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
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

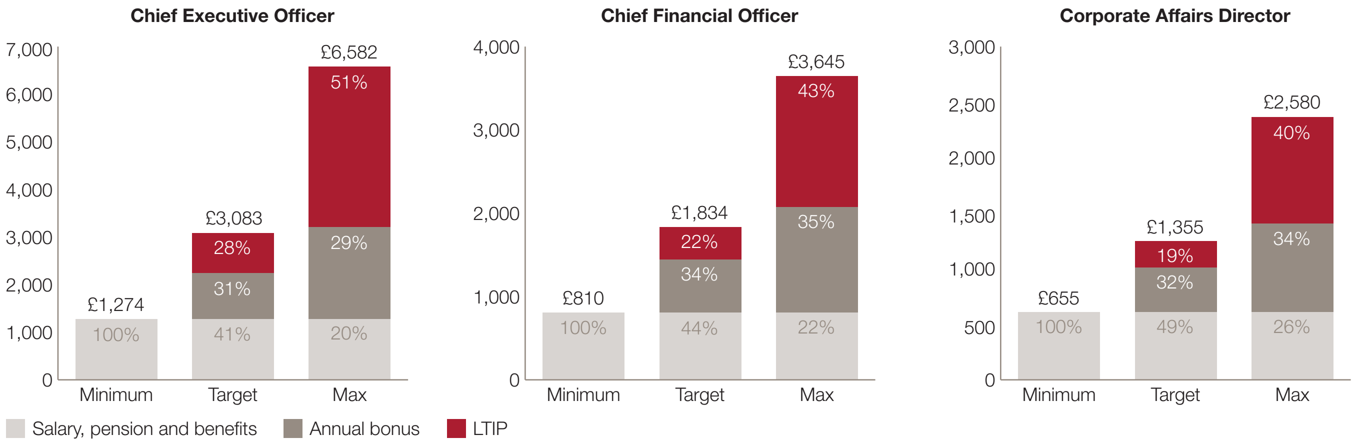
The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

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.

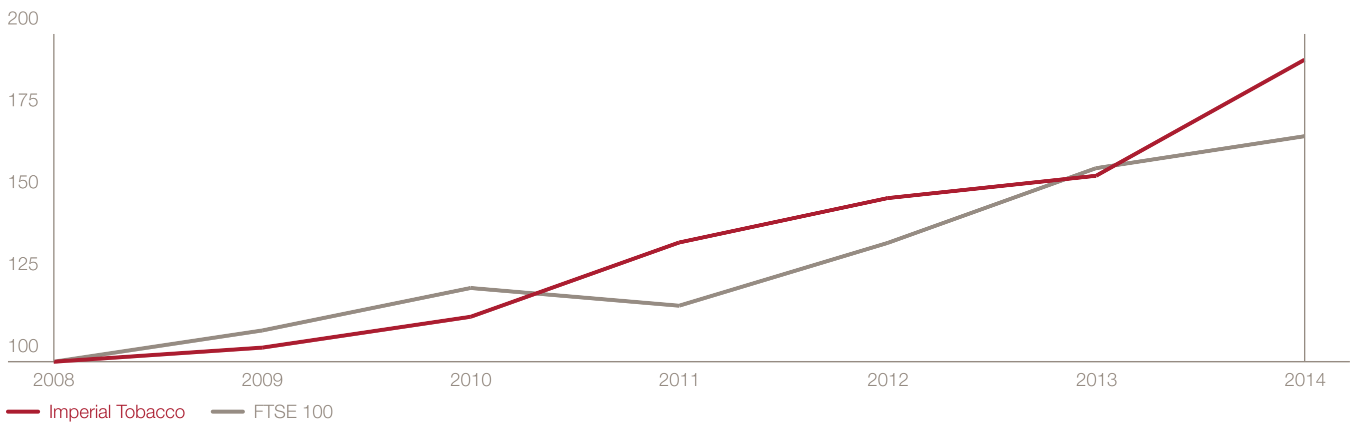
Award Dates

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