**IMPERIAL TOBACCO GROUP PLC**
INTERIM REPORT

# "OUR BRANDS ARE ENJOYED EVERY DAY BY MILLIONS OF PEOPLE ACROSS THE WORLD."

Imperial Tobacco

INNOVATION → NEW OPPORTUNITIES → CONTINUED PROGRESS
→ PRODUCTIVITY → CREATING VALUE FOR STAKEHOLDERS

# 2002

**IMPERIAL TOBACCO**

IS AN **INTERNATIONAL**

*TOBACCO COMPANY WHICH MANUFACTURES AND MARKETS A RANGE OF CIGARETTES, ROLL YOUR OWN TOBACCO, CIGARETTE PAPERS, CIGARS AND PIPE TOBACCO.*

## CONTENTS


1 FINANCIAL HIGHLIGHTS
2 CHAIRMAN'S STATEMENT
6 CAUTIONARY STATEMENT
6 INDEPENDENT REVIEW REPORT TO IMPERIAL TOBACCO GROUP PLC
7 CONSOLIDATED PROFIT AND LOSS ACCOUNT
7 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
8 CONSOLIDATED BALANCE SHEET
9 SUMMARY CONSOLIDATED CASH FLOW STATEMENT
10 NOTES TO THE INTERIM STATEMENT
12 SUMMARY OF DIFFERENCES BETWEEN UK AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
14 TRANSLATION TO US DOLLARS
16 SHAREHOLDER INFORMATION

# OUR STRATEGY

IMPERIAL TOBACCO'S BUSINESS STRATEGY IS TO CREATE SUSTAINABLE SHAREHOLDER VALUE BY GROWING OUR INTERNATIONAL OPERATIONS, BOTH ORGANICALLY AND THROUGH ACQUISITION, WHILE CONTINUING TO STRENGTHEN OUR MARKET POSITION IN THE UK.

## FINANCIAL HIGHLIGHTS

| (In £'s million) | **6 months ended 30 March 2002** | | 6 months ended 24 March 2001 |
|---|---|---|---|
| Turnover | **3,145** | up 14% | 2,767 |
| Operating profit | **310** | up 13% | 274 |
| UK operating profit | **170** | up 11% | 153 |
| International operating profit | **140** | up 16% | 121 |
| Pre-tax profit | **261** | up 17% | 223 |
| Profit after tax | **188** | up 17% | 161 |

| (In pence) | **6 months ended 30 March 2002** | | 6 months ended 24 March 2001 |
|---|---|---|---|
| Basic earnings per share | **35.4** | up 13% | 31.2 |
| Adjusted earnings per share | **37.1** | up 15% | 32.3 |
| Diluted earnings per share | **35.2** | up 14% | 31.0 |
| Interim dividend per share | **12.0** | up 11% | 10.8 |

# CHAIRMAN'S STATEMENT

## IN 2002 – IMPERIAL TOBACCO HAS AGAIN DELIVERED RECORD INTERIM PROFITS THROUGH ITS DISCIPLINED AND VALUE-DRIVEN APPROACH

**Derek Bonham**
*Chairman*

Imperial Tobacco has again delivered record interim profits through its disciplined and value-driven approach to developing its business for the benefit of shareholders.

Profit before tax in the half year to 30 March 2002 increased by 17% to £261m, with earnings per share rising by over 13% to 35.4p from 31.2p. Profit before tax, and amortisation of £9m rose by 18% to £270m, equivalent to an increase of 15% in earnings per share. Further excluding the benefit of the Tobaccor acquisition and the distribution of the Marlboro brands in the UK, and before reorganisation costs, earnings per share rose by 10%.

In the light of this performance, your Directors have declared a 11% increase in the interim dividend to 12.0p per share. Only shares that existed before the rights issue are entitled to this dividend and therefore the dividend is unaffected by any rights-related adjustments.

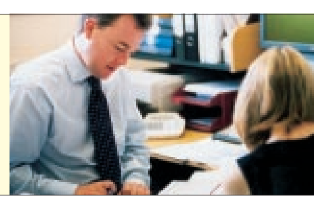
Turnover in the half year to 30 March 2002 was up 14% to £3,145m from £2,767m in 2001 and turnover excluding duty rose by 22% to £797m. Operating profit increased by £36m to £310m.

UK operating profit rose by £17m to £170m in a more stable market, with our brands extending their leading positions in the cigarette and roll your own tobacco sectors. Operating margins were unchanged at 47%.

International operating profit was up 16% to £140m and, before amortisation, was up 17% to £149m reflecting a £21m pre-amortisation contribution from Tobaccor, acquired in March 2001, and further international organic growth of 5%, offset by reorganisation charges of £4m. Headline operating margins fell to 32%, but excluding the lower margin Tobaccor business and reorganisation charges, operating margins were broadly maintained at 38%.

The Group's interest charge of £49m was in line with last year, with reduced interest rates offsetting higher debt levels following the Tobaccor acquisition. After tax charges of £73m, based on an effective rate of 28.1%, profit after tax was £188m, before equity minority interests of £5m.

**Imperial Tobacco remains** at the forefront of manufacturing excellence.



**Group Standards and Policies set the framework for our worldwide operations,** covering such issues as health and safety, product quality, ethical behaviour and concern for the environment.

IMPERIAL TOBACCO'S LEADERSHIP OF THE UK CIGARETTE MARKET FURTHER STRENGTHENED TO 43.1% IN MARCH 2002.

OUR INVESTMENT IN BUSINESSES, MARKETS, BRANDS AND INFRASTRUCTURE OVER RECENT YEARS HAS AGAIN DRIVEN THE DEVELOPMENT OF OUR INTERNATIONAL PROFIT.

## UK MARKET

Imperial Tobacco continued to increase its share of the UK cigarette market to 42.4% from 39.0% in the first half of 2001. In March 2002 our leadership of the UK cigarette market had further strengthened to 43.1%, through strong performances from Lambert & Butler, the UK's best selling cigarette, and the Richmond brand family. In addition, the Marlboro and Raffles brands, distributed for Philip Morris, achieved a market share of 7.1% in March 2002.

Imperial Tobacco's share of the roll your own tobacco market has also grown further to 65.3% with Golden Virginia growing to 52.1% of market in March 2002, and the Drum family reaching 13.2% market share.

The UK duty paid market continues to show signs of resilience with the cigarette market now estimated at 58 billion cigarettes and roll your own tobacco at 2,900 tonnes. HM Customs & Excise initiatives to combat smuggling appear to be containing the penetration of non-UK duty paid product thereby returning the market to a more orderly state. In his April Budget, the Chancellor repeated last year's policy decision and only increased tobacco duty in line with inflation, equivalent to 6p per 20 cigarettes, which should further stabilise the UK duty paid market.

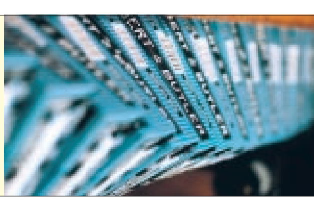
## INTERNATIONAL OPERATIONS

Our investment in businesses, markets, brands and infrastructure over recent years, has again driven the development of our international profit.

Cigarette volumes and profit in Western Europe continue to grow, with strong performances from our brands in France, Ireland and Southern Europe, although there was a reduction in volumes in Belux (the main counter effect of a resilient UK market). Our roll your own tobacco brands have also contributed strongly, most significantly in France, Spain and Greece where our market shares have grown, and despite market pressures in The Netherlands. These domestic market performances have been augmented by our strength in the travel retail sector with increased shares in duty free outlets and on the ferries.

In Africa, our focus has been on the successful integration of the recently acquired Tobaccor business which achieved strong sales and profit growth, and we have agreed the terms of the ongoing licence arrangements with two principal licensors. This excellent performance was supplemented by increasing market share in our existing West African business. We continued to make progress in targeted markets in the Middle East, with growth in cigarette volumes in the UAE, Kuwait and Lebanon.

Our Eastern Europe performance includes the ongoing investment in the development of Fusion, a premium lights brand, particularly in Russia and the Ukraine. However, following the rationalisation of distribution arrangements, where customers did not meet our supply criteria, there has been an overall reduction in cigarette volumes in this region.



**Lambert & Butler King Size continues to be the UK's best selling cigarette brand** achieving a market share of 13.4%, in March 2002.


**Drum is the world's leading roll your own tobacco,** sold in over 70 countries worldwide.

## CIGARETTE VOLUMES AND PROFITS IN WESTERN EUROPE CONTINUE TO GROW WITH STRONG PERFORMANCES FROM OUR BRANDS IN FRANCE, IRELAND AND SOUTHERN EUROPE.

## IN AFRICA THE FOCUS OF OUR ACTIVITY WAS CENTRED ON THE SUCCESSFUL INTEGRATION OF THE RECENTLY ACQUIRED TOBACCOR BUSINESS WHICH ACHIEVED STRONG GROWTH.

In Asia Pacific, further progress has been made in Vietnam where volumes continue to grow and our share now stands at around 8%. Our presence in the region has been further enhanced with the acquisition of a controlling interest in the Lao Tobacco Company. Our development strategy was furthered by the recent launch of The Imperial brand in the profitable Taiwanese market. We also concluded our first investment in the Indian sub-Continent through a joint venture in Bangladesh.

In Australasia, our cigarette brands continue to perform well with market share growing to 18.0% in Australia and 17.7% in New Zealand. Our Australian business also benefited from our distribution of Japan Tobacco's cigarette brands and the increase in our roll your own tobacco market share.

### ACQUISITIONS

The operations of EFKA, Baelen and Mayfair Vending, which were acquired in the 2001 financial year, have been fully integrated into the Group. Our 75% interest in Tobaccor SA, the second largest cigarette manufacturer and distributor in sub-Saharan Africa, continues to perform ahead of expectations, with a 27% increase in profit on the comparable period prior to our ownership. In the six months to March 2002, Tobaccor generated operating profit of £21m before amortisation of £4m, representing an annualised 11% post tax return on our investment.

The Group announced the acquisition of Reemtsma, the world's fourth largest international cigarette manufacturer, at the beginning of March this year. The total consideration, on a cash and debt free basis, of €5.8bn is to be funded by way of a £1bn rights issue, which was successfully completed on 29 April, with the balance funded by bank debt. The Company received shareholder approval at an Extraordinary General Meeting on 8 April 2002 and completion of the acquisition is expected shortly. This acquisition has had no financial impact on the 2002 Imperial Tobacco interim results.

### PRODUCTIVITY

Imperial Tobacco remains committed to maintaining a high quality, low cost manufacturing base with underlying productivity improvements recorded in our cigarette and roll your own tobacco businesses of 7% and 6% respectively. Unit costs have further reduced in our cigarette business by 3%.

The restructuring initiatives announced in October 2001 are progressing with the completion of the cigar reorganisation on schedule. The Dublin factory relocation is now expected to be completed next year.

**The primary process** involves the conditioning and blending of tobacco.

**Our international development remains focused** on selected profitable, developed and emerging markets.

OUR FOCUS ON STRONG INTERNATIONAL GROWTH, LINKED WITH JUDICIOUS ACQUISITIONS CONTINUES TO PROVE AN EFFECTIVE STRATEGY FOR THE GROUP.

YOUR DIRECTORS BELIEVE THAT THE ACQUISITION OF REEMTSMA WILL TRANSFORM THE GROUP, SUBSTANTIALLY ENHANCING ITS SCALE AND GROWTH POTENTIAL.

## CASH FLOW

The Group continues to be highly cash generative. However, as in the previous three years, the half year cash flow has been influenced by the return of UK debtors to a more representative level. Debtors at the end of September 2001 were abnormally low; the result of accelerated September trade sales, ahead of the September price increase in the UK, which were settled prior to the year end.

## OUTLOOK

Imperial Tobacco has again delivered record interim profits. Continued focus on strong international growth, linked with judicious acquisitions while strengthening our market position in the UK, has proved an effective strategy in the development of the Group to date.

From this sound base, your Directors believe that the integration of Reemtsma will transform the Group, substantially enhancing its scale and growth potential by leveraging the strengthened brand portfolio over a wider geographical spread and thereby creating significant value for shareholders.

**DC Bonham**

2 May 2002

**Imperial Tobacco is the sole cigarette manufacturer** in eight countries in French-speaking west and central Africa and Madagascar.

**Our brands are enjoyed by millions of people** from all around the world.

# CAUTIONARY STATEMENT

All statements, other than statements of historical fact, included herein, are, or may be deemed to be, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act 1934, as amended. For a discussion of important factors that could cause actual results to differ materially from those discussed in such forward-looking statements please refer to Imperial Tobacco's annual report on Form 20-F for the fiscal year ended 29 September 2001, filed with the Securities and Exchange Commission on 21 December 2001.

# INDEPENDENT REVIEW REPORT TO IMPERIAL TOBACCO GROUP PLC

### INTRODUCTION

We have been instructed by the Company to review the financial information which comprises consolidated profit and loss account, statement of total recognised gains and losses, consolidated balance sheet, summary consolidated cash flow statement, summary of differences between UK and US generally accepted accounting principles and notes to the interim statement. We have read the other information contained in the interim report and considered whether it contains any apparent mis-statements or material inconsistencies with the financial information.

### DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 March 2002.

PRICEWATERHOUSECOOPERS

*Chartered Accountants*
Bristol
2 May 2002

### NOTES

a) The maintenance and integrity of the Imperial Tobacco Group PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 MARCH 2002

| (In £'s million) | | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|---|
| **Turnover** | | **3,145** | 2,767 | 5,918 |
| Duty in turnover | | **(2,348)** | (2,113) | (4,444) |
| Costs and overheads less other income | | **(487)** | (380) | (870) |
| **Operating profit** | | **310** | 274 | 604 |
| Net interest | | **(49)** | (51) | (110) |
| **Profit on ordinary activities before taxation** | | **261** | 223 | 494 |
| Taxation | | **(73)** | (62) | (139) |
| **Profit on ordinary activities after taxation** | | **188** | 161 | 355 |
| Equity minority interests | | **(5)** | – | (5) |
| **Profit attributable to shareholders** | | **183** | 161 | 350 |
| Dividends | | **(62)** | (56) | (178) |
| **Retained profit for the period** | | **121** | 105 | 172 |
| **Earnings per ordinary share** | **– Basic** | **35.4p** | 31.2p | 67.7p |
| | **– Adjusted** | **37.1p** | 32.3p | 70.6p |
| | **– Diluted** | **35.2p** | 31.0p | 67.3p |
| **Dividends per ordinary share** | **– Interim** | **12.0p** | 10.8p | |
| | **– Total for 2001** | | | 34.5p |

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.

## Segmental information (by destination)

| (In £'s million) | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|
| **Turnover** | | | |
| UK | **2,121** | 1,916 | 4,053 |
| International | **1,024** | 851 | 1,865 |
| | **3,145** | 2,767 | 5,918 |
| **Duty in turnover** | | | |
| UK | **1,757** | 1,589 | 3,362 |
| International | **591** | 524 | 1,082 |
| | **2,348** | 2,113 | 4,444 |
| **Operating profit** | | | |
| UK | **170** | 153 | 325 |
| International | **140** | 121 | 279 |
| | **310** | 274 | 604 |

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE SIX MONTHS ENDED 30 MARCH 2002

| (In £'s million) | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|
| **Profit attributable to shareholders** | **183** | 161 | 350 |
| Exchange movements on retranslation of net investments and related borrowings | **(1)** | 2 | 4 |
| Taxation credit/(debit) on unhedged borrowings | **2** | (1) | (2) |
| Total recognised gains for the period | **184** | 162 | 352 |
| Prior year adjustment for FRS 19 (see note 6) | **–** | 8 | 8 |
| **Total recognised gains** | **184** | 170 | 360 |

# CONSOLIDATED BALANCE SHEET

AT 30 MARCH 2002

| (In £'s million) | 30 March 2002 | Restated for FRS 19 * 24 March 2001 | 29 September 2001 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | **329** | 195 | 332 |
| Tangible assets | **244** | 204 | 242 |
| Investments | **10** | 15 | 16 |
| | **583** | 414 | 590 |
| **Current assets** | | | |
| Stocks | **513** | 712 | 501 |
| Debtors | **672** | 511 | 438 |
| Investments | **141** | 158 | 143 |
| Cash | **313** | 306 | 198 |
| | **1,639** | 1,687 | 1,280 |
| **Creditors: amounts falling due within one year** | **(1,750)** | (1,905) | (1,541) |
| **Net current liabilities** | **(111)** | (218) | (261) |
| **Total assets less current liabilities** | **472** | 196 | 329 |
| **Creditors: amounts falling due after more than one year** | **(1,389)** | (1,354) | (1,386) |
| **Provisions for liabilities and charges** | **(44)** | (39) | (44) |
| **Net liabilities** | **(961)** | (1,197) | (1,101) |
| **Capital and reserves** | | | |
| Called up share capital | **52** | 52 | 52 |
| Reserves | **(1,044)** | (1,249) | (1,174) |
| **Equity shareholders' funds** | **(992)** | (1,197) | (1,122) |
| **Equity minority interests** | **31** | – | 21 |
| | **(961)** | (1,197) | (1,101) |

* The net impact of the restatement for FRS 19 was to reduce the deferred tax provision by £8m and increase the profit and loss reserve by a corresponding amount.

## Reconciliation of movements in shareholders' funds

| (In £'s million) | 30 March 2002 | Restated for FRS 19 24 March 2001 | 29 September 2001 |
|---|---|---|---|
| Profit attributable to shareholders | **183** | 161 | 350 |
| Dividends | **(62)** | (56) | (178) |
| Retained profit for the period | **121** | 105 | 172 |
| Goodwill exchange movements | **8** | (24) | (17) |
| Other net exchange movements | **(1)** | 2 | 4 |
| Taxation credit/(debit) on unhedged borrowings | **2** | (1) | (2) |
| Net addition to shareholders' funds | **130** | 82 | 157 |
| Opening shareholders' funds (2001: restated for FRS 19) | **(1,122)** | (1,279) | (1,279) |
| Closing shareholders' funds | **(992)** | (1,197) | (1,122) |

# SUMMARY CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 MARCH 2002

| (In £'s million) | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|
| **Net cash inflow from operating activities** | **106** | 64 | 638 |
| **Returns on investments and servicing of finance** | **(36)** | (65) | (160) |
| **Taxation** | **(71)** | (64) | (154) |
| **Capital expenditure and financial investment** | **(18)** | (14) | (38) |
| **Acquisitions** | | | |
| Payments to acquire businesses | **(3)** | (93) | (275) |
| Net cash acquired with businesses | **–** | 10 | 16 |
| Deferred consideration in respect of prior year acquisitions | **–** | (2) | (2) |
| **Net cash outflow from acquisitions** | **(3)** | (85) | (261) |
| **Equity dividends paid** | **(122)** | (112) | (167) |
| **Net cash outflow before management of liquid resources and financing** | **(144)** | (276) | (142) |
| **Management of liquid resources** | **3** | (8) | 8 |
| **Financing – increase in borrowings** | **257** | 257 | 2 |
| **Increase/(decrease) in cash in the period** | **116** | (27) | (132) |

## Reconciliation of net cash flow to movement in net debt

| (In £'s million) | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|
| Increase/(decrease) in cash in the period | **116** | (27) | (132) |
| Cash inflow from increase in debt | **(257)** | (257) | (2) |
| Cash (inflow)/outflow from (decrease)/increase in liquid resources | **(3)** | 8 | (8) |
| Change in net debt resulting from cash flows | **(144)** | (276) | (142) |
| Currency and other movements | **–** | (14) | (5) |
| Loans acquired with subsidiary | **–** | – | (10) |
| Movement in net debt in the period | **(144)** | (290) | (157) |
| Opening net debt | **(1,540)** | (1,383) | (1,383) |
| Closing net debt | **(1,684)** | (1,673) | (1,540) |

# NOTES TO THE INTERIM STATEMENT

## 1. BASIS OF PREPARATION OF THE ACCOUNTS

The results for the six months ended 30 March 2002 and 24 March 2001 are unaudited. The figures for the year ended 29 September 2001 are taken from the statutory accounts of Imperial Tobacco Group PLC, which have been delivered to the Registrar of Companies and upon which an unqualified audit report was given. The accounting policies are as stated in the Annual Report and Accounts for the year ended 29 September 2001.

## 2. TAXATION

Excluding the effect of the proposed acquisition of Reemtsma, taxation has been calculated on the basis of an estimated effective tax rate of 28.1% for the full year. This compares with an effective tax rate of 28.0% for the 2001 half year and 28.1% for the year ended 29 September 2001. It is anticipated that the Group's effective tax rate, before goodwill amortisation, may be around 28% on an annualised basis as a result of the acquisition.

## 3. EARNINGS PER SHARE

| (In pence) | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic | **35.4** | 31.2 | 67.7 |
| Adjustment for amortisation | **1.7** | 1.1 | 2.9 |
| Adjusted | **37.1** | 32.3 | 70.6 |
| Diluted | **35.2** | 31.0 | 67.3 |
| (In £'s million) | | | |
| **Earnings** | | | |
| Basic | **183** | 161 | 350 |
| Adjustment for amortisation | **9** | 6 | 15 |
| Adjusted earnings | **192** | 167 | 365 |
| (Number) | | | |
| **Weighted average number of shares outstanding during the period** | | | |
| Basic | **517,490,668** | 516,543,369 | 516,886,737 |
| Effect of share options | **2,993,109** | 3,133,198 | 3,416,963 |
| Diluted | **520,483,777** | 519,676,567 | 520,303,700 |

Basic earnings per share are calculated using the weighted average number of ordinary shares outstanding during the period.

Adjusted earnings per share have been calculated using earnings before amortisation of the intangible assets acquired in Australia and New Zealand in September 1999, and the purchase of the EFKA group, the Baelen group, Tobaccor and the Mayfair vending business assets in the year 2001.

Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued on conversion into ordinary shares of options held under employee share schemes.

# NOTES TO THE INTERIM STATEMENT

## 4. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

| (In £'s million) | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|
| Operating profit | **310** | 274 | 604 |
| Depreciation and amortisation | **31** | 21 | 49 |
| Decrease in provisions for liabilities and charges | **–** | (4) | (4) |
| (Increase)/decrease in stocks | **(13)** | (229) | 17 |
| Increase in debtors | **(227)** | (278) | (162) |
| Increase in creditors | **5** | 280 | 134 |
| Working capital cash outflow | **(235)** | (227) | (11) |
| Net cash inflow from operating activities | **106** | 64 | 638 |

## 5. ANALYSIS OF NET DEBT

| (In £'s million) | Cash | Current asset investments | Loans due within one year | Loans due after one year | Total |
|---|---|---|---|---|---|
| As at 29 September 2001 | 198 | 143 | (496) | (1,385) | (1,540) |
| Cash flow | 116 | (3) | (256) | (1) | (144) |
| Exchange movements | (1) | 1 | (12) | 12 | – |
| As at 30 March 2002 | **313** | **141** | **(764)** | **(1,374)** | **(1,684)** |

## 6. PRIOR YEAR ADJUSTMENT FOR FRS 19

The Group policy for deferred taxation was changed during the year ended 29 September 2001 to comply with Financial Reporting Standard No. 19 "Deferred Tax". The effect was to reduce the opening deferred tax liability by £8m and increase the profit and loss reserve by a corresponding amount. The 2001 half year Group balance sheet has been restated accordingly.

# 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 | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|---|
| **Profit attributable to shareholders under UK GAAP** | | **183** | 161 | 350 |
| US GAAP adjustments: | | | | |
| Pensions | (i) | **8** | 20 | 45 |
| Amortisation of goodwill | (ii) | **(5)** | (8) | (14) |
| Amortisation of brands/trade marks/licences | (ii) | **(3)** | (5) | (8) |
| Deferred taxation | (iii) | **7** | (21) | (45) |
| Mark to market adjustments – reversal of derivatives beyond committed debt | (iv) | **–** | 1 | 1 |
| Mark to market adjustments due to non designation of hedge accounting per SFAS 133 | (iv) | **(23)** | 54 | 105 |
| Acquisitions inventory step-up | (vii) | **–** | – | (8) |
| Employee share schemes | (ix) | **(4)** | – | – |
| **Net income under US GAAP** | | **163** | 202 | 426 |

| (In pence) | Explanation reference | **6 months ended 30 March 2002** | 6 months ended 24 March 2001 | Year ended 29 September 2001 |
|---|---|---|---|---|
| **Amounts in accordance with US GAAP** | | | | |
| Basic net income per ordinary share | (viii) | **31.5** | 39.1 | 82.4 |
| Diluted net income per ordinary share | (viii) | **31.3** | 38.9 | 81.9 |

| (In £'s million) | Explanation reference | **30 March 2002** | Restated for FRS 19 24 March 2001 | 29 September 2001 |
|---|---|---|---|---|
| **Equity shareholders' funds under UK GAAP (2001: restated for FRS 19)** | | **(992)** | (1,197) | (1,122) |
| US GAAP adjustments: | | | | |
| Pensions | (i) | **321** | 298 | 322 |
| Goodwill, less accumulated amortisation of £56m (2001: £46m) | (ii) | **456** | 534 | 466 |
| Brands/trade marks/licences, less accumulated amortisation of £27m (2001: £20m) | (ii) | **364** | 329 | 372 |
| Deferred taxation | (iii) | **(244)** | (229) | (253) |
| Mark to market adjustments due to non designation of hedge accounting per SFAS 133 | (iv) | **82** | 54 | 105 |
| Proposed dividend | (v) | **62** | 56 | 122 |
| ESOT shares | (vi) | **(7)** | (15) | (13) |
| Employee share schemes | (ix) | **(4)** | – | – |
| **Shareholders' funds/(deficit) under US GAAP** | | **38** | (170) | (1) |

# SUMMARY OF DIFFERENCES BETWEEN UK AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

**(i) PENSIONS**

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 pension fund assets over benefit obligations has been recognised in the balance sheet.

**(ii) 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. Under UK GAAP, goodwill arising and separately identifiable and separable 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 separately identifiable and separable 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 in full on all material timing differences. Deferred tax assets are recognised where their recovery is considered more likely than not.

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 a period not exceeding 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.

The Group adopted SFAS 133 as amended by SFAS 137 and SFAS 138 on 30 September 2001. SFAS 133 requires the Group to record all derivatives on the balance sheet at fair value. The Group has decided not to satisfy the SFAS 133 requirements to achieve hedge accounting for its derivatives, where permitted.

**(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 period's earnings. Proposed dividends are provided on the basis of recommendation by the Directors.

Under US GAAP, dividends are recorded in the period in which they are formally declared.

**(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) INVENTORY STEP-UP**

Under UK GAAP, the fair value of inventory is represented by the acquired companies' current cost of reproducing that inventory.

Under US GAAP, the fair value represents the selling price less any further costs to be incurred to sale.

**(viii) NET INCOME PER ORDINARY SHARE**

Basic net income per ordinary share has been computed using US GAAP net income and weighted average ordinary shares. Diluted net income per ordinary share has been calculated by taking into account the weighted average number of shares that would be issued on conversion into ordinary shares of options held under employee share schemes. There would be no significant dilution of earnings if outstanding share options were exercised.

**(ix) EMPLOYEE SHARE SCHEMES**

Under UK GAAP, the cost of shares purchased by the ESOT in conjunction with an employee share scheme are charged to the profit and loss account according to the book value of the shares at the date of purchase. The cost of employee share schemes not held under the ESOT are charged using the quoted market price of shares at the date of grant. The charge is accrued over the vesting period of the shares in both cases.

Under US GAAP, the compensation cost is recognised for the difference between the exercise price of the share options granted and the quoted market price of the shares at the date of grant or measurement date and accrued over the vesting period of the options.

# TRANSLATION TO US DOLLARS
# SELECTED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 MARCH 2002

## Convenience translation

Pounds sterling have been translated into US dollars solely for convenience, at $1.425 to the £1, the pound sterling noon buying rate on 29 March 2002, the last business day prior to 30 March 2002.

## Profit and loss account data

| | 6 months ended 30 March 2002 £m | **6 months ended 30 March 2002 $m** | 6 months ended 24 March 2001 £m |
|---|---|---|---|
| **Amounts in accordance with UK GAAP** | | | |
| Turnover – UK | 2,121 | **3,023** | 1,916 |
| – International | 1,024 | **1,459** | 851 |
| | 3,145 | **4,482** | 2,767 |
| Operating profit – UK | 170 | **242** | 153 |
| – International | 140 | **200** | 121 |
| | 310 | **442** | 274 |
| Net interest | (49) | **(70)** | (51) |
| Profit on ordinary activities before taxation | 261 | **372** | 223 |
| Taxation | (73) | **(104)** | (62) |
| Profit on ordinary activities after taxation | 188 | **268** | 161 |
| Equity minority interests | (5) | **(7)** | – |
| Profit attributable to shareholders | 183 | **261** | 161 |
| Dividends | (62) | **(88)** | (56) |
| Retained profit for the period | 121 | **173** | 105 |
| Earnings per ordinary share – Basic | 35.4p | **50.4c** | 31.2p |
| – Adjusted | 37.1p | **52.9c** | 32.3p |
| – Diluted | 35.2p | **50.2c** | 31.0p |
| Dividend per ordinary share | 12.0p | **17.1c** | 10.8p |
| **Amounts in accordance with US GAAP** | | | |
| Net income | 163 | **232** | 202 |
| Basic net income per ordinary share | 31.5p | **44.8c** | 39.1p |
| Basic net income per ADS | 63.0p | **89.6c** | 78.2p |
| Diluted net income per ordinary share | 31.3p | **44.6c** | 38.9p |
| Diluted net income per ADS | 62.6p | **89.2c** | 77.8p |

Each American Depositary Share (ADS) represents two Imperial Tobacco Group PLC ordinary shares.

# TRANSLATION TO US DOLLARS
# SELECTED CONSOLIDATED FINANCIAL INFORMATION

AT 30 MARCH 2002

## Balance sheet data

| | 30 March 2002 £m | **30 March 2002 $m** | Restated for FRS 19 24 March 2001 £m |
|---|---|---|---|
| **Amounts in accordance with UK GAAP** | | | |
| Fixed assets | | | |
| Intangible assets | 329 | **469** | 195 |
| Tangible assets | 244 | **348** | 204 |
| Investments | 10 | **14** | 15 |
| | 583 | **831** | 414 |
| Current assets | | | |
| Stocks | 513 | **731** | 712 |
| Debtors | 672 | **958** | 511 |
| Investments | 141 | **201** | 158 |
| Cash | 313 | **446** | 306 |
| | 1,639 | **2,336** | 1,687 |
| Creditors: amounts falling due within one year | (1,750) | **(2,494)** | (1,905) |
| Net current liabilities | (111) | **(158)** | (218) |
| Total assets less current liabilities | 472 | **673** | 196 |
| Creditors: amounts falling due after more than one year | (1,389) | **(1,979)** | (1,354) |
| Provisions for liabilities and charges | (44) | **(63)** | (39) |
| Net liabilities | (961) | **(1,369)** | (1,197) |
| Capital and reserves | | | |
| Called up share capital | 52 | **74** | 52 |
| Reserves | (1,044) | **(1,487)** | (1,249) |
| Equity shareholders' funds | (992) | **(1,413)** | (1,197) |
| Equity minority interests | 31 | **44** | – |
| | (961) | **(1,369)** | (1,197) |

# SHAREHOLDER INFORMATION

## FINANCIAL CALENDAR

| | |
|---|---|
| Ex-dividend date for interim dividend | 10 July 2002 |
| Interim dividend record date | 12 July 2002 |
| Interim dividend payable | 9 August 2002 |

## SHAREHOLDER ENQUIRIES

Enquiries about personal shareholdings – including change of address, loss of certificates, payments of dividends, amalgamation of accounts, certificate consolidation – should be directed to:

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA 0870 241 3932 (+44 121 433 8000 from outside the UK) (0870 600 3950 text phone for shareholders with hearing difficulties).

You can now find a number of shareholders' services on-line. The portfolio service from Lloyds TSB Registrars gives you access to more information on your investments including balance movements, indicative share prices, and information on recent dividends. For more details on this and practical help on transferring shares or updating your details, visit www.shareview.co.uk This also gives you the opportunity to register an interest in receiving information from the Company electronically, should this option be offered at some stage.

Enquiries on ADR holdings should be made to the Depositary for American Depositary Receipts:
Citibank Shareholder Services, PO Box 2502, Jersey City, New Jersey 07303-2502, USA
877-CITI-ADR (877 248 4237) (toll free) Email: Citibank@em.fcnbd.com Internet address: www.citibank.com/adr

General enquiries on the Company and the apportionment of capital gains tax base cost should be made to the Company Secretary at:
Imperial Tobacco Group PLC, PO Box 244, Upton Road, Bristol BS99 7UJ 0117 963 6636 (+44 117 963 6636 from outside the UK)
Email: itg@uk.imptob.com

## DIVIDEND REINVESTMENT PLAN (DRIP)

Imperial Tobacco Group PLC has set up a DRIP to enable shareholders to use their cash dividend to buy further shares in the market through a dividend reinvestment plan. Further information can be obtained from Lloyds TSB Registrars, PO Box 699 Worthing, West Sussex, BN99 6YY 0870 241 3018

## INTERNATIONAL DIRECT INVESTMENT PROGRAM

Imperial Tobacco Group PLC American Depositary Shares have been included in the Citibank International Direct Investment Program. The International Direct Investment Program provides registered holders and interested investors with a convenient way to purchase and sell Imperial Tobacco Group PLC American Depositary Shares.

To obtain further information about the International Direct Investment Program, please call Citibank N.A., the administrator and sponsor at 800 808 8010

## ISA

Investors in Imperial Tobacco Group PLC ordinary shares may take advantage of a low cost Individual Savings Account (ISA) dedicated to Imperial Tobacco Group shares operated by Lloyds TSB Bank plc. Details of the ISA, which offers competitive charges, can be obtained from Lloyds TSB Registrars, ISA Team, The Causeway, Worthing, West Sussex BN99 6UY 0870 242 4244

## SHARE DEALING FACILITIES

A low cost, execution only, postal dealing service for the purchase and sale of Imperial Tobacco Group PLC shares has been set up by Hoare Govett Limited. Commission is 1% with a minimum charge of £10. For details please contact: Hoare Govett Limited, 250 Bishopsgate, London EC2M 4AA 020 7678 8300 (+44 20 7678 8300 from outside the UK)

## INTERNET

Information on Imperial Tobacco Group PLC is available on our website: www.imperial-tobacco.com







Designed and produced by **MAGEE**
Printed by CTD Capita Limited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