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IMPERIAL TOBACCO GROUP PLC
 HALF YEARLY REPORT TO 31 MARCH 2010

Financial Highlights

	6 months ended 31 March 2010	Change	6 months ended 31 March 2009	Year ended 30 Sept 2009
<i>Volumes*</i>				
Cigarettes	146.9 bn	-3.7%	152.5 bn	322.2 bn
Fine cut tobacco	13,300 t	+9.5%	12,150 t	25,950 t
White stick equivalents	166.1 bn	-2.1%	169.7 bn	358.8 bn
<i>Financial Highlights – adjusted basis**</i>				
Tobacco net revenue	£3,389m	+4%	£3,252m	£6,818m
Logistics distribution fees	£480m	+3%	£467m	£964m
Adjusted operating profit	£1,452m	+6%	£1,369m	£2,933m
Adjusted profit before tax	£1,150m	+15%	£998m	£2,233m
Adjusted earnings per share	83.2p	+16%	71.8p	161.8p
<i>Financial Highlights – reported basis</i>				
Revenue	£13,370m	+8%	£12,420m	£26,517m
Operating profit	£1,188m	+4%	£1,139m	£2,337m
Profit/(loss) before tax	£974m		£(184)m	£945m
Basic earnings/(loss) per share	68.0p		(14.7)p	65.5p
Diluted earnings/(loss) per share	67.8p		(14.7)p	65.3p
Dividend per share	24.3p	+16%	21.0p	73.0p

* White stick equivalents reflect our combined cigarette and fine cut tobacco volumes and provides a useful comparison where consumers are switching between these categories of tobacco. Cigarette volumes for the six months ended 31 March 2009 have been restated to include third party manufacturing and distribution arrangements in certain countries.

** Management believes that these non-GAAP measures provide a useful comparison of business performance and reflect the way in which the business is controlled. Definitions are included in our accounting policies within the notes to the financial statements. Reconciliations between adjusted and reported measures are also included in the relevant notes.

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2010 HALF YEARLY REPORT

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Cautionary statement

Certain statements in this report constitute forward-looking statements. Any statement in this document that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this report. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of announcement of the half yearly results and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this report should be construed as a profit forecast.

Chairman and Chief Executive's Statement

In the first half of 2010 we delivered a good operational and financial performance reflecting the resilience of our business and the success of our enhanced sales strategy.

Our focus on driving sustainable sales growth throughout the Group is delivering results in a number of our regions and we achieved further gains with our strategic brands.

Our adjusted operating profit increased by 6 per cent to £1.5 billion, while reported operating profit grew by 4 per cent, reflecting operational progress and synergy benefits. Our adjusted earnings per share grew by 16 per cent to 83.2 pence per share (2009: 71.8 pence). Basic earnings per share were 68.0 pence (2009: loss of 14.7 pence).

The Board has declared an interim dividend payment of 24.3 pence per share (2009: 21.0 pence), an increase of 16 per cent, and in accordance with our stated practice this represents a third of last year's full year dividend. This will be paid on 20 August 2010, with an ex-dividend date of 21 July 2010.

Performance Highlights HY10

Sustainable Sales Growth

Our success in growing our top line reflects our enhanced focus on leveraging our brand and product portfolios across our geographic footprint, aligned to local consumer preferences. We have increased our tobacco net revenues by 4 per cent to £3.4 billion (2009: £3.3 billion), with price increases and improving market shares in cigarette and fine cut tobacco in a number of key markets offsetting Spain and the USA.

Our half year cigarette volumes were down by 3.7 per cent, impacted by market weaknesses in the USA, Spain and Russia. Our performance improved rapidly in our second quarter, with volumes down only 1.4 per cent. The importance of our total tobacco focus is emphasised in these results and we delivered excellent growth in our fine cut tobacco volumes, up 9.5 per cent, achieving particular success in capitalising on changing consumer preferences in Central Europe. The markets of the EU dominate fine cut tobacco and taking the aggregate of the EU's largest ten markets which represents over 90 per cent of EU fine cut tobacco volumes, we grew our market share by almost 2 per cent in the first half and our volumes by 13 per cent. When our fine cut tobacco volumes are combined with our cigarette volumes, our overall white stick equivalent¹ volumes were down just 2.1 per cent, a pleasing performance.

We have strong positions in both mature and emerging markets; a balance of opportunities from which to maximise the potential of our brands and our total tobacco portfolio. We have made additional investments in mature and emerging markets to support our sustainable sales growth agenda.

We have also invested in our global strategic cigarette brands *Davidoff*, *West* and *Gauloises Blondes*, rejuvenating each brand with new pack designs and variants and these initiatives have been well received by consumers. *Davidoff* was up by 4 per cent with good growth in Central and Eastern Europe and the Middle East. As previously highlighted *Gauloises Blondes* was impacted by temporary supply disruption in the Middle East, with volumes down 16 per cent. This has now been resolved and if excluded, *Gauloises Blondes* grew 6 per cent on an underlying basis. *West* was up by 8 per cent, with positive results in Poland, Russia, Taiwan and Turkey.

Complementing our strategic brands is our versatile portfolio of regional and local tobacco brands. *JPS* was up by 13 per cent with a strong performance in a number of our major European markets and in Australia. Other notable cigarette brand highlights from our first half include *Fine* and *Excellence* in Africa and *Maxim* in Eastern Europe. In fine cut tobacco, *Paramount* and *JPS* performed well in Central and Western Europe.

We have an excellent partnership track record, with many successful strategic alliances and joint ventures, and we have further built on this in the first half. We have signed three agreements in the last few months: the manufacture and sale of *Davidoff* in South Korea by KT&G, the manufacture and sale of *Davidoff* and *West* in Mexico and a cigar collaboration framework agreement in China.

In our world leading cigar business volume declines particularly in the USA have been offset by pricing and operational efficiencies. Our Cuban cigar business continued to show signs of recovery particularly in Western Europe, Asia and the Middle East. Our logistics operations delivered a robust performance with cost saving initiatives and price increases strengthening our position.

¹ White stick equivalents reflect our combined cigarette and fine cut tobacco volumes and provides a useful comparison where consumers are switching between these categories of tobacco.

Cost Optimisation

Our current priority in the area of cost optimisation is to achieve our integration synergy targets whilst driving business simplification and productivity improvements across the Group.

In the first half of 2010, we delivered incremental synergies of €54 million, giving cumulative synergies of €244 million delivered to date and we remain on target to deliver €400 million by 2012. We have seen our tobacco leaf costs rise substantially over the last few years, the impact of which is being offset by price increases across our portfolio in a number of markets. Inflationary leaf cost pressures combined with the US dollar exchange rate, (the currency in which tobacco leaf is generally traded), have impacted this half year's performance. We expect this to continue for the remainder of the financial year but we are actively managing our leaf costs to mitigate the impact.

Effective Cash Utilisation

Whilst driving the operational performance of the business, we continue to effectively manage the cash we generate, with debt pay down our immediate priority. Our cash conversion over the 12 month period to 31 March 2010 was 116 per cent with our half year cash conversion of 34 per cent reflecting the normal seasonal increase in working capital in the first half of the year due to pre-production ahead of duty increases in a number of countries and the timing of leaf purchases. Our adjusted net debt increased to £11.4 billion (30 September 2009: £10.8 billion; 31 March 2009: £14.0 billion), as a result of the increase in working capital. Reported net debt at 31 March 2010 rose to £12.3 billion (30 September 2009: £12.0 billion; 31 March 2009 £15.2 billion). As a result of the increase in working capital and foreign exchange effects, our net debt at 31 March 2010 rose to £12.3 billion (30 September 2009: £12.0 billion). Working capital management remains a key priority for us and these seasonal working capital outflows are expected to unwind in the second half of the financial year.

Regulation and Illicit Trade

We recognise we are a company with a controversial product and have always supported sensible, reasonable and practical regulation. We strongly oppose regulation that undermines the rights of our consumers to enjoy smoking and our commercial freedoms such as product display bans and further encroachment on our packaging, including the plain packaging of tobacco products.

Excessive regulation and tax increases by governments further fuels the illicit trade of non-duty paid and counterfeit tobacco products. Illicit trade deprives governments of tax revenues and consumers of a high quality, responsibly produced product that complies with all regulatory requirements. We continue to work closely with governments and customs authorities to combat smuggling and counterfeiting activities.

Responsible Business Practice

Building and maintaining trust with our stakeholders and acting with integrity at all times are critical to our success, our global reputation and our long-term sustainability. We have recently established a Commercial Integrity department to further enhance our anti-illicit trade strategies, the protection of our brands and further drive good corporate and individual conduct across the Group.

In March, we published our Corporate Responsibility Review, which includes feedback on our performance from our independent stakeholder panel. This has helped to shape our Corporate Responsibility approach and reporting. In addition, we have conducted an extensive review of our Code of Conduct, which sets out the standards of responsible behaviours we expect from all our employees.

CEO Succession

Gareth Davis retires as Chief Executive on 12 May 2010 and, as announced last year, will be succeeded by Alison Cooper, Chief Operating Officer. Alison has played a key role in driving our international expansion and has been instrumental in evolving and implementing our sustainable sales growth strategy. The Board would like to thank Gareth for his outstanding contribution to our success and wish him a long and happy retirement. Gareth was appointed Chief Executive in 1996 and under his leadership Imperial Tobacco has created significant value for shareholders whilst transforming from a predominantly UK business into one of the world's leading tobacco companies with a strong cigarette portfolio and world leadership in fine cut tobacco, cigars, papers and tubes.

Outlook

With our resilient business and successful strategy we are well placed to continue to drive growth. We have many opportunities to pursue and we are focused on maximising these for the benefit of our shareholders.

In the second half we currently expect cigarette volumes to be stable against the second half of 2009, with a slight decline overall for our current financial year. We will continue to drive sustainable sales growth by leveraging our total tobacco portfolio across our geographic footprint. Continued market investment will support top line growth by enhancing our sales force capabilities and developing brand and product portfolio innovations, ensuring that our portfolio remains relevant to local consumer preferences.

We have considerable strength in our global strategic cigarette brands of *Davidoff*, *West* and *Gauloises Blondes* and have the opportunity to further develop their potential, whilst capitalising on the strengths of our regional and local brand portfolio. Complementing our cigarette portfolio is our world leadership in fine cut tobacco and we are well placed to further benefit from downtrading dynamics in a number of markets. Our most recent monthly cigarette shares are rising and we are also making strong fine cut tobacco gains in the European Union. Maintaining this growth momentum in both mature and emerging markets is our priority.

With our consistent approach to cost optimisation we remain focussed on efficiency improvements and investments and we will continue to actively manage the impact of rising leaf costs.

Our business is highly cash generative and debt pay down remains our immediate focus. Working capital followed its normal seasonal pattern with an outflow in the first half which we expect to unwind in the second half. For the full year we expect our cash conversion to be between 90 and 100 per cent.

In conclusion, we have made a promising start to the year with encouraging indications that our enhanced focus on sustainable sales growth is yielding results and believe we are well positioned to continue to create sustainable value for our shareholders.



Iain Napier
Chairman



Gareth Davis
Chief Executive

Financial Review

Revenue

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009
Tobacco	9,482	8,705
Logistics	4,400	4,237
Eliminations	(512)	(522)
Group revenue	13,370	12,420

Growth in our reported revenue reflects excise duties and our performances in the UK, Germany, Rest of EU and Rest of the World, partially offset by more challenging trading conditions in Spain and the Americas.

Group Earnings Performance

In £s million (unless otherwise indicated)	Adjusted		Reported	
	6 months ended 31 March 2010	6 months ended 31 March 2009	6 months ended 31 March 2010	6 months ended 31 March 2009
Operating profit				
Tobacco	1,374	1,301	1,184	1,139
Logistics	87	78	13	10
Eliminations	(9)	(10)	(9)	(10)
Group operating profit	1,452	1,369	1,188	1,139
Net finance costs	(302)	(371)	(214)	(1,323)
Profit/(loss) before taxation	1,150	998	974	(184)
Taxation	(299)	(264)	(277)	42
Profit/(loss) for the period	851	734	697	(142)
Earnings/(loss) per ordinary share (pence)	83.2	71.8	68.0	(14.7)

Adjusted operating profit grew by 6 per cent to £1,452 million (2009: £1,369 million), reflecting operational progress and the benefit of operational efficiencies arising from the Altadis acquisition. Reported operating profit was up 4 per cent to £1,188 million (2009: £1,139 million). Adjusted net finance costs were 19 per cent lower than in 2009, reflecting our continued focus on debt reduction. After net finance costs and tax, adjusted earnings per share grew by 16 per cent to 83.2 pence (2009: 71.8 pence). Reported earnings per share were 68.0 pence (2009: loss of 14.7 pence), additionally reflecting lower fair value losses on derivative financial instruments, amortisation of acquired intangibles and other adjusting items as outlined below.

Reconciliation of Adjusted Performance Measures

We believe that reporting adjusted measures provides a useful comparison of business performance and reflects the way in which the business is controlled. The results have been adjusted in line with our normal practice, and a reconciliation is provided below.

	Operating profit (in £s millions)		Net finance costs (in £s millions)		Earnings/(loss) per share (in pence)	
	6 months ended 31 March 2010	6 months ended 31 March 2009	6 months ended 31 March 2010	6 months ended 31 March 2009	6 months ended 31 March 2010	6 months ended 31 March 2009
Reported	1,188	1,139	(214)	(1,323)	68.0	(14.7)
Acquisition accounting adjustments	25	-	-	-	2.0	-
Amortisation of acquired intangibles	231	224	-	-	19.0	18.5
Fair value (gains)/losses on derivative financial instruments providing commercial hedges	-	-	(96)	937	(6.8)	66.6
Post-employment benefits net financing cost	-	-	8	15	0.5	1.0
Restructuring costs	8	6	-	-	0.5	0.4
Adjusted	1,452	1,369	(302)	(371)	83.2	71.8

Acquisition accounting adjustments represents costs incurred in relation to investigations into Reemtsma trading activities prior to its acquisition by Imperial Tobacco. These costs will be recovered from the sellers of Reemtsma in the second half of the year.

Amortisation of acquired intangibles rose from £224 million, to £231 million mainly reflecting foreign exchange movements.

The Group hedges underlying interest rate and foreign exchange rate exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IAS 39 lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result and as permitted under IAS 39, the Group has decided not to

apply cash flow or fair value hedge accounting. We therefore exclude fair value gains and losses on derivative financial instruments providing commercial hedges from adjusted net finance costs. Movements in foreign exchange and interest rates have been less volatile in the current year and fair value gains on derivative financial instruments included in reported net finance costs were £96 million compared with losses of £937 million in the same period last year.

The net financing cost of post-employment benefits amounted to £8 million compared with £15 million in 2009 and is excluded from adjusted net finance costs. Restructuring costs during the period were £8 million (2009: £6 million).

Geographic Analysis of Tobacco

	Net revenue (in £s millions)		Adjusted operating profit (in £s millions)		Cigarette volumes (billions)		Fine cut tobacco volumes (tonnes)	
	6 months ended 31 March 2010	6 months ended 31 March 2009	6 months ended 31 March 2010	6 months ended 31 March 2009	6 months ended 31 March 2010	6 months ended 31 March 2009	6 months ended 31 March 2010	6 months ended 31 March 2009
UK	448	418	295	276	10.4	9.8	1,400	1,200
Germany	419	376	208	183	10.8	11.5	2,900	2,650
Spain	284	298	130	126	12.8	15.8	550	1,000
Rest of EU	782	708	319	272	28.9	27.2	7,250	5,850
Americas	362	443	101	141	5.5	6.7	150	450
Rest of the World	1,094	1,009	321	303	78.5	81.5	1,050	1,000
Total	3,389	3,252	1,374	1,301	146.9	152.5	13,300	12,150

UK net revenue rose by 7 per cent to £448 million reflecting volume growth and pricing benefits. Adjusted operating profit rose 7 per cent to £295 million.

In Germany, strong growth in fine cut tobacco volumes and benefits in pricing more than offset declines in cigarette volumes and led to a 11 per cent increase in net revenue to £419 million. Adjusted operating profit rose £25 million to £208 million. £4 million of the increase in adjusted operating profit related to the strengthening of the euro against sterling.

Net revenue in Spain declined by £14 million to £284 million reflecting difficult conditions in the Spanish market and lower cigarette and fine cut volumes. Adjusted operating profit rose by 3 per cent to £130 million as result of price increases, operational efficiencies and a benefit of around £3 million related to the strengthening of the euro against sterling.

In the Rest of EU, good performances particularly in France, Poland and the Czech Republic led to a 10 per cent increase in net revenue to £782 million and a 17 per cent increase in adjusted operating profit to £319 million. Some £4 million of the increase in adjusted operating profit was attributable to the strengthening of the euro and other currencies against sterling.

In the Americas, net revenue decreased by £81 million to £362 million and adjusted operating profit was down by £40 million to £101 million, reflecting volume declines following substantial increases in Federal Excise Tax last year. Strengthening of sterling against the US dollar accounted for around £10 million of the reduction in adjusted operating profit.

Rest of the World delivered a strong performance, with net revenue increasing by 8 per cent to £1,094 million. Adjusted operating profit rose to £321 million with underlying increases partially offset by currency movements of around £14 million.

Restructuring and Synergies

Profits also benefited from incremental synergies from the Altadis acquisition of €54 million which we delivered in the first half. Our cumulative synergies to date are €244 million. There was an additional restructuring charge of £8 million in the first half which included further rationalisation and reorganisation of our manufacturing base, including the closure of our tubes factory in Woodstock, Canada.

Logistics

Logistics adjusted operating profit was £87 million compared with £78 million in 2009, despite the continued macro-economic difficulties in Spain.

In £s million (unless otherwise indicated)	6 months ended 31 March 2010	6 months ended 31 March 2009
	Distribution fees	480
Adjusted operating profit	87	78
Adjusted distribution margin - per cent	18.1	16.7

Net Finance Costs

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009
	Net finance costs	214
Net fair value net gains/(losses) on derivative financial instruments providing commercial hedges	96	(937)
Post-employment benefits net financing cost	(8)	(15)
Adjusted net finance costs	302	371

Adjusted net finance costs were £302 million (2009: £371 million). On an adjusted basis, our interest cover was 4.8 times (2009: 3.7 times). Reported net finance costs of £214 million (2009: £1,323 million) include fair value gains on derivative financial instruments providing commercial hedges of £96 million (2009: losses of £937 million) and post-employment benefits net financing costs of £8 million (2009: £15 million).

Taxation

The adjusted tax charge for the period was £299 million (2009: £264 million), representing an adjusted effective tax rate of 26.0 per cent (2009: 26.5 per cent). The reported tax charge was £277 million (2009: credit £42 million).

Foreign Exchange

Tobacco net revenue benefited by £25 million due to currency effects, as the benefits of the strengthening of the euro against sterling were partially offset by movements in the dollar and eastern European currencies. Logistics distribution fees benefited by £15 million from the strengthening of the euro. Overall, Group adjusted operating profit suffered from currency effects of £12 million, as adverse currency effects on costs more than offset the benefits on revenues.

Dividends

We have declared an interim dividend of 24.3 pence per share, representing a third of last year's full year dividend payable on 20 August 2010 with an ex-dividend date of 21 July 2010. Our policy of progressive dividends based on underlying earnings growth with a payout ratio of around 50 per cent is unchanged.

Financing and Cash Flow

At 31 March 2010, we had committed financing facilities in place of around £14.2 billion. Some 40 per cent was bank facilities with the balance raised through capital market bond issues. We remain fully compliant with all our banking covenants and are committed to retaining our investment grade ratings.

Our reported net debt has risen to £12.3 billion from £12.0 billion at 30 September 2009. Eliminating accrued interest, the fair value of derivatives providing commercial cash flow hedges and finance lease liabilities, our adjusted net debt was £11.4 billion (30 September 2009: £10.8 billion). The denomination of our closing adjusted net debt was 57 per cent euro, 22 per cent US dollar and 21 per cent sterling. Our all-in cost of debt was broadly stable at 5.2 per cent (2009: 5.5 per cent).

Our business remains highly cash generative and we target converting into cash between 90 and 100 per cent of our profit from operating activities after net capital expenditure in our full financial year. Our cash conversion over the 12 month period to 31 March 2010 was 116 per cent (2009: 91 per cent), with our half year cash conversion at 34 per cent as a result of the normal seasonal increase in working capital in the first half of the year. The outflow predominantly related to pre-production ahead of duty increases in a number of countries and the timing of leaf purchases. Working capital management remains a key priority for us and these seasonal working capital outflows are expected to unwind in the second half.

Fixed Asset Additions and Disposals

Our cash outflows include gross capital expenditure of £126 million (2009: £112 million), and we continue to make disciplined investments in machinery and equipment across our expanded footprint.

Disposal of surplus properties and equipment generated proceeds from the sale of fixed assets of £17 million (2009: £40 million).

Operating Review

UK

Market Dynamics

In the UK, we estimate that the annualised duty paid cigarette market was stable at 44.2 billion cigarettes. The rate of downtrading appears to have accelerated following the VAT increase in January with the economy segment now accounting for over 20 per cent of the total cigarette market.

The annualised fine cut tobacco market has continued to grow strongly, up by 18 per cent to 4,850 tonnes (2009: 4,100 tonnes).

In his March Budget, the Chancellor raised tobacco duty by above inflation levels, resulting in an average increase of 15 pence per pack. The change in timing of the UK Budget from April in 2009 to March in 2010 has resulted in a partial shift in performance from the second to the first half of our 2010 financial year.

	2010	2009
Market Size – annualised ¹		
Cigarette	44.2 bn	44.2 bn
Fine cut tobacco	4,850 t	4,100 t
Performance Highlights		
Cigarette volumes	10.4 bn	9.8 bn
Cigarette market share ¹	45.4%	45.5%
Fine cut tobacco volumes	1,400 t	1,200 t
Fine cut tobacco market share ¹	55.2%	58.7%

¹ Imperial Tobacco estimates.

Our Performance

Net revenue was £448 million (2009: £418 million), with adjusted operating profit of £295 million (2009: £276 million).

We have continued to leverage our portfolio to capitalise on consumer downtrading and our cigarette market share has been on an upward trend since July 2009, reaching 45.6 per cent in March, although our average cigarette market share was broadly stable at 45.4 per cent. *Lambert & Butler* and *Richmond* remain our two best selling cigarette brands in the UK. *JPS Silver* and *Windsor Blue* continue to grow and now hold around 40 per cent of the growing economy segment.

In fine cut tobacco, *Golden Virginia Yellow* and *Gold Leaf* grew volumes strongly although our overall fine cut tobacco share was 55.2 per cent (2009: 58.7 per cent), reflecting declines in our premium brands. To support our enhanced focus on sales, we have reorganised our sales force to increase the number and frequency of customer visits.

We will continue to distribute Philip Morris' brands in the UK following the completion of a new agreement, which took effect on 1 April 2010 and runs until 31 December 2015.

Earlier this month, the Office of Fair Trading imposed a fine on Imperial Tobacco, Gallaher and a number of retailers for allegedly restricting competition. We strongly reject this and will be appealing the Decision to the Competition Appeal Tribunal. As part of our appeal, we will ask the Competition Appeal Tribunal to quash the fine in its entirety.

We are seeking a judicial review of the relevant sections of the Health Act 2009 and proposed regulations which seek to ban the display of tobacco products in retail outlets from October 2011. This is a further example of the unreasonable and disproportionate approach to regulating tobacco and if implemented will simply fuel the growth in the illicit trade of tobacco and create a huge cost burden for retailers.

In February 2010, we announced that our cigarette vending machine subsidiary Sinclair Collis was seeking a judicial review of the relevant sections of the Health Act 2009 which seek to ban sales of tobacco from vending machines from October 2011.

Germany

Market Dynamics

We estimate that the annualised cigarette market was down 1 per cent to 81.9 billion cigarettes (2009: 82.6 billion). The annualised fine cut tobacco market was up by 8 per cent to 25,150 tonnes.

Price increases in June 2009, followed by the increase in the minimum pack size of cigarettes last July have continued to drive downtrading in Germany. In this environment, low price private label brands and non-duty paid cigarette volumes have both grown and we estimate non-duty paid cigarettes now account for an estimated 22 per cent of consumption.

Our Performance

Net revenue was £419 million (2009: £376 million), with adjusted operating profit of £208 million (2009: £183 million).

We continue to focus on developing our *JPS* brand franchise to build sales, launching a cigarette soft pack in November. *JPS* further consolidated its position as the number two cigarette brand in Germany with share up to 9.0 per cent (2009: 8.4 per cent) of the total cigarette market and 30 per cent of the value segment. *Davidoff* broadly maintained its market share at the premium end of our portfolio. We have been increasing our monthly cigarette market share since October though our overall average cigarette market share declined to 26.6 per cent (2009: 27.3 per cent), impacted by the competitive dynamics around the change from 17 to 19 cigarettes per pack last July. *Gauloises Blondes* was incorporated into our distribution network from April 2010 enhancing our ability to develop this key brand.

JPS and *Route 66* make your own tobacco performed well in fine cut tobacco, reinforcing our market leadership of this segment with our market share up at 23.1 per cent.

Spain

Market Dynamics

Economic conditions continue to be particularly difficult in Spain where the recession has had a significant impact.

We estimate that the overall annualised cigarette market was down by 11 per cent to 71.8 billion cigarettes, and the overall annualised fine cut tobacco segment declined by 2 per cent to 4,200 tonnes. There have been further challenges in travel retail where we are the leading player with market volume declines of over 20 per cent in cigarettes and 43 per cent in fine cut tobacco. On 1 July 2010, VAT will rise from 16 to 18 per cent.

Our Performance

Net revenue was £284 million (2009: £298 million), with adjusted operating profit of £130 million (2009: £126 million).

We are market leaders in Spain across all product groups and our domestic blonde cigarette market share was 29.7 per cent (2009: 30.8 per cent). Our overall volume and market share performance continues to be affected by our leading positions in travel retail and the dark segment, both of which are declining ahead of the overall market, although our price increases have mitigated the financial impact of these declines. Our cigarette brand *Ducados Rubio* performed well and the launch of *Ducados Rubio* soft packs in March has further enhanced the brand franchise.

In fine cut tobacco, our overall share was impacted by the significant decline in the travel retail sector. *Ducados Rolling* performed well and *Origenes*, launched in October 2009, has made good progress in the growing natural segment. In

	2010	2009
Market Size – annualised ¹		
Cigarette	81.9 bn	82.6 bn
Fine cut tobacco	25,150 t	23,200 t
Performance Highlights		
Cigarette volumes	10.8bn	11.5 bn
Cigarette market share ¹	26.6%	27.3%
Fine cut tobacco volumes	2,900 t	2,650 t
Fine cut tobacco market share ¹	23.1%	22.8%

¹ Imperial Tobacco estimates.

	2010	2009
Market Size – annualised ¹		
Cigarette	71.8 bn	81.0 bn
Fine cut tobacco	4,200 t	4,300 t
Performance Highlights		
Cigarette volumes	12.8 bn	15.8 bn
Cigarette market share ^{1,2}	29.7%	30.8%
Fine cut tobacco volumes	550 t	1,000 t
Fine cut tobacco market share ¹	32.0%	45.8%

¹ Imperial Tobacco estimates.

² Market shares reflects the domestic blonde cigarette segment

cigar, we are growing share whilst continuing to develop our portfolio to capitalise on consumer downtrading to smaller cigars.

Rest of EU

	2010		2009	
Regional Market Size – annualised ¹				
Cigarette	348.2 bn		350.0 ² bn	
Fine cut tobacco	39,300 t		36,850 t ²	
Performance Highlights				
Cigarette volumes	28.9 bn		27.2 bn	
Fine cut tobacco volumes	7,250 t		5,850 t	
	Cigarette Market Shares ¹		Fine Cut Tobacco Market Shares ¹	
	2010	2009	2010	2009
Austria	16.3%	16.9% ²	21.6%	20.8% ²
Belgium	16.0%	16.0%	11.0%	10.8%
Czech Republic	14.0%	13.8%	50.3%	45.2%
France	23.9% ³	23.7% ³	22.6%	22.8%
Greece	11.5%	10.9%	33.5%	35.5%
Ireland	24.5%	25.5% ²	63.3%	59.5% ²
Italy	2.3%	2.5%	43.1%	43.8%
Netherlands	12.5%	13.0% ²	49.0%	48.7% ²
Poland	25.8%	24.1%	16.5%	2.2%

¹ Imperial Tobacco estimates.

² Restated due to a change of source.

³ Market shares reflects the domestic blonde cigarette segment

Regional Review

We estimate that regional annualised cigarette volumes were down by 1 per cent to 348.2 billion cigarettes (2009: 350.0 billion). The annualised duty paid fine cut tobacco market was up by 7 per cent to 39,300 tonnes (2009: 36,850 tonnes), with strong growth in EU accession markets. In France, our most important market in this region, annualised cigarette volumes were stable at 52.2 billion cigarettes with annualised fine cut tobacco volumes up 3 per cent to 7,450 tonnes.

Our Performance

Net revenue was £782 million (2009: £708 million), with adjusted operating profit of £319 million (2009: £272 million). We have increased both our cigarette and fine cut tobacco volumes across the region, up by 6 per cent and 24 per cent respectively.

Cigarette Highlights

In France, our domestic blonde cigarette market share was up to 23.9 per cent, with growth in *News*, *JPS* and *Fortuna* and we increased prices in November 2009 across our portfolio. We grew our cigarette shares in a number of other markets including in Greece, Hungary, Poland and Sweden. Brand highlights include *West* in the Czech Republic and Poland and *JPS* in France and Portugal.

Other Tobacco Products Highlights

We leveraged our world leadership in fine cut tobacco, growing shares in a number of markets. In The Netherlands, the largest fine cut tobacco market in the region, we improved our leading position. Our fine cut tobacco share was 49.0 per cent with notable brand performances including *Drum* and *West*. In France, *News* continued to progress and we launched *Drum Blond* in January, while in Italy we recently introduced *Origenes*. We grew both volumes and market shares in Poland with *Paramount*, in Hungary with *Golden Gate* and in the Czech Republic with *Route 66*.

In Scandinavia, our snus brands *Skruf* and *Knox* continued to make significant gains and we are expanding our production capacity.

Americas

Market Dynamics

The main focus of our Americas business is the USA, where conditions remain challenging following the Federal Excise Tax increases in April 2009. We estimate that annualised cigarette volumes were down by 11 per cent to 301.4 billion. (2009:338.6 billion).

The market is extremely competitive with significant discounting and aggressive brand repositioning by domestic competitors to gain market share.

	2010	2009
USA Market Size – annualised¹		
Cigarette	301.4 bn	338.6 bn
USA Performance Highlights		
Cigarette volumes	4.9 bn	6.0 bn
Cigarette market share ¹	4.0%	4.3%

¹ Imperial Tobacco estimates.

Since assuming regulatory control of the USA tobacco industry in June 2009, the Food and Drug Administration (FDA) has issued a number of regulatory requirements for tobacco, some of which were part of the current Master Settlement Agreement. We want to work constructively with the FDA and are confident that we will comply with the changing regulatory environment, although we will challenge specific items that we believe violate our constitutional rights.

Our Performance

Net revenue was £362 million (2009: £443 million), with adjusted operating profit of £101 million (2009: £141 million), as a result of declining market volumes and share.

Our market share was 4.0 per cent (2009: 4.3 per cent) as a result of aggressive discounting and brand repositioning by the major domestic competitors, although it has stabilised in recent months. In order to support our market share and remain competitive, we have been investing in the promotion of our brands.

We have continued to invest in our sales force to extend our national coverage and we have grown our distribution. Our main brands *USA Gold* and *Sonoma* are well positioned in the discount sector with market shares of 2.1 and 1.6 respectively, and we continued to grow volumes of *Fortuna*. In addition, we have focused on strengthening our wider brand portfolio by rejuvenating our *Malibu* and *Montclair* cigarette brands.

In cigar, although trading conditions remained challenging mass market natural wrapper cigars, particularly our leading Dutch Masters brand, have performed well. We also gained share in the premium segment. Our cigar results benefited from price increases mitigating the impact of volume declines.

Rest of the World

Regional Review

In our Rest of the World region, net revenue was £1,094 million (2009: £1,009 million), with adjusted operating profit of £321 million (2009: £303 million).

Our Performance

We continue to make considerable progress across Africa and the Middle East. We have a strong leadership position in Morocco ahead of the tobacco monopoly ending later this year. Our key local brand *Marquise* performed well and our share of the international brand segment grew as uptrading continued, with a good performance from *Gauloises Blondes*. At the end of March, we closed our Moroccan factory in Tetouan in order to improve our competitive position. We grew share in a number of our other African markets including in the Ivory Coast, Senegal and Burkina Faso, with *Excellence*, *Fine* and *Hamilton*. In the Middle East, we had temporary supply disruption which has been resolved. We made market share gains in several markets and we further enhanced *Davidoff's* profile with the new global pack design rolled out into Saudi Arabia, United Arab Emirates and Kuwait earlier this month.

	2010	2009
Performance Highlights		
Cigarette volumes	78.5 bn	81.5 bn ³
Cigarette Market Shares¹		
Australia	16.9%	15.6%
Morocco	83.7%	85.6%
Russia	8.4%	8.8% ²
Saudi Arabia	10.0%	9.7% ²
Taiwan	11.1%	9.4%
Turkey	3.8%	3.2% ²
Ukraine	21.6%	21.6% ²

¹ Imperial Tobacco market estimates.

² Restated due to change of source.

³ Cigarette volumes for the six months ended 31 March 2009 have been restated to include third party manufacturing and distribution arrangements in certain countries.

Rising unemployment due to the economic downturn and duty increases in both Russia and Ukraine have affected the cigarette markets with declines of 10 per cent and 9 per cent respectively. In Russia, *Davidoff*, *West* and *Maxim* continued to perform well, with *Maxim* benefiting from downtrading, though our cigarette share was down to 8.4 per cent (2009: 8.8 per cent) impacted by declining volumes of our value brand *Balkan Star* which has stabilised in recent months. In the Ukraine, we held our cigarette share at 21.6 per cent and saw further growth in *Davidoff*.

In Asia-Pacific, we delivered an excellent performance growing volumes and profits. In Taiwan, downtrading continued to be a key dynamic in the market following tax increases last year. With our portfolio well positioned across all price points, we have grown our market share, with *West* performing strongly and *Davidoff* consolidating its position in the premium segment. In Australia, consumers are seeking value and a strong performance from our value brand *JPS* helped improve our share to 16.9 per cent. Launched in May 2009, the brand had captured 1.3 per cent of the total cigarette market in March. Elsewhere, Cambodia, Laos and Vietnam all delivered market share gains.

We are seeing signs of recovery in our Habanos cigar volumes. Price increases, an improved sales mix with a number of special and limited editions and an encouraging performance in several of our key markets in Western Europe, Asia-Pacific and the Middle East have improved our revenues and profits.

Logistics

Overview

Our logistics operations were resilient despite the weak economic trends from last year continuing. Price increases and a significant focus on our cost base have ensured that we have continued to grow our profits.

Our Performance

Distribution fees were £480 million (2009: £467 million), with adjusted operating profit £87 million (2009: £78 million). Manufacturer's price increases in Spain, France and Italy have compensated for cigarette volume declines in these markets, resulting in profit growth in Tobacco logistics.

In Other Logistics, a number of our businesses have suffered from the difficult economic climate, particularly in Spain, but an ongoing cost reduction programme has ensured only a modest decline in profits and, as a consequence, logistics as a whole has shown profit growth on last year.

Principal Risks and Uncertainties

The principal risks and uncertainties to which the Group is exposed and our approach to managing those risks are unchanged from those identified on pages 16 and 17 in our 2009 Annual Report and Accounts and cover the following areas:

- the degree of regulation in the Group's markets;
- the levels of excise duty applied in the many markets in which the Group operates;
- the illicit trade of tobacco products;
- the Group's performance being dependent on key markets and customers;
- the potential impact of competition law in the Group's markets;
- the Group's exposure to tobacco-related litigation;
- the levels of the Group's borrowings and prevailing interest rates.

It is the Board's view that the principal risks and uncertainties surrounding the Group in the second half of the financial year remain those set out in the 2009 Annual Report and Accounts.

The Board considers that having taken into account the Group's plans and financial commitments, the Group has sufficient resources to meet its expected requirements over the next twelve months.

Statement of Directors' Responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

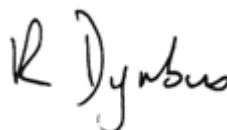
- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Imperial Tobacco Group PLC are listed in the Imperial Tobacco Group PLC Annual Report for 30 September 2009. There were no changes in the period. A list of current directors is maintained on the Imperial Tobacco Group website: www.imperial-tobacco.com

By order of the Board



Gareth Davis
Chief Executive



Robert Dyrbus
Finance Director

Financial Statements

Independent Review Report

to Imperial Tobacco Group PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2010, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in the Accounting Policies section, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.



PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
27 April 2010

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 financial statements since they were initially presented on the website.

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

Consolidated Income Statement

for the six months ended 31 March 2010

In £s million unless otherwise indicated	Notes	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Revenue	1	13,370	12,420	26,517
Duty and similar items		(6,093)	(5,453)	(11,769)
Other cost of sales		(4,632)	(4,440)	(9,432)
Cost of sales		(10,725)	(9,893)	(21,201)
Gross profit		2,645	2,527	5,316
Distribution, advertising and selling costs		(1,009)	(955)	(1,979)
Administrative and other expenses		(448)	(433)	(1,000)
Operating profit	1	1,188	1,139	2,337
Investment income	3	395	834	1,180
Finance costs	3	(609)	(2,157)	(2,572)
Net finance costs	3	(214)	(1,323)	(1,392)
Profit/(loss) before taxation		974	(184)	945
Taxation	4	(277)	42	(268)
Profit/(loss) for the period		697	(142)	677
Attributable to:				
Owners of the parent		689	(149)	663
Non-controlling interests		8	7	14
Earnings/(loss) per ordinary share (pence)				
- Basic	6	68.0	(14.7)	65.5
- Diluted	6	67.8	(14.7)	65.3

All activities derive from continuing operations.

Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2010

In £s million		6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Profit/(loss) for the period		697	(142)	677
Other comprehensive income				
Exchange movements		58	903	709
Current tax on exchange movements		-	(180)	(112)
Net actuarial losses on retirement benefits		(122)	(484)	(582)
Deferred tax relating to net actuarial losses on retirement benefits		33	131	173
Other comprehensive income for the period, net of tax		(31)	370	188
Total comprehensive income for the period		666	228	865
Attributable to:				
Owners of the parent		658	213	845
Non-controlling interests		8	15	20
Total comprehensive income for the period		666	228	865

Reconciliation from operating profit to adjusted operating profit

In £s million	Notes	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Operating profit		1,188	1,139	2,337
Acquisition accounting adjustments	12	25	-	-
Amortisation of acquired intangibles		231	224	451
Restructuring costs	2	8	6	145
Adjusted operating profit		1,452	1,369	2,933

Reconciliation from net finance costs to adjusted net finance costs

In £s million	Notes	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Net finance costs		(214)	(1,323)	(1,392)
Fair value gains and losses on derivative financial instruments providing commercial hedges	3	(96)	937	660
Post-employment benefits net financing cost	3	8	15	32
Adjusted net finance costs		(302)	(371)	(700)

Consolidated Balance Sheet

at 31 March 2010

In £s million	Notes	31 March 2010	31 March 2009	30 September 2009
Non-current assets				
Intangible assets		21,823	23,182	22,357
Property, plant and equipment		2,030	2,036	2,010
Investments in associates		18	20	22
Retirement benefit assets	10	3	62	17
Trade and other receivables		101	118	99
Derivative financial instruments	9	167	168	134
Deferred tax assets		314	516	148
		24,456	26,102	24,787
Current assets				
Inventories		3,426	3,713	2,925
Trade and other receivables		3,223	3,051	3,011
Current tax assets		43	31	52
Cash and cash equivalents	9	792	699	1,036
Derivative financial instruments	9	293	166	198
		7,777	7,660	7,222
Total assets		32,233	33,762	32,009
Current liabilities				
Borrowings	9	(1,663)	(216)	(2,560)
Derivative financial instruments	9	(317)	(343)	(284)
Trade and other payables		(7,266)	(6,614)	(7,451)
Finance lease liabilities	9	(2)	(2)	(2)
Current tax liabilities		(633)	(275)	(551)
Provisions	7	(226)	(234)	(292)
		(10,107)	(7,684)	(11,140)
Non-current liabilities				
Borrowings	9	(10,662)	(14,500)	(9,507)
Derivative financial instruments	9	(874)	(1,159)	(1,033)
Trade and other payables		(22)	(18)	(23)
Finance lease liabilities	9	(25)	(27)	(26)
Deferred tax liabilities		(2,176)	(2,647)	(2,098)
Retirement benefit liabilities	10	(902)	(752)	(811)
Provisions	7	(733)	(815)	(776)
		(15,394)	(19,918)	(14,274)
Total liabilities		(25,501)	(27,602)	(25,414)
Net assets		6,732	6,160	6,595
Equity				
Share capital		107	107	107
Share premium		5,833	5,833	5,833
Retained earnings		(384)	(1,027)	(469)
Exchange translation reserve		1,125	1,191	1,067
Equity attributable to owners of the parent		6,681	6,104	6,538
Non-controlling interests		51	56	57
Total equity		6,732	6,160	6,595

Previously reported figures for derivative financial instruments have been re-analysed between current and non-current classifications following the adoption of IAS1 (Revised) Presentation of Financial Statements, as explained in the Accounting Policies section.

Consolidated Statement of Changes in Equity

for the six months ended 31 March 2010

In £s million	Share capital	Share premium	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2008	107	5,833	(109)	476	6,307	49	6,356
Profit/(loss)	-	-	(149)	-	(149)	7	(142)
Exchange movements	-	-	-	895	895	8	903
Current tax on exchange movements	-	-	-	(180)	(180)	-	(180)
Net actuarial losses on retirement benefits	-	-	(484)	-	(484)	-	(484)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	131	-	131	-	131
Total comprehensive income	-	-	(502)	715	213	15	228
Transactions with owners							
Proceeds from sale of shares by Employee Share Ownership Trusts	-	-	1	-	1	-	1
Costs of employees' services compensated by share schemes	-	-	10	-	10	-	10
Dividends paid	-	-	(427)	-	(427)	(8)	(435)
At 31 March 2009	107	5,833	(1,027)	1,191	6,104	56	6,160
Profit	-	-	812	-	812	7	819
Exchange movements	-	-	-	(192)	(192)	(2)	(194)
Current tax on exchange movements	-	-	-	68	68	-	68
Net actuarial losses on retirement benefits	-	-	(98)	-	(98)	-	(98)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	42	-	42	-	42
Total comprehensive income	-	-	756	(124)	632	5	637
Transactions with owners							
Proceeds from sale of shares by Employee Share Ownership Trusts	-	-	5	-	5	-	5
Costs of employees' services compensated by share schemes	-	-	11	-	11	-	11
Deferred tax on share based payments	-	-	(3)	-	(3)	-	(3)
Current tax on share based payments	-	-	2	-	2	-	2
Dividends paid	-	-	(213)	-	(213)	(4)	(217)
At 30 September 2009	107	5,833	(469)	1,067	6,538	57	6,595
Profit	-	-	689	-	689	8	697
Exchange movements	-	-	-	58	58	-	58
Net actuarial losses on retirement benefits	-	-	(122)	-	(122)	-	(122)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	33	-	33	-	33
Total comprehensive income	-	-	600	58	658	8	666
Transactions with owners							
Proceeds from sale of shares by Employee Share Ownership Trusts	-	-	1	-	1	-	1
Costs of employees' services compensated by share schemes	-	-	12	-	12	-	12
Changes in non-controlling interests in shareholdings	-	-	(1)	-	(1)	(3)	(4)
Dividends paid	-	-	(527)	-	(527)	(11)	(538)
At 31 March 2010	107	5,833	(384)	1,125	6,681	51	6,732

Cumulative goodwill of £2,410 million relating to acquisitions prior to 1998 was written off directly to reserves in line with the requirements of the accounting standards that were in force at the time.

Consolidated Cash Flow Statement

for the six months ended 31 March 2010

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Cash flows from operating activities	429	575	3,569
Cash flows from investing activities			
Interest received	20	42	57
Purchase of property, plant and equipment	(121)	(109)	(245)
Proceeds from sale of property, plant and equipment	17	40	69
Purchase of intangible assets - software	(5)	(3)	(8)
Purchase of intangible assets - trademarks and supply agreements	-	-	(4)
Purchases of businesses - net of cash acquired	(3)	(46)	(46)
Proceeds from sale of business - net of cash disposed	5	-	-
Net cash used in investing activities	(87)	(76)	(177)
Cash flows from financing activities			
Interest paid	(407)	(357)	(562)
Proceeds from sale of shares by Employee Share Ownership Trusts	1	1	6
Settlement of exchange rate derivative financial instruments	(87)	(286)	(5)
Increase in borrowings	1,413	3,999	4,324
Repayment of borrowings	(922)	(3,352)	(6,042)
Increase in collateralisation deposits	(28)	(68)	(125)
Repayment of obligations under finance leases	(1)	(1)	(2)
Dividends paid to non-controlling interests	(11)	(8)	(12)
Dividends paid to equity holders of the Company	(527)	(427)	(640)
Net cash used in financing activities	(569)	(499)	(3,058)
Net (decrease)/increase in cash and cash equivalents	(227)	-	334
Cash and cash equivalents at start of period	1,036	642	642
Effect of foreign exchange rates on cash and cash equivalents	(17)	57	60
Cash and cash equivalents at end of period	792	699	1,036

Accounting Policies

Basis of Preparation

The financial information comprises the unaudited results for the six months ended 31 March 2010 and 31 March 2009, together with the audited results for the year ended 30 September 2009.

The information shown for the year ended 30 September 2009 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and is an abridged version of the Group's published financial statements for that year. The Auditors' Report on those statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The financial statements for the year ended 30 September 2009 were approved by the Board of Directors on 10 November 2009 and filed with the Registrar of Companies.

This condensed consolidated financial information for the six months ended 31 March 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed consolidated financial statements for the six months ended 31 March 2010 should be read in conjunction with the annual financial statements for the year ended 30 September 2009 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Apart from the amendments resulting from the adoption of IAS 1 (Revised) and IFRS 8 set out below the Group's principal accounting policies used in preparing this information are as stated in the financial statements for the year ended 30 September 2009, which are available on our website www.imperial-tobacco.com. The effect of other changes in accounting standards and interpretations is considered at the end of this section.

Adoption of IAS 1 (Revised) Presentation of Financial Statements

The adoption of IAS 1 (Revised) has had no impact on the net assets or results of the Group, resulting only in changes to the format and content of the primary statements including derivative financial instruments assets and liabilities (including comparatives) being classified according to their settlement as described below.

Classification of Derivative Financial Instruments between Assets and Liabilities

Derivative financial instruments providing commercial hedges but not designated as hedges for accounting purposes under IAS 39 were previously all classified as current assets and liabilities. Since it is our intention to hold these financial instruments to maturity we have, following the adoption of IAS 1 (Revised), now classified them according to their contractual settlement with the following effects.

In £s million	6 months ended 31 March 2009			Year ended 30 September 2009		
	Previously reported	Reclassification	Reclassified	Previously reported	Reclassification	Reclassified
Non-current derivative financial instrument assets	5	163	168	9	125	134
Current derivative financial instrument assets	294	(128)	166	239	(41)	198
Current derivative financial instrument liabilities	(753)	410	(343)	(564)	280	(284)
Non-current derivative financial instrument liabilities	(714)	(445)	(1,159)	(669)	(364)	(1,033)

At 31 March 2010, under the previous method of classification, non-current assets would have been £6 million, current assets would have been £336 million, current liabilities would have been £493 million and non-current liabilities would have been £580 million.

In all periods this revised treatment has no effect on profit or loss or net assets.

Adoption of IFRS 8 Operating Segments

The adoption of IFRS 8 has resulted in some minor presentational changes, but has not significantly affected the overall level of segmental analysis provided.

Critical Accounting Estimates and Judgements

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

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in the financial statements for the year ended 30 September 2009.

Use of Adjusted Measures

Management believes that reporting non-GAAP or adjusted measures provides a useful comparison of business performance and reflects the way in which the business is controlled. Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, acquisition accounting adjustments, amortisation of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value gains and losses on derivative financial instruments in respect of commercially effective hedges and related taxation effects. Reconciliations between adjusted and reported operating profit are included within note 1 to the financial statements, adjusted and reported net finance costs in note 3, adjusted and reported taxation in note 4, and adjusted and reported earnings per share in note 6. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted results are those which are one-off in nature or which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also exclude all interest on items not included within adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

The principal adjustments made to reported profits are as follows:

Acquisition Accounting Adjustments

Acquisition accounting adjustments reflect costs charged to the income statement as a consequence of investigations into alleged foreign trading violations in the period prior to our acquisition of Reemtsma. IFRS 3 requires that adjustments to the cost of an acquisition are taken to goodwill, whereas changes in measurement of assets and liabilities after the provisional fair value period are taken to the income statement. These items are excluded from our adjusted earnings measures since the costs do not relate to the current trading performance of the Group and the amounts are recoverable from the sellers.

Amortisation of Acquired Intangibles

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

Fair Value Gains and Losses on Derivative Financial Instruments

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

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

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

Restructuring Costs

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation initiatives together with their related tax effects are excluded from our adjusted earnings measures.

Post-Employment Benefits Net Financing Cost

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

Other Non-GAAP Measures Used by Management

Net Revenue

Net revenue comprises the Tobacco business revenue less duty and similar items. Management considers this an important measure in assessing the profitability of Tobacco operations.

Distribution Fees

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

Adjusted Net Debt

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

Other New Accounting Standards and Interpretations

The following standards and interpretations became effective for the current reporting period:

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 and IAS 1 (amendment)	Puttable Financial Instruments
IAS 39 (amendments)	Reclassification of Financial Assets and Eligible Hedged Items
IAS 39/IFRIC 9 (amendment)	Embedded Derivatives
IFRS 2 (amendment)	Amendments to IFRS 2 Share-Based Payment - Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 1 and IAS 27 (amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 7 (amendment)	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners

Application of these standards and interpretations has not had a material impact on the net assets or results of the Group.

The following standards and interpretations were issued but application was not mandatory for the period:

IFRS 2 (amendment)	Group Cash-Settled Share-Based Payments
IFRS 9	Financial Instruments
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 18	Transfers of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the net assets or results of the Group.

Notes to the Half Yearly Statements

1. Segment Information

Imperial Tobacco comprises two distinct businesses – Tobacco and Logistics. The Tobacco business comprises the manufacture, marketing and sale of tobacco and tobacco-related products, including sales to (but not by) the Logistics business. The Logistics business comprises the distribution of tobacco products for tobacco product manufacturers, including Imperial Tobacco, as well as a wide range of non-tobacco products and services.

The Logistics business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco and Logistics businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

In addition to regularly reviewing results and plans for the Tobacco and Logistics businesses, the Chief Executive's Committee (which is the chief operating decision maker for the purposes of IFRS 8) regularly reviews the performance and plans of the Tobacco business analysed on a geographic basis, reflecting the importance of certain individual markets and geographic groupings. The information provided to the Chief Executive's Committee is used as the basis of the segmental disclosures provided below, with the geographic analysis of Tobacco based on the location of customers, and central Group costs allocated consistently based on management's assessment of the level of support provided.

The main measure of profit used by the Chief Executive's Committee to assess performance is adjusted operating profit.

For the purposes of the analysis below, European Union comprises the EU member states plus Norway, Iceland, Liechtenstein and Switzerland. Americas comprises North, Central and South America. The Cuban joint ventures are included in the Rest of the World. All of the Logistics business is located in the European Union.

Tobacco

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million unless otherwise indicated			
Revenue	9,482	8,705	18,587
Net revenue	3,389	3,252	6,818
Operating profit	1,184	1,139	2,291
Adjusted operating profit	1,374	1,301	2,750
Adjusted operating margin	40.5%	40.0%	40.3%

Logistics

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million unless otherwise indicated			
Revenue	4,400	4,237	8,961
Distribution fees	480	467	964
Operating profit	13	10	40
Adjusted operating profit	87	78	177
Adjusted distribution margin	18.1%	16.7%	18.4%

Revenue

In £s million	6 months ended 31 March 2010		6 months ended 31 March 2009		Year ended 30 September 2009	
	Total revenue	External revenue	Total revenue	External revenue	Total revenue	External revenue
Tobacco						
UK	2,476	2,476	2,271	2,271	4,862	4,862
Germany	1,659	1,659	1,624	1,624	3,432	3,432
Spain	289	34	298	27	620	84
Rest of European Union	2,561	2,304	2,080	1,829	4,770	4,275
Americas	636	636	631	631	1,414	1,414
Rest of the World	1,861	1,861	1,801	1,801	3,489	3,489
Total Tobacco	9,482	8,970	8,705	8,183	18,587	17,556
Logistics	4,400	4,400	4,237	4,237	8,961	8,961
Eliminations	(512)	-	(522)	-	(1,031)	-
Total Group	13,370	13,370	12,420	12,420	26,517	26,517

Tobacco net revenue

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
UK	448	418	893
Germany	419	376	826
Spain	284	298	610
Rest of European Union	782	708	1,490
Americas	362	443	861
Rest of the World	1,094	1,009	2,138
Total Tobacco	3,389	3,252	6,818

Adjusted operating profit and reconciliation to profit before tax

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
Tobacco			
UK	295	276	601
Germany	208	183	403
Spain	130	126	275
Rest of European Union	319	272	566
Americas	101	141	288
Rest of the World	321	303	617
Total Tobacco	1,374	1,301	2,750
Logistics	87	78	177
Eliminations	(9)	(10)	6
Adjusted operating profit	1,452	1,369	2,933
Acquisition accounting adjustments - Tobacco	(25)	-	-
Amortisation of acquired intangibles - Tobacco	(161)	(156)	(315)
Amortisation of acquired intangibles - Logistics	(70)	(68)	(136)
Restructuring costs - Tobacco	(4)	(6)	(144)
Restructuring costs - Logistics	(4)	-	(1)
Operating profit	1,188	1,139	2,337
Net finance costs	(214)	(1,323)	(1,392)
Profit before tax	974	(184)	945

2. Restructuring Costs

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
Employment related (mainly termination)	2	5	116
Asset impairments	6	1	15
Other operating charges	-	-	14
	8	6	145

Restructuring costs in 2010 include charges for previously announced restructuring activity and further rationalisation and reorganisation of our manufacturing base, including the closure of our tubes factory in Woodstock, Canada.

Restructuring costs in the year ended 30 September 2009 relate primarily to European Integration projects announced in June 2008 as part of the integration of Imperial Tobacco and Altadis. These projects affect sales and marketing, manufacturing and central support functions in a number of markets and will be implemented progressively over a period of three years. Costs in 2009 also include expenses related to the closure of our Tampa, Florida, USA cigar factory announced in June 2009.

The net charge of £145 million in 2009 includes £23 million of unused restructuring provisions reversed during the period, £95 million booked as additional restructuring provisions, £15 million booked as an impairment of property, plant and equipment and £19 million booked against net retirement benefits liabilities. The remaining charge of £39 million was booked directly to the income statement as these costs did not meet the provisioning requirements of IAS 37.

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

3. Net Finance Costs

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
Interest on bank deposits	(27)	(23)	(39)
Expected return on retirement benefit assets	(90)	(91)	(182)
Fair value gains on derivative financial instruments providing commercial hedges	(274)	(415)	(590)
Fair value gains on derivative financial instruments hedging underlying borrowings	-	(305)	(369)
Exchange gains on underlying borrowings	(4)	-	-
Investment income	(395)	(834)	(1,180)
Interest on bank and other loans	329	394	739
Interest on retirement benefit liabilities	93	100	200
Unwind of discount on redundancy and social plans	5	6	14
Fair value losses on derivative financial instruments providing commercial hedges	178	1,352	1,250
Fair value losses on derivative financial instruments offsetting underlying borrowings	4	-	-
Exchange losses on underlying borrowings	-	305	369
Finance costs	609	2,157	2,572
Net finance costs	214	1,323	1,392

Reconciliation from net finance costs to adjusted net finance costs

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
Reported net finance costs	214	1,323	1,392
Fair value gains on derivative financial instruments providing commercial hedges	274	415	590
Fair value losses on derivative financial instruments providing commercial hedges	(178)	(1,352)	(1,250)
Fair value gains and losses on derivative financial instruments providing commercial hedges	96	(937)	(660)
Expected return on retirement benefit assets	90	91	182
Interest on retirement benefit liabilities	(93)	(100)	(200)
Unwind of discount on redundancy and social plans	(5)	(6)	(14)
Post-employment benefit net financing cost	(8)	(15)	(32)
Adjusted net finance costs	302	371	700

4. Taxation

Reported taxation

Reported tax for the six months ended 31 March 2010 has been calculated on the basis of an estimated effective rate for the year ended 30 September 2010.

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
Total tax charge/(credit)	277	(42)	268

Reconciliation from reported taxation to adjusted taxation

Adjusted taxation for the six months ended 31 March 2010 has been calculated on the basis of an estimated adjusted effective rate of 26.0% for the year ended 30 September 2010. This is in line with the rate for the year ended 30 September 2009.

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 6.

	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
In £s million			
Reported taxation	277	(42)	268
Tax on acquisition accounting adjustments	5	-	-
Deferred tax on amortisation of acquired intangibles	38	37	72
Tax on fair value gains and losses on derivative financial instruments providing commercial hedges	(27)	262	185
Tax on post-employment benefits net financing cost	3	5	11
Tax on restructuring costs	3	2	45
Adjusted tax charge	299	264	581

5. Dividends

Dividend per share in respect of financial year

In pence	2010	2009	2008
Interim	24.3	21.0	20.9
Final	-	52.0	42.2
Total	24.3	73.0	63.1

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid. Consequently Imperial Tobacco Group's interim dividends are paid and recognised in the second half of the year; and final dividends in respect of a year are paid and recognised in the following financial period.

Amounts recognised as distributions to ordinary equity holders in the period

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Final dividend paid in the period in respect of previous financial year	527	427	427
Interim dividend	-	-	213
	527	427	640

The declared interim dividend for 2010 amounts to a total dividend of £246 million based on the number of shares ranking for dividend at 31 March 2010.

6. Earnings per share

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

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Earnings/(loss): basic and diluted	689	(149)	663

In millions of shares

Weighted average number of shares:			
Shares for basic earnings per share	1,013.4	1,011.9	1,012.3
Potentially dilutive share options	3.2	-	2.7
Shares for diluted earnings per share	1,016.6	1,011.9	1,015.0

In pence

Basic earnings/(loss) per share	68.0	(14.7)	65.5
Diluted earnings/(loss) per share	67.8	(14.7)	65.3

Reconciliation from reported to adjusted earnings per share

In £s million unless otherwise indicated	6 months ended 31 March 2010		6 months ended 31 March 2009		Year ended 30 September 2009	
	Earnings per share (pence)	Earnings	(Loss)/earnings per share (pence)	(Loss)/earnings	Earnings per share (pence)	Earnings
Reported basic	68.0	689	(14.7)	(149)	65.5	663
Acquisition accounting adjustments	2.0	20	-	-	-	-
Amortisation of acquired intangibles	19.0	193	18.5	187	37.4	379
Fair value gains and losses on derivative financial instruments providing commercial hedges	(6.8)	(69)	66.6	675	46.9	475
Post-employment benefits net financing cost	0.5	5	1.0	10	2.1	21
Restructuring costs	0.5	5	0.4	4	9.9	100
Adjusted	83.2	843	71.8	727	161.8	1,638
Adjusted diluted	82.9	843	71.8	727	161.4	1,638

7. Provisions

In £s million	Restructuring	Other	Total
At 1 October 2009	614	454	1,068
Additional provisions charged to the income statement	9	22	31
Unwind of discount on redundancy and social plan liabilities	5	-	5
Amounts used	(73)	(29)	(102)
Unused amounts reversed	(13)	(2)	(15)
Exchange movements	(16)	(12)	(28)
At 31 March 2010	526	433	959

Analysed as:

In £s million	2010	2009
Current	226	292
Non-current	733	776
	959	1,068

Restructuring provisions relate primarily to European Integration projects announced in June 2008 as part of the integration of Imperial Tobacco and Altadis. They affect sales and marketing, manufacturing and central support functions in a number of markets and will be implemented progressively over a period of three years. These liabilities are expected to crystallise over a number of years. Redundancy and social plan costs have been discounted at 5.0 per cent.

Other provisions principally relate to commercial legal claims and disputes. The majority of other provisions represent the fair value at acquisition of current and potential Altadis commercial disputes, litigation and duty claims arising in the normal course of business. These liabilities are expected to crystallise within the next five years.

8. Cash Flows from Operating Activities

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Profit/(loss) for the period	697	(142)	677
Adjustments for:			
Taxation	277	(42)	268
Investment income	(395)	(834)	(1,180)
Finance costs	609	2,157	2,572
Share of post-tax profits of associates	-	(1)	(1)
Depreciation, amortisation and impairment	315	308	635
Profit on disposal of property, plant and equipment	(4)	(7)	(1)
Post-employment benefits	(5)	13	1
Costs of employees' services compensated by share schemes	12	10	21
Movement in provisions	(86)	(62)	(45)
Operating cash flows before movements in working capital	1,420	1,400	2,947
(Increase)/decrease in inventories	(522)	(485)	288
(Increase)/decrease in trade and other receivables	(222)	245	202
(Decrease)/increase in trade and other payables	(75)	(357)	495
Movement in working capital	(819)	(597)	985
Taxation paid	(172)	(228)	(363)
Net cash flows from operating activities	429	575	3,569

9. Analysis of Net Debt

The movements in cash and cash equivalents, borrowings, derivative financial instruments and finance lease liabilities in the period were as follows:

In £s million	Cash and cash equivalents	Current borrowings	Non-current borrowings	Derivative financial instruments	Finance lease liabilities	Total
At 1 October 2009	1,036	(2,560)	(9,507)	(985)	(28)	(12,044)
Cash flow	(227)	908	(1,399)	115	1	(602)
Accretion of interest	-	(2)	108	8	-	114
Change in fair values	-	-	-	131	-	131
Exchange movement	(17)	(9)	136	-	-	110
At 31 March 2010	792	(1,663)	(10,662)	(731)	(27)	(12,291)

Adjusted net debt

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

In £s million	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009
Reported net debt	(12,291)	(15,214)	(12,044)
Accrued interest	177	188	291
Fair value of derivatives providing commercial hedges	672	992	890
Finance lease liabilities	27	29	28
Adjusted net debt	(11,415)	(14,005)	(10,835)

10. Retirement Benefits

Actuarial valuations of the Group's retirement benefit plans are updated annually as at 30 September. An interim update is carried out at 31 March for the main plans. As part of this interim update, the plan assets are revalued based on market data at the period end and the scheme liabilities are recalculated to reflect key changes in membership data and revised actuarial assumptions.

11. Capital Expenditure and Commitments

In the six months ended 31 March 2010 capital expenditure on property, plant and equipment and intangible assets was £126 million (2009: £112 million). Property, plant and equipment and intangible assets with a net book value of £13 million (2009: £33 million) were disposed of during the period. Profit on disposal was £4 million (2009: £7 million). Commitments for capital expenditure contracted for, but not provided, at 31 March 2010 were £119 million (2009: £104 million).

12. Acquisitions

During the period, agreement was reached with the sellers of Reemtsma regarding the reimbursement of costs incurred by the Group as a consequence of investigations into alleged foreign trading violations prior to our acquisition of Reemtsma. IFRS 3 requires that adjustments to the cost of an acquisition are taken to goodwill, whereas changes in measurement of assets and liabilities after the provisional fair value period are taken to the income statement. The income statement charge of £25 million in 2010 is excluded from our adjusted performance measures since the costs do not relate to the current trading performance of the Group. No income statement adjustment has been made for costs incurred in prior years as they were not significant in any individual year.

13. Legal Proceedings

In 2003 the Office of Fair Trading (OFT) commenced an investigation under the Competition Act 1998 into the operation of the UK tobacco supply industry in the period from 2000 and 2003. In a decision issued on 16 April 2010, the OFT concluded that certain of the Group's promotional arrangements had the object of restricting competition and imposed a fine of £112.3 million on the Group. At the same time it confirmed that two other allegations included in its 2008 statement of objections have now been dropped.

The Group takes compliance with competition law very seriously and continues to reject any suggestion that it acted in breach of the Competition Act or in any way contrary to the interests of consumers. On 16 April 2010 we confirmed that we will appeal the decision to the Competition Appeal Tribunal. As part of our appeal we will ask the Competition Appeal Tribunal to quash the fine in its entirety. Consequently, the Group has not provided for any amount in the half yearly consolidated financial statements.