the relevant balance sheet date. Net derivative financial instruments' contractual cash flows are as detailed in note 20.

	2014					
£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	149	149	147	2	–	–
Capital market issuance	9,783	12,677	834	1,994	3,621	6,228
Trade and other payables	1,014	1,014	1,014	–	–	–
Total non-derivative financial liabilities	10,946	13,840	1,995	1,996	3,621	6,228

	2013					
£ million	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	25	25	24	1	–	–
Capital market issuance	11,109	13,851	3,096	1,514	4,725	4,516
Trade and other payables	1,055	1,055	1,055	–	–	–
Total non-derivative financial liabilities	12,189	14,931	4,175	1,515	4,725	4,516

Capital management
The Group manages the capital structure through an appropriate mix of debt and equity in order to minimise the cost of capital whilst ensuring ongoing access to the external markets at an appropriate rate of interest. The Group defines capital as adjusted net debt and equity attributable to the owners of the Company. Besides the minimum capitalisation rules that may apply to subsidiaries in different countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within external debt facilities, within which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group seeks to maintain an investment grade credit rating which it monitors by reference to a number of key financial ratios. The framework within which the Group's capital base is managed includes the return of capital to shareholders through an appropriate mix of share buy backs and dividends.

In order to accelerate the pace of debt repayment associated with the acquisition of certain US assets as announced in July 2014, the Group has suspended its share buy-back programme. As at 30 September 2014 c14.2 million shares had been repurchased during the financial year at a cost of approximately £341 million (2013: £500 million).

The Group is currently rated Baa3/negative outlook by Moody's Investors Service Limited, BBB/stable outlook by Standard & Poor's Credit Market Services Europe Limited and BBB/negative outlook by Fitch Ratings Limited. The Group's investment grade credit rating is not expected to be impacted by the US acquisition.

Credit risk
The Group is exposed to credit risk arising from trade receivables due from its customers, cash deposits and financial instruments held with external counterparties.

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

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

The Group considers its maximum aggregate credit risk to be £4,722 million at 30 September 2014 (2013: £5,175 million), which includes trade receivables, derivative financial assets and cash and cash equivalents.

The table below summarises the Group's five largest financial institution counterparties, based on maximum exposure to credit risk, by credit rating and balances at 30 September 2014. As at the balance sheet date, management does not expect these counterparties to default on their current obligations.

The impact of the Group's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

	2014		2013	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A	179	A	113
2nd highest	A	134	A	112
3rd highest	A+	129	A+	112
4th highest	A	112	A	112
5th highest	A+	111	A	111

19 Financial Risk Factors continued

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. All derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7).

With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered to approximate to their carrying amount. Set out below is a comparison of carrying amount and fair value of the Group's capital market issuance (as detailed in note 18) by currency. The fair value of these bonds has been determined by reference to market prices as at the balance sheet date.

£ million	2014 Balance sheet amount	2014 Fair value	2013 Balance sheet amount	2013 Fair value
GBP	3,879	4,576	3,369	4,047
EUR	4,192	4,505	5,205	5,516
USD	1,391	1,377	1,392	1,348
Total capital market issuance	9,462	10,458	9,966	10,911

Netting arrangements of financial instruments

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements.

Financial assets and liabilities that are subject to set off arrangements and disclosed on a net basis in the Group's balance sheet primarily relate to cash pooling arrangements and collateral in respect of derivative financial instruments.

Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA Agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

£ million	2014				
	Gross financial assets/ (liabilities)	Gross amounts offset	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	745	(102)	643	(451)	192
Cash and cash equivalents	3,454	(2,023)	1,431	–	1,431
	4,199	(2,125)	2,074	(451)	1,623
Liabilities					
Derivative financial instruments	(793)	102	(691)	451	(240)
Bank loans and overdrafts	(2,170)	2,023	(147)	–	(147)
	(2,963)	2,125	(838)	451	(387)

£ million	2013				
	Gross financial assets/ (liabilities)	Gross amounts offset	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	667	(110)	557	(426)	131
Cash and cash equivalents	1,898	(89)	1,809	–	1,809
	2,565	(199)	2,366	(426)	1,940
Liabilities					
Derivative financial instruments	(860)	110	(750)	426	(324)
Bank loans and overdrafts	(113)	89	(24)	–	(24)
	(973)	199	(774)	426	(348)

20 Derivative Financial Instruments

The following table presents the Group's derivative financial instruments that are measured at fair value in accordance with the Level 2 IFRS 7 classification hierarchy. Level 2 instruments are not traded in an active market, but the fair values are based on inputs other than quoted market prices that are observable either directly (that is, as prices) or indirectly (that is, other observable values).

There were no changes to the valuation methods or transfers between hierarchies during the year.

	2014			2013		
£ million	Assets	Liabilities	Net fair value	Assets	Liabilities	Net fair value
Current derivative financial instruments						
Interest rate swaps and swaptions	27	(41)	(14)	203	(158)	45
Forward foreign currency contracts	7	(7)	–	3	(50)	(47)
Cross currency swaps	4	–	4	39	(17)	22
Total current derivatives	38	(48)	(10)	245	(225)	20
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	–	2	2	–	6	6
	38	(46)	(8)	245	(219)	26
Non-current derivative financial instruments						
Interest rate swaps and swaptions	521	(692)	(171)	312	(470)	(158)
Cross currency swaps	84	(53)	31	–	(165)	(165)
Total non-current derivatives	605	(745)	(140)	312	(635)	(323)
Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex	–	100	100	–	104	104
	605	(645)	(40)	312	(531)	(219)
Total carrying value of derivative financial instruments	643	(691)	(48)	557	(750)	(193)

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current according to their undiscounted contractual cash settlements applying spot rates as at the balance sheet date. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below shows all contractual cash flows (interest and exchange of principals) for all derivative financial instruments held at the balance sheet date.

	2014					
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(149)	271	51	24	25	171
Gross settled derivatives	101					
– receipts		4,036	1,194	48	812	1,982
– payments		(4,507)	(1,222)	(76)	(866)	(2,343)
	(48)	(200)	23	(4)	(29)	(190)

	2013					
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	(76)	62	42	18	1	1
Gross settled derivatives	(117)					
– receipts		6,491	3,445	1,145	640	1,261
– payments		(6,534)	(3,444)	(1,103)	(616)	(1,371)
	(193)	19	43	60	25	(109)

20 Derivative Financial Instruments continued

Derivatives as hedging instruments

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IAS 39, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments.

The Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations as permitted by IAS 39, in order to minimise income statement volatility.

Interest rate swaps

As outlined in note 19, interest rate risk on Group borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance and then using derivative financial instruments to change the debt into the appropriate proportions of fixed and floating interest rates in accordance with the GTC framework where necessary.

Interest rate swaps entered into to change fixed rate borrowings into floating rate borrowings are as follows:

	2014			
£ million unless otherwise indicated	Notional	Fair value	Receiving rates	Paying rates
GBP	3,670	281	3.7% to 8.7%	LIBOR plus 212bps to 511bps
EUR	4,081	255	2.2% to 8.0%	EURIBOR plus 109bps to 503bps
USD	1,390	(12)	2.0% to 3.4%	LIBOR plus 94bps to 126bps
	9,141	524		

	2013			
£ million unless otherwise indicated	Notional	Fair value	Receiving rates	Paying rates
GBP	1,166	268	5.4% to 8.7%	LIBOR plus 269bps to 511bps
EUR	4,954	238	3.9% to 8.0%	EURIBOR plus 55bps to 503bps
USD	452	(24)	2.0% to 3.4%	LIBOR plus 94bps to 126bps
	6,572	482		

Interest rate swaps entered into to manage the Group's exposure to interest rate risk are as follows:

	2014			
£ million unless otherwise indicated	Notional	Fair value	Paying rates	Receiving
GBP	1,266	(96)	2.7% to 4.4%	LIBOR
EUR	5,193	(558)	0.8% to 5.2%	EURIBOR
USD	1,483	(18)	1.4% to 4.1%	LIBOR
	7,942	(672)		

	2013			
£ million unless otherwise indicated	Notional	Fair value	Paying rates	Receiving
GBP	2,600	(125)	3.0% to 4.4%	LIBOR
EUR	5,166	(436)	1.5% to 5.2%	EURIBOR
USD	1,452	(23)	1.4% to 4.1%	LIBOR
	9,218	(584)		

A small number of the interest rate swaps used to hedge interest rate risk have embedded options. Assumptions have been made based on market information and from counterparties' expectations at 30 September 2014 to determine whether, and if so when, such options are likely to be exercised in order to determine the probable maturity date. The actual maturity date could be earlier depending upon future market conditions and a cancellation would not result in a cash flow other than in respect of interest outstanding at the cancellation date. The effect of the cancellation of any of these interest rate swaps would be to reduce the proportion of the Group's borrowings that were at a fixed rate, increasing the Group's exposure to cash flow interest rate risk.

Included in the above are forward starting interest rate swaps with a total notional amount of £2,729 million equivalent (2013: £1,266 million equivalent) with tenors extending between 5 and 10 years, starting between October 2015 and May 2017. The fair value of these swaps was a net liability of £115 million (2013: net liability of £43 million) as at the balance sheet date.

Forward foreign currency contracts

The Group has entered into forward currency contracts to manage short-term foreign currency exposures. As at 30 September 2014 the notional amount of these contracts was £1,146 million equivalent (2013: £3,011 million equivalent) and the fair value of these contracts was a net asset of £nil (2013: £47 million net liability).

Cross currency swaps

The Group enters into cross currency swaps to change the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. As at 30 September 2014, the notional amount of cross currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was £650 million (2013: £650 million) and the fair value liability of these swaps was £30 million (2013: £73 million net liability).

As at 30 September 2014, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,000 million (2013: £1,000 million) and the fair value asset of these swaps was £71 million (2013: £1 million net liability).

Hedges of net investments in foreign operations

As at 30 September 2014 external debt with a carrying value of €5,165 million (2013: €6,507 million) and cross currency swaps with a notional value of €2,461 million (2013: €2,835 million) have been designated as hedges of the net investment in the Group's foreign operations. To the extent that these hedges are effective, gains or losses on the retranslation of these borrowings and derivatives are recognised in other comprehensive income to offset any gains or losses on translation of the net investments in the Group's foreign operations. Permanent intra-group loans with a fair value of €5,440 million (2013: €5,608 million) as at the balance sheet date have been treated as a reduction in investments in the Group's foreign operations, in line with IAS 21.

During the year, as a result of net investment hedging, foreign exchange gains amounting to £831 million (2013: £662 million losses) were transferred to reserves through other comprehensive income.

Reconciliation of fair value of derivative financial instruments

The movements in the carrying value of derivative financial instruments in the year were as follows:

	2014			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on derivative instruments (note 7)	–	62	271	333
Losses arising on derivative instruments (note 7)	–	(81)	(358)	(439)
Gains arising on instruments designated as net investment hedges	150	–	–	150
Accretion of accrued interest	–	–	(20)	(20)
Net fair value gains/(losses) on derivative financial instruments	150	(19)	(107)	24
Net fair value of derivatives at 30 September 2013				(193)
Cash flows relating to derivative financial instruments				121
Net fair value of derivatives at 30 September 2014				(48)

	2013			
	Fair value attributable to currency movements recognised in:		Fair value attributable to interest rate movements recognised in:	
£ million	Comprehensive income	Income statement	Income statement	Total
Derivative financial instruments:				
Gains arising on derivative instruments (note 7)	–	111	479	590
Losses arising on derivative instruments (note 7)	–	(99)	(589)	(688)
Losses arising on instruments designated as net investment hedges	(114)	–	–	(114)
Net fair value gains/(losses) on derivative financial instruments	(114)	12	(110)	(212)
Net fair value of derivatives at 30 September 2012				(9)
Cash flows relating to derivative financial instruments				28
Net fair value of derivatives at 30 September 2013				(193)

21 Deferred Tax Assets and Liabilities

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

Deferred tax assets

£ million	2014 Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2013	(52)	156	2	47	153
Credited/(charged) to consolidated income statement	7	(12)	(1)	94	88
Transfers	20	(48)	–	5	(23)
Exchange movements	26	5	–	(8)	23
At 30 September 2014	1	101	1	138	241

£ million	2013 Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(67)	158	3	48	142
Credited/(charged) to consolidated income statement	31	12	(1)	10	52
Charged to other comprehensive income	–	(36)	–	–	(36)
Transfers	–	7	–	(9)	(2)
Exchange movements	(16)	15	–	(2)	(3)
At 30 September 2013	(52)	156	2	47	153

Deferred tax liabilities

£ million	2014 Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2013	(2,008)	58	–	130	(1,820)
Credited/(charged) to consolidated income statement	337	(33)	–	(42)	262
Charged to other comprehensive income	–	(1)	–	–	(1)
Transfers	(54)	32	–	47	25
Exchange movements	103	(4)	–	(18)	81
At 30 September 2014	(1,622)	52	–	117	(1,453)

£ million	2013 Accelerated depreciation and amortisation	Retirement benefits	Fair value movements	Other temporary differences	Total
At 1 October 2012	(2,123)	63	–	183	(1,877)
Credited/(charged) to consolidated income statement	198	(1)	–	(61)	136
Charged to other comprehensive income	–	(6)	–	–	(6)
Transfers	–	(3)	–	5	2
Exchange movements	(83)	5	–	3	(75)
At 30 September 2013	(2,008)	58	–	130	(1,820)

Deferred tax expected to be recovered within 12 months

£ million	2014	2013
Deferred tax assets	59	65
Deferred tax liabilities	(233)	(121)
	(174)	(56)

Deferred tax expected to be recovered in more than 12 months

£ million	2014	2013
Deferred tax assets	182	88
Deferred tax liabilities	(1,220)	(1,699)
	(1,038)	(1,611)

Within Other temporary differences, deferred tax assets of £92 million (2013: £25 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at the balance sheet date, deferred tax assets of £373 million (2013: £598 million) have not been recognised due to the potential uncertainty of the utilisation of the underlying tax losses in certain jurisdictions. Of these unrecognised deferred tax assets, £332 million (2013: £486 million) losses are expected to expire at approximately £50 million (2013: £60 million) per annum between 2015 and 2021, £11 million (2013: £12 million) are expected to expire within 5 years and £27 million are expected to expire between 2022 and 2026.

Also within Other temporary differences, deferred tax assets of £10 million (2013: £22 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £229 million (2013: £131 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. These unrecognised deferred tax assets are expected to expire between 2021 and 2027.

We have reviewed the recoverability of deferred tax assets in an overseas territory in the light of forecast business performance. Consequently, we have increased deferred tax assets of £90 million (2013: £76 million reduction) previously de-recognised on the basis that it is more likely than not that these are recoverable.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £7 billion (2013: £7 billion). A provision of £4 million (2013: £6 million) has been made for taxation expected to arise on a planned future dividend payment of £54 million from one subsidiary. No liability has been recognised in respect of other differences because the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

A deferred tax liability of £48 million arising on an internal disposal has not been recognised as the Group is in a position to control the timing of the reversal of the temporary difference, and it is probable that the liability will not crystallise in the foreseeable future. In addition, the liability is less than current unrecognised deferred tax assets which will be available to reduce the liability to nil.

The rate of UK corporation tax was reduced by 2 per cent from 23 per cent to 21 per cent from 1 April 2014. A further reduction to 20 per cent from 1 April 2015 was enacted at the balance sheet date and is reflected in the deferred tax balances.

22 Retirement Benefit Schemes

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's two principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited in the UK and Reemtsma Cigarettenfabriken GmbH in Germany; these schemes represent 71 per cent and 12 per cent of the Group's total retirement benefit obligations and 61 per cent and 15 per cent of the current service cost respectively.

During the year ITG has adopted IAS 19 (Revised) with effects as described in note 1, Accounting Policies, and also resulting in the revised presentation formats set out below.

Imperial Tobacco Pension Fund

The UK scheme – the Imperial Tobacco Pension Fund or ITPF – is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF is offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 16 years. The population comprises 59 per cent in respect of pensioners, 37 per cent in respect of deferred members and 4 per cent in respect of active employees. New employees in the UK are now offered a defined contribution scheme. Should surplus funds arise in the defined benefit section they may be used to finance defined contribution section contributions with company contributions reduced accordingly.

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

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

22 Retirement Benefit Schemes continued

Imperial Tobacco Pension Fund continued

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

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

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

The Scheme Actuary prepares an annual update of the funding position as at 31 March each year. The latest annual update on an ongoing basis was carried out as at 31 March 2014 and showed a surplus of £196 million in relation to past service accrued benefits.

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

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

The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan that is open to new entrants, though a small closed group of members has final salary benefits. It has a weighted average maturity of 17 years. The scheme population comprises 53 per cent in respect of pensioners, 16 per cent in respect of deferred members and 31 per cent in respect of active employees.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £20 million in respect of benefits.

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

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

Other plans

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

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2014 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

Defined benefit plans

	2014			2013 (restated)		
£ million	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(4,400)	3,350	(1,050)	(4,138)	3,095	(1,043)
Consolidated income statement expense						
Current service cost	(49)	–	(49)	(55)	–	(55)
Past service credit – Spanish free tobacco settlement	52	–	52	2	–	2
Past service credit – curtailment	69	–	69	3	–	3
Settlement	–	–	–	1	–	1
Cost of termination benefits	(32)	–	(32)	(15)	–	(15)
Net interest (expense)/income on net defined benefit (liability)/asset	(174)	138	(36)	(167)	128	(39)
Administration costs paid from plan assets	–	(3)	(3)	–	(2)	(2)
Cost recognised in the income statement			1			(105)
Remeasurements						
Actuarial gain/(loss) due to liability experience	38	–	38	(5)	–	(5)
Actuarial loss due to financial assumption changes	(202)	–	(202)	(188)	–	(188)
Actuarial gain/(loss) due to demographic assumption changes	22	–	22	(1)	–	(1)
Return on plan assets excluding amounts included in net interest (expense)/income above	–	187	187	–	237	237
Remeasurement effects recognised in OCI			45			43
Cash						
Employer contributions	–	116	116	–	98	98
Employee contributions	(2)	2	–	(2)	2	–
Benefits paid directly by the company	46	(46)	–	47	(47)	–
Benefits paid from plan assets	181	(181)	–	171	(171)	–
Net cash			116			98
Other						
Spanish free tobacco settlement	48	–	48	–	–	–
Exchange movements	88	(28)	60	(53)	10	(43)
Total other			108			(43)
At 30 September	(4,315)	3,535	(780)	(4,400)	3,350	(1,050)

During the year, there have been some special events that have impacted the liabilities and the cost of the Group's retirement benefit schemes.

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

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

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

22 Retirement Benefit Schemes continued

Retirement benefit scheme costs charged to operating profit

£ million	2014	2013
Defined benefit (credit)/costs in operating profit	(37)	66
Defined contribution costs in operating profit	19	17
Total retirement benefit scheme (credit)/costs in operating profit	(18)	83

Split as follows in the consolidated income statement:

£ million	2014	2013
Cost of sales	31	35
Distribution, advertising and selling costs	15	28
Administrative and other expenses	(64)	20
Total retirement benefit scheme (credit)/costs in operating profit	(18)	83

Assets and liabilities recognised in the consolidated balance sheet

£ million	2014	2013 (restated)
Retirement benefit assets	44	5
Retirement benefit liabilities	(824)	(1,055)
Net retirement benefit liability	(780)	(1,050)

Key figures and assumptions used for major plans

	2014		2013	
£ million unless otherwise indicated	ITPF	RCPP	ITPF	RCPP
Benefit obligation (DBO)	3,066	502	3,086	459
Fair value of scheme assets	(3,094)	–	(2,924)	–
Net defined benefit (asset)/liability	(28)	502	162	459
Current service cost	30	7	32	7
Employer contributions	48	21	31	22
Principal actuarial assumptions used (% per annum)				
Discount rate	4.0	2.5	4.3	3.5
Future salary increases	3.7	3.1	4.8	3.1
Future pension increases	3.2	2.0	3.3	2.0
Inflation	3.2	1.9	3.3	2.0

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

	2013			
	ITPF		RCPP	
	Male	Female	Male	Female
Life expectancy at age 65 years:				
Member currently aged 65	21.1	23.0	18.7	22.8
Member currently aged 50	22.1	24.2	20.7	24.7

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

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

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

	2014		2013	
% increase in DBO	ITPF	RCPP	ITPF	RCPP
Discount rate: 0.5% decrease	8.1	8.8	7.6	8.0
Rate of inflation: 0.5% decrease	(6.6)	(5.4)	(6.1)	(5.0)
One year increase in longevity for a member currently age 65, corresponding changes at other ages	3.5	4.5	3.2	4.2

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

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

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

	2014		2013 (restated)	
£ million unless otherwise indicated	Fair value	Percentage of ITPF scheme assets	Fair value	Percentage of ITPF scheme assets
Equities	1,361	44	1,345	46
Bonds – index linked government	650	21	556	19
Bonds – corporate and other	495	16	409	14
Property	402	13	322	11
Absolute return pooled funds	155	5	263	9
Other – including derivatives, commodities and cash	31	1	29	1
	3,094	100	2,924	100

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

Excluding any self-investment through pooled fund holdings, the Imperial Tobacco Pension Fund investments in financial instruments of Imperial Tobacco PLC amounted to £3 million (2013: £3 million).

The Group has applied amendments made to IAS 19 in November 2013 that relate to the treatment of member contributions to the results presented in these financial statements.

23 Provisions

	2014		
£ million	Restructuring	Other	Total
At 1 October 2013	222	277	499
Additional provisions charged to the consolidated income statement	193	34	227
Unwind of discount on redundancy and other long-term provisions	3	1	4
Amounts used	(70)	(50)	(120)
Unused amounts reversed	(9)	(79)	(88)
Exchange movements	(18)	(16)	(34)
At 30 September 2014	321	167	488

Analysed as:

£ million	2014	2013
Current	176	92
Non-current	312	407
	488	499

Restructuring provisions relate mainly to our cost optimisation programme (see note 5) and to projects arising from the integration of Imperial Tobacco and Altadis, purchased in 2008. These provisions include employee social plans arising from restructuring activity and are expected to be used over the next ten years.

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

24 Share Capital

£ million	2014	2013
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2013: 1,067,942,881)	104	107

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

25 Share Schemes

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

Share Matching Scheme

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

Long Term Incentive Plan (LTIP)

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

Sharesave Plan

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

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

Analysis of charge to the consolidated income statement

£ million	2014	2013
Share Matching Scheme	19	16
Long Term Incentive Plan	1	(2)
Sharesave Plan	2	2
	22	16

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2014 was £2 million (2013: £2 million).

Reconciliation of movements in awards/options

	2014			
Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2013	2,723	936	1,737	18.12
Granted	1,120	320	453	20.40
Lapsed/cancelled	(274)	(484)	(133)	18.44
Exercised	(861)	(3)	(479)	16.10
Outstanding at 30 September 2014	2,708	769	1,578	19.36
Exercisable at 30 September 2014	–	–	46	16.60

	2013			
Thousands of shares unless otherwise indicated	Share matching awards	LTIP awards	Sharesave options	Sharesave weighted average exercise price £
Outstanding at 1 October 2012	2,738	929	1,799	17.31
Granted	1,119	333	666	18.40
Lapsed/cancelled	(175)	(266)	(259)	18.21
Exercised	(959)	(60)	(469)	15.36
Outstanding at 30 September 2013	2,723	936	1,737	18.12
Exercisable at 30 September 2013	–	22	72	15.67

The weighted average Imperial Tobacco Group PLC share price at the date of exercise of awards and options was £23.60 (2013: £23.27). The weighted average fair value of sharesave options granted during the year was £4.28 (2013: £2.68).

Summary of awards/options outstanding at 30 September 2014

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2012	661	4	n/a
2013	949	16	n/a
2014	1,098	28	n/a
Total awards outstanding	2,708		
Long Term Incentive Plan			
2012	214	1	n/a
2013	239	14	n/a
2014	316	25	n/a
Total awards outstanding	769		
Sharesave Plan			
2009	10	–	12.54
2010	39	10	15.63
2011	73	1	17.80
2012	404	16	20.45
2013	604	24	18.40
2014	448	34	20.40
Total options outstanding	1,578		

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

Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme and Sharesave Plan. A summary of the assumptions used in the Black-Scholes model for 2014 and 2013 is as follows.

	2014		2013	
	Share matching	Sharesave	Share matching	Sharesave
Risk-free interest rate %	1.5	0.4-1.5	0.5	0.6-1.2
Volatility (based on 3 or 5 year history) %	22	22.5-23.0	18.0	10.1-23.0
Expected lives of options granted years	3	3	3	3-5
Dividend yield %	5.1	5.1	4.4	4.4
Fair value £	21.88	4.18-4.52	20.32	2.22-4.61
Share price used to determine exercise price £	25.50	25.50	23.18	23.00
Exercise price £	n/a	20.40	n/a	18.40

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2014 and 2013 are given in the following table.

%	2014	2013
Future Imperial Tobacco Group share price volatility	18	18
Future Imperial Tobacco Group dividend yield	5.1	4.4
Share price volatility of the tobacco and alcohol comparator group	14-37	14-29
Share price volatility of the FTSE 100 comparator group	n/a	15-50
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	35	40
Correlation between Imperial Tobacco and the FTSE 100 comparator group	n/a	40

25 Share Schemes continued

Employee Share Ownership Trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million (2013: £19.2 million) and an interest free loan of £181.9 million (2013: £181.9 million). In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2014. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

Shares held by Employee Share Ownership Trusts

Millions of shares	2014	2013
At 1 October	3.3	4.1
Distribution of shares held by Employee Share Ownership Trusts	(1.1)	(1.2)
Gift of treasury shares	2.0	0.4
At 30 September	4.2	3.3

The shares in the Trusts are accounted for on a first in first out basis and comprise 0.3 million (2013: 0.8 million) shares acquired in the open market at a cost of £7.8 million (2013: £16.7 million) and 3.9 million (2013: 2.5 million) treasury shares gifted to the Trusts by the Group, of which 2.0 million were gifted in this financial year (2013: 0.4 million).

26 Treasury Shares

In 2011, the Group recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are retained in issue and represent a deduction from equity attributable to owners of the parent (see Consolidated Statement of Changes in Equity). During 2014 the Group purchased 14,163,000 shares under the programme (2013: 21,287,000) at a cost of £341 million (2013: £500 million) and cancelled 31,942,881 shares. The share buyback programme was suspended on 15 July 2014.

Millions of shares	2014	2013
At 1 October	98.7	77.8
Gift to Employee Share Ownership Trusts	(2.0)	(0.4)
Purchase of treasury shares	14.1	21.3
Cancellation of treasury shares	(31.9)	–
At 30 September	78.9	98.7
Percentage of issued share capital	7.6	9.2

27 Commitments

Capital commitments

£ million	2014	2013
Contracted but not provided for:		
Property, plant and equipment and software	177	159

Operating lease commitments

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

£ million	2014	2013
Property		
Within one year	37	35
Between one and five years	86	78
Beyond five years	29	18
	152	131

28 Legal Proceedings

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

29 Acquisitions

In July 2013, the Group purchased the sales and distribution business of our former agent in Cambodia, for a total consideration £41 million, of which £6 million was deferred until 2014. This gave rise to goodwill of £41 million, largely representing the value of the sales force in place.

In July 2014, the Group entered into a purchase agreement with Reynolds American Inc. for the acquisition of assets, including a portfolio of US brands, plus the national sales force, offices and production facilities currently owned by Lorillard Inc. The transaction is subject to the acquisition of Lorillard by Reynolds and requires US anti-trust and shareholder approvals. The approval processes are likely to take a minimum of six to nine months. If approved, the assets are to be acquired for cash consideration of $7.1 billion.

Costs of £13 million were incurred in 2014 in relation to the transaction, and have been excluded from our adjusted results in line with our accounting policy.

30 Net Debt

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

£ million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Total
At 1 October 2013	1,809	(3,276)	(7,858)	(193)	(9,518)
Cash flow	(385)	2,706	(1,830)	121	612
Accretion of interest	–	31	(39)	–	(8)
Change in fair values	–	–	–	24	24
Exchange movements	7	71	263	–	341
At 30 September 2014	1,431	(468)	(9,464)	(48)	(8,549)

Analysis by denomination currency

	2014				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	247	414	342	428	1,431
Total borrowings	(3,870)	(4,666)	(1,396)	–	(9,932)
	(3,623)	(4,252)	(1,054)	428	(8,501)
Effect of cross currency swaps	2,691	(2,661)	–	–	30
	(932)	(6,913)	(1,054)	428	(8,471)
Derivative financial instruments					(78)
Net debt					(8,549)

	2013				
£ million	GBP	EUR	USD	Other	Total
Cash and cash equivalents	153	1,114	26	516	1,809
Total borrowings	(3,450)	(6,275)	(1,399)	(10)	(11,134)
	(3,297)	(5,161)	(1,373)	506	(9,325)
Effect of cross currency swaps	1,650	(1,650)	–	–	–
	(1,647)	(6,811)	(1,373)	506	(9,325)
Derivative financial instruments					(193)
Net debt					(9,518)

Adjusted net debt

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

£ million	2014	2013
Reported net debt	(8,549)	(9,518)
Accrued interest	280	321
Fair value of derivatives providing commercial hedges	134	99
Adjusted net debt	(8,135)	(9,098)

31 Reconciliation of Cash Flow to Movement in Net Debt

£ million	2014	2013
(Decrease)/increase in cash and cash equivalents	(385)	1,323
Cash flows relating to derivative financial instruments	121	28
Increase in borrowings	(2,324)	(4,884)
Repayment of borrowings	3,200	3,443
Repayment of finance leases	–	20
Change in net debt resulting from cash flows	612	(70)
Other non-cash movements including revaluation of derivative financial instruments	16	(246)
Exchange movements	341	(237)
Movement in net debt during the year	969	(553)
Opening net debt	(9,518)	(8,965)
Closing net debt	(8,549)	(9,518)

32 Changes in Non-controlling Interests

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

Report on the Parent Company Financial Statements

Our Opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What We Have Audited

The Parent Company financial statements (the "financial statements"), which are prepared by Imperial Tobacco Group PLC, comprise:

- the Balance Sheet as at 30 September 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts ("Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an Audit of Financial Statements Involves

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

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

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

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Matters on Which We are Required to Report by Exception

Adequacy of Accounting Records and Information and Explanations Received

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

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

We have no exceptions to report arising from this responsibility.

Directors' Remuneration

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

Other Information in the Annual Report

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the Financial Statements and the Audit

Our Responsibilities and Those of the Directors

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

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

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

Other Matter

We have reported separately on the group financial statements of Imperial Tobacco Group PLC for the year ended 30 September 2014.

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

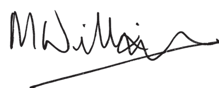
4 November 2014

IMPERIAL TOBACCO GROUP PLC BALANCE SHEET

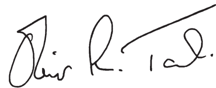
at 30 September

£ million	Notes	2014	2013
Fixed assets			
Investments	iii	7,968	7,968
Current liabilities			
Cash at bank and in hand		(1)	(1)
Creditors: amounts falling due within one year	iv	(163)	(107)
Net current liabilities		(164)	(108)
Net assets		7,804	7,860
Capital and reserves			
Called up share capital	v	104	107
Capital redemption reserve	vi	3	–
Share premium account	vi	5,833	5,833
Profit and loss account	vi	1,864	1,920
Total shareholders' funds		7,804	7,860

The financial statements on pages 116 to 119 were approved by the Board of Directors on 4 November 2014 and signed on its behalf by:



Mark Williamson
Chairman



Oliver Tant
Director

i Accounting Policies

Basis of Preparation

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

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

The principal accounting policies are set out below.

Investments

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

Dividends

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

Financial Instruments

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

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

Treasury Shares

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

ii Dividends

Dividend per share in respect of financial year

Pence	2014	2013	2012
Interim	38.8	35.2	31.7
Final	89.3	81.2	73.9
Total	128.1	116.4	105.6

Interim dividends are paid and recognised in the second half of the year, and final dividends in respect of a year are paid and recognised in the following financial period.

Amounts recognised as distributions to ordinary shareholders in the year

£ million	2014	2013
Final dividend paid in the period in respect of previous financial year	779	724
Interim dividend	370	341
	1,149	1,065

The proposed final dividend for the year ended 30 September 2014 of 89.3p per share amounts to a proposed final dividend payment of £851 million based on the number of shares ranking for dividend at 30 September 2014, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2014 will be £1,221 million (2013: £1,120 million).

iii Investments

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2014	2013
At 1 October	7,968	4,225
Additions	–	3,743
At 30 September	7,968	7,968

During 2013 the Company increased its investment in Imperial Tobacco Holdings (2007) Limited as part of a legal entity reorganisation in the normal course of business.

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

A list of the principal subsidiaries of the Company is shown on pages 120 to 122.

iv Creditors: Amounts Falling Due Within One Year

£ million	2014	2013
Amounts owed to Group undertakings	163	107

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

v Called Up Share Capital

£ million	2014	2013
Issued and fully paid		
1,036,000,000 ordinary shares of 10p each (2013: 1,067,942,881)	104	107

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

vi Reserves

£ million	Share premium account	Capital redemption reserve	Profit and loss account
At 1 October 2013	5,833	–	1,920
Profit for the year	–	–	1,434
Dividends	–	–	(1,149)
Purchase of own shares	–	–	(341)
Cancellation of treasury shares	–	3	–
At 30 September 2014	5,833	3	1,864

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £1,434 million (2013: £1,718 million). This is after charging an audit fee of £1.0 million (2013: £1.0 million).

Treasury shares

In 2011, the Company recommenced its share buyback programme at the rate of around £500 million per annum as an efficient means of returning surplus funds to shareholders. Shares purchased under the buyback programme are retained in issue and represent a deduction from shareholders' funds. During 2014 the Company purchased 14,163,000 shares under the programme (2013: 21,287,000) at a cost of £341 million (2013: £500 million), and on 6 March 2014 31,942,881 shares held in Treasury were cancelled, creating a capital redemption reserve. The share buyback programme was suspended on 15 July 2014.

Millions of shares	2014	2013
At 1 October	98.7	77.8
Gift to Employee Share Ownership Trusts	(2.0)	(0.4)
Purchase of treasury shares	14.1	21.3
Cancellation of treasury shares	(31.9)	–
At 30 September	78.9	98.7
Percentage of issued share capital	7.6	9.2

vii Reconciliation of Movements in Shareholders' Funds

£ million	2014	2013
Profit for the year	1,434	1,718
Dividends	(1,149)	(1,065)
Purchase of own shares	(341)	(500)
Movements in total shareholders' funds	(56)	153
Opening total shareholders' funds	7,860	7,707
Closing total shareholders' funds	7,804	7,860

viii Guarantees

Imperial Tobacco Group PLC has guaranteed various borrowings and liabilities of certain UK and overseas subsidiary undertakings, including various Dutch and Irish subsidiaries. At 30 September 2014, the contingent liability totalled £9,965 million (2013: £11,238 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2014 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, Imperial Tobacco Group PLC has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2014. The Irish companies, namely John Player & Sons Limited and Imperial Tobacco Mullingar, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

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

ix Related Party Disclosures

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