



**Imperial Tobacco Group PLC
2000 Accounts**

Consolidated Profit & Loss Account

for the year ended 23 September 2000

| (in £'s million) | Notes | 2000 | 1999 | 1998 |
|---|-------|---------|---------|---------|
| Turnover | 1 | 5,220 | 4,494 | 4,029 |
| Duty in turnover | 2 | (3,920) | (3,292) | (3,081) |
| Costs and overheads less other income | 3 | (740) | (684) | (512) |
| Operating profit | 1 | 560 | 518 | 436 |
| Net interest | 5 | (110) | (118) | (111) |
| Profit on ordinary activities before taxation | | 450 | 400 | 325 |
| Taxation | 6 | (127) | (113) | (94) |
| Profit on ordinary activities after taxation | | 323 | 287 | 231 |
| Dividends | 7 | (163) | (142) | (121) |
| Retained profit for the year | 19 | 160 | 145 | 110 |
| Earnings per ordinary share | | | | |
| - Basic | 8 | 62.6p | 55.5p | 44.5p |
| - Adjusted | 8 | 64.1p | 55.5p | 44.5p |
| - Diluted | 8 | 62.3p | 55.2p | 44.4p |
| Dividends per ordinary share | | | | |
| - Interim | 7 | 10.1p | 8.8p | 7.6p |
| - Proposed final | 7 | 21.6p | 18.7p | 15.8p |

The turnover and profit figures above are directly related to continuing operations. There is no difference between the profit as shown above and that calculated on an historical cost basis.

Statement of Total Recognised Gains and Losses

| (in £'s million) | 2000 | 1999 | 1998 |
|---|------|------|------|
| Profit on ordinary activities after taxation | 323 | 287 | 231 |
| Exchange movements on retranslation of net investments and related borrowings | (10) | (4) | 1 |
| Taxation (debit)/credit on unhedged borrowings | (5) | (3) | 12 |
| Total recognised gains for the year | 308 | 280 | 244 |

Consolidated Balance Sheet

at 23 September 2000

(in £'s million)

| | Notes | 2000 | 1999 |
|---|-------|---------|---------|
| Fixed assets | | | |
| Intangible assets | 9 | 130 | 145 |
| Tangible assets | 10 | 190 | 171 |
| Investments | 11 | 18 | 18 |
| | | 338 | 334 |
| Current assets | | | |
| Stocks | 12 | 458 | 361 |
| Debtors | 13 | 253 | 262 |
| Investments | 11 | 150 | 147 |
| Cash | | 330 | 204 |
| | | 1,191 | 974 |
| Creditors: amounts falling due within one year | 14 | (1,954) | (1,402) |
| Net current liabilities | | (763) | (428) |
| Total assets less current liabilities | | (425) | (94) |
| Creditors: amounts falling due after more than one year | 14 | (820) | (1,342) |
| Provisions for liabilities and charges | 16 | (42) | (40) |
| Net liabilities | | (1,287) | (1,476) |
| Capital and reserves | | | |
| Called up share capital | 17 | 52 | 52 |
| Profit and loss reserve | 19 | (1,339) | (1,528) |
| Shareholders' funds | 26 | (1,287) | (1,476) |

Consolidated Cash Flow Statement

for the year ended 23 September 2000

(in £'s million)

| | Notes | 2000 | 1999 | 1998 |
|---|-------|-------|-------|-------|
| Net cash inflow from operating activities | 23 | 470 | 623 | 665 |
| Returns on investments and servicing of finance | | | | |
| Interest received | | 17 | 28 | 11 |
| Interest paid | | (99) | (149) | (109) |
| Net cash outflow from returns on investments and servicing of finance | | (82) | (121) | (98) |
| Taxation | | (115) | (107) | (78) |
| Capital expenditure and financial investment | | | | |
| Purchase of tangible and intangible fixed assets | | (49) | (62) | (31) |
| Sale of tangible fixed assets | | 2 | 1 | 1 |
| Purchase of fixed asset investments | | (1) | (12) | (5) |
| Net cash outflow from capital expenditure and financial investment | | (48) | (73) | (35) |
| Acquisitions and disposals | | | | |
| Payments to acquire businesses | | (1) | (134) | (669) |
| Net cash acquired with businesses | | - | - | 7 |
| Deferred consideration in respect of prior year acquisitions | | (2) | - | - |
| Net cash outflow from acquisitions and disposals | | (3) | (134) | (662) |
| Equity dividends paid | | (148) | (128) | (113) |
| Net cash inflow/(outflow) before management of liquid resources and financing | | 74 | 60 | (321) |
| Management of liquid resources | | | | |
| Increase in investments held as current assets | | (2) | (5) | (27) |

Imperial Tobacco Group PLC**1999 Accounts**

| | | | |
|---|-------|-------|-------|
| Financing | | | |
| Debt due within one year - increase/(decrease) in short-term borrowings | 624 | (160) | 490 |
| Debt due beyond one year - (decrease)/increase in borrowings | (564) | 241 | (166) |
| Net cash inflow from financing | 60 | 81 | 324 |
| Increase/(decrease) in cash in the year | 132 | 136 | (24) |

Accounting Policies

The accounts have been prepared in accordance with Accounting Standards currently applicable in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below.

Basis of accounting

The accounts have been prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated accounts incorporate the audited accounts of Imperial Tobacco Group PLC and all its subsidiary undertakings.

US filing and corresponding amounts

The financial statements incorporate the financial information required to satisfy the Company's US Form 20-F filing requirements which includes three year profit and loss account and cash flow statement information.

Intangible fixed assets – goodwill

Subsidiaries acquired have been dealt with in the consolidated accounts using acquisition accounting. Upon the acquisition of a subsidiary, the fair values that reflect the condition at the date of acquisition are attributed to the identifiable assets and liabilities acquired. Adjustments are also made to bring the accounting policies of subsidiaries acquired into alignment with those of the Group. Where the consideration paid exceeds the fair value of the net assets acquired, the difference is treated as goodwill.

Goodwill arising on acquisitions made on or after 27 September 1998 is capitalised and amortised on a straight line basis over its useful economic life, a period not exceeding 20 years. Previously all goodwill was written off against reserves in the period of acquisition. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill previously written off to reserves. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

Intangible fixed assets – trade marks and licences

Trade marks and licences are included at cost and depreciated in annual equal instalments over a period which does not exceed 20 years. In some instances, although it is expected that the economic benefit of certain acquisitions will extend beyond 20 years, there is an element of uncertainty when forecasting this far into the future and these assets are amortised over 20 years. Where the estimated useful life is less than 20 years, these assets are amortised over their useful life.

Tangible fixed assets

Tangible fixed assets are shown at cost less depreciation. No depreciation is provided on freehold land. Depreciation of other fixed assets is calculated to write off their cost over their expected useful lives as follows:

| | | |
|----------------------------------|----------------|----------------------------------|
| Freehold and leasehold buildings | up to 50 years | (straight line) |
| General plant and equipment | 2 to 20 years | (straight line/reducing balance) |
| Motor vehicles | 4 to 5 years | (straight line) |

Impairment of fixed assets

The carrying value of fixed assets is subject to review and any impairment is charged to the profit and loss account.

Capitalisation of interest

Interest incurred on borrowings for the financing of specific capital projects is capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Cost includes an addition for overheads where appropriate.

Deferred taxation

Deferred taxation is provided using the liability method in respect of timing differences except where the liability or asset is not expected to crystallise in the foreseeable future.

Turnover

Turnover represents the amount charged to customers in respect of goods supplied, exclusive of VAT but inclusive of excise duty.

Research and development Expenditure on research and development is written off in the period in which it is incurred.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction, or where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies, where a contracted rate does not apply, are retranslated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the profit and loss account.

The profit and loss accounts of overseas subsidiaries are translated at the average rate of exchange ruling during the year. The balance sheets of the overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Differences between the profit and loss accounts translated at average rates and at balance sheet rates are shown as a movement in reserves and in the statement of total recognised gains and losses.

Where practicable, the Group's overseas equity investments are hedged by borrowings in the currencies in which those assets are denominated. Exchange differences arising on the retranslation of the overseas net investments, including goodwill, less exchange differences on the borrowings, to the extent that they finance those investments, are dealt with through reserves and in the statement of total recognised gains and losses. Other exchange gains and losses are dealt with in the profit and loss account.

Derivative financial instruments

Derivative financial instruments are used to reduce exposure to foreign exchange and interest rate risks. Instruments qualify for hedge accounting where the underlying asset or liability has characteristics which can be directly related to the instrument transacted. The gains and losses on those instruments, qualifying for hedge accounting, are recognised in the financial statements over the life of the transaction. All current derivative financial instruments qualify for hedge accounting under UK GAAP. The Group excludes all short term debtors and creditors from its derivatives and financial instrument disclosures (other than those on currency risks relating to monetary assets and liabilities).

Pension costs

The cost of providing pensions is charged to the profit and loss account over employees' service lives. Variances arising from actuarial valuations are charged or credited to profit over the estimated remaining service lives of the employees, to the extent that any resulting credit does not exceed the regular cost.

Interest

Interest payable and receivable is recognised in the profit and loss account on an accruals basis, subject to interest capitalised in respect of capital projects. Derivative transactions, principally interest rate swaps, are used to reduce exposure to interest rate movements on a proportion of floating rate debt. Hedge accounting is applied to these transactions and as a result the interest differentials under these transactions are recognised in the financial statements by adjustment of interest payable (and receivable) over the life of the transactions.

Notes to the Accounts

1. Segmental information

The Group is engaged in only one class of business, the manufacture, marketing and distribution of tobacco products and tobacco related accessories.

The geographical analysis of turnover, operating profit and capital employed was as follows:

| (in £'s million) | 2000 | 1999 | 1998 |
|------------------|-------|-------|-------|
| Turnover | | | |
| By destination | | | |
| UK | 3,551 | 3,554 | 3,521 |
| International | 1,669 | 940 | 508 |
| | 5,220 | 4,494 | 4,029 |
| By origin | | | |
| UK | 4,004 | 3,793 | 3,666 |
| International | 1,216 | 701 | 363 |
| | 5,220 | 4,494 | 4,029 |

Turnover derived from intra-segmental transactions between the UK and international segments amounted to £269m (1999:£57m). Intra-segmental turnover in 1998 was not material.

| (in £'s million) | 2000 | 1999 | 1998 |
|------------------|------|------|------|
| Operating profit | | | |
| By destination | | | |
| UK | 329 | 330 | 319 |
| International | 231 | 188 | 117 |
| | 560 | 518 | 436 |
| By origin | | | |
| UK | 438 | 429 | 387 |
| International | 122 | 89 | 49 |
| | 560 | 518 | 436 |

| | | | |
|-------------------------------|-----|----|-----|
| Capital employed | | | |
| By location (based on origin) | | | |
| UK | 63 | 1 | 97 |
| International | 134 | 70 | 18 |
| | 197 | 71 | 115 |

Capital employed is reconciled to the consolidated balance sheet as follows:

| | | |
|-------------------------|---------|---------|
| (in £'s million) | 2000 | 1999 |
| Net liabilities | (1,287) | (1,476) |
| Intangible fixed assets | (130) | (145) |
| Taxation | 120 | 91 |
| Net debt | 1,383 | 1,505 |
| Dividend payable | 111 | 96 |
| | 197 | 71 |

2. Duty in turnover

| | | | |
|------------------|-------|-------|-------|
| (in £'s million) | 2000 | 1999 | 1998 |
| UK | 2,885 | 2,860 | 2,873 |
| International | 1,035 | 432 | 208 |
| | 3,920 | 3,292 | 3,081 |

3. Costs and overheads less other income

| | | | |
|--|------|------|------|
| (in £'s million) | 2000 | 1999 | 1998 |
| Changes in stocks of finished goods and work in progress (excluding excise duty) | 8 | (18) | (23) |
| Raw materials and consumables (excluding excise duty) | 228 | 228 | 188 |
| Employment costs (note 4) | 153 | 141 | 111 |
| Depreciation and amortisation | 33 | 20 | 16 |
| Other operating charges | 318 | 313 | 220 |
| | 740 | 684 | 512 |

| (in £'s million) | 2000 | 1999 | 1998 |
|--|------|------|------|
| Other operating charges include: | | | |
| Auditors' fees and expenses (including Company: £69,000; 1999: £64,900; 1998: £69,000) | 0.7 | 0.6 | 0.5 |
| (in £'s million) | 2000 | 1999 | 1998 |
| Auditors' fees and expenses for non-audit work, being advice in connection with: | | | |
| Acquisitions | 0.4 | 0.7 | 1.0 |
| US bond issue | - | 0.1 | - |
| US registrations | - | - | 0.3 |
| Other work, principally taxation advice | 0.4 | 0.4 | 0.4 |
| In the UK | 0.8 | 1.2 | 1.7 |
| Overseas | 0.4 | 0.2 | 0.2 |
| | 1.2 | 1.4 | 1.9 |

UK non-audit fees of £1.7m for PricewaterhouseCoopers in 1998 include £1.4m paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as Auditors. The Group has not sought any management consultancy services from its Auditors.

4. Directors and employees

| (in £'s million) | 2000 | 1999 | 1998 |
|-----------------------|------|------|------|
| Employment costs | | | |
| Wages and salaries | 133 | 121 | 99 |
| Social security costs | 15 | 17 | 11 |
| Pension costs | 5 | 3 | 1 |
| | 153 | 141 | 111 |

Average number of persons employed by the Group during the year

| (Number) | 2000 | 1999 | 1998 |
|----------|-------|-------|-------|
| UK | 2,690 | 2,677 | 2,666 |
| Overseas | 2,225 | 1,629 | 964 |
| | 4,915 | 4,306 | 3,630 |

Details of Directors' emoluments and interests are provided within the Remuneration Report on pages 39 to 46. These disclosures form part of the financial statements. The highest paid Director during the year was Mr G Davis and details of his emoluments are shown on pages 41 to 46.

5. Net interest

| (in £'s million) | 2000 | 1999 | 1998 |
|------------------------------|------|------|------|
| Interest payable | | | |
| On bank loans and overdrafts | 61 | 109 | 92 |
| On other loans | 68 | 33 | 29 |
| | 129 | 142 | 121 |
| Interest capitalised | (2) | - | - |
| | 127 | 142 | 121 |
| Interest receivable | (17) | (24) | (10) |
| | 110 | 118 | 111 |

6. Taxation

| (in £'s million) | 2000 | 1999 | 1998 |
|---|------|------|------|
| UK | | | |
| Corporation tax at 30.0% (1999: 30.5%; 1998: 31%) | 95 | 89 | 82 |
| Prior year adjustment | (5) | 1 | (1) |
| Deferred tax | 5 | 1 | 2 |
| | 95 | 91 | 83 |
| Overseas | | | |
| Current tax | 32 | 22 | 11 |
| | 127 | 113 | 94 |

7. Dividends on ordinary shares

| (in £'s million) | 2000 | 1999 | 1998 |
|---|------|------|------|
| Interim 10.1p (1999: 8.8p; 1998: 7.6p) | 52 | 46 | 39 |
| Proposed final 21.6p (1999: 18.7p; 1998: 15.8p) | 111 | 96 | 82 |
| | 163 | 142 | 121 |

8. Earnings per share

| (In pence) | 2000 | 1999 | 1998 |
|-----------------------------|------|------|------|
| Earnings per share | | | |
| Basic | 62.6 | 55.5 | 44.5 |
| Adjustment for amortisation | 1.5 | - | - |
| Adjusted | 64.1 | 55.5 | 44.5 |
| Diluted | 62.3 | 55.2 | 44.4 |

| (In £'s millions) | 2000 | 1999 | 1998 |
|-----------------------------|------|------|------|
| Earnings | | | |
| Basic | 323 | 287 | 231 |
| Adjustment for amortisation | 8 | - | - |
| Adjusted earnings | 331 | 287 | 231 |

Adjusted earnings per share have been calculated using earnings before amortisation of the intangible assets acquired in Australia and New Zealand in September 1999.

There would be no significant dilution of earnings if the outstanding share options referred to in note 18 were exercised.

| (Number) | 2000 | 1999 | 1998 |
|---|-------------|-------------|-------------|
| Weighted average number of shares outstanding during the year | | | |
| Basic | 516,347,148 | 517,425,091 | 519,125,439 |
| Effect of share options | 1,891,145 | 2,251,110 | 1,423,547 |
| Diluted | 518,238,293 | 519,676,201 | 520,548,986 |

9. Intangible fixed assets

| (In £'s million) | Trade marks, licences | Goodwill | Total |
|--------------------------|--------------------------|----------|-------|
| Cost | | | |
| As at 26 September 1999 | 137 | 9 | 146 |
| Acquisitions | - | 1 | 1 |
| Additions | 1 | - | 1 |
| Exchange movements | (7) | - | (7) |
| As at 23 September 2000 | 131 | 10 | 141 |
| Accumulated amortisation | | | |
| As at 26 September 1999 | - | 1 | 1 |
| Charge for the year | 9 | 1 | 10 |
| As at 23 September 2000 | 9 | 2 | 11 |
| Net book value | | | |
| As at 23 September 2000 | 122 | 8 | 130 |
| As at 25 September 1999 | 137 | 8 | 145 |

10. Tangible fixed assets

| (In £'s million) | Land and buildings | Plant and machinery | Fixtures and vehicles | Total |
|--------------------------|-----------------------|------------------------|--------------------------|-------|
| Cost | | | | |
| As at 26 September 1999 | 56 | 295 | 38 | 389 |
| Exchange movements | (1) | (4) | - | (5) |
| Reclassifications | - | 10 | (10) | - |
| Additions | 3 | 37 | 8 | 48 |
| Disposals | (4) | (8) | (4) | (16) |
| As at 23 September 2000 | 54 | 330 | 32 | 416 |
| Accumulated depreciation | | | | |

| | | | | |
|-------------------------|-----|-----|------|------|
| As at 26 September 1999 | 19 | 170 | 29 | 218 |
| Exchange movements | (1) | (2) | - | (3) |
| Reclassifications | - | 10 | (10) | - |
| Charge for the year | 1 | 18 | 4 | 23 |
| Disposals | (1) | (7) | (4) | (12) |
| As at 23 September 2000 | 18 | 189 | 19 | 226 |
| Net book value | | | | |
| As at 23 September 2000 | 36 | 141 | 13 | 190 |
| As at 25 September 1999 | 37 | 125 | 9 | 171 |

Interest capitalised on plant and machinery capital projects included in additions for the year amounted to £2m (1999: £nil). The cumulative amount of interest capitalised in the total cost of fixed assets above amounts to £2m (1999: £nil).

Land and buildings at net book value:

| (in £'s million) | 2000 | 1999 |
|------------------|------|------|
| Freehold | 20 | 21 |
| Long leasehold | 16 | 16 |
| | 36 | 37 |

11. Investments

| (in £'s million) | 2000 | 1999 |
|--------------------------------------|------|------|
| Fixed asset investments | | |
| At beginning of year | 18 | 9 |
| Investment in own shares in the year | 1 | 12 |
| Amortisation charge in the year | (1) | (3) |
| At end of year | 18 | 18 |

The investment in own shares represents shares in Imperial Tobacco Group PLC held by the Imperial Tobacco Group PLC Employee Benefit Trust (note 18). The market value of the shares at 23 September 2000 was £27m (1999: £30m)

| (in £'s million) | 2000 | 1999 |
|---------------------------|------|------|
| Current asset investments | | |
| Short-term deposits | 6 | 16 |
| Other liquid assets | 144 | 131 |
| | 150 | 147 |

12. Stocks

| (In £'s million) | 2000 | 1999 |
|------------------|------|------|
| Raw materials | 179 | 154 |
| Work in progress | 14 | 11 |
| Finished stock | 222 | 154 |
| Other stock | 43 | 42 |
| | 458 | 361 |

13. Debtors

| (In £'s million) | 2000 | 1999 |
|--|------|------|
| Amounts falling due within one year | | |
| Trade debtors | 209 | 238 |
| Other debtors and prepayments | 41 | 22 |
| | 250 | 260 |
| Amounts falling due after more than one year | | |
| Other debtors and prepayments | 3 | 2 |
| | 253 | 262 |

14. Creditors

| (In £'s million) | 2000 | 1999 |
|---|--------------|--------------|
| Amounts falling due within one year | | |
| Borrowings (note 15) | 1,044 | 517 |
| Trade creditors | 132 | 116 |
| Corporate taxes | 100 | 75 |
| Other taxes, duties and social security contributions | 415 | 479 |
| Other creditors | 54 | 33 |
| Accruals and deferred income | 98 | 86 |
| Proposed dividend | 111 | 96 |
| | 1,954 | 1,402 |

| (In £'s million) | 2000 | 1999 |
|--|------------|--------------|
| Amounts falling due after more than one year | | |
| Borrowings (note 15) | 819 | 1,339 |
| Other creditors | - | 3 |
| Accruals and deferred income | 1 | - |
| | 820 | 1,342 |

15. Borrowings and financial instruments

| (In £'s million) | 2000 | 1999 |
|--|--------------|------------|
| Amounts falling due within one year | | |
| Bank loans and overdrafts | 445 | 154 |
| Commercial paper | 599 | 363 |
| | 1,044 | 517 |
| Amounts falling due after more than one year | | |
| Bank loans - between one and two years | - | 971 |
| Other loans - after five years | 819 | 368 |

| | | |
|------------------|-------|-------|
| | 819 | 1,339 |
| Total borrowings | 1,863 | 1,856 |

The loans maturing after five years are the US \$600m global bond, which matures in April 2009 and the €750m euro bond which matures in September 2006.

The Group's policies in respect of foreign currency and interest rate risk management and the related use of financial instruments are set out in the Treasury section of the Financial Review on page 26. These disclosures form part of the financial statements.

(i) Interest rate risk profile of financial liabilities

| Currency (in £'s million) | Total 2000 | Floating rate financial liabilities 2000 | Fixed rate financial liabilities 2000 | Fixed rate financial liabilities | |
|---------------------------|---------------|--|---|---|---|
| | | | | Weighted average interest rate % 2000 | Weighted average period for which rate is fixed Years 2000 |
| Sterling | 957 | 527 | 430 | 7.0 | 4.7 |
| Euro | 770 | 572 | 198 | 3.2 | 1.9 |
| Australian dollar | 132 | 132 | – | n/a | n/a |
| New Zealand dollar | 2 | 2 | – | n/a | n/a |
| US dollar | 2 | 2 | – | n/a | n/a |
| | 1,863 | 1,235 | 628 | 5.8 | 3.8 |

| Currency (in £'s million) | Total 1999 | Floating rate financial liabilities 1999 | Fixed rate financial liabilities 1999 | Fixed rate financial liabilities | |
|---------------------------|---------------|--|---|---|---|
| | | | | Weighted average interest rate % 1999 | Weighted average period for which rate is fixed Years 1999 |
| Sterling | 966 | 191 | 775 | 6.2 | 3.6 |
| Euro | 731 | 434 | 297 | 3.3 | 2.2 |
| Australian dollar | 143 | 143 | – | n/a | n/a |
| US dollar | 16 | 16 | – | n/a | n/a |
| | 1,856 | 784 | 1,072 | 5.4 | 3.2 |

The floating rate financial liabilities comprise of bank borrowings, capital market issuance and commercial paper. The majority of bank borrowings bear interest at rates fixed in advance for periods ranging from one month to three months by reference to the LIBOR (in the case of sterling and Australian dollar borrowings) and the EURIBOR (in the case of euro borrowings). The capital market issuance in place at the year end bear interest (post interest and currency swaps) at rates fixed in advance for six months by reference to LIBOR (in the case of the US dollar bond) and three months by reference to EURIBOR (in the case of the euro bond). The commercial paper bears interest at market rates depending upon the maturity issued and market conditions prevailing at issue.

The figures shown in the tables above take into account various interest rate and currency swaps and hence the US dollar denominated bond issued in 1999 is shown within the sterling balance. The fixed rate financial liabilities do not show the forward start swaps.

Other financial instruments held are shown in the analysis on pages 66 and 67.

(ii) Currency risk disclosure

| Functional currency of Group operation (in £'s million) | Net foreign currency monetary assets/(liabilities) | | | | | |
|--|--|--------------|-----------------------|-------------------------|---------------|---------------|
| | Sterling 2000 | Euro 2000 | US dollars 2000 | Swiss francs 2000 | Other 2000 | Total 2000 |
| Sterling | – | 76 | 61 | (40) | (1) | 96 |
| Euro | 143 | – | – | – | 11 | 154 |
| Swiss francs | 30 | – | – | – | – | 30 |
| | 173 | 76 | 61 | (40) | 10 | 280 |

| Functional currency of Group operation (in £'s million) | Net foreign currency monetary assets/(liabilities) | | | | | |
|--|--|--------------|-----------------------|-------------------------|---------------|---------------|
| | Sterling 1999 | Euro 1999 | US dollars 1999 | Swiss francs 1999 | Other 1999 | Total 1999 |
| Sterling | – | (14) | (12) | (41) | 2 | (65) |
| Euro | 112 | – | (14) | 46 | 12 | 156 |
| Swiss francs | 30 | 19 | – | – | – | 49 |
| | 142 | 5 | (26) | 5 | 14 | 140 |

The figures in the table above take into account the effect of the US dollar currency swaps held as shown in the analysis on pages 66 and 67.

(iii) Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available to it as at 23 September 2000 in respect of which all conditions precedent have been met at that date were as follows:

| (in £'s million) | 2000 | 1999 |
|--|-------|------|
| Expiring in one year or less | 1,474 | 556 |
| Expiring in more than one year but not more than two years | – | 329 |
| | 1,474 | 885 |

In the above table £615m (1999: £518m) was in support of the US dollar and euro commercial paper programmes. In addition, there are other uncommitted facilities made available to the Group.

(iv) Fair values of derivative financial instruments

| (in £'s million) | Positive fair values | Negative fair values | Fair value | Book value |
|---|----------------------|----------------------|------------|------------|
| | 2000 | 2000 | 2000 | 2000 |
| Derivative financial instruments held to manage the interest and currency profile | | | | |
| Interest rate swaps and similar instruments | 9 | (20) | (11) | – |
| Currency swaps | 16 | – | 16 | – |

| (in £'s million) | Positive fair values | Negative fair values | Fair value | Book value |
|---|----------------------|----------------------|------------|------------|
| | 1999 | 1999 | 1999 | 1999 |
| Derivative financial instruments held to manage the interest and currency profile | | | | |
| Forward foreign currency contracts | 3 | (2) | 1 | 1 |
| Interest rate swaps and similar instruments | 10 | (13) | (3) | – |
| Interest rate caps and collars | – | (1) | (1) | – |
| Currency swaps | – | (26) | (26) | – |

The figures shown in the tables above for derivative financial instruments, have been derived from third party valuations as at the balance sheet date.

(v) Detailed analysis of financial assets and financial liabilities

The following table shows the financial assets and financial liabilities held by the Group at 23 September 2000.

| | Maturity date and weighted average interest rate | | | | | Fair-value | | | |
|--|--|-----|---------|-----|------|------------|-----|-----------------|---------|
| | 2000 | (%) | 2001 | (%) | 2002 | | (%) | There-after (%) | Total |
| Assets/liabilities (all at floating rates after cross currency swaps before the effect of interest rate swaps) | | | | | | | | | |
| Cash deposits | | | | | | | | | |
| - Sterling | | | 366 | 6.2 | | | | 366 | 366 |
| - Euro | | | 88 | 3.3 | | | | 88 | 88 |
| - Other | | | 26 | 5.2 | | | | 26 | 26 |
| Total cash deposits | | | 480 | | | | | 480 | 480 |
| Weighted average receivable interest rate (%) | | | | 5.6 | | | | 5.6 | |
| Short term debt | | | | | | | | | |
| - Sterling | | | (589) | 6.3 | | | | (589) | (589) |
| - Euro | | | (319) | 5.0 | | | | (319) | (319) |
| - Australian dollars | | | (132) | 6.6 | | | | (132) | (132) |
| - New Zealand dollars | | | (2) | 6.9 | | | | (2) | (2) |
| - United States dollars | | | (2) | 6.5 | | | | (2) | (2) |
| Total short term debt | | | (1,044) | | | | | (1,044) | (1,044) |

| | | | | |
|--|-----|-------|-----|-------------|
| Long term debt | | | | |
| - Sterling | | (368) | 7.7 | (368) (378) |
| - Euro | | (451) | 5.5 | (451) (456) |
| Total long term debt | | (819) | | (819) (834) |
| Weighted average payable interest rate (%) | 5.9 | | 6.5 | 6.2 |

The following table shows the financial assets and financial liabilities held by the Group at 25 September 1999.

| | Maturity date and weighted average interest rate | | | | | | | Fair-value |
|--|--|-----|-------|-----|------|---------------------|-------|-----------------|
| | 2000 | (%) | 2001 | (%) | 2002 | There- (%) after | Total | |
| (In £'s million unless otherwise indicated) | | | | | | | | |
| Assets/liabilities (all at floating rates after cross currency swaps before the effect of interest rate swaps) | | | | | | | | |
| Cash deposits | | | | | | | | |
| - Sterling | 240 | 5.4 | | | | | 240 | 240 |
| - Euro | 91 | 2.8 | | | | | 91 | 91 |
| - Other | 20 | 5.0 | | | | | 20 | 20 |
| Total cash deposits | 351 | | | | | | 351 | 351 |
| Weighted average receivable interest rate (%) | | 4.7 | | | | | 4.7 | |
| Short term debt | | | | | | | | |
| - Sterling | (167) | 5.5 | | | | | (167) | (167) |
| - Euro | (334) | 3.0 | | | | | (334) | (334) |
| - United States dollars | (16) | 5.6 | | | | | (16) | (16) |
| Total short term debt | (517) | | | | | | (517) | (517) |
| Long term debt | | | | | | | | |
| - Sterling | | | (431) | 5.5 | | (368) | 6.5 | (799) (776) |
| - Euro | | | (397) | 2.9 | | | | (397) (397) |
| - Australian dollars | | | (143) | 5.0 | | | | (143) (143) |
| Total long term debt | | | (971) | | | (368) | | (1,339) (1,316) |
| Weighted average payable interest rate (%) | | 3.9 | | 4.4 | | | 6.5 | 4.7 |

The cash deposits earn interest at floating rates of interest and are comprised mainly of short term money market deposits with a maturity date not exceeding one year.

(vi) Hedges

| (in £'s million) | Gains | Losses | Gains | Losses |
|--|-------|--------|-------|--------|
| | 2000 | 2000 | 1999 | 1999 |
| Unrecognised gains and losses on hedges at beginning of year | 10 | (40) | – | (26) |
| Gains and losses arising in previous years recognised in the year | (1) | 1 | – | 2 |
| Gains and losses arising before the start of the year not recognised in the year | 9 | (39) | – | (24) |
| Gains and losses arising in the year not recognised in the year | 16 | 19 | 10 | (16) |
| Unrecognised gains and losses on hedges at end of year | 25 | (20) | 10 | (40) |
| Of which: | | | | |
| Gains and losses expected to be recognised in the next year | 1 | – | 1 | (1) |
| Gains and losses expected to be recognised in the years following next year | 24 | (20) | 9 | (39) |

(vii) Derivative financial instruments

The following table presents the derivative financial instruments held by the Group at 23 September 2000. The table presents the nominal value of such investments used to calculate the contractual payments under such contracts, analysed by maturity date, together with the related weighted average interest rate where relevant. Some of the interest rate swaps have embedded options and assumptions have been made based on the year end third party mark to market valuations to determine whether such options are likely to be exercised in order to determine the probable maturity date.

| (in £'s million) | 2001 | 2002 | 2003 | 2004 | 2005 | There- after | Fair- Total value |
|--|------------------------------------|------|------|------|------|------------------|----------------------|
| | Sterling interest rate derivatives | | | | | | |
| Interest rate swaps – pay fixed, receive variable: | | | | | | | |
| Notional amount | | 150 | | 75 | | 280 ¹ | 505 (9) |
| Weighted average interest rate to pay (%) | | 7.3 | | 7.6 | | 6.3 | 6.8 |
| Euro interest rate derivatives | | | | | | | |
| Interest rate swaps – pay fixed, receive variable: | | | | | | | |
| Notional amount | 63 | 63 | | 72 | | | 198 7 |

| | | | | | |
|---|-----|-----|-----------------|------------------|---------|
| Weighted average interest rate to pay (%) | 2.9 | 3.2 | 3.5 | 3.2 | |
| Interest rate swaps – pay variable, receive fixed: | | | | | |
| Notional amount | | | | 453 | 453 (9) |
| Weighted average interest rate to receive (%) | | | | 6.0 | 6.0 |
| Weighted average margin over EURIBOR to pay (%) | | | | 1.0 | 1.0 |
| Interest rate swaps – pay variable, receive variable: | | | | | |
| Notional amount | | 42 | | 42 | – |
| Weighted margin over EONIA to receive (%) | | 0.5 | | 0.5 | |
| Weighted margin over EURIBOR to pay (%) | | 0.5 | | 0.5 | |
| Taxation equalisation derivatives | | | | | |
| Notional amount | 276 | | | 276 | – |
| Currency swaps | | | | | |
| Notional amount | | | | 370 ² | 370 16 |
| US dollar interest rate to receive (%) | | | | 7.1 | 7.1 |
| Sterling interest margin over LIBOR to pay (%) | | | | 1.3 | 1.3 |
| Notional amount | | | 60 ² | 60 | – |
| Sterling interest rate to receive (%) | | | 7.4 | 7.4 | |
| Interest margin over EURIBOR to pay (%) | | | 0.9 | 0.9 | |

The Group has entered into certain swap transactions with contractual maturities exceeding those of the underlying debt being hedged, in anticipation of there being additional floating rate debt when the existing debt matures.

Notes

¹ The following trades are included within this balance:

- £25m forward start 5 year swaption starting October 2006 at 5.5% at the counterparties option.
- £50m forward start 5 year swaps starting October 2001 at 5.5% with the counterparties option to extend for a further 5 years.
- £70m swaps maturing April 2003 at 6.0% with the counterparties option to extend for a further 5 years.

2 Principal amounts under the cross currency swaps are exchanged at the start and maturity of these trades.

The following table presents the derivative financial instruments held by the Group at 25 September 1999. This has been restated to show maturity dates by accounting year instead of calendar year.

| (in £'s million) | 2000 | 2001 | 2002 | 2003 | 2004 | There- after | Total | Fair- value |
|--|------|------|------|------|------|-----------------|-------|----------------|
| Sterling interest rate derivatives | | | | | | | | |
| Interest rate swaps – pay fixed, receive variable: | | | | | | | | |
| Notional amount | 225 | | 150 | | 125 | 280 | 780 | (10) |
| Weighted average interest rate to pay (%) | 4.4 | | 7.4 | | 7.6 | 6.3 | 6.2 | |
| Caps (purchased): | | | | | | | | |
| Notional amount | 70 | | | | | | 70 | – |
| Weighted average strike price (%) | 8.0 | | | | | | 8.0 | |
| Caps (sold): | | | | | | | | |
| Notional amount | 70 | | | | | | 70 | – |
| Weighted average receive rate (%) | 8.0 | | | | | | 8.0 | |
| Written floors: | | | | | | | | |
| Notional amount | 70 | | | | | | 70 | – |
| Weighted average receive rate (%) | 6.3 | | | | | | 6.3 | |
| Euro interest rate derivatives | | | | | | | | |
| Interest rate swaps – pay fixed, receive variable: | | | | | | | | |
| Notional amount | 45 | 67 | 67 | | 75 | | 254 | 4 |
| Weighted average interest rate to pay (%) | 3.0 | 2.9 | 3.2 | | 3.5 | | 3.2 | |
| Interest rate swaps – pay variable, receive fixed: | | | | | | | | |
| Notional amount | | | | | | 414 | 414 | 2 |
| Weighted average interest rate to receive (%) | | | | | | 6.0 | 6.0 | |
| Weighted average margin over EURIBOR to pay (%) | | | | | | 1.0 | 1.0 | |

| | | | | |
|--|-----|-----|-----|----------|
| Caps (purchased): | | | | |
| Notional amount | 43 | | 43 | – |
| Weighted average strike price (%) | 4.5 | | 4.5 | |
| Written floors: | | | | |
| Notional amount | 43 | | 43 | – |
| Weighted average receive rate (%) | 3.8 | | 3.8 | |
| Taxation equalisation derivatives | | | | |
| Notional amount | 291 | 291 | 582 | – |
| Currency swaps | | | | |
| Notional amount | | | 370 | 370 (26) |
| US dollar interest rate to receive (%) | | | 7.1 | 7.1 |
| Sterling interest margin over LIBOR to pay (%) | | | 1.3 | 1.3 |

16. Provisions for liabilities and charges

| (in £'s million) | Reorganisation and rationalisation | Deferred taxation | Other | Total |
|-------------------------|------------------------------------|-------------------|-------|-------|
| As at 26 September 1999 | 15 | 16 | 9 | 40 |
| Provided in the year | – | 5 | 3 | 8 |
| Utilised in the year | (3) | (1) | (2) | (6) |
| As at 23 September 2000 | 12 | 20 | 10 | 42 |

The reorganisation and rationalisation provision covers committed costs relating mainly to the restructuring plan for roll your own tobacco production announced following the acquisition of Van Nelle Tabak in July 1998, and is expected to be utilised within the next two years.

Other provisions relate mainly to unfunded pension liabilities on pension schemes in Europe. The Group's main pension schemes are held in separately administered funds and are described in note 22.

The amounts provided for deferred taxation and the amounts unprovided were as follows:

| (in £'s million) | Provided | | Unprovided | |
|-------------------------------|----------|------|------------|------|
| | 2000 | 1999 | 2000 | 1999 |
| Excess of capital allowances | 11 | 10 | 1 | 1 |
| Chargeable gains on property | 3 | 1 | 5 | 7 |
| Short term timing differences | 6 | 5 | (4) | (4) |
| Other timing differences | – | – | (1) | (1) |
| | 20 | 16 | 1 | 3 |

UK deferred taxation is provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiary undertakings only where there is an intention to remit such profits.

17. Called up share capital

| (in £'s million) | 2000 | 1999 |
|--|------|------|
| Authorised 1,000,000,000 ordinary shares of 10p each | 100 | 100 |
| Issued and fully paid 520,857,801 ordinary shares of 10p each | 52 | 52 |

18. Share options

The following options and conditional awards over ordinary shares have been granted and are outstanding at the end of the year.

| Date of grant | Date exercisable/ performance period | Option grant price (in £'s) | Granted | Exercised | Lapsed or cancelled | Outstanding at 23 Sept 2000 |
|------------------------|---|-----------------------------|-----------|-----------|---------------------|-----------------------------|
| Sharesave options 1997 | | | | | | |
| UK | | | | | | |
| 6 Dec 1996 | 1/3/2000-31/8/2002 | 2.93 | 2,043,461 | (566,210) | (242,764) | 1,234,487 |
| 14 May 1997 | 1/7/2000-31/12/2002 | 3.23 | 465,225 | (141,867) | (88,969) | 234,389 |

Imperial Tobacco Group PLC
1999 Accounts

| | | | | | | |
|---|-------------------------|--------------|-----------|-----------|-----------|-----------|
| 1998 | | | | | | |
| UK | | | | | | |
| 12 June 1998 | 1/7/2001- 31/12/2003 | 3.61 | 728,203 | (14,518) | (67,211) | 646,474 |
| 1999 | | | | | | |
| UK | | | | | | |
| 9 June 1999 | 1/8/2002- 31/1/2005 | 5.50 | 546,565 | (100) | (235,849) | 310,616 |
| France | | | | | | |
| 21 June 1999 | 1/8/2002- 31/1/2003 | 5.70 | 13,287 | – | (2,090) | 11,197 |
| Other | | | | | | |
| 21 June 1999 | 1/8/2002- 31/1/2003 | 5.50 | 170,670 | – | (63,824) | 106,846 |
| 2000 | | | | | | |
| Australia/New Zealand | | | | | | |
| 20 January 2000 | 1/3/2003- 31/8/2003 | 5.32 | 50,755 | – | (10,544) | 40,211 |
| UK | | | | | | |
| 5 June 2000 | 1/8/2003- 31/1/2006 | 4.32 | 1,020,642 | – | (1,255) | 1,019,387 |
| Ireland | | | | | | |
| 5 June 2000 | 1/8/2003- 31/1/2004 | 4.32 | 135,836 | – | (1,902) | 133,934 |
| France | | | | | | |
| 16 June 2000 | 1/8/2003- 31/1/2004 | 4.82 | 7,821 | – | 283 | 8,104 |
| Other (including Australia/New Zealand) | | | | | | |
| 16 June 2000 | 1/8/2003- 31/1/2004 | 4.32 | 112,687 | – | (2,235) | 110,452 |
| | | (in dollars) | | | | |
| US | | | | | | |
| 1999 | | | | | | |
| 21 June 1999 | 1/8/2002- 31/1/2003 | 8.80 | 7,092* | – | (1,320) | 5,772 |
| 2000 | | | | | | |
| 16 June 2000 | 1/8/2003- 31/1/2004 | 6.55 | 5,084** | – | – | 5,084 |
| | | 5,307,328 | (722,695) | (717,680) | 3,866,953 | |

* Granted as 3,546 American Depositary Shares representing 7,092 ordinary shares.

** Granted as 2,542 American Depositary Shares representing 5,084 ordinary shares.

| Date of grant | Date exercisable/ performance period | Granted | Exercised | Lapsed or cancelled | Outstanding at 23 Sept 2000 |
|---------------------------------|---|-----------|-------------|------------------------|-----------------------------------|
| Conditional awards | | | | | |
| Share Matching Scheme | See details opposite | | | | |
| 16 January 1997 | | 93,541 | (7,634) | (14,320) | 71,587 |
| 15 January 1998 | | 81,567 | (9,090) | (7,560) | 64,917 |
| 14 January 1999 | | 370,264 | (14,509) | (19,524) | 336,231 |
| 28 January 2000 | | 696,942 | (5,214) | (43,662) | 648,066 |
| | | 1,242,314 | (36,447) | (85,066) | 1,120,801 |
| Long-Term Incentive Plan | | | | | |
| 1997 | | | | | |
| 6 December 1996 | Dec 1996-Dec 1999 | 351,387 | (234,729) | (116,658) | – |
| 1998 | | | | | |
| 1 December 1997 | Dec 1997-Dec 2000 | 427,696 | (59,122) | (50,800) | 317,774 |
| 1999 | | | | | |
| 1 December 1998 | Dec 1998-Dec 2001 | 341,692 | (721) | (45,061) | (295,910) |
| 2000 | | | | | |
| 29 November 1999 | Dec 1999-Dec 2002 | 347,201 | (864) | (14,467) | 331,870 |
| | | 1,467,976 | (295,436) | (226,986) | 945,554 |
| | | 8,017,618 | (1,054,578) | (1,029,732) | 5,933,308 |

UK Sharesave Scheme

Under the terms of the Imperial Tobacco Group PLC Sharesave Scheme the Board may offer options to purchase ordinary shares in the Company to UK employees who enter into an Inland Revenue approved Save As You Earn (SAYE) savings contract. The price at which options may be offered is up to 20% less than the mid-market price of an Imperial Tobacco Group PLC share on the London Stock Exchange on the day prior to the invitation. The options may normally be exercised during the period of six months after the expiry of the SAYE contract, either three or five years after entering the Scheme.

International Sharesave Plan

Under the Plan the Board may offer options to purchase ordinary shares or American Depositary Shares (ADS's) in the Company to non-UK employees who enter into a savings contract. The price at which options may be offered varies depending on local laws, but for ordinary shares will not be less than 80% of the mid-market price of an Imperial Tobacco Group PLC share on the London Stock Exchange on the day prior to invitation. In respect of ADS's the price will not be less than 80% of the closing price on the New York Stock Exchange on the same day. Options may normally be exercised during the six months after expiry of the savings contract, three years after entering the Plan.

Long-Term Incentive Plan

In respect of the performance period ending in December 1999, the Company's total shareholder return ranked the Company in 33rd position in the FT-SE 100 Index, exceeding the bottom 67 companies in the Index and therefore approximately 70% of the award vested on 11 January 2000. In respect of the December 1997 – December 2000 award, the extent of vesting cannot be determined until the end of the performance period. However, based on the total shareholder return to the end of the financial year, 100% of the awards would vest.

Share Matching Scheme

The Share Matching Scheme is designed to encourage employees to acquire and retain Imperial Tobacco Group PLC ordinary shares. In January 1997, employees of the Group were given the opportunity to purchase up to £3,000 worth of Imperial Tobacco Group PLC ordinary shares and lodge them with the Employee Benefit Trust under a share matching arrangement. Provided that the shares are left in the Trust, the lodged shares will be matched with additional shares on a sliding scale ranging from 10% for one year's retention, up to a maximum of 50% for five years' retention.

For Executive Directors and selected management, individuals may elect to invest any proportion of their gross bonus in Imperial Tobacco Group PLC ordinary shares to be held by the Employee Benefit Trust. Provided that the shares elected for are left in the Trust for three years, and the individual remains in employment with the Group, the participant would receive the original shares plus additional shares. The matching ratio for bonuses earned in the 1996/97 financial year was 1:2. For subsequent years this ratio has been enhanced to 1:1 to further encourage Directors and managers to build a meaningful shareholding in the Group.

Employee Share Ownership Trust (ESOT)

The Imperial Tobacco Group PLC Employee Benefit Trust has been established to acquire ordinary shares in Imperial Tobacco Group PLC, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise of share options and on the vesting of the share matching and performance-related share awards. At 23 September 2000, the Trust held 4.5m (1999: 4.2m) ordinary shares, with a nominal value of £446,308, all acquired in the open market at a cost of £22.6m (1999: £21.8m) financed by a gift of £1.7m and an interest free loan of £20.9m. None of the ESOT shares have been allocated to employees or Directors as at 23 September 2000. All finance costs and administration expenses connected with the ESOT are charged to the profit and loss account as they accrue. The cost of the shares is being amortised over the performance period of the associated schemes. The Trust has waived its rights to dividends and the shares held by the Trust are excluded from the calculation of basic earnings per share.

19. Reserves

| (in £'s million) | Goodwill reserve | Exchange translation reserve | Capital reserve | Profit and loss reserve | Total |
|---------------------------------------|---------------------|------------------------------------|--------------------|----------------------------|---------|
| As at 27 September 1998 | (2,418) | 11 | 483 | 211 | (1,713) |
| Profit for the year | - | - | - | 145 | 145 |
| Goodwill: | | | | | |
| – transfer | 2,418 | - | (483) | (1,935) | - |
| – exchange movement | - | (51) | - | 51 | - |
| – transfer to goodwill | - | - | - | (4) | (4) |
| Other net exchange movements | - | 47 | - | - | 47 |
| Taxation debit on unhedged borrowings | - | (3) | - | - | (3) |
| As at 25 September 1999 | - | 4 | - | (1,532) | (1,528) |
| Profit for the year | - | - | - | 160 | 160 |
| Goodwill: | - | | - | | |
| – exchange movement | - | (44) | - | 44 | - |
| Other net exchange movements | - | 34 | - | - | 34 |
| Taxation debit on unhedged borrowings | - | (5) | - | - | (5) |
| As at 23 September 2000 | - | (11) | - | (1,328) | (1,339) |

The capital reserve comprised a £455m difference arising on the merger of Imperial Tobacco Group PLC with Imperial Tobacco Holdings Limited and the profit and loss account balance at the date of the demerger of £28m.

The cumulative amount of goodwill written off against the Group's reserves, net of goodwill relating to undertakings disposed of, is £2,327m (1999: £2,371m).

The 1999 goodwill transfer has been made in accordance with Financial Reporting Standard No.10 "Goodwill and Intangible Assets" (FRS 10) which requires goodwill to be written off against certain reserves rather than being maintained as a separate reserve.

Included in other net exchange movements are exchange gains of £50m (1999: £52m) arising on borrowings denominated in foreign currencies designated as hedges of foreign net investments.

20. Capital commitments

| (in £'s million) | 2000 | 1999 |
|---------------------------------|------|------|
| Contracted but not provided for | 11 | 24 |

21. Legal proceedings

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

22. Pensions

The Group operates pension schemes in the UK and overseas, principally those operated by Imperial Tobacco Limited, John Player & Sons Limited, Rizla companies, Van Nelle Tabak companies, Imperial Tobacco Australia Limited and Imperial Tobacco New Zealand Limited. The main schemes are of the defined benefit type and the assets are held in trustee administered funds.

The principal Group scheme, covering UK employees, is the Imperial Tobacco Pension Fund ('the Scheme'). An actuarial valuation of the Scheme was made at 31 March 1998. The assumptions which had the most significant effect when valuing the Scheme's liabilities were those relating to the rate of investment return earned on the Scheme's existing assets and the rates of increase in pay and pensions. It was assumed that the future investment returns relative to market values at the valuation date would be 5.4% per annum and that pay and pension increases would average 5% and 3% per annum respectively. The assets were brought into account at their market value.

At 31 March 1998, the market value of the assets of the Scheme was £2,348m. The total assets were sufficient to cover 113% of the benefits that had accrued to members for past service, after allowing for expected future pay increases. Group contributions to the Scheme remain suspended having regard to the surplus disclosed in this valuation.

There was no pension cost to disclose in respect of the Scheme for the year ended 23 September 2000. The pension cost has been assessed in accordance with the advice of Watson Wyatt Partners, actuaries and consultants, using the projected unit method. There were no outstanding or prepaid contributions at the balance sheet date.

The pension cost relating to foreign schemes is calculated in accordance with local accounting principles. The pension cost for the overseas schemes in the year was £5m (1999: £3m).

23. Reconciliation of operating profit to net cash flow from operating activities

| (in £'s million) | 2000 | 1999 | 1998 |
|---|-------|------|-------|
| Operating profit | 560 | 518 | 436 |
| Depreciation and amortisation | 33 | 20 | 16 |
| Increase/(decrease) in provisions for liabilities and charges | - | 8 | (3) |
| (Increase)/decrease in stocks | (114) | (74) | 235 |
| Decrease/(increase) in debtors | 38 | 149 | (207) |
| (Decrease)/ increase in creditors | (47) | 2 | 188 |
| Working capital cash (outflow)/inflow | (123) | 77 | 216 |
| Net cash inflow from operating activities | 470 | 623 | 665 |

24. Reconciliation of net cash flow to movement in net debt

| (in £'s million) | 2000 | 1999 | 1998 |
|--|---------|---------|---------|
| Increase/(decrease) in cash in the year | 132 | 136 | (24) |
| Cash inflow from increase in debt | (60) | (81) | (324) |
| Cash outflow from increase in liquid resources | 2 | 5 | 27 |
| Change in net debt resulting from cash flows | 74 | 60 | (321) |
| Currency and other movements | 48 | 52 | (40) |
| Movement in net debt in the year | 122 | 112 | (361) |
| Opening net debt | (1,505) | (1,617) | (1,256) |
| Closing net debt | (1,383) | (1,505) | (1,617) |

25. Analysis of net debt

| (in £'s million) | Cash | Current asset investments | Loans due within one year | Loans due after one year | Total |
|-------------------------|------|---------------------------|---------------------------|--------------------------|---------|
| As at 27 September 1998 | 72 | 142 | (696) | (1,135) | (1,617) |
| Cash flow | 136 | 5 | 160 | (241) | 60 |
| Exchange movements | (4) | - | 19 | 37 | 52 |
| As at 25 September 1999 | 204 | 147 | (517) | (1,339) | (1,505) |
| Cash flow | 132 | 2 | (624) | 564 | 74 |
| Exchange movements | (6) | 1 | 97 | (44) | 48 |
| As at 23 September 2000 | 330 | 150 | (1,044) | (819) | (1,383) |

26. Reconciliation of movements on shareholders' funds

| (in £'s million) | 2000 | 1999 |
|--|---------|---------|
| Profit on ordinary activities after taxation | 323 | 287 |
| Dividends | (163) | (142) |
| Retained profit for the year | 160 | 145 |
| Goodwill | | |
| – transfer to goodwill | - | (4) |
| – exchange movement | 44 | 51 |
| Other net exchange movements | (10) | (4) |
| Taxation debit on unhedged borrowings | (5) | (3) |
| Net addition in shareholders' funds | 189 | 185 |
| Opening shareholders' funds | (1,476) | (1,661) |
| Closing shareholders' funds | (1,287) | (1,476) |

27. Summary of differences between UK and US generally accepted accounting principles ("GAAP")

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"). Such principles differ in certain respects from generally accepted accounting principles in the United States ("US GAAP"). A summary of principal differences and additional disclosures applicable to the Group is set out below.

| (in £'s million) | Explanation reference | 2000 | 1999 | 1998 |
|--|-----------------------|------|------|------|
| Profit on ordinary activities after taxation under UK GAAP | | 323 | 287 | 231 |
| US GAAP adjustments: | | | | |
| Pensions | (i) | 24 | 16 | 18 |
| Amortisation of goodwill | (ii) | (13) | (15) | (7) |
| Amortisation of intangible assets | (ii) | (4) | (10) | (2) |
| Deferred taxation | (iii) | (7) | (3) | - |
| Mark to market adjustments on interest rate swaps | (iv) | - | 12 | (13) |
| Net income under US GAAP | | 323 | 287 | 227 |

| (in pence) | Explanation reference | 2000 | 1999 | 1998 |
|---------------------------------------|-----------------------|------|------|------|
| Amounts in accordance with US GAAP | | | | |
| Basic net income per ordinary share | (vii) | 62.6 | 55.5 | 43.7 |
| Diluted net income per ordinary share | (vii) | 62.3 | 55.2 | 43.6 |

| (in £'s million) | Explanation reference | 2000 | 1999 |
|---|-----------------------|---------|---------|
| Shareholders' funds under UK GAAP | | (1,287) | (1,476) |
| US GAAP adjustments: | | | |
| Pensions | (i) | 277 | 253 |
| Goodwill, less accumulated amortisation of £38m (1999: £25m) | (ii) | 526 | 572 |
| Intangible assets, less accumulated amortisation of £16m (1999: £12m) | (ii) | 321 | 343 |
| Deferred taxation | (iii) | (196) | (196) |
| Mark to market adjustments on interest rate swaps | (iv) | (1) | (1) |

| | | | |
|-------------------------------------|------|-------|-------|
| Proposed dividend | (v) | 111 | 96 |
| ESOT shares | (vi) | (18) | (18) |
| Shareholders' deficit under US GAAP | | (267) | (427) |

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(i) Pensions

Group contributions to the Imperial Tobacco Pension Fund ('the Scheme') are suspended as a result of the surplus disclosed in note 22. Under UK GAAP, in accordance with SSAP 24, no pension expense has been reflected in the profit and loss account and no pension asset has been recognised in the balance sheet.

Under US GAAP, the annual pension cost comprises the estimated cost of benefits accruing in the period as determined in accordance with Statement of Financial Accounting Standards No. 87. Under SFAS 87, a pension asset representing the excess of Scheme assets over benefit obligations has been recognised in the balance sheet.

(ii) Goodwill and intangible assets

Both UK and US GAAP require purchase consideration to be allocated to the net assets acquired at their fair value on the date of acquisition, with the difference between the consideration and fair value of the identifiable tangible net assets recorded as goodwill. Under UK GAAP, goodwill arising and intangible assets acquired on acquisitions made on or after 27 September 1998 are capitalised and amortised over a period not exceeding 20 years. Prior to 27 September 1998, all goodwill and identifiable intangible assets were written off to reserves on acquisition.

Under US GAAP, goodwill and identifiable intangible assets are capitalised and amortised over a period not exceeding 40 years.

(iii) Deferred taxation

Under UK GAAP, deferred taxation is provided using the liability method to the extent that it is probable that the asset or liability will crystallise in the foreseeable future.

US GAAP requires deferred taxation to be provided in full using the liability method. In addition, US GAAP requires the recognition of the deferred tax consequences of differences between the assigned values and the tax bases of the identifiable intangible assets, with the exception of non-tax deductible goodwill, in a purchase business combination. Consequently, the deferred tax liability attributable to identifiable intangible assets has been recognised and is being amortised over 40 years.

(iv) Derivative financial instruments

The Group has entered into certain swap transactions with contractual maturities exceeding those of the underlying debt being hedged, in anticipation of there being additional floating rate debt when the existing debt matures. Under UK GAAP, derivative financial instruments that reduce exposures on anticipated future transactions, may be accounted for using hedge accounting.

Under US GAAP, derivative financial instruments must meet specific criteria before hedge accounting can be applied. Instruments that do not meet the specified criteria are marked to market.

(v) Proposed dividends

Under UK GAAP, dividends paid and proposed are shown on the face of the profit and loss account as an appropriation of the current year's earnings. Proposed dividends are provided on the basis of recommendation by the Directors and are subject to subsequent approval by shareholders.

Under US GAAP, dividends are recorded in the period in which they are approved by the shareholders.

(vi) Shares held by the Employee Share Ownership Trust (ESOT)

Under UK GAAP, shares held by the Trust are recorded at cost and reflected as a fixed asset investment in the Group's balance sheet.

Under US GAAP, these shares are recorded at cost and reflected as a deduction from shareholders' funds.

(vii) Net income per ordinary share

The following table sets forth the computation of basic and diluted net income per share in accordance with Statement of Financial Accounting Standards No. 128.

| (In £'s million) | 2000 | 1999 | 1998 |
|--|-------------|-------------|-------------|
| Numerator: | | | |
| Numerator for basic and diluted net income per share | 323 | 287 | 227 |
| Denominator (number of shares): | | | |
| Denominator for basic net income per share | 516,347,148 | 517,425,091 | 519,125,439 |
| Effect of Common Stock Equivalents (number of shares): | | | |
| Employees share options | 1,891,145 | 2,251,110 | 1,423,547 |
| Denominator for diluted net income per share | 518,238,293 | 519,676,201 | 520,548,986 |

| | | | |
|------------------------------|-------|-------|-------|
| Basic net income per share | 62.6p | 55.5p | 43.7p |
| Diluted net income per share | 62.3p | 55.2p | 43.6p |

(viii) US GAAP equity roll forward

Shareholders' equity roll forward prepared in accordance with US GAAP is as follows:

| (In £'s million) | 2000 | 1999 |
|---------------------------------------|-------|-------|
| Balance at beginning of year | (427) | (570) |
| Net income | 323 | 287 |
| Dividends | (148) | (128) |
| ESOT shares | - | (9) |
| Other net exchange movements | (10) | (4) |
| Taxation debit on unhedged borrowings | (5) | (3) |
| Balance at end of year | (267) | (427) |

(ix) Cash flow statements

The consolidated cash flow statements have been prepared under UK GAAP in accordance with FRS 1 (revised) and present substantially the same information as required under SFAS 95. There are certain differences between FRS 1 (revised) and SFAS 95 with regard to classification of items within the cash flow statement.

In accordance with FRS 1 (revised), cash flows are prepared separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources and financing. Under SFAS 95, cash flows are classified under operating activities, investing activities and financing activities. Under FRS 1 (revised), cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Under SFAS 95, cash and cash equivalents are defined as cash and investments with original maturities of three months or less.

A summary of the Group's cash flows from operating, investing and financing activities classified in accordance with SFAS 95 is presented below. For the purposes of this summary, the Group considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

| (In £'s million) | 2000 | 1999 | 1998 |
|---|------|-------|-------|
| Net cash provided by operating activities | 273 | 394 | 489 |
| Net cash used in investing activities | (50) | (195) | (692) |
| Net cash (used in)/provided by financing activities | (89) | (58) | 206 |

| | | | |
|--|-----|-----|-----|
| Net increase in cash and cash equivalents | 134 | 141 | 3 |
| Effect of exchange rate changes on cash | (5) | (4) | - |
| Cash and cash equivalents at beginning of year | 351 | 214 | 211 |
| Cash and cash equivalents at end of year | 480 | 351 | 214 |
| Cash and cash equivalents at end of year are: | | | |
| Cash at bank and in hand | 330 | 204 | 72 |
| Current asset investments | 150 | 147 | 142 |

(x) Impact of new accounting standards

Accounting for derivative instruments and hedging activities

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after 15 June 2000 (24 September 2000 for the Group). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. For fair value hedge transactions in which the Group is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash flow hedge transactions, in which the Group is hedging the variability of cash flows related to a variable rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognised in the current period earnings.

The Group will adopt SFAS 133 for its accounting period beginning on 24 September 2000. On that date, the Group will record a transition adjustment in its accounting records to bring the accounting for its derivatives into compliance with SFAS 133. The transition adjustment will be calculated using the assumption that none of the hedging relationships that persisted prior to the adoption of SFAS 133 will be hedge accounted after the adoption of SFAS 133. This decision has been made because the Group has decided not to satisfy the SFAS 133 requirements to achieve hedge accounting for its hedges at the date of adoption of SFAS 133. The transition adjustment will result in an increase of £4m in the Group's profits before tax under US GAAP for the year ended 23 September 2000 and will be accounted for as a cumulative effect type change in accounting principle.

28. Post balance sheet events

On 29 September 2000 the Company acquired Baelen International N.V. and Tabakbedrijf Baelen N.V. ("the Baelen group"), a Belgian manufacturer of roll your own tobacco.

On 2 October 2000 the Company completed the acquisition of the EFKA group, a manufacturer of rolling papers and tubes.