Mark Williamson Chairman

"We believe that governance is not only about compliance, it's about acting with honesty and integrity in our business lives."

This year has seen the Board and management drive a number of significant developments for the Group including the announcement of the acquisition of brands in the USA and the partial listing of Logista. It has also seen a number of changes to the Board and its Committees, including my appointment as Chairman and the appointment of Karen Witts.

In 2015 we will continue our strategic transition and, subject to completion of the acquisition, commence the integration of our enlarged US business to support long-term value creation without compromising our risk management and internal control environment.

To ensure the success of these developments and that they are in the best interests of our shareholders, it is fundamental for the Group to be managed with openness, honesty and transparency. This can only be achieved by underpinning our actions with high standards of corporate governance and learning from past experiences.

The Board is ultimately responsible to shareholders and other stakeholders for the Group's activities, strategy and financial performance, the efficient use of the Group's resources and social, environmental and ethical matters. This includes setting the tone for our governance framework, which incorporates our Code of Conduct together with our values, and is key to the way we work both in respect of our relationships between colleagues and with our customers and suppliers. Our Code of Conduct can be found within the responsibility/standards of behaviour section of our website www.imperial-tobacco.com.

In this report we provide an overview of our governance framework and the work of the Board and its Committees. We have continued to evolve our reporting to take into account developing practice following the recent significant changes to reporting requirements.

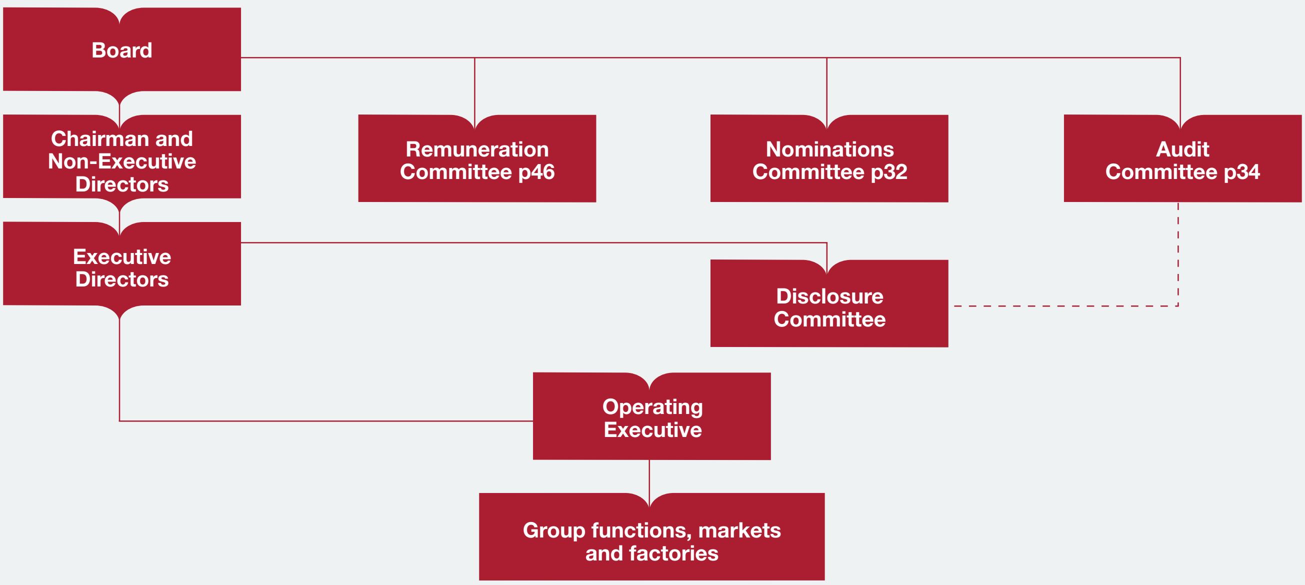
We do not see governance as a box-ticking exercise or simply related to processes and controls but rather providing a guide to our embedded governance framework. This, together with our transparent approach, ensures we do the right things in the right way. Achieving this requires the right leadership. Accordingly, our Board is composed of Directors from differing international backgrounds combined with a wide range of professional and sector-specific experience. This ensures that we have a truly balanced Board with the right skills and experience to contribute fully to effective decision making.

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

More details in respect of our governance framework, including how our sound and effective corporate governance practices support our strategy, are set out in the following sections and in the discussion on effectively managing the risks we face on page 21.

Mark Williamson
Chairman

Management and Corporate Structure












1. Mark Williamson, CA (SA)

Chairman of the Board

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

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

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

D N Chairman

2. Alison Cooper, BSC, ACA

Chief Executive

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

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

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

E

3. Oliver Tant, BSc, CA (Scotland)

Chief Financial Officer

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

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

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

External appointments No external Director appointments.

E

4. Matthew Phillips, LLB

Corporate Affairs Director

Skills and experience Matthew has held a number of senior roles including General Counsel and Group Corporate and Legal Affairs Director prior to his appointment to the Board as Corporate Affairs Director and has been integral to the development and implementation of our strategy.

Appointment Appointed Corporate Affairs Director in June 2012.

External appointments No external Director appointments.

E

5. Ken Burnett, MA, MBA, PhD, M Inst M

Non-Executive Director

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

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

Appointment Appointed Non-Executive Director in April 2006.

External appointments Non-Executive Chairman of Elemental Energy Technologies Limited. Director of Elemental Energy Technologies (Asia) Pte Limited.

D A N R

6. David Haines

Non-Executive Director

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

David gained extensive general management experience with Vodafone Group PLC and Mars inc earlier in his career.

Appointment Appointed Non-Executive Director in February 2012.

External appointments Chairman and Chief Executive Officer of Grohe Group Sárl, Director of Joyou AG.

D A N R Chairman

7. Michael Herlihy, MA (Oxon), Solicitor

Senior Independent Non-Executive Director

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

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

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

D A N R

8. Karen Witts, FCA

Non-Executive Director

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

Appointment Appointed Non-Executive Director in February 2014.

External appointments Group Finance Director and Executive Director of Kingfisher plc.

D A N R

9. Malcolm Wyman, CA (SA)

Non-Executive Director

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

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

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

D A Chairman **N R**

10. John Downing, MA, Solicitor

Company Secretary

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

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

Appointment Appointed Company Secretary in June 2012.

S

Key

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

Skills and experience of our Board

The diverse global experience of our NEDs, which includes FMCG, finance, mergers and acquisitions, and sales and marketing, supports the in-depth tobacco experience of our Executive Directors.

Board

Mark Williamson Chairman

"Our continued focus on our sales growth strategy creates sustainable value for shareholders."

Members

Mark Williamson *(Chairman* from 5 February 2014)
Iain Napier (to 5 February 2014)
Alison Cooper
Ken Burnett
Robert Dyrbus (to 5 November 2013)
David Haines
Michael Herlihy
Susan Murray (to 30 September 2014)
Matthew Phillips
Berge Setrakian (to 5 February 2014)
Oliver Tant
Karen Witts (from 6 February 2014)
Malcolm Wyman

John Downing
Secretary

Focus in 2014

- purchase agreement with Reynolds American Inc for the acquisition of assets, including a portfolio of US cigarette brands and the e-cigarette brand blu;
- flotation of approximately 30 per cent of Compañía de Distribución Integral Logista Holdings SA;
- continued focus on leadership and Board succession with the appointment of Mark Williamson to the position of Chairman and the appointment of Karen Witts as a NED;
- optimising our brand and market portfolios focusing on Growth and Specialist Brands;
- resource allocation between Growth and Returns Markets;
- completion of our stock optimisation programme; and
- realigning our cost base through our cost optimisation programme.

Focus for 2015

- integration of our enlarged US business*;
- investment prioritisation in our market and brand portfolios;
- continuing to support our standalone subsidiary Fontem Ventures including the integration of the acquired e-cigarette brand blu*;
- implement new ways of working to simplify the business and improve our effectiveness and agility;
- continuation of our cost optimisation programme;
- focus on capital discipline to enhance cash conversion;
- ensuring regulatory engagement and preparedness; and
- maintaining focus on our people agenda including building capabilities and succession.

* Subject to the completion of the acquisition noted above.

Overview

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

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

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

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

The OPEX consists of senior executives from across the business. It oversees operational execution and delivers our strategic and financial plans. The OPEX also ensures that appropriate internal controls are in place and are functioning effectively, and that there is an effective risk management process in operation throughout the Group.

Matters Considered by the Board in 2014

Five principal scheduled and three unscheduled Board meetings were held during the year

2013

October

- Annual Report and Accounts
- Dividend
- Business performance
- Business planning
- Corporate development

November

- Unscheduled meeting to consider Chairman's and NEDs' succession

December

2014

January

February

- First quarter results
- Business performance
- Corporate development including Logista partial flotation
- AGM

March

April

May

- Half Year Report
- Dividend
- Business performance
- Employee engagement
- Corporate development

June

- Strategy meeting
- Business performance
- US brands acquisition
- Financing

July

- Two unscheduled meetings to consider US brands acquisition

August

September

- Business performance
- Business plan
- Corporate development
- Board evaluation
- NEDs' fees

Nominations Committee

Mark Williamson Chairman

"We seek to ensure that we have the right people in place to build on our strategy and continue to deliver significant returns to our shareholders."

Members

Mark Williamson (*Chairman* from 5 February 2014)
Iain Napier (to 5 February 2014)
Ken Burnett
David Haines
Michael Herlihy
Susan Murray (to 30 September 2014)
Berge Setrakian (to 5 February 2014)
Karen Witts (from 6 February 2014)
Malcolm Wyman

John Downing
Secretary

Achievements for 2014

- in line with the Group's ongoing succession plans Oliver Tant was identified as an appropriate successor to the Finance Director and was appointed to the Board on 1 October 2013;
- Mark Williamson was appointed to the position of Chairman; and
- appointment of Karen Witts as a NED.

2015 objectives

- maintain ongoing succession plans, especially in respect of NEDs approaching retirement by virtue of their length of service;
- ongoing review of skill set and composition of the Board;
- evaluation of the Board, its Committees and individual Directors; and
- NEDs continuing business update and education.

Overview

Role

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

The Committee's terms of reference are available within the investor relations/corporate governance section of our website.

Composition

The Committee comprises all the NEDs and is chaired by the Group Chairman unless it is dealing with the succession to the Chairman. Executive Directors are invited to attend when appropriate.

Boardroom Diversity

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

Women, including our Chief Executive, made up 30 per cent of our Board at the end of the financial year. On the retirement of Susan Murray, this decreased to 22 per cent. We also have 22 per cent women on our OPEX. Further details on our workforce diversity are set out on page 17.

As announced on 5 November 2013, Iain Napier and Berge Setrakian retired at the conclusion of our AGM in 2014 and Susan Murray retired on 30 September 2014. In addition we welcomed Karen Witts to the Board in February 2014.

Election and re-election of Directors

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

The performance of each Director is considered as part of the annual Board evaluation process. Following the 2014 evaluation, a review of the independence of each NED, particularly in respect of those who have served six years or more, and consideration of attendance, the Board recommends the election or re-election of all Directors at our 2015 AGM.

Board succession

During the year, the Committee identified the profile and skill set required for a NED and instructed Korn/Ferry Whitehead Mann to identify appropriate candidates. Having reviewed the list of potential candidates, and subsequent to meetings with shortlisted candidates, the Committee recommended to the Board the appointment of Karen Witts who was subsequently appointed to the Board on 6 February 2014. The Board recommends her election at our 2015 AGM.

Meetings of the Board, Board Committees and AGM

	Board	Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in Financial Year	8	3	4	6	1
Number of meetings attended in Financial Year					
Executive Directors					
Alison Cooper	8/8	–	–	–	1/1
Robert Dyrbus[1]	2/2	–	–	–	–
Oliver Tant	8/8	–	–	–	1/1
Matthew Phillips	8/8	–	–	–	1/1
Non-Executive Directors					
Mark Williamson	8/8	3/3	2/2	1/1	1/1
Iain Napier[2]	3/3	2/2	–	–	1/1
Ken Burnett	8/8	3/3	4/4	6/6	1/1
David Haines[3]	7/8	3/3	4/4	6/6	1/1
Michael Herlihy	8/8	3/3	4/4	6/6	1/1
Susan Murray[3,4]	7/8	3/3	2/2	2/2	1/1
Berge Setrakian[2,3]	2/3	2/2	–	2/2	1/1
Karen Witts[5]	5/5	1/1	2/2	5/5	–
Malcolm Wyman[3]	7/8	2/3	4/4	5/6	1/1

1 Robert Dyrbus retired from the Board on 5 November 2013.
2 Iain Napier and Berge Setrakian retired on 5 February 2014.
3 Berge Setrakian and David Haines were unable to attend one telephone Board meeting, Susan Murray was unable to attend one Board meeting and Malcolm Wyman was unable to attend one Board meeting, a Remuneration Committee meeting and a Nominations Committee meeting held on the same day. They did, however, fully consider the papers before the meeting and provided their thoughts and recommendations to the relevant Chairmen.
4 Susan Murray stepped down from both the Audit and Remuneration Committees on 5 February 2014, the ninth anniversary of her election.
5 Karen Witts was appointed on 6 February 2014.

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

Tenure of Non-Executive Directors

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

Audit Committee

Malcolm Wyman Chairman

"Our Audit Committee has a key role in protecting the interests of shareholders by ensuring the integrity of our financial statements and the effectiveness of our risk management processes and internal controls."

I would like to give you an overview of the operation of the Audit Committee and the work it has undertaken.

We have set out on page 36 the key matters that we have considered during the year and the conclusions drawn. We meet formally at key times within our reporting calendar as set out on page 35. The agendas for our meetings are designed to cover all significant areas of risk over the course of a year and to provide oversight and challenge to the key financial controls and processes that operate throughout the Group.

Our internal auditors and our external auditors, PwC, attend all Committee meetings and provide detailed reports on their audit work to the Committee. The Committee reviews and discusses these reports with both management and auditors and holds meetings without management being present. I also meet with the Head of Internal Audit and the Lead Audit Partner of PwC on a regular basis between meetings.

We invite management to prepare and present a wide range of papers to the Audit Committee and I am satisfied that these enable effective discussion of the issues. On an ad-hoc basis I meet with members of management below Board level to better understand the challenges that the business faces. I am able to use this understanding to manage the Audit Committee review process effectively.

During the year, we also spent time to build on our understanding of the Group's risk management processes, reviewing the risks that face the business and challenging management concerning the mitigating controls in place.

Overall, I am satisfied these activities have enabled the Audit Committee to gain a good understanding of the key matters impacting the Group during the year along with oversight of the culture, governance and operation of its significant controls and processes and ultimately to draw the conclusions we set out on page 37.

Malcolm Wyman
Chairman of the Audit Committee

Members

Malcolm Wyman
Chairman
Ken Burnett
David Haines
Michael Herlihy
Susan Murray
(to 5 February 2014)
Mark Williamson
(to 5 February 2014)
Karen Witts
(from 6 February 2014)

John Downing
Secretary

Committee Composition

The Committee comprises five Independent Non-Executive Directors and is chaired by Malcolm Wyman. Both Malcolm Wyman and Karen Witts meet the requirements of the Code and the Committee's terms of reference that at least one of its members has recent and relevant financial experience.

The Board Chairman, Chief Executive, Chief Financial Officer, Director of Finance and Planning, Group Financial Controller, Director of Corporate Assurance, Deputy Company Secretary, appropriate financial managers and PwC are invited to attend Committee meetings. At each meeting both the Director of Corporate Assurance and PwC have the opportunity to meet separately with the Committee without management being present.

Role

The responsibilities of the Committee include:

- assessing the integrity of our financial reporting, including ensuring that, taken as a whole, including the use of non-GAAP measures, our Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- overseeing and evaluating the effectiveness of our risk management, internal control and speaking-up processes;
- assessing the effectiveness of the Internal Audit department; and
- scrutinising the independence, objectivity and effectiveness of PwC, including reviewing and approving the annual audit plan, reviewing the audit findings, monitoring compliance with ethical and professional guidance and approving PwC's terms of engagement.

The Committee's full terms of reference can be found within the Investor Relations/Corporate Governance section of our website.

Audit Committee Meetings in 2014

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

2013

October

- Annual Report and Accounts
- FX management
- Impairment review
- Going concern
- Auditors' report
- Internal audit report
- Internal control
- Auditors' fees and independence

November

December

2014

January

February

- Audit planning
- Risk management
- Treasury update
- Auditors' effectiveness

March

April

- Half Year Report
- Impairment review
- Auditors' review of Half Year Report
- Tax
- Auditors' fees and independence

May

June

July

August

September

- Annual Report and Accounts preparation
- Adjusted measures review
- Tax
- Significant and complex accounting transactions
- Auditors' report and independence
- Risk management
- Stock optimisation

Key Matters Considered During the Year

Significant Financial Judgements and Financial Reporting for 2014	How the Committee Addressed these Judgements
– Goodwill and intangible asset impairment reviews. Judgements largely related to the assumptions underlying the calculations used to value the businesses being tested. These assumptions included long-term business and macro-economic projections.	– Detailed reports from management were considered by the Committee. We challenged management on the methodology applied, the assumptions used and the achievability of the underlying business forecasts. For the individual operating segments (Drive Growth Division and Premium Cigars) with the lowest headroom, we considered different scenarios and sensitivities to assess whether management's conclusions were fair and balanced. The Committee also considered detailed reporting from, and held discussions with, PwC. We concluded that management's assertion that goodwill and intangible assets were not impaired was reasonable. We also approved the disclosures in our financial statements. Further information on the Group's goodwill and intangible assets is provided in Note 11 to the financial statements.
– The treatment of restructuring costs and their presentation within the Group's financial statements.	– We periodically reviewed papers from management on actual and forecast levels of restructuring costs. The restructuring costs disclosure for inclusion within the Group's full year and half year results were also reviewed and discussed with management. Following these detailed reviews and discussions, we concluded that restructuring costs were exceptional in nature and disclosed appropriately.
– Going concern.	– In order to satisfy itself that the Group has adequate resources to support the going concern assumption, the Committee examined the Group's existing committed funding, its ability to generate cash and its ability to raise further external funding. We challenged management's cash projections and sensitivity analysis including mitigating actions. We also considered detailed reporting from, and held discussions with, PwC. This enabled us to conclude that the Group has adequate resources and we subsequently recommended to the Board the adoption of the going concern statement for inclusion in the Annual Report and Accounts.
– Deferred tax reporting and the resulting reported tax charge.	– We received and discussed reports from management in respect of the adequacy of tax loss recognition. We also considered whether a provision for deferred taxation in respect of tax allowances on an overseas investment was still required given the significantly reduced probability that the related temporary difference would reverse. We also considered detailed reports from, and had discussions with, PwC in respect of this. Following consideration of such reports and discussions, we concluded that the deferred tax calculation and recognition is appropriate.
– Use of adjusted measures.	– The Committee reviewed papers prepared by management considering the purpose and practice of our use of adjusted, or non-GAAP, measures in our external reporting. The Committee challenged management on its proposals and held discussions with PwC. Following these considerations the Committee concluded that the Group's use of adjusted measures, including the adjustments for stock optimisation, was fair and balanced.
– Revenue recognition – as with most companies, there is a risk that, in order to boost revenue in the current year, arrangements could be made to facilitate sales that do not meet the Group's criteria for revenue recognition.	– We challenged management in respect of revenue recognition and controls over stock in trade. This primarily involved considering the amount of inventory held by distributors in key markets and the impact of the stock optimisation project. We reviewed reports from PwC and Internal Audit on the measurement of stock in trade. The Committee also noted that no material instances of inappropriate revenue recognition arose during the external audit. These reviews enabled the Committee to satisfy itself that the Group's criteria for revenue recognition were met.
– Tobacco-related litigation – the Group is exposed to litigation arising from claimants alleging smoking-related health effects.	– Internal litigation reports were regularly reviewed by the Committee. We also considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to the actual and threatened legal proceedings detailed on page 44 and concluded that risks in respect of tobacco-related litigation are appropriately disclosed in the Annual Report and Accounts.
– The Group's foreign exchange management.	– We regularly considered reports from management covering foreign exchange exposures and the level of net investment hedging. Following consideration of these reports and discussions with management, we concluded that the accounting treatment of foreign exchange and the Group's exposure to exchange risks were appropriate.

Key Matters Considered During the Year continued

Significant Financial Judgements and Financial Reporting for 2014	How the Committee Addressed these Judgements
– Retirement benefits.	– The costs, assets and liabilities of the Group's defined benefit retirement schemes were regularly reviewed by us. Advice was taken from independent actuaries on the appropriateness of the assumptions used and we held discussions with management and PwC.
– Amortisation of intangibles.	– Taking into consideration the portfolio optimisation strategy and focus on growth and specialist brands, management have reviewed brand lives during the year. We have considered management's reasoning in determining the useful lives and conclude that the resulting estimations in this respect are reasonable.
– Other accounting matters requiring judgement.	– We examined papers prepared by management considering the accounting treatment of significant and/or unusual transactions, including, inter alia, certain provisions, credits due under the Master Settlement Agreement, settlement and curtailments of certain post-retirement benefits, and fees related to certain transactions. We also discussed these matters with PwC. Our examination of management's papers and discussions with PwC supported management's treatment of these items and their disclosure in the Annual Report and Accounts.

Risk Management and Internal Control

During the year, the Group refined its risk management processes to further formalise the evaluation of risks across the business. This approach is designed to provide greater consistency in the identification and assessment of risks, at both a Group and local level. To assist the Committee with its oversight of the risk management process and internal controls, Group Internal Audit has performed a review of the Group's risk management approach and provided a report on its effectiveness. The Committee also received detailed risk management updates during the year. Additionally, this work provides further evidence to support the Committee's recommendation to the Board to accept the opinion of the annual Internal Control Statement.

We are aware of the risks to our information technology systems. To manage these risks, our Group Internal Audit plan includes specific reviews to assess compliance with our relevant information technology standards and policies. In line with the reporting of all internal audit issues, any significant matters are reported to the Committee and their resolution monitored.

In addition, during the year we formed an Information Security Working Group to review the Group's approach to the wider information security topic, as a result of which improvements have been made in our approach with further ongoing assessment of initiatives being reported on an ongoing basis.

The above processes and those described in the Risk Management section on pages 21 to 26 enable the Board, either directly or through the Audit Committee, to review regularly the effectiveness of the key procedures which have been established in order to provide appropriate internal controls. They also enable the Board to confirm that an ongoing process for identifying, evaluating and managing the Group's significant risks has operated throughout the year and up to the date of the approval of this Annual Report and Accounts in accordance with the requirements of the Code.

Group Internal Audit Department

A light-touch effectiveness review of the Group Internal Audit Department was carried out during the year, co-ordinated by the Company Secretary. The review was questionnaire-based and invited responses from members of senior management, the chairman of the Committee and the Chairman of the Board. Responses were then forwarded to the Chartered Institute of Internal Auditors which, based on its experience, compiled the results and provided an external perspective.

Responses were generally positive, recognising that the department still needs to evolve further. Actions have been taken to address comments made and the recruitment of a new Head of Group Internal Audit has helped strengthen the management team within Corporate Assurance. Satisfaction surveys completed by operational management after each audit continue to show positive results.

During the year, a number of individuals were recruited into the Group Internal Audit Department which enhanced its ability to extend its coverage across key risks to the Group, including carrying out reviews of various aspects of the strategic change programme and providing assurance regarding the stock optimisation initiative.

Independence of our External Auditors

In order to ensure the independence and objectivity of PwC, the Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that our external Auditors may and may not provide and can be found within the Investor Relations/Corporate Governance section of our website.

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

PwC may only provide non-audit services where those services do not conflict with its independence, for example tax compliance work. The policy also establishes a formal authorisation process, including the tendering for non-audit services expected to generate fees in excess of £250,000, and pre-approval by the Committee for allowable non-audit work that PwC may perform. Our policy also establishes guidelines for the recruitment of employees or former employees of PwC and for the recruitment of our employees by it. During the year, the only non-audit fee in excess of £250,000 was in relation to work undertaken in connection with the proposed US cigarette brand and e-cigarette acquisition which was considered and approved by the Committee chairman.

During the year, PwC, due to its knowledge of the Group and where it was deemed that it was best placed to provide effectively the services required, also undertook non-audit work, none of which exceeded the above threshold. In our judgement we do not believe that the objectivity of the external audit has been impaired as a result of this work. The non-audit work included:

- regulatory assurance work pursuant to the proposed US cigarette brand and e-cigarette acquisition;
- advice in relation to project governance over core systems development;
- tax advisory and tax compliance work;
- verification of our corporate social responsibility reporting and underlying processes; and
- agreed upon processes in respect of the performance criteria of our employee share plans.

In the current year non-audit fees were 66 per cent of total audit fees (see Note 4). This ratio is significantly impacted in the current year by the work undertaken in connection with the proposed US cigarette brand and e-cigarette acquisition. In our view, the level of non-audit fees is not out of line with those disclosed by similar companies with international activities and in our judgement we do not believe that the objectivity of the external audit has been impaired as a result of this work.

To ensure compliance with this policy, during the year the Committee carried out two reviews of the remuneration received by PwC for audit services, audit-related services and non-audit work. The Committee also considered reports by both management and PwC which did not raise any concerns in respect of PwC's independence and confirmed that PwC maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by PwC, as detailed in Note 4, was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work.

The Committee confirms that the Company continues to receive an independent audit service.

Audit Quality and Approach to Audit Tender

We place great importance on ensuring that we receive a high standard and effective external audit. Therefore, we formally review the performance of our external auditor annually. During the year, audit effectiveness questionnaires were completed by members of the Committee and senior managers and finance employees from across the Group. These questionnaires covered the audit scope and planning, quality and delivery, challenge and communication and independence. The responses to the questionnaires indicated that there was a consistently high perception of auditor effectiveness, with no pervasive Group-wide concerns identified.

Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of PwC's reports to the Committee and its interaction with the audit partner, the Committee remains satisfied with the efficiency and effectiveness of the audit. Following the introduction of the audit tendering provisions in the Code, the Committee will annually consider if the audit should be put out to tender. The result of this year's review was not to put the audit out to tender. The Committee considers that for a major international group the tendering of external audit must be well planned to ensure that the Group complies with best practice corporate governance as well as ensuring the Group receives a high-quality, efficient and effective external audit service. In compliance with the transitional rules of the Competition and Markets Authority and the EU, the Committee plans to put the external audit out to tender in time for the 2018 year end.

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

Statement of Auditors' Responsibilities

PwC is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Tobacco Group PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report and Accounts as required by legislation or regulation and reports its opinion to members. PwC's opinions are included on pages 66 and 115.

Auditors and Disclosure of Information to Auditors

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

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

The Board accepted at its October 2014 meeting the Committee's recommendation to put to shareholders at the forthcoming AGM a resolution to reappoint PwC as Auditors to the Company.

Application of the UK Corporate Governance Code

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

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

Board and its Committees

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

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

Our NEDs play a key role in corporate accountability and governance through their membership of the Board's Committees. The membership and remit of each Committee is considered on pages 32, 34 and 46. The open atmosphere at our Committee meetings enables our NEDs to use their judgement, experience and independence to review critically and, where appropriate, challenge constructively strategies proposed by management. This ensures the further development of our business, effective use of our resources and maintenance of our high standards of conduct.

Matters Reserved for the Board

In order to retain control of key decisions, the Board has adopted a schedule of matters on which it must make the final decision, including approval of the Group and parent company financial statements, the Group's business strategy, the annual capital expenditure plan, major capital projects, major changes to the Group's management and control structure, material investments or disposals, risk management strategy, sustainability and environmental policies, the appointment or removal of Directors and the Company Secretary, and treasury policies. Key decisions by the Board during the financial year included the proposed cigarette brand and the e-cigarette brand acquisition in the US, the partial listing on the Spanish stock exchanges of Logista and the appointment of Karen Witts as a NED.

Division of Responsibilities of our Chairman and Chief Executive

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

Board Composition and Roles

Chairman	Mark Williamson	Leads the Board and creates an environment that ensures there are strong links between the Board and our shareholders and management. Mark met the independence criteria of the Code on appointment and there were no significant changes to his external commitments subsequent to his appointment.
Chief Executive	Alison Cooper	Supported by the Executive Directors and the OPEX, has day-to-day management responsibility for the Group, for recommending the Group's strategy to the Board and, once agreed, its implementation. Alison promotes the Group's values, culture and high standards of conduct and behaviour which underpins our reputation and supports the delivery of our sustainable sales growth.
Executive Directors	Oliver Tant Matthew Phillips	Support the Chief Executive in devising and implementing our strategy and overseeing the operations of the entire Group, in addition to specific responsibility for managing their own areas of the business.
Senior Independent Director	Michael Herlihy	Responsible for assisting the Chairman with effective shareholder communication and is available to them should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. No such concerns were raised during the year. Michael is available to our NEDs should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman. He also acts as a sounding board for the Chairman and carries out the Chairman's performance evaluation.
Non-Executive Directors	Ken Burnett David Haines Susan Murray (to 30 September 2014) Karen Witts (from 6 February 2014) Malcolm Wyman	Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse range of business and financial expertise which complements and supplements the experiences of the Executive Directors.

Conflicts of Interest and Independence

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

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

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

As part of our annual review process, during the Board meeting in September 2014 we reviewed and reconsidered all situations entered in the Conflicts Register and the Board is satisfied that the independence of those Directors who have other external board appointments or relationships has not been compromised. At this meeting, and taking into account the annual Board performance evaluation, the Board concluded that all our NEDs continue to contribute effectively and constructively to Board debate, demonstrate commitment to their role, challenge objectively and question management robustly and at all times have the best interests of our shareholders in mind.

We confirm, therefore, that, with the exception of our Chairman who met the independence criteria of the Code on appointment and Susan Murray who had served more than nine years on our Board, our NEDs remained independent throughout the year as defined in the Code.

External Appointments

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

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

Information and Training

The Company is committed to the continuing development of Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate.

The Company Secretary is responsible for advising the Board, through the Chairman, on matters of corporate governance. The Board and its Committees are supplied with full and timely information, including detailed financial information, to enable them to discharge their responsibilities.

All Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters. Independent professional advice is also available to Directors, in appropriate circumstances, at the Company's expense.

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

Members of our Audit and Remuneration Committees received briefings from PwC and New Bridge Street respectively to ensure they remain up to date with current regulations and developments. No other training needs were identified in 2014, although ongoing training is available to all Directors to meet their individual needs. We provide regular briefings to Directors on matters such as legislation and regulation changes and corporate governance developments.

Performance Evaluation

During the year, the Board reviewed, with the assistance of Independent Audit Limited, its performance, that of its Committees and individual Directors with the aim of improving effectiveness.

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

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

Our Senior Independent Director also met with the Non-Executive Directors and the Board, without the Chairman present, to consider the performance of the Chairman.

The feedback obtained was collated into a report which was presented to the Board at its September 2014 meeting and used as the basis for one-to-one development discussions between the Chairman and each Director.

The evaluation showed that the Board and its Committees continue to operate effectively and no significant areas for concern were identified nor any requirement to provide extra training for our Directors. Consequently, the Board and its Committees are satisfied they are operating and performing effectively. The evaluation confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees and that it remains appropriately constituted.

Areas identified for further consideration were, following the recent changes to Board membership, continuing to develop the cohesiveness of the team and that our NEDs would benefit from an increased knowledge and understanding of the wider business, for example through site visits and presentations from our wider management team.

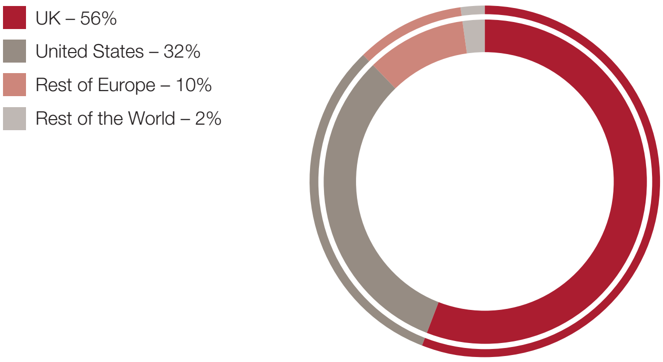
We have addressed the issues identified in the 2013 Board evaluation and, in line with the Board's succession plans, we announced in November 2013 the appointment of Mark Williamson to succeed Iain Napier as Chairman. We have also continued to enhance our risk management and internal control processes as discussed on pages 21 and 37.

Insurance and Indemnities

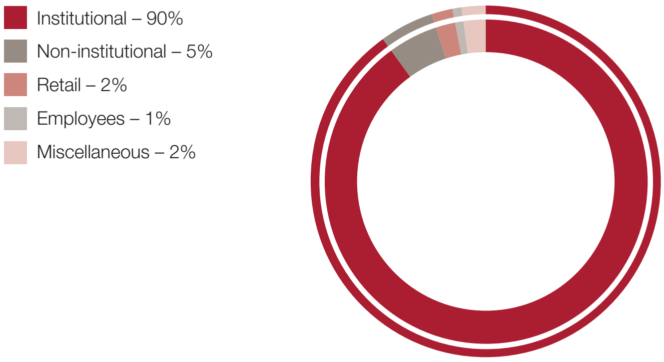
We have purchased and maintain appropriate insurance cover in respect of Directors' and Officers' liabilities. The Company has also entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Act. These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

Dialogue with our Investors

Geographical Analysis of Shareholders (as at 30 September 2014)



Shareholder Composition (as at 30 September 2014)



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

We maintain an active engagement with our key financial audiences including institutional shareholders and sell side analysts as well as potential shareholders. During the year, there were regular presentations to, and meetings with, institutional investors in the UK, Europe, Canada and the USA to communicate our sales growth strategy and answer questions from our investors. Throughout the year our senior management team presented at industry conferences organised by investor bodies and investment banks for their institutional investor bases. Our Investor Relations team managed the interaction with these audiences and provided additional regular presentations during the year. We also consulted with our largest shareholders and their representative bodies in respect of the proposed changes to our remuneration policy detailed on pages 48 to 52.

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

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

To ensure our shareholders have time to consider our Annual Report and Accounts and Notice of the AGM and lodge their proxy votes, the documents are made available to them at least 20 working days prior to the meeting.

We offer all our shareholders the choice of submitting proxy votes, including abstentions, either electronically or in paper format.

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

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

At our 2014 AGM we received votes representing approximately 79 per cent of our issued share capital (excluding shares held in treasury at the date of the AGM).

Our next AGM will be held on Wednesday 28 January 2015, full details of which are contained in the Notice of Meeting available on our website and, where applicable, posted with this Annual Report.

Introduction

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

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

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

- a fair review of the business, as required by the Act, is included in the Strategic Report. The information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the Chief Executive's Review;
- information relating to our people can be found in the Rewarding Workplace section;
- our principal risks can be found in the Principal Risks and Uncertainties section; and
- the Directors of the Company during the financial year can be found in the Governance report.

Share Capital

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

At our AGM on 5 February 2014 shareholder authority for the buyback of up to 106,794,000 shares was obtained.

As at 30 September 2014 we held 78,909,137 shares in treasury, which represented 7.62 per cent of issued share capital and had an aggregate nominal value of £7,890,914.

We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve and they represent a deduction from equity shareholders' funds. Treasury shares do not carry any voting or dividend rights.

At 30 September 2014 we had been notified of the following interests in 3 per cent or more of our shares and there have been no changes to this information up to the date of this Annual Report.

	Number of ordinary shares (millions)	Percentage of issued share capital
BlackRock Inc	53	5.51[2]
Capital Group Companies Inc	48	4.99[2]
Invesco Limited	47	4.94[1]
Morgan Stanley Investment Management Limited	42	4.44[1]
Franklin Resources Inc	41	4.30[2]

1 Direct holding.
2 Indirect holding.

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

The share interests of the Directors, their families and any connected persons are shown on page 58. Other than as disclosed on page 51, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment due to a takeover.

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

Financial Results and Dividends

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

The profit attributable to equity holders of the Company for the financial year was £1,422 million, as shown in our consolidated income statement. Note 3 to the Financial Statements gives an analysis of revenue and operating profit.

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

The Directors have declared and proposed dividends as follows:

£ million	2014	2013
Ordinary Shares		
Interim paid, 38.8p per share (2013: 35.2p)	370	341
Proposed final, 89.3p per share (2013: 81.2p)	851	783
Total ordinary dividends, 128.1p per share (2013: 116.4p)	1,221	1,124

The final dividend, if approved, will be paid on 17 February 2015 to our shareholders on the Register of Members at the close of business on 16 January 2015. The associated ex-dividend date will be 15 January 2015. We paid an interim dividend on 19 August 2014 to shareholders on the Register of Members at the close of business on 18 July 2014. As announced at our Half Year results on 7 May 2014, we are moving to quarterly dividend payments with effect from financial year 2015. The first and second dividends for financial year 2015 will be announced with our half year results on 7 May 2015 and will be paid in June 2015 and September 2015. The third and fourth dividends will be announced with the full year results on 10 November 2015 and paid in December 2015 and, subject to AGM approval, in March 2016.

Relations With Other Stakeholders

Charitable and Political Donations

As part of our responsible approach and our commitment to reinvesting in society, we continue to support the communities in which we operate by choosing to allocate some £3.28 million (2013: £3.20million) to partnership and community investment. Through the UK Charities Aid Foundation we apportion some £1.72 million to registered charities. This funds our support of the Eliminating Child Labour in Tobacco Growing Foundation, our own Altadis Foundation and a small number of UK charities connected with our Global Head Office. The remaining amount of some £1.53 million is allocated to our leaf sustainability partnerships which seek to help rural tobacco growing communities, predominantly in sub-Saharan Africa. Our leaf partnership projects are mainly enabled directly with suppliers under contract, rather than with registered charities. Some £0.03 million was also used to support some ad hoc employee fundraising activities mainly in response to humanitarian needs in the Balkans and Ukraine. The £3.28 million only reflects a centralised budget. We do not currently account for additional activities including management time, volunteering, gifts in-kind and localised activities. More detailed information on our approach to supporting community livelihoods can be found in the Corporate Responsibility section of our website www.imperial-tobacco.com/cr. All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to EU political parties, organisations or candidates (2013: nil).

Pension Fund

Our main pension fund, the Imperial Tobacco Pension Fund, is not controlled by the Board but by a trustee company, the board of which consists of five directors nominated by the Company, one director chosen by employees and two by current and deferred pensioners. This trustee company looks after the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose. Further details are contained in our Remuneration Report on pages 56 and 57.

Articles of Association

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

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

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

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

The nine credit agreements are:

- a credit facilities agreement dated 15 July 2014 under which certain banks and financial institutions make available to Imperial Tobacco Finance PLC and Imperial Tobacco Enterprise Finance Limited a) committed acquisition credit facilities across three tranches of $4,100 million, $1,500 million and $1,500 million, for a maximum period of up to three years, four years and six years respectively; b) committed credit facilities of €1,000 million for a period of up to three years; and c) committed credit facilities in two tranches of €2,835 million and £500 million for a period of five years; and
- eight deeds of counter-indemnity each dated 3 June 2014 made on substantially the same terms under which certain insurance companies and financial institutions each make available to Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £400 million, until 3 December 2019.

In the event that any of the listed credit facility agreements are subject to any such repayment and cancellation, we would expect the Group to replace these agreements with similar arrangements in order to satisfy its existing funding commitments, ongoing working capital and similar requirements, as well as its long-term and strategic plans. In particular, the committed acquisition credit facilities under the credit facilities agreement dated 15 July 2014 are intended to be utilised in due course to satisfy the funding and payment obligations of the Group under the asset purchase agreement that was entered into with Reynolds American Inc. on the same date. Under this asset purchase agreement, the Group has agreed to acquire a number of brands and assets from Reynolds American Inc. currently owned by Reynolds American Inc. and Lorillard Inc. for a consideration of $7.1 billion, following the proposed acquisition of Lorillard Inc. by Reynolds American Inc. The transaction is expected to complete in the spring of 2015 and, in the event of any such repayment and cancellation of the committed acquisition credit facilities, we would expect the Group to replace these credit facilities with similar or other arrangements in order to enable it to satisfy its funding and payment obligations under the asset purchase agreement.

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

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

The bonds issued in such manner are as follows:

- 15 September 2008 £600,000,000 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000,000,000 9 per cent guaranteed notes due 2022;
- 17 February 2009 €1,500,000,000 8.375 per cent guaranteed notes due 2016;
- 24 June 2009 £500,000,000 7.75 per cent guaranteed notes due 2019;
- 5 July 2011 €850,000,000 4.5 per cent guaranteed notes due 2018;
- 26 September 2011 £500,000,000 5.5 per cent guaranteed notes due 2026;
- 2 December 2011 €750,000,000 5 per cent guaranteed notes due 2019;
- 28 February 2014 €1,000,000,000 2.25 per cent guaranteed notes due 2021;
- 28 February 2014 €650,000,000 3.375 per cent guaranteed notes due 2026; and
- 28 February 2014 £500,000,000 4.875 per cent guaranteed notes due 2032.

Imperial Tobacco Finance PLC has also issued bonds in the United States of America under the provisions of section 144a and Regulation S respectively of the US Securities Act (1933). The Company acted as guarantor. The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer of a tax call, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at 101% of its nominal value if (a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock; or (ii) there is a transfer (other than by merger, consolidation or amalgamation) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act); or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds issued in such manner are as follows:

- 11 February 2013 $1,250,000 2.05 per cent guaranteed notes due 2018; and
- 11 February 2013 $1,000,000 3.50 per cent guaranteed notes due 2023.

Update on Tobacco-Related Litigation

Ireland

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

Spain

Following our acquisition of Altadis in January 2008, we were involved in a claim in Spain brought in the Administrative Court (the CADAN) on behalf of the Regional Government of Andalucia (the Junta). The claim was brought against Altadis and a number of other tobacco companies, as well as the State. On 23 December 2013, the CADAN dismissed the Junta's claim on procedural grounds. The Junta did not register an intention to appeal. Since all deadlines for appeal have now expired, the case is closed.

Italy

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

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

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

Statement of the Directors in Respect of the Annual Report and Financial Statements

As required by the Code, the Directors confirm that they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by considering the output and reports from a number of long-established and embedded processes including the following:

- the Audit Committee reviewed the use of adjusted measures and their appropriateness in aiding users of our financial statements to better understand our performance;
- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Director of Group Communications to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by members of the OPEX and other senior management;
- an advanced draft is considered and reviewed by our internal Audit Department, our Disclosure Committee, legal advisers and brokers;
- the final draft is reviewed by the Audit Committee prior to consideration by the Board;
- our Board members also receive drafts of the Annual Report and Accounts in sufficient time to facilitate their review and input; and
- discussing the draft Annual Report with both management and PwC and where appropriate challenging the content and any judgement and assumptions used.

Statement of Directors' Responsibilities

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

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

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

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

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

Each of the Directors, whose names and functions are listed on page 29, confirms that, to the best of their knowledge:

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

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

John Downing
4 November 2014

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

Remuneration Committee

David Haines Chairman

"Our remuneration strategy is focused on supporting our business strategy in the drive to maximise long-term sustainable shareholder returns."

Members

David Haines *Chairman*
Ken Burnett
Michael Herlihy
Susan Murray
(to 5 February 2014)
Berge Setrakian
(to 5 February 2014)
Mark Williamson
(to 5 February 2014)
Karen Witts
(from 6 February 2014)
Malcolm Wyman

Trevor Williams *Secretary*

Decisions for 2014

- remuneration review and recommendation to shareholders to withdraw future awards to Executive Directors under the Share Matching Scheme (SMS) with the previous benefit consolidated into the Long Term Incentive Plan (LTIP);
- 2014 annual bonus payment calculated to be 69 per cent of the maximum opportunity;
- LTIP granted in November 2011 partially vested in November 2014;
- SMS granted in February 2012 will lapse in February 2015; and
- in relation to the retirement of Robert Dyrbus, confirming all elements of remuneration to be actioned in line with policy with no discretions exercised in his favour.

Material changes for 2015

Subject to shareholder approval, implementation of the revised remuneration policy, including:

- the withdrawal of the SMS for Executive Directors;
- amendment to mandatory deferral of bonus to require that half of any bonus paid be deferred into shares and released after three years;
- selected increases in variable pay opportunity;
- introduction of a cash conversion measure to the annual bonus;
- introduction of two-year holding period for vested LTIP awards, in respect of awards granted in February 2015 onwards; and
- strengthening of claw back provisions.

Dear Shareholder

Over recent years, we have made changes to our remuneration policy to maintain alignment with our evolving strategic priorities. We continued to strengthen this alignment during 2014 in line with the shareholder-approved remuneration policy introduced at last year's AGM, which can be found in our 2013 Annual Report available on our website, through some additional changes to the measures in our incentive schemes and by further increasing the focus of our executives' pay towards the long-term.

Whilst the external environment continues to be challenging, our good performance in 2014 resulted in an annual bonus pay-out for Executive Directors of 69 per cent. Performance against earnings targets, adjusted for the effects of the stock optimisation programme, was strong; and volume and net revenue targets, again adjusted for the effects of the stock optimisation programme, were partially met. However, this recent progress has yet to be seen in the outcomes of the long-term schemes; there will be minimal vesting of LTIP awards made in November 2011 and no vesting of SMS awards made in February 2012.

Subject to shareholder approval, from 2015, we plan to remove the SMS for our most senior employees. Whilst the SMS has been an effective scheme to promote share ownership across the Company, we have taken heed of some investors' opposition to two long-term incentive schemes and we believe we can achieve the same alignment and retention more simply. We have, therefore, consolidated the SMS opportunity into the LTIP and, in order to preserve the retention effect, will require that half of all earned bonus is deferred in shares for three years. An additional holding period of two years will also apply to vested LTIPs.

We also propose to rebalance the weightings of measures in the LTIP to place greater emphasis on the measures by which executives can drive the success of the business, increasing the weight in earnings growth and reducing TSR. The Committee continues to review incentive measures annually and for the financial year to 30 September 2015 it proposes to introduce cash conversion alongside earnings, revenue, growth brand performance and market share measures to reflect the balance of our strategy.

Oliver Tant was appointed last year on a below-market salary with an intention to raise his pay, over time, to market levels contingent on performance. We believe this mechanism is in the Company's and, therefore, shareholders' best interests. Following a strong first year, the Committee considered it appropriate to bring Mr Tant's salary closer to the market and, therefore, increased it.

During the course of the year, we received feedback on proposed changes from a number of our larger investors, which we considered carefully. As a Committee our role is to balance these individual investor perspectives with our overall responsibility to ensure that remuneration arrangements enable us to attract, motivate and retain employees of the requisite quality to optimise sustainable shareholder returns.

David Haines

David Haines
Chairman of the Remuneration Committee

Governance

The Role of the Remuneration Committee

The Board recognises that it is ultimately accountable for executive remuneration but has delegated this responsibility to the Committee.

The Committee's principal function is to support the Group's strategy by ensuring that its delivery is incentivised by the remuneration policy, described below. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives.

The Committee held six meetings during the financial year.

The Committee's responsibilities include:

- ensuring the Group's remuneration arrangements support its strategy, align with its values and drive performance;
- maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract and retain high-calibre individuals;
- aligning senior executives' remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive;
- assessing the output from the Board evaluation process insofar as it relates to the Remuneration Committee;
- making recommendations to the Board in respect of our Chairman's fees;
- setting targets for the performance-related elements of remuneration packages;
- oversight of our overall policy for senior management remuneration and of our employee share plans; and
- ensuring appropriate independent advisers are appointed to provide advice and guidance to the Committee.

The Committee's full terms of reference provide further details of the role and responsibilities of the Committee and are available on the Company's website.

All members of the Committee are independent Non-Executive Directors which we see as fundamental in ensuring Executive Directors' and senior executives' remuneration is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed.

To reinforce this independence, a standing item at each Committee meeting allows the members to meet without any Executive Director or other manager being present.

During the year, Iain Napier (Company Chairman to 5 February 2014), Mark Williamson (Company Chairman from 5 February 2014), Alison Cooper (Chief Executive), Oliver Tant (Chief Financial Officer) and John Downing (Company Secretary) were consulted, including to provide a performance context to target setting, and invited to attend, where appropriate. Trevor Williams (Deputy Company Secretary) also attended each meeting as secretary to the Committee.

The Group Human Resources Director and the Group Reward Director also attended and provided internal support and advice on market and regulatory developments in remuneration practice and our employee share plans. Their attendance ensured the Committee was kept fully abreast of pay policies throughout the Group, which it then takes into account when determining the remuneration of the Executive Directors and our most senior executives.

No one is allowed to participate in any matter directly concerning the details of his or her own remuneration or conditions of service.

This Policy Report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this Report we describe how the principles of good governance relating to directors' remuneration, as set out in the UK Corporate Governance Code 2012 (the Code), are applied in practice. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions and will detail in the 2015 report how it applied the provisions of the revised Code which applies to the Company from its financial year commencing on 1 October 2014.

The Regulations require our Auditors to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The Auditors' opinion is set out on page 66 and we have clearly marked the audited sections of the Report.

Policy Report

Our strategy and business model (further explained on page 2) drive our remuneration policy. The consistent and successful application of our strategy, incentivised by both short- and long-term performance measures, has delivered significant returns to shareholders and the measures proposed within the revised policy focus on building on this track record.

To continue to deliver our strategy we need high-calibre individuals with the skill set and experience appropriate to drive the performance of a Group of the scale and complexity of Imperial Tobacco. Our policy is designed to offer competitive, but not excessive, base salary with significant weighting towards performance-based elements the measures of which incentivise and support the delivery of our strategy whilst also reflecting individual, functional and corporate performance. We aim to set and rigorously apply targets that are both stretching and achievable.

Whilst our incentive plans provide for the Committee to exercise discretion in the determination of vesting, this is only used in exceptional circumstances and if exercised will be disclosed, at the latest, in the report on implementation of the Remuneration Policy for the year in question.

Remuneration Policy for Executive Directors

It is intended that the Remuneration Policy set out in this Report will, if approved, for the purposes of section 226D(6)(b) of the Act, take effect immediately after the AGM on 28 January 2015.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Salary	Attract and retain high-performing individuals reflecting the market value of role and the Executive Director's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Committee taking into account each Executive Director's performance together with changes in role and responsibility. Salary increases, if any, are generally effective from 1 October. The Committee considers pay data for both UK companies and those operating overseas. For the UK we compare against listed companies closest to us by FTSE ranking (and excluding those in the financial services sector) and we also reference the FTSE 30 and FTSE 50 excluding financial sector companies. Our international comparator group includes companies of a similar size, broad sector focus and global footprint. These comparators serve to define a "playing field" within which an individual's rewards need to be positioned. In determining individual remuneration, the primary factors taken into account are individual performance, the scale of the challenges intrinsic to that individual's role, their ability and experience.	No prescribed maximum annual increase. The Committee takes into account each Executive Director's performance, together with changes in role and responsibility and considers general increases for the UK wider management population.
Benefits	Competitive benefits taking into account the market value of the role and benefits offered to the wider UK management population.	Benefits include provision of company car, health insurance, life insurance and permanent health insurance which are provided directly or through the Company pension scheme. Opportunity to join the Sharesave Plan. Provision of relocation assistance upon appointment if/when applicable.	The level of benefit provision is fixed.
Annual Bonus Plan	Incentivise delivery of Group strategic objectives and enhance performance.	At least 60% of the annual bonus will be linked to key financial metrics and no more than 15% will be linked to individual measures. Performance below the threshold results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. Half of any annual bonus paid would be in deferred shares to be held for a minimum of three years with the other half paid in cash. Malus provisions apply before payment and claw back provisions are in place for the three years following payment of annual bonus.	200% of base salary or such lower sum as determined by the Committee.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Share Matching Scheme	Incentivise the delivery of Group strategic targets. Promote share ownership worldwide across the Imperial Tobacco management team.	It is intended that, subject to shareholder approval of the revised Remuneration Policy, there will be no further awards to Executive Directors under the SMS. However, outstanding awards will vest or not in line with the performance conditions and other terms of the relevant award. **Awards granted February 2014** Awards have a performance period of three financial years and the level of vesting is based on financial measures with underpins. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Claw back provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. **Awards granted February 2012 and February 2013** Awards were based on an earnings per share (EPS) performance condition only.	Subject to shareholder approval of the revised policy no future awards will be made to Executive Directors. Maximum match 1:1 of shares invested. Plus, in respect of the February 2014 award, shares equivalent to the value of the dividend roll-up.
Long Term Incentive Plan	Incentivise long-term Group financial performance in line with the Group's strategy and long-term shareholder returns. Align Executive Directors' interests with those of long-term shareholders.	**Awards to be granted during or after January 2015** Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 20% on relative total shareholder return (TSR) vs a peer group and 80% on financial measures. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Claw back and malus provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. Any awards which vest will be subject to a further two-year holding requirement. **Awards granted November 2013** Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made and are based 50% on TSR vs a peer group and 50% on financial measures with underpins. In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at 25% and rises to 100% for levels of performance between the threshold and maximum targets. There is no opportunity to re-test. Claw back provisions are in place. Dividends accrued on vested shares are paid at the time of vesting. **Awards granted before February 2013** Prior to February 2013 awards were based 50% on an EPS performance condition and 50% on relative TSR performance conditions only. It is intended that all awards will vest or not in line with the performance conditions and other terms of the relevant award.	Chief Executive Officer: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Committee. Plus shares equivalent to the value of the dividend roll-up.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Pensions	Attract and retain high-performing Executive Directors.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors who joined the Fund prior to 1 October 2010 are members of the defined benefit section whereas Executive Directors joining the Fund on or after this date are offered membership of the defined contribution section. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual. Members of the defined benefit section of the Fund accrue pension at a rate between 1/47th and 1/60th of pensionable salary. Further detail is provided on page 56. The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service. The Committee may amend the form of any Executive Director's pension arrangements in response to changes in pensions legislation or similar developments, so long as any amendment does not increase the cost to the Company of an Executive Director's pension provision.	Current policy is for a defined contribution and cash supplement limit of 26% of salary. Existing members of the defined benefit section have a cash in lieu of pension accrual limit of 35% of salary.

Committee Discretions Relating to Variable Pay Schemes

The Committee will operate each of the Company's incentive plans for which it has responsibility according to their respective rules and in accordance with the Listing Rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include, but are not limited to, the following:

- who participates in the plan;
- the timing of grant of an award and/or payment;
- the size of an award (subject to the maxima set out in plan rules and the policy table above);
- the choice of performance measures and targets for a new award under each incentive plan (in accordance with the policy set out above);
- the determination of vesting and confirmation that the calculation of performance is made in an appropriate manner, with due consideration of whether and, if so, how, adjustments should be made (subject to the provision that any adjustments to targets set should result in the revised target being no less challenging than the original target);
- discretion required when dealing with a change of control and any adjustments required in special circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- determination of a good/bad leaver for incentive plan purposes based on the rules of the plan and the appropriate treatment chosen.

In relation to the Annual Bonus, SMS and LTIP, the Committee retains the ability to adjust the targets set if events occur which cause the Committee to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy than was intended. Adjustment may also be made for any changes to accounting policy over the performance period. Any use of discretion beyond the normal operation of the plan would be justified in the Directors' Remuneration Report and, if appropriate, be the subject to consultation with the Company's major shareholders. The use of discretion in relation to the Company's SAYE plan will be as permitted under HMRC rules.

Payments from Existing Awards

Subject to the achievement of applicable performance conditions, Executive Directors are eligible to receive payment, and existing awards may vest, in accordance with the terms of any such award made prior to the approval and implementation of the Remuneration Policy detailed in this Report.

Performance Measure Selection

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic initiatives for the year and reflect both financial and non-financial objectives.

The Committee reviews the performance measures annually and considers the combination of measures in the LTIP, ie adjusted EPS, net revenue and relative TSR, remain the most appropriate measures of long-term performance for the Group. TSR aligns with the Company's focus on shareholder value creation and rewards management for outperformance of sector peers. EPS provides strong line-of-sight for Executive Directors and supports the Group's long-term strategy. Net revenue supports the Company's focus on organic growth.

Performance measures are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment.

Remuneration Policy for Other Employees

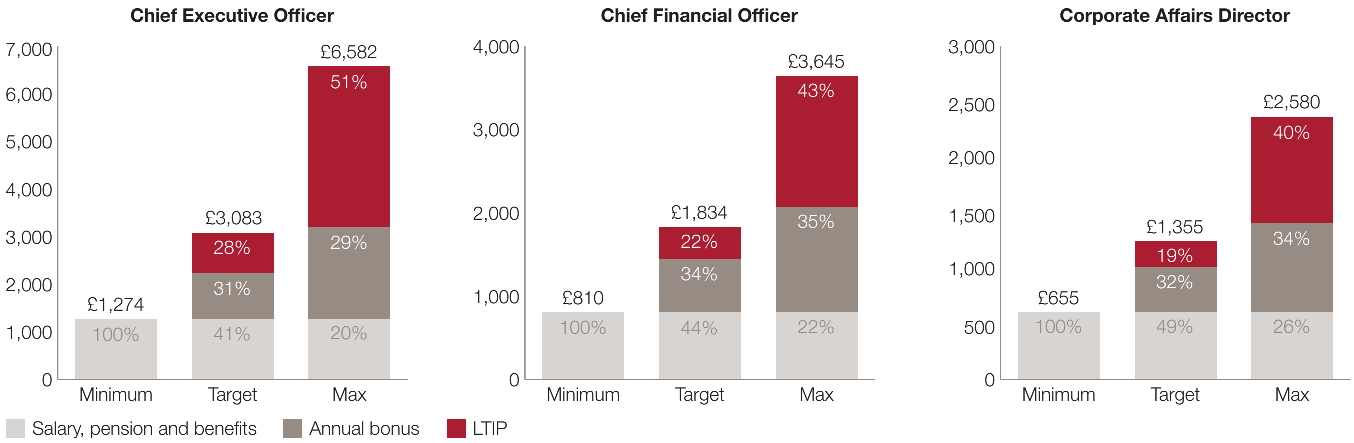
The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

All managers are eligible to participate in an annual bonus plan with similar metrics to those used for the Executive Directors. Other employees are eligible to participate in performance-led annual bonus plans. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Senior executives are eligible to participate in the LTIP (c.50 individuals) and the majority of members of the Corporate Management Group are eligible to participate in the SMS (c.1,100 individuals).

Total remuneration of the Executive Directors for a minimum, target and maximum performance is presented in the chart below.

Total remuneration by performance scenario for 2014/15 financial year (£'000)



The charts are indicative as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

- Minimum: fixed remuneration only (ie salary, benefits and pension).
- Target: fixed remuneration plus half of maximum annual bonus opportunity plus 25 per cent vesting of LTIP awards. Note that Imperial Tobacco does not have a stated 'target' for either its financial measures or incentive pay-outs.
- Maximum: fixed remuneration plus maximum annual bonus opportunity plus 100 per cent vesting of LTIP awards.

Executive Directors' Service Agreements and Loss of Office Payments

The Company's policy is that Executive Directors' service agreements normally continue until the Executive Director's agreed retirement date or such other date as the parties agree, are terminable on no more than one year's notice and contain no liquidated damages provisions nor any other entitlement to the payment of a predetermined amount on termination of employment in any circumstances. In addition, in some limited cases career counselling may be provided after the cessation of employment for a defined period. Under the terms of our Articles of Association, all Executive Directors are subject to annual re-election by shareholders.

Executive Directors' service agreements contain provisions for payment in lieu of notice in respect of base salary, pension contributions and 5 per cent of base salary in respect of other benefits but these are at the Company's sole discretion. The Company is unequivocally against rewards for failure. The circumstances of any termination (including the individual's performance) and an individual's duty and opportunity to mitigate losses would be taken into account in every case; our policy is to stop or reduce compensatory payments to former Executive Directors to the extent that they receive remuneration from other employment during the compensation period and any such payments would be paid monthly in arrears.

For Executive Directors leaving employment with Imperial Tobacco for specified reasons (including death, redundancy, retirement, ill health and disability, the business or company in which the participant is employed ceasing to be part of the Group or on a change of control) annual bonus awards will be based on performance, adjusted for time served, and paid at the same time as for other employees. The Remuneration Committee has discretion to adjust the timing and pro-rating to take account of any prevailing exceptional circumstances.

Under the rules of both the SMS and LTIP, outstanding awards vest if an Executive Director leaves for specified reasons (as detailed above). In these circumstances an Executive Director's awards vest as the Committee determines having regard to the time the award has been held and the achievement of the performance criteria. The awards will vest either on termination of the Executive Director's employment with the Group or, for awards granted under the policy approved by shareholders in 2014 or later, at the normal vesting date, as the Committee determines in its absolute discretion. If the termination of employment is not for one of the specified reasons and the Committee does not exercise its discretion to allow an award to vest, an Executive Director's awards lapse entirely.

Executive Directors' Service Agreements

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Alison Cooper	1 July 2007	Terminable on 12 months' notice	No provisions
Oliver Tant	1 October 2013	Terminable on 12 months' notice	No provisions
Matthew Phillips	31 May 2012	Terminable on 12 months' notice	No provisions

Recruitment of Executive Directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment. The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and, therefore, shareholders. Any such buyout awards would be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash, shares, options), time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such awards at the time of appointment. The Committee may need to avail itself of the current Listing Rule 9.4.2 R if required in order to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual. The Committee confirms that this provision would only be used to compensate for remuneration lost.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following appointment.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the Remuneration Committee.

Policy in Respect of External Board Appointments

We recognise that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship and may not serve as the chairman of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Alison Cooper is a Non-Executive Director of Inchcape PLC and was permitted to retain the £55,000 fee received from this position in the financial year.

Policy for Non-Executive Directors

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders.	Reviewed, but not necessarily increased, annually by the Board (after recommendation by the Committee in respect of the Chairman). Fee increases, if applicable, are normally effective from 1 October. The Board and, where appropriate, the Committee consider pay data at comparator companies of similar scale. The Senior Independent Director and the chairmen of the Audit and Remuneration Committees receive additional fees. No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans.	No prescribed maximum annual increase. Aggregate annual fees limited to £2.0 million by Articles of Association.
Benefits	Travel to the Company's registered office.	Travel to the Company's registered office is recognised as a taxable benefit.	Grossed-up costs of travel.

Non-Executive Directors' Letters of Appointment

The Chairman and Non-Executive Directors do not have service agreements but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at our registered office during normal business hours and both prior to and at the AGM.

In line with our annual review policy, the Chairman's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 4 February 2014. There are no provisions regarding notice periods in their letters of appointment which state that the Chairman and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination. Under the terms of our Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

Shareholding Guidelines

Whilst placing significant weight on our annual performance, our remuneration policy aligns the long-term interests of our shareholders and other stakeholders with those of management by incentivising the growth in the value of the business over the long-term. To support this alignment, we have share ownership guidelines as we believe Executive Directors and other senior managers should be encouraged to hold a substantial portion of their personal wealth in our shares.

Over a period of five years from appointment, Executive Directors are expected to build a holding in the Group's shares to a minimum value broadly equivalent to three times their respective base salary. Other senior managers are expected to invest at a level equivalent to between once and twice base salary, dependent upon grade. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for LTIP awards.

Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in shares which they are required to retain for the duration of their appointment.

Consultation with Employees

Although the Committee does not consult directly with employees on the Directors' Remuneration Policy, the Committee does consider the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

Differences in Remuneration Policy for Executive Directors Compared with Other Employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Group. However, there are some differences in the structure of the remuneration policy for the Executive Directors and other senior employees, which the Remuneration Committee believes is necessary to reflect the different levels of responsibility. The key difference in policy is the increased emphasis on long-term performance related pay for Executive Directors.

Consideration of Shareholder Views

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year at its first meeting following the AGM. This feedback, as well as any additional feedback received during any other meetings with shareholders, is then considered as part of the Company's annual remuneration policy review.

The Remuneration Committee notes that shareholders do not speak with a single voice, but we engage with our largest shareholders to ensure we understand the range of views which exist on remuneration issues. When any material changes are made to the Remuneration Policy, for example the proposed changes to our policy detailed above, the Remuneration Committee chairman will inform major shareholders in advance, and will offer a meeting to discuss these changes.

How the Committee implemented the Remuneration Policy for Financial Year Ended 30 September 2014

Linking Remuneration with Strategy

We focus on delivering high-quality sustainable sales growth whilst effectively managing our costs and cash flows. Ensuring that our sales growth drivers and key enablers are supported and their delivery incentivised by our remuneration policy is key to maximising long-term returns to shareholders.

Alignment with our Strategy	Sustainable sales growth is at the heart of our strategy. This is supported by the inclusion of the drivers of sales growth within our variable remuneration – both the annual bonus and LTIP. Stretching performance targets incentivise the delivery of sales and the creation of shareholder value. Managing our costs and cash flows are the other elements of our strategic focus. Profitability, mainly in the form of earnings per share, forms a major part of the measurement in both the annual bonus and LTIP. Cash conversion will be added as a measure for the annual bonus in the coming year.
Alignment with our Shareholders	To align their interest with shareholders, employees at all levels are encouraged to have an interest in the Company's shares through both direct shareholdings (supported by shareholding requirements for senior executives) and through our share plans with the value of the Corporate Management Group's overall remuneration being heavily dependent on the performance of our share price.
Attracting and Retaining the Right People	Our Remuneration Policy is designed to ensure a high-quality pool of talented employees at all levels who are incentivised to deliver our strategy through clear links between reward and performance, without encouraging them to take undue risks. We believe it is important to ensure that management is competitively rewarded in relation to peers and the other opportunities available to them whilst ensuring we neither pay more than necessary nor reward failure. Our policy is, therefore, significantly weighted towards performance-based elements.

Implementing Executive Policy and Practice

In implementing the Company's Remuneration Policy (as detailed on pages 64 to 69 of the Company's Annual Report and Accounts 2013 available on our website), the Committee recognises that striking the right balance in finding a fair outcome in setting a competitive level of total remuneration is a matter of judgement. In forming this judgement, the Committee considers pay data at comparator companies of similar scale and operating in a similar sector. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most, serve to define a "playing field" within which an individual's rewards need to be positioned. In determining that positioning, the primary factors taken into account are the scale of the challenges intrinsic to that individual's role, his or her ability, experience and performance.

We align the interests of long-term shareholders and employees at all levels by, wherever possible, giving our employees the annual opportunity to build a shareholding in the Company through our employee share plans, with more than 30 per cent of eligible employees participating in one or more plans.

Single Total Figure of Remuneration for each Director (Audited)

£'000	2014 Salary and fees	2013 Salary and fees	2014 Taxable benefits[1]	2013 Taxable benefits	2014 Annual bonus[2]	2013 Annual bonus	2014 Share plans vesting[3]	2013 Share plans vesting	2014 Pension benefits[4]	2013 Pension benefits	2014 Total	2013 Total
Executive Directors												
Alison Cooper, Chief Executive	920	920	16	16	1,270	626	151	–	293	449	2,650	2,011
Oliver Tant[5], Chief Financial Officer	575	–	16	–	595	–	–	–	150	–	1,336	–
Robert Dyrbus[6], Finance Director	63	665	2	27	66	339	–	–	58	233	189	1,264
Matthew Phillips, Corporate Affairs Director	435	435	22	11	375	185	26	–	134	215	992	846
	1,993	2,020	56	54	2,306	1,150	177	–	635	897	5,167	4,121
Non-Executive Directors												
Mark Williamson, Chairman[7,8]	338	116	3	2	–	–	–	–	–	–	341	118
Iain Napier, Chairman[7]	156	450	2	2	–	–	–	–	–	–	158	452
Ken Burnett	73	73	28	29	–	–	–	–	–	–	101	102
David Haines[8]	86	73	11	4	–	–	–	–	–	–	97	77
Michael Herlihy[8]	96	93	3	2	–	–	–	–	–	–	99	95
Susan Murray	73	73	1	1	–	–	–	–	–	–	74	74
Berge Setrakian[9]	25	73	16	38	–	–	–	–	–	–	41	111
Karen Witts[10]	47	–	1	–	–	–	–	–	–	–	48	–
Malcolm Wyman[8]	98	98	5	15	–	–	–	–	–	–	103	113
	992	1,049	70	93	–	–	–	–	–	–	1,062	1,142
Payments to former Executive Directors												
Robert Dyrbus[6]	102	–	3	–	106	–	147	–	–	–	358	–

1 Taxable benefits principally include an allowance in lieu of, or the provision of, a company car (£15,000 in respect of Alison Cooper and Oliver Tant and £20,227 in respect of Matthew Phillips), fuel and health insurance. Benefits in kind for the Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.
2 Annual bonus earned for performance over the financial year ending 30 September 2014.
3 Share plans vesting represent the value of SMS and LTIP awards where the performance period ends in the year. Comparator figures represent the actual value of awards vesting.
4 Further details are contained in the Executive Directors' pension section on page 56.
5 Oliver Tant was appointed to the Board on 1 October 2013.
6 Robert Dyrbus retired from the Board on 5 November 2013 but remained an employee until 31 December 2013.
7 Mark Williamson succeeded Iain Napier as Chairman on 5 February 2014.
8 Includes payment in respect of Senior Independent Director fee of £25,000 per annum and chairmanship of Board Committees at an annual rate of £20,000 in respect of the Remuneration Committee and £25,000 in respect of the Audit Committee. Mark Williamson's fee as Deputy Chairman was £100,000 per annum.
9 Berge Setrakian retired from the Board on 5 February 2014.
10 Karen Witts was appointed to the Board on 6 February 2014.

All expense payments made to Directors were made on the basis of reimbursement of expenses incurred grossed up for tax where expenses represent a taxable benefit. No payments were made by way of taxable expenses allowances. No Directors waived their fees.

Additional Notes to the Single Total Figure of Remuneration (Audited)

This section sets out supporting information for the single total figure columns relating to annual bonus, share plans and pension benefits. In particular, it provides information on the extent to which annual performance conditions have been satisfied for the annual bonus and the extent to which three-year performance conditions have been satisfied for each share plan, namely the SMS and LTIP.

Determination of 2014 Annual Bonus

Despite a challenging external environment, management delivered a good performance in the year to 30 September 2014, strengthening our brands and market footprint, increasing cash conversion and considerably reducing net debt. As a result, we are a stronger business and delivered a 10 per cent increase in dividend.

The annual bonus payment, determined with reference to performance over the financial year ending 30 September 2014, is calculated at 69 per cent of maximum opportunity. The Committee believes this to be an appropriate reflection of the performance and progress made through the year.

Performance against individual measures is set out below.

Performance target	Assessment	Maximum percentage of bonus	Actual percentage of bonus
Adjusted EPS growth (constant currency)	Performance is measured based on underlying EPS growth, adjusted to remove the impact of the stock optimisation programme, at constant currency. Increases in topline revenues together with a stronger focus on cost optimisation and cash conversion provided growth in underlying EPS of 6.8 per cent against a maximum target of 6 per cent.	50	50
Net revenue growth[1]	Performance is measured based on underlying net revenue growth, adjusted to remove the impact of the stock optimisation programme. A focus on portfolio management, pricing and innovation supported underlying growth of 1.6 per cent against a context of market volume declines of 4 per cent. Whilst a strong performance in relative terms, this was some way behind our maximum target of 4 per cent growth.	20	8
Volume growth in growth brands[1]	Performance is measured based on underlying volume growth of our Growth Brands relative to the market, adjusted to remove the impact of the stock optimisation programme. Underlying Growth Brands volumes increased by 10.9 per cent relative to the market, further building the strength of our key brand assets. This strong performance was against a maximum target of 11.8 per cent relative growth.	10	9
Non-financial[1]	Non-financial measures consisted of aggregate market share targets for Returns and Growth Markets. We showed resilience in Returns Markets, with good share performance in a number of markets. However, market size declines in some of our biggest markets impacted the aggregate measure and the threshold target was not met. In our Growth Markets, share was up by 0.1 per cent against a maximum target of 0.6 per cent.	20	2
Achievement of bonus for 2014		100	69

1 Subject to an EPS underpin which was exceeded in all cases.

No element of the annual bonus is guaranteed. Annual bonuses for Executive Directors and certain key executives are subject to claw back during the three years following the end of the financial year in which they are earned. Claw back may be applied in the event of gross misconduct by the employee or misstatement of results where this had the effect of increasing the level of bonus that would otherwise have been paid.

Share Matching Scheme

SMS awards were made to the Chief Executive and Corporate Affairs Director in February 2012 which will vest in February 2015 based on an EPS performance condition measured over the three financial years to 30 September 2014 as set out below.

	Performance target	Actual performance	Threshold vesting of award	Maximum level of vesting	Actual percentage vesting
Adjusted EPS	3% – 6% average annual growth over UK inflation	0%	50%	100%	0

Long Term Incentive Plan

LTIP awards were made to the Chief Executive and Corporate Affairs Director in November 2011 which will vest in November 2014 based on performance conditions, measured over the three years, as set out below.

	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Actual percentage of award
Adjusted EPS	3% – 10% average annual growth over UK inflation	0%	6.25	50	0
TSR against comparator group[1]	Threshold exceeds bottom 6 companies Maximum exceeds bottom 9 companies	3 companies exceeded	7.5	25	0
TSR against FTSE 100	Threshold exceeds 50% of companies Maximum when 75% of companies exceeded	50% of companies exceeded	7.5	25	7.5
Achievement of LTIP for 2014				100	7.5

1 The companies comprising the comparator group are:

AB InBev	Altria Group Inc.	British American Tobacco PLC	Carlsberg A/S
Diageo PLC	Heineken NV	Imperial Tobacco Group PLC	Japan Tobacco Inc.
Philip Morris International Inc.	Pernod Ricard SA	Reynolds American Inc.	SABMiller PLC

The TSR calculations, performed independently by Alithos Limited, use the share prices of each comparator group company, averaged over a period of three months, to determine the initial and closing prices. Dividend payments are recognised on the date shares are declared ex dividend. The Committee considers this method gives a fairer and less volatile result as improved performance has to be sustained for several weeks before it effectively impacts on the TSR calculations. PwC performs agreed upon procedures in respect of the EPS performance conditions for both the SMS and LTIP performance assessments.

Sharesave Plan

We believe that our Sharesave Plan is a valuable way of aligning the interests of a wide group of employees with those of our long-term shareholders. Annually, we offer as many employees as practicable, together with our Executive Directors, the opportunity to join the Sharesave Plan. Options over shares are offered at a discount of up to 20 per cent of the closing mid-market price of our shares on the London Stock Exchange on the day prior to invitation. The Sharesave Plan allows participants to save up to £250 per month over a period of three years, and in the UK only three or, for grants in 2013 and earlier, five years, and then exercise their option over shares. In common with most plans of this type, no performance conditions are applied. In the financial year ending 30 September 2014, no Sharesave options vested in respect of Executive Directors.

Total Pension Entitlements (Audited)

The Executive Directors who served during the financial year are all members of the Imperial Tobacco Pension Fund (the Fund), which is the principal retirement benefit scheme operated by the Group in the UK.

Members who joined before 1 October 2010 are included in the defined benefit section of the Fund. For members who joined prior to 1 April 2002 the Fund is largely non-contributory with a normal retirement age of 60. New members of the Fund after 30 September 2010 accrue pension benefits in the Fund on a defined contribution basis, in the defined contribution section of the Fund.

Robert Dyrbus stepped down from the Board on 5 November 2013 and retired from the Company on 31 December 2013. Oliver Tant joined the Board as an Executive Director on 1 October 2013 and is a member of the defined contribution section of the Fund (and receives benefits in line with the Company's policy).

Robert Dyrbus opted out of Fund membership in respect of future service accrual from 2006, as a result of registering for enhanced protection with HMRC. Alison Cooper, Matthew Phillips and Oliver Tant have not opted out of future service accrual.

Robert Dyrbus was in receipt of a salary supplement of 35 per cent of salary, which was in lieu of future pensionable service accrual and arose because his accrued pension on 6 April 2006 was well below the maximum pension of two thirds of salary.

Alison Cooper and Matthew Phillips are also in receipt of a salary supplement. Prior to 6 April 2006 their pension benefits were limited by the effect of HMRC's earnings cap. Although this cap was removed as from 6 April 2006, the Fund did not disapply it in respect of past pensionable service but maintained its own earnings cap going forward. For service from 6 April 2006 onwards and for pensionable salary in excess of the Fund's earnings cap, the standard Fund benefit is a pension at the lower accrual rate of 1/60th with a 50 per cent spouse's pension, and member contributions of 5 per cent of this top slice of salary are payable. As an alternative to extra pension accrual on this top slice of salary through an unfunded unapproved retirement benefit scheme (UURBS), Alison Cooper and Matthew Phillips each receive a salary supplement of 12 per cent of this amount.

Oliver Tant is also in receipt of a salary supplement equal to 12 per cent of his basic salary. In addition, under the rules of the defined contribution section of the Fund, Oliver Tant has opted to limit total contributions (Member and Company) to the Fund to a level which should not result in him incurring an Annual Allowance charge. As a result, any additional Company contribution which would have been due to be paid to the Fund, had Oliver Tant not opted to cap contributions, is paid to him as a salary supplement and is included in the figures in the table below.

In each case these salary supplements have been calculated by the independent actuaries to reflect the value of the benefits of which they are in lieu and are discounted for early payment and for employer's national insurance contributions. The supplements are non-compensatory and non-pensionable.

Robert Dyrbus started to draw his pension on 13 November 2012, as is permitted under the Fund rules. The accrued pension figure at 30 September 2014 and the value of total pension benefits at 30 September 2014 represent the benefits accrued as at 13 November 2012 and are consistent with those disclosed at 30 September 2013. Between 13 November 2012 and the date when he left the Company, Robert Dyrbus was a "Flexible Benefits" member of the Fund. However, no additional pension was accrued over this period.

Matthew Phillips elected to use the Fund's scheme pays facility to settle his Annual Allowance charge for the 2012/13 tax year. His accrued pension was reduced by £4,538.19 a year to offset this tax payment. This reduction to pension is reflected in the above accrued pension figure as at 30 September 2014 (it is also reflected in the value of the benefits as at 30 September 2014).

The following table provides the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and gives details for each Executive Director of:

- the annual accrued pension payable on retirement calculated as if he/she had left service at the year end (any potential UURBS entitlement is included);
- the normal retirement ages;
- the value of the pension benefits at the start and end of the year, as calculated in accordance with the Regulations;
- the value of the pension benefits earned over the year, excluding any Director's contributions and any increases for inflation, calculated in accordance with the Regulations; and
- any payments in lieu of retirement benefits.

None of the Executive Directors has made additional voluntary contributions.

Executive Directors' Pension Disclosures (Audited)

£'000	Age at 30/09/2014	Pensionable service at 30/09/2014	Accrued pension 01/10/2013	Accrued pension 30/9/2014	Single Figure numbers: Payment in lieu of retirement benefits (i.e. pension supplement) £'000	Single Figure numbers: Value x 20 over year (net of director's contributions) £'000	Single Figure numbers: Total pension benefits £'000	Extra information to be disclosed under 2013 Directors' Remuneration Regulations: Normal retirement age	Extra information: Value x 20 at start of year £'000	Extra information: Value x 20 at end of year £'000
Alison Cooper	48	15	152	168	86	207	293	60	3,040	3,360
Robert Dyrbus[1]	61	N/A	331	331	53	nil	53	60	6,620	6,620
Matthew Phillips	43	14	82	90	28	106	134	60	1,640	1,800
Oliver Tant[2,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Retired as a Director on 5 November 2013. Therefore, figures relate to the period between 1 October 2013 and 5 November 2013.
2 Appointed as a Director on 1 October 2013.
3 Oliver Tant is a member of the defined contribution section of the Imperial Tobacco Pension Fund. He received an employer pension contribution into the defined contribution section of £66,000 (made up of £26,000 Company contribution plus £40,000 in respect of a salary sacrifice by Mr Tant in lieu of his personal contribution). In addition a salary supplement of £69,000, representing 12 per cent of Mr Tant's basic salary, was paid to him together with an additional supplement of £54,500 in lieu of Company pension contributions which were not made to the Imperial Tobacco Pension Fund in order to maintain Mr Tant's total contributions within the Annual Allowance for pensions savings.

Payment for Director Retiring (Audited)

Robert Dyrbus stepped down from the Board on 5 November 2013 and retired from the Company on 31 December 2013. In accordance with the policy in force at the date of his retirement, Robert Dyrbus' bonus in respect of the 2013 financial year, as detailed in the single total figure of remuneration table, was paid on 16 December 2013. His bonus in respect of the proportion of the 2014 financial year prior to his retirement will, subject to satisfaction of the appropriate performance conditions, be paid on 16 December 2014.

In accordance with our policy at the time the awards were granted, vesting of his outstanding SMS and LTIP awards was based on performance measured to 30 September 2013 and pro-rated for time served to his date of retirement.

Iain Napier, Berge Setrakian and Susan Murray also retired from the Board during the 2014 financial year and were only paid to the date of their retirement as detailed in the single total figure of remuneration table and received no compensation etc for loss of office.

Recruitment of New Executive Director

Oliver Tant joined the Board as an Executive Director on 1 October 2013 and succeeded Robert Dyrbus as Chief Financial Officer on 5 November 2013. He joined the Board on a salary of £575,000, a maximum bonus opportunity of 150 per cent of salary with any payment above 100 per cent of salary deferred in shares for three years, the opportunity to participate in the SMS, an LTIP award of 150 per cent of salary, and a defined contribution pension of 26 per cent of salary. As with previous Executive Director appointments, his salary was set below the market and some way below that of his predecessor. Subject to continued strong performance and reflecting his increasing experience, the Committee will be increasing his salary towards market levels over time. Notwithstanding that this may result in future percentage salary increases being above Company and market norms, the Committee strongly believes this approach is in the best interests of both the Company and its shareholders.

Statement of Change in Pay of Chief Executive Compared With Other Employees

	Chief Executive: to 30 September 2014	Chief Executive: Percentage change (2014 vs 2013)	All Employees[1]: Percentage change (2014 vs 2013)
Salary	**£920,000**	0	1.5
Benefits	**£16,000**	0	0
Bonus	**£1,269,600**	103	57

1 Based on members of our Corporate Management Group.

Relative Importance of Spend on Pay

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividend plus share buybacks.

£ million unless otherwise stated	2014	2013	Percentage change
Overall expenditure on pay[1]	**902**	1,004	-10.2
Dividend paid in the year	**1,149**	1,065	+7.9
Share buyback	**341**	500	-31.8

1 Excludes employers' social security costs.

Share Interests and Incentives (Audited)

All Executive Directors who served in the financial year currently meet the Company's shareholding policy by either holding shares in excess of their requirement or being within five years of appointment. Current shareholdings are summarised in the following table:

	Shares held		Options held					
	Owned outright	Vested but subject to holding period	Unvested and subject to performance conditions	Unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary)	Current shareholding (% salary)[1]	Requirement met[2]
Executive Directors								
Alison Cooper	161,708	403	325,150	440	–	300	468	Yes
Oliver Tant	829	–	36,209	441	–	300	4	In role for less than five years
Matthew Phillips	43,259	–	94,873	459	–	300	265	In role for less than five years
Non-Executive Directors								
Mark Williamson	8,241	–	–	–	–	–	–	N/A
Ken Burnett	2,591	–	–	–	–	–	–	N/A
David Haines	647	–	–	–	–	–	–	N/A
Michael Herlihy	4,624	–	–	–	–	–	–	N/A
Susan Murray	3,473	–	–	–	–	–	–	N/A
Karen Witts	131	–	–	–	–	–	–	N/A
Malcolm Wyman	3,559	–	–	–	–	–	–	N/A

1 Based on a share price of £26.64 being the closing price on 30 September 2014.
2 Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in Imperial Tobacco Group PLC shares which they are required to retain for the duration of their appointment.

Variable Award Grants Made During the Year (Audited)

Awards were made in the financial year ending 30 September 2014 under both the SMS and LTIP. Detail of these awards is provided below.

Share Matching Scheme

Executive Directors were provided the opportunity in February 2014 to invest in the SMS. The resulting SMS awards granted and the associated performance conditions are set out below.

	Number of shares	Face value[1]	Amount of eligible bonus	Threshold vesting	End of performance period	Performance conditions[2]
Alison Cooper	40,000	£920,000	100%	50%	30 September 2016	50% – 3 year adjusted EPS growth 50% – 3 year net revenue growth
Matthew Phillips	16,076	£369,748	100%	50%	30 September 2016	50% – 3 year adjusted EPS growth 50% – 3 year net revenue growth

1 Valued using the share price at the date of grant (17 February 2014) being £23.00 per share.
2 Vesting occurs as per the vesting schedule below.

Note: Oliver Tant was appointed to the Board on 1 October 2013, received no eligible bonus and was, therefore, not eligible to participate.

Performance Criterion – Net Revenue Growth Element

Compound annual growth in net revenue	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 7% per annum	Between 25% and 100% (pro rata)
7% per annum or higher	100%

In order to ensure that net revenue growth is not overly incentivised at the expense of profitability, an EPS underpin applies in respect of the net revenue growth element for the Executive Directors. This requires a minimum level of adjusted EPS growth to be achieved in order for any awards under the net revenue growth element to vest (the EPS underpin).

Performance Criterion – EPS Element

Compound annual adjusted EPS growth	Shares vesting (as a percentage of element)
Less than 5% per annum	nil
5% per annum	25%
5% to 10% per annum	Between 25% and 100% (pro rata)
10% per annum or higher	100%

In order to ensure that adjusted EPS growth is not achieved without due regard to the capital required to achieve such growth, an underpin based on Return on Invested Capital (ROIC) will apply in respect of the EPS element for the Executive Directors. ROIC is a measure of profitability versus the Company's total utilised capital including goodwill and so is particularly useful to incentivise an appropriate approach towards acquisitions. The ROIC measure excludes the effect on goodwill and acquired intangibles of exchange rate movements and changes from amortisation and impairment. The ROIC underpin will require that a minimum level of ROIC will have to be achieved in order for any awards under the EPS growth element to vest (the ROIC underpin).

Under the rules of the SMS, should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.

Long Term Incentive Plan

In line with the policy then in effect, Executive Directors were granted LTIP awards in November 2013. The resulting number of LTIP shares and the associated performance conditions are set out below.

	Number of nil cost options	Face value[1]	Amount of base salary	End of performance period	Threshold vesting	Weighting (of award)	Performance conditions[2]
Alison Cooper	77,246	£1,840,000	200%	30 September 2016	25%	50%	TSR relative to bespoke comparator group
					25%	25%	3 year adjusted EPS growth
					25%	25%	3 year net revenue growth
Oliver Tant	36,209	£862,500	150%	30 September 2016	25%	50%	TSR relative to bespoke comparator group
					25%	25%	3 year adjusted EPS growth
					25%	25%	3 year net revenue growth
Matthew Phillips	22,827	£543,750	125%	30 September 2016	25%	50%	TSR relative to bespoke comparator group
					25%	25%	3 year adjusted EPS growth
					25%	25%	3 year net revenue growth

1 Valued using the share price at the date of grant (6 November 2013) being £23.82 per share.
2 Vesting occurs as per the vesting schedule below.

Performance Criterion – TSR Element

The performance criterion for the TSR element is based on a single comparator group of companies across a broadly defined consumer goods sector and is applied to 50 per cent of the LTIP.

The companies within the Comparator Group are currently:

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithkline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc.	Kingfisher PLC
Lorillard Inc	Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc
Pernod Ricard SA	Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rexam PLC	Reynolds American Inc
Rolls-Royce PLC	SAB Miller PLC	J Sainsbury PLC	Smith & Nephew PLC	Shire PLC
Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC
WM Morrison Supermarkets PLC				

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Performance Criterion – Net Revenue Growth Element
This criterion is used for 25 per cent of the LTIP award. Vesting of awards on this element would occur as per the vesting schedule detailed for the SMS above.

Performance Criterion – EPS Element
This criterion is used for 25 per cent of the LTIP award. Vesting of awards on this element would occur as per the vesting schedule detailed for the SMS above.

Under the rules of the LTIP, should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.

Remuneration Decisions Taken in 2013/14

Salary
Each year the Committee sets base salaries for the next financial year after consideration of individual and Company performance and market data for each position based on several comparator groups which reflect the Company's size, sector and global reach. Consideration is given to the effect an amendment to an individual's base salary would have on his or her total remuneration package. Base salary is the only element of the package used to determine pensionable earnings.

This year's review is intended to bring our executives' salaries closer to the Committee's intended positioning and follows the approaches previously outlined to shareholders. As communicated on their appointment, both Alison Cooper's and Oliver Tant's salaries were set significantly below the market levels and their predecessors' with the intention to increase them over time and dependent on performance. For Alison Cooper we followed this approach in 2011 and 2012 but a salary freeze in 2013 means that after four years her salary remains below her predecessor. The Remuneration Committee believes that it is right to continue to correct this. Based on Oliver Tant's performance in his first year the Committee increased his salary to move him closer to his peers with the intention that a further increase next year, subject to his continued strong performance, would close the gap. Matthew Phillips has held the role of Corporate Affairs Director for two years. It is the view of the Committee that his current salary does not appropriately reflect the true breadth or contribution of either the role or the individual and the Committee, therefore, determined to increase his salary to reflect performance.

	Salary 2013/14	Salary 2014/15	Percentage Change
Alison Cooper	£920,000	£965,000	4.9
Oliver Tant	£575,000	£630,000	9.6
Matthew Phillips	£435,000	£455,000	4.6

Annual Bonus
Our shareholders and other stakeholders place significant weight on our annual performance. We, therefore, think it is appropriate to have a major element of Executive Directors' remuneration targeted at incentivising delivery of the Group's annual objectives and enhancing performance against key financial and non-financial targets.

Following a review of the remuneration policy, the Committee is recommending to shareholders the following amendments to the maximum bonus potentials:

	Proposed maximum percentage of salary	Current maximum percentage of salary
Alison Cooper	200	200
Oliver Tant	200	150
Matthew Phillips	175	125

Half of any bonus paid will be in the form of shares deferred for a three-year period; the remaining half will be paid in cash.

For the next financial year the performance measures have been set out in the table below.

	Performance target	Maximum of bonus
Adjusted EPS growth	Commercially confidential	35%
Cash conversion	Commercially confidential	25%
Volume growth in Growth Brands	Outperformance of market growth	15%
Non-financial	Market share targets	15%
Individual objectives	Commercially confidential	10%

At this point, the above targets are considered commercially confidential but, to the extent that any bonuses are paid, further details will be provided retrospectively in the 2015 Annual Report. The Committee is not of the view that such targets will necessarily always be confidential but will review this on a year-by-year basis.

Share Plan Awards

It is intended that, subject to shareholder approval of the revised Remuneration Policy, there will be no further awards to Executive Directors under the SMS with the historic award levels being consolidated into the Group's LTIP. The Committee is recommending the following maximum LTIP awards:

	Proposed maximum opportunity – percentage of salary	Current maximum opportunity – percentage of salary[1]
Alison Cooper	350	300
Oliver Tant	250	250
Matthew Phillips	210	210

1 Includes the previous award level under the SMS.

To allow for the changes to be considered by shareholders it is intended that the award which would normally have been granted in November 2014 will be delayed and granted in January or February 2015. Subject to shareholder approval of the revised policy these awards will be at the revised maximum levels.

The awards will be subject to performance conditions as summarised below.

Performance conditions	Weighting in LTIP
Adjusted EPS growth	50%
TSR	20%
Net revenue growth	30%

When setting the performance criteria, the Committee takes account of the Group's long-term plans and analysts' forecasts. For both the adjusted EPS and net revenue targets, the performance criteria will use growth in absolute terms rather than relative to inflation and apply them to a three-year performance period.

Performance Criterion – EPS Element

This criterion will be used for 50 per cent of the LTIP awards. Vesting of awards on this element would occur in accordance with a vesting schedule agreed by the Committee on an annual basis. The proposed vesting schedule for the awards to be granted in January or February 2015 is set out below:

Compound annual adjusted EPS growth	Shares vesting (as a percentage of element)
Less than 3% per annum	nil
3% per annum	25%
3% to 8% per annum	Between 25% and 100% (pro rata)
8% per annum or higher	100%

Performance Criterion – TSR Element

The performance criterion for the TSR element will be based on a single comparator group including more than 40 companies across a broadly defined consumer goods sector and will be applied to 20 per cent of the LTIP.

The companies within the comparator group are currently:

Anheuser-Busch InBev NV	Altria Group Inc	Associated British Foods PLC	AstraZeneca PLC	British American Tobacco PLC
Burberry Group PLC	BT Group PLC	Capita PLC	Carlsberg A/S	Carnival PLC
Compass Group PLC	Diageo PLC	Experian Finance PLC	GlaxoSmithkline PLC	Heineken NV
International Consolidated Airlines Group SA	InterContinental Hotels Group PLC	ITV PLC	Japan Tobacco Inc	Kingfisher PLC
Lorillard Inc	Marks & Spencer Group PLC	Next PLC	Pearson PLC	Philip Morris International Inc
Pernod Ricard SA	Reckitt Benckiser Group PLC	Reed Elsevier PLC	Rexam PLC	Reynolds American Inc
Rolls-Royce PLC	SAB Miller PLC	J Sainsbury PLC	Smith & Nephew PLC	Shire PLC
Tate & Lyle PLC	Tesco PLC	Unilever PLC	Vodafone Group PLC	Whitbread PLC
WM Morrison Supermarkets PLC				

Vesting of awards on this element would occur as per the vesting schedule below:

Relative TSR performance	Shares vesting (as percentage of element)
Below median of peer group	nil
At median of peer group	25%
Between median and upper quartile	Between 25% and 100% (pro rata)
Above upper quartile	100%

Performance Criterion – Net Revenue Growth Element

This criterion will be used for 30 per cent of the LTIP awards. Vesting of awards on this element would occur as per the vesting schedule below:

Compound annual growth in net revenue	Shares vesting (as a percentage of element)
Less than 1% per annum	nil
1% per annum	25%
1% to 4% per annum	Between 25% and 100% (pro rata)
4% per annum or higher	100%

Under the rules of the LTIP, should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.

Voting on the Remuneration Report at the 2014 AGM

At the 2014 AGM a small number of shareholders expressed concerns with various aspects of our remuneration policy. These concerns included the use of two long-term plans (i.e. the SMS and LTIP) and the potential, in limited circumstances, to make awards in excess of the Group's normal policy in order to recruit the best candidate. Prior to the AGM and following dialogue with our major shareholders and their representative bodies, the Committee issued a clarificatory statement on the Company's website in respect of Executive Director recruitment in December 2013.

At the AGM held in 2014, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld	Total votes cast including votes withheld
Directors' Remuneration Report	694,645,923	92.61	55,397,807	7.39	750,043,730	11,576,464	761,620,194
Directors' Remuneration Policy	664,057,447	88.04	90,242,108	11.96	754,299,555	7,320,638	761,620,193

Votes withheld are not included in the final figures as they are not recognised as a vote in law.

Advice Provided to the Committee

New Bridge Street (NBS) is retained, having been appointed following a tendering process, by the Committee as its principal, and only material, external adviser. NBS advises on all aspects of our remuneration policy and practice and reviews our structures against corporate governance best practice. NBS also presented a review of developments in UK corporate governance, remuneration developments and reporting regulations to keep Committee members up to date with new developments and evolving best practice.

NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. NBS' parent companies, Aon Hewitt Limited and Aon plc, provide other human resources and insurance services respectively to the Group. Having reviewed the structures in place to ensure the independence of NBS' advice to the Committee, it is satisfied that the other work provided by the wider Aon group does not impact on NBS' independence. During the year, NBS was paid fees of £292,856.

Other companies which provided advice to the Committee are as follows:

- Alithos Limited undertakes total shareholder return (TSR) calculations and provided advice on all TSR-related matters. During the year, it was paid fees of £19,500. Alithos Limited provided no other services to the Group;
- Allen & Overy LLP is available to provide legal advice to the Committee as and when required. It was not used for remuneration-related advice during the financial year. Allen & Overy LLP also provided other legal services to the Group;
- Pinsent Masons LLP provided legal advice in respect of the operation of the Group's employee share plans;
- PricewaterhouseCoopers LLP (PwC), our Auditors, performs agreed upon procedures on earnings per share (EPS) calculations used in relation to our employee share plans' performance criteria. During the financial year, PwC was paid £1,750 in respect of services to the Committee; and
- Towers Watson provided market pay data to ensure the consistent application of our Remuneration Policy for executives. During the year, it was paid fees of £52,255 for these services. Towers Watson also provided actuarial services to the Group.

All of these advisers were appointed by the Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee.

Other Information

Our middle market share price at the close of business on 30 September 2014, being the last trading day of the financial year, was £26.64 and the range of the middle market price during the year was £21.74 to £27.74.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

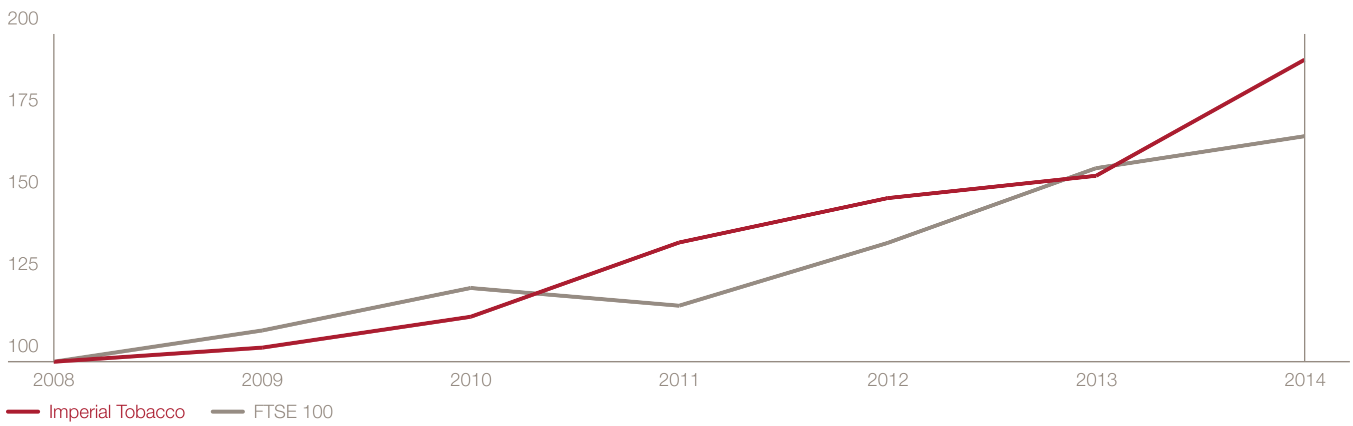
Award Dates

Our policy is to grant awards under all our employee share plans on predetermined dates based on an annual cycle.

Review of Past Performance

The chart below shows the value of £100 invested in the Company on 1 October 2008 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year ends to 30 September 2014. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a six-year period.

Total Return Indices – Imperial Tobacco and FTSE 100



Change in Chief Executive Remuneration

	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper[1]	2011 Alison Cooper[1]	2010 Alison Cooper[1]	2010 Gareth Davis[2,3]	2009 Gareth Davis
Total remuneration £'000	2,686	2,011	2,793	2,737	1,347	5,453	5,099
Annual Bonus as a percentage of maximum	69	34	51.2	33.1	84.7	84.7	85.2
Shares vesting as a percentage of maximum	5.8	nil	58.0	71.6	80.8	46.93	74.5

1 Total remuneration includes value of share plans vesting that were granted prior to appointment as Chief Executive.
2 Total remuneration includes value of share plans vesting on retirement.
3 Based on performance conditions applicable on date of retirement.

Operating Executive (excluding Executive Directors)

£'000	2014	2013
Base salary	2,143	2,161
Benefits	160	190
Pension salary supplement	218	152
Bonus	1,291	716
LTIP annual vesting[1]	90	nil
SMS annual vesting[2]	nil	nil
	3,902	3,219

1 Value of LTIP shares vesting in the year based on the prevailing closing share price on the day of exercise.
2 Value of SMS shares vesting on maturity based on the prevailing closing share price on the day of vesting.

Note: aggregate remuneration paid to or receivable by Executive Directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges, was £11,073,194 (2013: £8,954,612).

Key Management* Compensation for the Year Ended 30 September 2014 (Audited)

£'000	2014	2013
Short-term employee benefits	9,575	7,431
Post-employment benefits	1,186	1,050
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payment (in accordance with IAS 24)	833	(2,140)
	11,594	6,341

The credit in 2013 is principally due to the non-achievement during the year of performance conditions which were previously expected to be achieved.

* Key management includes Directors, members of the OPEX and the Company Secretary.

Employee Benefit Trusts

Our policy is to satisfy options and awards under our employee share plans from either market purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: The Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2014, we held 78,909,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

	Balance at 01/10/2013	Acquired during year	Distributed during year	Balance at 30/09/2014	Ordinary shares under award at 30/09/2013	Surplus/ (shortfall)
Executive Trust	718,756	nil	(19,862)	698,894	740,632	(41,738)
2001 Trust	2,542,675	2,000,000	(1,084,456)	3,458,219	4,315,056	(856,837)

Share Plan Flow Rates

The Trust Deeds of the Employee Benefit Trusts and the rules of each of our employee share plans contain provisions limiting options and awards to 5 per cent of issued share capital in five years and 10 per cent in 10 years for all employee share plans, with an additional restriction to 5 per cent in 10 years for executive share plans. Currently, an aggregate total of 0.5 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under the Group's executive and all employee share plans.

Since demerger in 1996, the cumulative number of shares under option and awards granted pursuant to all of the Company's employee share plans totals 3.6 per cent of its issued share capital. Following initial grants on demerger, subsequent annual grants have averaged 0.3 per cent of issued share capital (including shares held in treasury).

Summary of Options and Awards Granted

Limit on awards	Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury)	Options and awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	1.9	0.2
5% in 5 years	0.9	0.2
5% in 10 years (executive plans)	1.3	0.1

For the Board

David Haines
Chairman of the Remuneration Committee

4 November 2014